



University of Connecticut
Office of the Chief Financial Officer

TO: Mary Johnson
Chief Fiscal Officer, Department of Higher Education

FROM: Bruce A. DeTora
Chief Financial Officer

DATE: August 31, 2006

SUBJECT: FY 2006 Operating and Research Funds Quarterly Report

Enclosed is the University of Connecticut's Quarterly Report of the Operating and Research Funds for the fiscal year ended June 30, 2006.

If you should have any questions or need any additional information, please contact me at 486-2434.

Enclosures

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University of Connecticut (Storrs & Regional Campuses)
Overview of the Quarterly Report of the Operating and Research Funds
Analysis of the Twelve Months Ended June 30, 2006

Results of Annual Operations

The enclosed report comparing the Operating and Research Funds actual results to budget for the twelve month period ended June 30, 2006 reflects unaudited figures and is subject to additional accounting year-end and audit adjustments.

The University ended the year with an unrestricted Operating Budget loss of \$2.4 million and a restricted gain of \$1.4 million. A summary analysis of the results of operations for various categories of accounts is presented below.

	<u>Operating Fund</u>	<u>Research Fund</u>	<u>Total</u>
Unrestricted	(\$3,022,416)	\$654,575	(\$2,367,841)
Restricted	(458,128)	1,837,114	1,378,986
Total	(\$3,480,543)	\$2,491,689	(\$988,854)

A more detailed review of FY 2006 operations is presented below.

Revenues – Operating Fund

Total **Operating fund** revenue collections for the year were \$736.1 million which represented 102.7% of the annual budget. A major source of revenue, **State Support** totaling \$285.7 million, consisted of a \$210.6 million appropriation and a fringe benefit allotment of \$75.1 million. State Support represented 38.8% of total Operating Fund receipts for the year. The net state support is a positive variance of \$4.7 million. This represents additional support to cover the first of three payments to retired employees for accrued sick and vacation time under the Early Retirement Incentive Program (ERIP) and accruals associated with the general fund appropriation. **Tuition** collections are the second largest source of revenue, totaling \$166.6 million, which represented 22.6% of total Operating Fund receipts for the year. Tuition revenue collections reflect a 5.6% rate increase coupled with a 2.9% increase in undergraduate degree seeking students who generate approximately 86% of actual tuition revenues.

Fee revenue is comprised of course fees from summer school, part-time, and non-degree students as well as self-supporting programs (off campus MBA, EMBA, etc.). Also included in this category is the General University Fee, which primarily supports four Auxiliary Enterprise programs and various other fees such as the Infrastructure Maintenance Fee, Application Fees and Late Payment Fees. Fee collections for fiscal year 2006 were \$70.1 million or 2.4% more than budget. This was primarily attributed to greater than budgeted course fee revenue as well as increased General University and Infrastructure Maintenance Fee income.

Auxiliary Enterprise Revenue of \$121.4 million represented 98% of the annual budgeted amount. Auxiliary revenue consists primarily of Room and Board Fees and Athletic Department receipts and is under budget primarily due to rebates given to residential students to compensate them for changes in their summer accommodations. Although the need for additional code compliance construction was discovered last year in residential facilities, it initially did not appear necessary to close the facilities early. However, early closure was necessary and therefore a refunding of fees was required.

The remaining revenue categories are (1) Grants and Contracts (non-research), (2) Investment Income, (3) Sales and Services of Educational Activities, and (4) Other Revenue (primarily parking, transit fee, and rental income).

Gifts, Grants and Contracts revenue consists of restricted revenues from a granting agency or private donor and gifts transferred from the UConn Foundation. At the end of fiscal year 2006, Gifts, Grants and Contracts revenue of \$59.3 million is ahead of budget by \$7.6 million. The state and federal grants and contracts were essentially on budget. However, the private grants revenue exceeded the budget by \$7.1 million and this is due to greater than budgeted sponsored activity.

Investment Income has exceeded the FY06 budget with revenues of \$8.2 million. Interest rates have increased substantially since last fiscal year and cash balances are greater due to more timely transfers of fringe benefits. The additional \$4.9 million in revenue has been instrumental in reducing the size of the projected net loss including helping to offset increases in energy costs.

Sales and Services of Educational Activities and Other Revenue totaled \$24.8 million and exceeded the projection by \$3.1 million. The chart below shows the variances in some of the categories as described above.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Grants & Contracts (non-research)	\$35.3M	\$41.2M	\$5.9M
Foundation	16.4	18.1	1.7
Investment Income	3.3	8.2	4.9
Sales & Service of Educ. Activities	12.5	14.8	2.3
Other Sources	<u>9.2</u>	<u>10.0</u>	<u>0.8</u>
	<u>\$76.7M</u>	<u>\$92.3M</u>	<u>\$15.6M</u>

Revenues – Research Fund

With respect to the **Research Fund**, the granting agency or donor restricts the use of most of the revenues. Research Fund revenues were \$70.0 million which was \$11.3 less than originally budgeted. This reflects the changing climate in federal research support.

Expenditures/Transfers

Total Operating Fund expenditures and transfers for fiscal year 2006 were \$739.6 million or 2.0% more than the amount budgeted. Individual categories of expenditures/transfers and the percentage variance from the annual budget were as follows:

Expenditure Categories	
Variance from Budget	
Personal Services	3.8%
Fringe Benefits	(1.8%)
Other Expenses	(1.2%)
Equipment	(7.5%)
Student Aid	(3.2%)
Transfers	<u>38.7%</u>
Total Variance	<u>2.0%</u>

Personal Services/Fringe Benefits were higher than budgeted for the fiscal year ended June 30, 2006. The FY06 Operating Fund expenditures for personal services and fringe benefits were \$454.0 million or \$10.4 million more than budgeted. Primarily as a result of internal reallocations, the University was able to identify resources to fund a net increase of 51 full-time faculty (based on the IPEDS federal reporting standard). This contributed to the variance in Personal Services. The hiring of the additional full-time faculty is an effort to meet the course coverage demands of increased undergraduate enrollment. With the additional faculty, the student to faculty ratio (based on the *U.S. News & World Report* formula) has decreased slightly, from 17.47:1 (Fall 2004) to 17.21:1 (Fall 2005). In addition, full-time non-faculty staff increased by 64 positions for a total increase of 115 positions.

Other Expenses (including energy costs) are under budget by approximately \$2.1 million. There are several factors contributing to this variance. While various components of this category (commodities, contractals, etc.) were under budget, Energy is over budget by \$3.8 million, largely due to increased unit prices for electricity and gas. In addition, this was a transitional year for energy as the University’s cogeneration plant was recently completed. As the cogeneration facility continues to undergo extensive operational testing, we are working to quantify the financial impact of the shift to cogeneration. Internal budget reallocations from the Other Expense category were also used to fund the increase in the faculty/staff positions as discussed above.

The fiscal year 2006 **Equipment** budget (Operating Fund and Research Fund) totaled \$21.4 million of which the Operating Fund budget was \$16.0 million. The budget was a substantial increase from previous years and reflected the anticipated expenditure of \$9.0 million of unexpended equipment purchases carried forward from fiscal year 2005. Operating Fund equipment expenditures were 92.5% of the amount budgeted and Research Fund equipment expenditures were 84.9% of the amount budgeted. There is approximately \$2.6 million in designated equipment funding that was not spent in FY06 that will be carried forward to FY07.

Student Aid expenditures were \$67.3 at the end of the fiscal year and were under budget by \$2.3 million due in part because the student labor expenses are displayed in the personal services category. Tuition funded financial aid totaled \$73.5 million or 99% of the budget. 17.6% of actual tuition revenue was spent on need based aid.

The Operating Fund **Transfers** line reflects transfers for bond and installment loan payments and to Plant Funds for various building improvements and renovations. The higher than budgeted transfer line can be attributed to the following: A) On June 20, 2006, the Board of Trustees was apprised that \$4.0 million of current funds would be transferred to Plant Funds to cover the cost of corrective action in the residential facilities; B) The University changed the methodology it was using to calculate fringe benefits associated with the compensated absences accrual. The fringe benefit accrual was reduced by \$2.6 million to recognize that the State now charges the University for the actual costs of medical plans, whereas under the old methodology, the accrual was based on a fixed percentage. These unbudgeted funds were transferred to Plant Funds to help cover the cost of corrective action in the residential facilities; C) The Division of Student Affairs transferred \$2.3 million to Plant Funds for dining hall renovations; and D) The Division of Athletics transferred \$1.3 million to Plant Funds to be used primarily for the new Intramural, Recreational and Intercollegiate Facilities project.

Finally, **Research Fund** expenditures and transfers totaled \$67.5 million and were \$13.8 under the budgeted amount. The decrease in expenditures is due to reduced federal grant activity for the year and to the departure of faculty through ERIP and the time delay that new faculty experience in starting up their research projects. Also, certain expenditures at the Institute of Materials Science were moved from the Research Fund to the Operating Fund thereby reducing activity in the Research Fund.

Enrollment

Total University enrollment for Fall 2005 (excluding the Health Center) is up 1.9% from Fall 2004. First time freshmen enrollment is down 0.7% from Fall 2004; however, total undergraduate enrollment (degree and non-degree) is up 1.9%. The current year budget was based on a 2.2% increase in total University enrollment and a 3.0% increase in undergraduate enrollment.

Cash Balance

The June 30, 2006 current funds cash balance of \$96.4 million reflects the collection of 101.0% of budgeted revenue while total expenditures and transfers were 100.1% of budget. The June 30, 2006 current funds cash balance represented 12.0% of the annual expenditure budget as compared to 13.0% one year ago.

Fund Balance

The University has a combined net loss of \$1.0 million for the fiscal year ended June 30, 2006, which is comprised of a \$2.4 million unrestricted loss and a \$1.4 million restricted gain. As noted above, additional investment income was used to offset increased energy costs and also to reduce the projected deficit. This results in a Current Funds Unrestricted Fund Balance of \$46.1 million (Operating Fund-\$28.5 million; Research Fund-\$17.6 million). This represents 6.6% of the current year's unrestricted expenditure budget. Also, in accordance with standard University procedures, unrestricted fund balances are carried forward in departmental accounts and are available for expenditure in the current and future fiscal years.

UNIVERSITY OF CONNECTICUT
Statement of Operating Budget Revenues and Expenses (a)
For the Twelve Months Ending 6/30/06
(Prior to Close)

	Operating Budget					Twelve Months Actuals w/accruals - 8/23/06							
	GRAND TOTAL	RESEARCH FUND	OPERATING FUND			GRAND TOTAL	RESEARCH FUND	% of Budget	OPERATING FUND			% of Budget	% of Actl
			E&G	Aux Ent	Subtotal				E&G	Aux Ent	Subtotal		
REVENUE													
State Appropriations	\$205,219,028	\$0	\$205,219,028	\$0	\$205,219,028	\$210,541,682	\$0		\$210,541,682	\$0	210,541,682	102.6%	28.6%
State Allotment Fringe Benefits	75,761,728	0	75,761,728	0	75,761,728	75,134,212	0		75,134,212	0	75,134,212	99.2%	10.2%
<i>Total State Support</i>	<u>280,980,756</u>	<u>0</u>	<u>280,980,756</u>	<u>0</u>	<u>280,980,756</u>	<u>285,675,894</u>	<u>0</u>		<u>285,675,894</u>	<u>0</u>	<u>285,675,894</u>		<u>38.8%</u>
Tuition	166,972,831	0	162,829,701	4,143,130	166,972,831	166,647,868	0		162,504,738	4,143,130	166,647,868	99.8%	22.6%
Fees	68,429,495	0	50,278,783	18,150,712	68,429,495	70,065,810	0		51,915,098	18,150,712	70,065,810	102.4%	9.5%
Grants & Contracts	115,356,266	80,044,000	34,801,296	510,970	35,312,266	109,317,931	68,080,799	85.4%	41,168,097	69,035	41,237,132	168.0%	5.6%
Foundation	17,101,267	700,000	5,618,267	10,783,000	16,401,267	18,361,331	285,415	135.4%	7,892,693	10,183,223	18,075,916	160.5%	2.5%
Investment Income	3,464,468	170,000	3,294,468	0	3,294,468	8,905,929	662,403	389.6%	8,078,366	165,160	8,243,526	250.2%	1.1%
Sales and Services of Ed Activities	12,674,000	180,000	12,494,000	0	12,494,000	15,504,841	727,351	404.1%	14,777,490	0	14,777,490	118.3%	2.0%
Aux Enterprise Revenue	123,829,260	0	0	123,829,260	123,829,260	121,397,932	0		0	121,397,932	121,397,932	98.0%	16.5%
Other Sources	9,420,000	260,000	9,160,000	0	9,160,000	10,231,123	211,885	81.5%	9,959,568	59,670	10,019,238	109.4%	1.4%
TOTAL REVENUE	<u>798,228,342</u>	<u>81,354,000</u>	<u>559,457,270</u>	<u>157,417,072</u>	<u>716,874,342</u>	<u>\$806,108,659</u>	<u>\$69,967,853</u>	<u>86.0%</u>	<u>\$581,971,944</u>	<u>\$154,168,862</u>	<u>\$736,140,806</u>	<u>102.7%</u>	<u>100.0%</u>
DISBURSEMENTS/TRANS:													
Personal Services	371,919,984	40,133,001	289,258,134	42,528,849	331,786,983	378,916,119	34,675,685	86.4%	303,622,702	40,617,732	344,240,434	103.8%	46.5%
Fringe Benefits	120,750,314	8,913,759	96,738,237	15,098,318	111,836,555	117,677,702	7,891,011	88.5%	94,631,435	15,155,256	109,786,691	98.2%	14.8%
Other Expenses	196,134,897	25,927,879	100,347,971	69,859,048	170,207,019	187,776,060	19,661,273	75.8%	101,783,850	66,330,937	168,114,787	98.8%	22.7%
Equipment	21,427,631	5,379,361	11,950,919	4,097,351	16,048,270	19,412,656	4,565,461	84.9%	12,818,865	2,028,330	14,847,195	92.5%	2.0%
Fixed Charges/Student Aid (b)	70,550,444	1,000,000	60,490,444	9,060,000	69,550,444	68,199,927	896,905	89.7%	58,909,524	8,393,498	67,303,022	96.8%	9.1%
Total Expenditures	<u>780,783,270</u>	<u>81,354,000</u>	<u>558,785,704</u>	<u>140,643,566</u>	<u>699,429,270</u>	<u>771,982,464</u>	<u>67,690,335</u>		<u>571,766,376</u>	<u>132,525,753</u>	<u>704,292,129</u>		<u>95.2%</u>
Mandatory	19,782,956	0	8,691,477	11,091,479	19,782,956	19,201,166	67,244		8,085,996	11,047,926	19,133,923	96.7%	2.6%
Non Mandatory	5,682,027	0	-	5,682,027	5,682,027	15,913,883	(281,415)		5,104,994	11,090,304	16,195,297	285.0%	2.2%
Total Expense/Transfer	<u>806,248,253</u>	<u>81,354,000</u>	<u>567,477,181</u>	<u>157,417,072</u>	<u>724,894,253</u>	<u>807,097,513</u>	<u>67,476,164</u>	<u>82.9%</u>	<u>584,957,366</u>	<u>154,663,983</u>	<u>739,621,349</u>	<u>102.0%</u>	<u>100.0%</u>
NET GAIN(LOSS)	<u>(\$8,019,911)</u>	<u>\$0</u>	<u>(\$8,019,911)</u>	<u>0</u>	<u>(\$8,019,911)</u>	<u>(\$988,854)</u>	<u>\$2,491,689</u>		<u>(\$2,985,422)</u>	<u>(\$495,121)</u>	<u>(\$3,480,543)</u>		
NET INC(DEC) CASH BALANCE						<u>\$3,086,943</u>							
CASH BALANCE 6/30/05						<u>\$93,354,266</u>							
CASH BALANCE 6/30/06						<u>\$96,441,210</u>							

(a) Budgeted and actual revenues and expenditures represent accrual basis, excepting compensated absences which will be accrued at fiscal year end, rather than cash expenditures.

(b) An additional \$1.8 million of Student Labor Financial Aid is included in the Personal Services Line.

UNAUDITED

UNIVERSITY OF CONNECTICUT

Changes in Net Assets - All Funds

For the Year Ended June 30, 2006

(Prior to Close)

	<u>Operating Fund</u>	<u>Research Fund</u>	<u>Subtotal</u>	<u>Other Funds</u>	<u>Total</u>
<u>Revenues and Expenditures, 6/30/2006</u>					
Revenue	\$ 736,140,806	\$ 69,967,853	\$ 806,108,659	\$ 210,992,183	\$ 1,823,209,501
Expenditures and Transfers	739,621,349	67,476,164	807,097,513	195,816,485	1,810,011,511
Net Increase (Decrease)	<u>\$ (3,480,543)</u>	<u>\$ 2,491,689</u>	<u>\$ (988,854)</u>	<u>\$ 15,175,698</u>	<u>\$ 13,197,990</u>
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Net Assets, 6/30/05					
Restricted and invested in capital assets, net of related debt	\$ 11,757,758	\$ (1,863,667)	\$ 9,894,091	\$ 1,267,886,707	\$ 1,277,780,798
Unrestricted	31,504,650	16,992,163	48,496,813	43,179,315	91,676,128
Total, 6/30/05	<u>\$ 43,262,408</u>	<u>\$ 15,128,497</u>	<u>\$ 58,390,904</u>	<u>\$ 1,311,066,022</u>	<u>\$ 1,369,456,926</u>
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Compensated Absences Liability, 6/30/05	\$ 24,836,341				
Change at 6/30/06					
Restricted and invested in capital assets, net of related debt	\$ (458,128)	\$ 1,837,114	\$ 1,378,986	\$ 10,153,772	\$ 11,532,758
Unrestricted	(3,022,416)	654,575	(2,367,840)	5,021,926	2,654,086
Subtotal, 6/30/06	<u>\$ (3,480,543)</u>	<u>\$ 2,491,689</u>	<u>\$ (988,854)</u>	<u>\$ 15,175,698</u>	<u>\$ 14,186,844</u>
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Net Assets, 6/30/06					
Restricted and invested in capital assets, net of related debt	\$ 11,299,630	\$ (26,553)	\$ 11,273,077	\$ 1,278,040,479	\$ 1,289,313,556
Unrestricted	28,482,235	17,646,739	46,128,973	48,201,241	94,330,214
Total, 6/30/06	<u>\$ 39,781,865</u>	<u>\$ 17,620,186</u>	<u>\$ 57,402,050</u>	<u>\$ 1,326,241,720</u>	<u>\$ 1,383,643,770</u>
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Compensated Absences Liability, 6/30/06	\$ 23,262,901				