

***Financial Report
to the
Board of Trustees***

January 26, 2011



***FY10 Closeout
and
FY11 Six Month Update***



***University of Connecticut
Health Center***

FY10 Closeout

University of Connecticut Health Center

FY 2010 Budget Review (unaudited)

The following narrative provides information on the main drivers of the University of Connecticut Health Center financial results for Fiscal 2010. The amounts presented here are subject to audit adjustments.

Executive Summary - Fiscal Year 2010 ended with an excess of revenue over expenses of \$3.9 million, compared to a budget of \$15,000, for a favorable variance of \$3.9 million. The positive results had two main drivers. The first was increased State support. FY 2010 was the first year of the biennial budget that the State legislature passed that included an increase in funding of the State block grant and the full fringe benefit differential of the JDH fringe benefit expense. This amount is the difference between the JDH fringe rate as compared to the average rate of other Connecticut hospitals. This enabled the Health Center to budget and realize a break even bottom line for FY 2010. In addition, the delay in refilling positions associated with the retirement incentive program as well as the use of rehired retirees, whose salaries are reduced to 75% of their prior pay rate in accordance with UCHC policy, has reduced personal services and fringe benefit expenses allowing UCHC to realize an excess of revenue over expenses in FY 2010.

Total Revenue – For the year ended June 30, 2010, Total Revenues including total “State Support” was \$743.3 million. Total revenue was below budget projections by \$25 million or 3.3%. The budget variance was mainly due to Net Patient Revenue which was below budget by \$12.2 million and the Correctional Managed Health Care program which was under budget by \$8.1 million. Details and other variances are:

- **Net Patient Revenue** – For the year ended June 30, 2010, Net Patient Revenue was below budget. The variances by unit are:
 - JDH - \$3.5 million below budget. Inpatient discharges were unfavorable to the budget plan by 217 cases (2.2%) and were below last year by 253 cases (2.6%). Average daily census at JDH has been below budget for all of fiscal year 2010. Management has addressed these concerns in part by implementing a new clinical advertising campaign to promote the Emergency Department and television spots for Cardiology, Orthopedics and the Cancer Center.
 - UMG - \$8.2 million below budget. Both volume and revenue per visit were down in FY 2010. This was mainly due to Physician vacancies spread throughout UMG specialties.
- **Correctional Managed Health Care** – Revenues from the Correctional Managed Health Care program are recorded based on program expenditures. Expenditures for FY 2010 were under budget by \$8.1 million and the corresponding revenue is also under budget by the same amount.
- **Investment Income** – The unfavorable variance of \$2.2 million was reflective of the economic environment and lower investment balances in both State accounts and endowments at the Foundation.
- **Total State Support** – The State appropriation for FY 2010 totaled \$168.2 million. This was \$2.8 million over budget due to the in-kind fringe benefits reimbursed by the state. The actual fringe benefit cost related to this reimbursement was 1.7% higher than the budget.

Total Expenditures – For the year ended June 30, 2010, Total Expenditures were below budgeted amounts by \$28.9 million or 3.8%. The following are variances for categories of expense:

- **Personal Services and Fringe Benefits** – For the year ended June 30, 2010, Personal Services and Fringe Benefits expenditures were below budget by \$11.7 million or 2.8%. Favorable variances in Personal Services was attained through the delay in refilling positions associated with the retirement incentive program as well as the use of rehired retirees, whose salaries are reduced to 75% of their prior pay rate in accordance with UCHC policies.
- **Drugs and Medical** – For the year ended June 30, 2010, drugs and medical supplies were below budget by \$3.8 million, or 6%. Drug expenses were favorable by \$2.5 million or 12.4%. Expenses were below budget due to the availability of 340b pricing for outpatient drug purchases by the Hospital. Medical supplies were also below budget by \$1.3 million or 2.8%. The majority of this occurred at JDH. The reason for the variance was less than budgeted surgical volume for high cost cases and a reduction in cost due to contract negotiations and vendor changes through the review and monitoring of the Value Analysis Committee.
- **Utilities** – For the year ended June 30, 2010, energy expenditures were below budget by about \$2.4 million or 17.1%. UCHC has been able to lower its utility expenditures through State and University contracts.
- **Depreciation** – Depreciation was under budget by \$4.2 million. This was due to budgeted expenses based on a half year convention which uses 6 months for the calculation. Actual projects were completed and capitalized later in the year which resulted in fewer months of expense.
- **Correctional Managed Health Care** – For the year ended June 30, 2010, the program expenditures were under budget by \$8.1 or 8.7%. This was mainly due to a reduction in Personal Services due to vacancies and a reduction in overtime hours. Additionally, pharmaceutical costs for the year were significantly below budget due to the availability of 340b pricing.

Net Gain (Loss) – For the year ended June 30, 2010 the Health Center ended with a net gain (an excess of revenue over expenses) of \$3.9 million, compared to a budgeted of \$15,000, for a favorable variance of \$3.9 million.

University of Connecticut Health Center
Statement of Current Funds Budget Operations and Variance Analysis
FY 2010 Actual (Unaudited)
(Dollars in Millions)

Current Funds Revenues:	Actual	Budget	Variance	% Change
State Support	\$168.2	\$165.4	\$2.8	
Tuition	10.6	11.3	(0.7)	
Fees	6.1	6.2	(0.1)	
Gifts, Grants & Contracts	87.0	88.8	(1.8)	
Investment Income	3.2	5.4	(2.2)	
Interns & Residents	42.8	43.7	(0.9)	
Net Patient Revenue	318.3	330.5	(12.2)	
Correctional Managed Health Care	92.0	100.1	(8.1)	
Auxiliary Enterprise Education	12.9	15.2	(2.3)	
Other Revenue	<u>2.2</u>	<u>1.7</u>	<u>0.5</u>	
Total Current Funds Revenues	\$743.3	\$768.3	(\$25.0)	-3.3%
Current Funds Expenditures / Transfers:				
Personal Services	\$299.8	\$306.7	(\$6.9)	
Fringe Benefits	100.2	105.0	(\$4.8)	
Drugs/Medical Supplies	63.7	67.5	(\$3.8)	
Medical Contractual Support	13.9	13.9	\$0.0	
Medical/Dental House Staff	39.4	39.5	(\$0.1)	
Correctional Managed Health Care	92.6	100.7	(\$8.1)	
Outside Agency Per Diem	2.2	1.5	\$0.7	
Utilities	14.0	16.4	(\$2.4)	
Outside & Other Purchases	45.1	42.1	\$3.0	
Insurance	6.8	6.7	\$0.1	
Repairs & Maintenance	9.7	12.1	(\$2.4)	
Other Expenses	23.4	23.4	\$0.0	
Depreciation	<u>28.6</u>	<u>32.8</u>	<u>(\$4.2)</u>	
Total Current Funds Expenditures / Transfers	\$739.4	\$768.3	(\$28.9)	-3.8%
Net Gain (Loss)	<u>\$3.9</u>	<u>\$0.0</u>	<u>\$3.9</u>	



***University of Connecticut
Health Center***

FY11 Six Month Update

**Consolidated Financial Reports
Financial Update & Highlights**

TO: Members, Board of Trustees
FROM: John M. Biancamano, Chief Financial Officer-UHC
DATE: January 26, 2011
SUBJECT: **Unaudited FY 2011 Financial Results for the 6 month period ending December 31, 2010.**

Introduction:

The following provides highlights for the results of operations for the six months ending December 31, 2010:

The gain for the Fiscal Year to Date is \$2.7 million as compared to a budget of \$808,000 for a favorable variance of \$1.9 million. Key drivers of budget variances are outlined below.

Education, Research & Institutional Support

The result of operations before State Appropriations is favorable to the budget by \$2.4 million year to date. This favorable variance is primarily attributed to favorable personnel related costs in the School of Medicine, Research, and Institutional Support. The variance has been decreasing each month as the Health Center fills the vacant positions in each department.

Year to date significant highlights include:

- The School of Medicine total expenses were favorable to budget by \$1.9 million (2.8%).
- The School of Dental Medicine total expenses were favorable to budget by \$111,000 (0.9%).
- Research results of operations are unfavorable to budget by \$1.2 million or (21.2%). Federal Research revenues are \$1.6 million unfavorable and Non Federal research revenues are \$1.3 million unfavorable to budget. This is offset by total Research expenses which are favorable to budget by \$1.8 million. Key favorable variances exist in Salaries (\$396,000), Medical Supplies (\$745,000) and Outside and Other Purchased services (\$1.2 million).
- Institutional support results of operations were favorable to budget by \$2.6 million (7.1%), primarily due to Personal Services and Other Expenses being below budget.



Clinical

The clinical operations (JDH and UMG) had a year to date loss of \$7 million compared to a budgeted loss of \$6.5 million.

John Dempsey Hospital

Results of Operations

Year-to-date, the deficit is \$1.3 million compared to a budgeted deficit of \$1.5 million, for a favorable variance of \$151,000. The deficit for the same period last year was \$3.9 million. Revenues were \$2.8 million (2.2%) greater than budget. This was offset by higher than budgeted personal services, primarily related to volume increases in patient days and outpatient areas. Other significant highlights include:

Category	Year - to - Date			Prior Year		
	Actual	Budget	Variance	Percent	Variance	Percent
John Dempsey Hospital (in thousands)						
JDH Excess of Revenues over Expenses/ (Deficiency)	(\$1,385)	(\$1,536)	\$151	9.8%	(\$3,999)	\$2,614
JDH Operating Margin	-1.0%	-1.2%	0.2%	29.8%	-3.2%	-2.1%
Inpatient Discharges	4,708	4,840	(132)	-2.7%	4,725	(17)
Outpatient Equivalents	4,618	4,416	202	4.6%	4,410	208
Net Revenue per Adjusted Discharge	\$14,124	\$13,929	\$195	1.4%	\$13,549	\$575
Cost per Adjusted Discharge	\$14,407	\$14,225	\$182	1.3%	\$14,111	\$296
Days Revenue in Accounts Receivable	37	45	(8)	-17.8%	45	(8)
Case Mix Index	1.4654	1.4986	(0.0332)	-2.2%	1.4798	(0.0144)

UConn Medical Group

Results of Operations

Year-to-date, the deficit is \$5.6 million compared to a budgeted deficit of \$4.9 million, for an unfavorable variance of \$700,000. The deficit for the same period last year was \$5.2 million. Year to date the deficit was driven by net patient revenue being below budget \$1.6 million due to lower than expected patient volume, the result of faculty vacancies and leave of absences. Other significant highlights include:

Category	Year - to - Date			Prior Year		
	Actual	Budget	Variance	Percent	Variance	Percent
University Medical Group (in thousands)						
Excess of Revenues over Expenses/ (Deficiency)	(\$5,644)	(\$4,944)	(\$700)	14.2%	(\$5,165)	(\$479)
Operating Margin	-13.3%	-11.4%	-1.9%	16.7%	12.2%	-25.50%
RVU's	419,667	432,186	(12,519)	-2.9%	435,667	(16,000)
Net Revenue Per RVU	\$91.22	\$92.22	(\$1.00)	-1.1%	\$88.41	\$2.81
Cost per RVU	\$114.79	\$111.98	\$2.81	2.5%	\$108.68	\$6.11
Days Revenue in Accounts Receivable	53	54	(1)	-1.9%	59	(6)



University of Connecticut Health Center

Consolidated Statement of Revenues and Expenses (with Eliminations)

	Consolidated UConn Health Center YTD December 2010			Consolidated UConn Health Center YTD December 2009			
	Actual	Budget	Variance	Percent Variance	Actual	Variance	Percent Variance
Revenues:							
Tuition	\$ 6,068,634	\$ 5,974,771	\$ 93,863	1.6%	\$ 5,320,298	\$ 748,336	14.1%
Fees	2,750,125	2,506,007	244,118	9.7%	3,047,884	(297,759)	-9.8%
Federal Research Grants and Contracts	33,076,377	34,707,477	(1,631,100)	-4.7%	32,427,186	649,191	2.0%
Non-Federal Research Grants and Contracts	8,361,488	9,692,528	(1,331,040)	-13.7%	10,151,410	(1,789,922)	-17.6%
Auxiliary Enterprises	6,987,858	6,911,474	76,384	1.1%	6,587,010	400,848	6.1%
Interns and Residents	23,686,592	24,088,128	(401,536)	-1.7%	21,758,168	1,928,424	8.9%
Net Patient Care	167,095,207	166,625,641	469,566	0.3%	159,590,754	7,504,453	4.7%
Correctional Managed Health Care	45,121,882	49,692,265	(4,570,383)	-9.2%	46,171,115	(1,049,233)	-2.3%
Endowment Income	1,424,541	1,611,755	(187,214)	-11.6%	1,599,737	(175,196)	-11.0%
Investment Income	112,550	149,035	(36,485)	-24.5%	157,321	(44,771)	-28.5%
Other Income	871,231	902,936	(31,705)	-3.5%	901,463	(30,232)	-3.4%
Total Revenues	\$ 295,556,485	\$ 302,862,017	\$ (7,305,532)	-2.4%	\$ 287,712,346	\$ 7,844,139	2.7%
Expenses:							
Personal Services	\$ 154,551,469	\$ 156,138,835	\$ (1,587,366)	-1.0%	\$ 150,772,889	\$ 3,778,580	2.5%
Fringe Benefits	59,775,831	59,066,110	709,721	1.2%	56,366,967	3,408,864	6.0%
JDH Fringe Benefit Allotment	(6,750,000)	(6,750,000)	-	0.0%	(6,805,478)	55,478	-0.8%
Medical Contractual Support	7,896,946	6,969,655	927,291	13.3%	6,435,741	1,461,205	22.7%
Medical/Dental House Staff	21,359,389	20,986,109	373,280	1.8%	19,963,834	1,395,555	7.0%
Correctional Managed Healthcare	45,430,025	49,995,973	(4,565,948)	-9.1%	46,402,781	(972,756)	-2.1%
Outside Agency Per Diems	891,549	826,755	64,794	7.8%	931,701	(40,152)	-4.3%
Drugs	8,604,647	8,817,566	(212,919)	-2.4%	9,014,439	(409,792)	-4.5%
Medical Supplies	23,466,927	24,564,225	(1,097,298)	-4.5%	24,175,225	(708,298)	-2.9%
Utilities	7,186,207	7,028,123	158,084	2.2%	6,765,363	420,844	6.2%
Outside & Other Purchased Services	20,089,761	23,010,809	(2,921,048)	-12.7%	22,045,708	(1,955,947)	-8.9%
Insurance	3,449,232	3,256,312	192,920	5.9%	3,472,773	(23,541)	-0.7%
Repairs & Maintenance	4,382,624	4,762,748	(380,124)	-8.0%	3,982,368	400,256	10.1%
Other Expenses	11,955,492	11,890,483	65,009	0.5%	8,259,488	3,696,004	44.7%
Depreciation	14,137,564	14,989,035	(851,471)	-5.7%	14,984,910	(847,346)	-5.7%
Total Expenses	\$ 376,427,663	\$ 385,552,738	\$ (9,125,075)	-2.4%	\$ 366,768,709	\$ 9,658,954	2.6%
Excess/(Deficiency) of Revenues over Expenses Prior to State Appropriations	\$ (80,871,178)	\$ (82,690,721)	\$ 1,819,543	-2.2%	\$ (79,056,363)	\$ (1,814,815)	2.3%
State Appropriation-Block Grant	\$ 59,473,175	\$ 59,473,175	\$ -	0.0%	\$ 61,943,442	\$ (2,470,267)	-4.0%
State Supported Fringe Benefits and Other Adjustments	24,073,906	24,026,154	47,752	0.2%	21,453,916	2,619,990	12.2%
Excess/(Deficiency)	\$ 2,675,903	\$ 808,608	\$ 1,867,295	230.9%	\$ 4,340,995	\$ (1,665,092)	-38.4%



***University of Connecticut
Storrs & Regional Campuses***

FY10 Closeout

University of Connecticut (Storrs & Regional Campuses) – FY10

Overview of the Operating and Research Funds For the Twelve Months Ended June 30, 2010

Results of Annual Operations

On November 5, 2009, the Board of Trustees approved a Spending Plan for Fiscal Year 2010 of \$991.3 million plus a \$3 million transfer to the State General Fund. This budget included \$992.3 million of revenue to cover \$994.3 million in expenses and transfers, yielding a \$2.0 million loss. The loss is a net result of the \$1.0 million reserve repayment for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union, and a \$3.0 million transfer from University operating reserves to the State's General Fund.

The University ended the year with an unrestricted Operating Budget gain of \$2.4 million (Operating Fund \$0.9 million and Research Fund \$1.5 million) and a restricted gain of \$0.6 million (Operating Fund \$0.5 million and Research Fund \$0.1 million). The Operating Fund unrestricted net gain of \$0.9 million was slightly more than anticipated primarily due to savings in food costs, energy and personnel costs in Residential Life, Dining Services and Student Health Services. An 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	\$0.9	\$1.5	\$2.4
Restricted	<u>0.5</u>	<u>0.1</u>	<u>0.6</u>
Total	\$1.4	\$1.6	\$3.0

Revenues - Operating Fund

Total **Operating Fund** revenue collections for Fiscal Year 2010 were \$907.9 million which represented 100.2% of the annual budget. Last fiscal year, Operating Fund revenue collections represented 101.5% of the annual budget. A major source of revenue, **State Support**, consisted of a \$231.8 million appropriation and a fringe benefit allotment of \$93.6 million. The State Support is consistent with the University's Biweekly Schedule of State Appropriation Transfers. State Support represented 35.8% of total Operating Fund receipts for the year.

Tuition collections were the second largest source of revenue, totaling \$226.2 million, which represented 24.9% of total Operating Fund receipts. Tuition receipts were 100.3% of the annual amount budgeted (\$225.5 million). Tuition revenue collections reflect a 6.0% rate increase coupled with a 0.7% increase in the number of undergraduate degree-seeking students who account for approximately 87.1% of budgeted tuition revenues. Tuition revenue was slightly ahead of budget at year end.

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 supports several Auxiliary Enterprise programs and various other fees such as the Infrastructure Maintenance Fee, Application Fees and Late Payment Fees. The Fee collections were \$88.6 million or 101.3% of the amount budgeted for the year primarily due to higher enrollment than expected.

Auxiliary Enterprise Revenue for Fiscal Year 2010 was \$164.8 million which represented 102.0% of the annual budgeted amount and was greater than projected mainly due to greater

University of Connecticut (Storrs & Regional Campuses) – FY10

than expected Athletic revenue from post season activity. Auxiliary revenue consisted primarily of Room and Board Fees which reflect rate increases of 6.0% and 7.0% respectively (\$123.0 million) and Athletic Department receipts (\$37.5 million).

Gifts, Grants and Contracts revenue consists of restricted revenues from a granting agency or private donor and gifts transferred from the UConn Foundation. For Fiscal Year 2010, Gifts, Grants and Contracts revenue of \$75.6 million, which included \$16.0 million from the UConn Foundation, was 96.8% of the annual budget and is slightly less than expected due to a lower level of Foundation support for Athletics.

Investment Income was \$0.2 million more than the budget for the year with revenues of \$1.3 million. Interest rates in the State Treasurer’s STIF were 0.27% by the end of the fiscal year. The average interest rate for Fiscal Year 2010 was 0.33% compared to 1.47% for Fiscal Year 2009.

Sales and Services of Educational Activities and Other Sources (primarily parking, transit fee, and rental income) revenue totaled \$26.0 million and were \$1.4 million below budget. This is primarily due to the closing of self-supporting programs on campus.

Revenues - Research Fund

With respect to the **Research Fund**, the granting agency or donor restricts most of the revenues. Research Fund revenues were \$89.7 million and represented 104.5% of the amount budgeted for the year. In Fiscal Year 2009, Research Fund revenues totaled \$80.6 million and represented 109.3% of the amount budgeted. This category was ahead of budget primarily due to additional funds from the Federal American Recovery and Reinvestment Act. The unrestricted fund balances have also seen an increase as a result of increased recovery of facilities and administrative costs.

Expenditures - Operating Fund

Total Operating Fund expenditures (excluding transfers) for Fiscal Year 2010 were \$841.3 million or 98.7% of the annual budgeted amount. Fiscal Year 2009 reflected expenditures of 100.7% of the annual budget. Individual categories of expenditures as a percentage of the annual budget were as follows:

Personal Services	97.4%
Fringe Benefits	99.2%
Other Expenses	96.5%
Equipment	122.3%
Student Aid	102.2%

Personal Services/Fringe Benefits represented 97.9% of the annual budgeted amount of \$535.6 million. The official full-time faculty count (based on IPEDS federal reporting standards) is 38 less than the prior year and reflects the impact of the RIP offered by the state at the end of Fiscal Year 2009. Due to the vacancies created by the RIP and the amount of time it takes to refill positions, especially faculty, this category was under budget.

Other Expenses (including energy costs) were \$186.1 million for the year and represented 96.5% of the amount budgeted. Energy expenditures were below budget for the year due to lower than expected expenditures at the regional campuses. Other Expenses (excluding energy

University of Connecticut (Storrs & Regional Campuses) – FY10

costs) were less than budget due to the late approval of the annual spending plan which delayed expenditures included in this category. This delay also resulted in significant increases in encumbrances at year-end rather than actual expenditures.

Equipment expenditures of \$26.0 million were 122.3% of the amount budgeted. This category was greater than budget for the year because of the larger than expected expenditures in the Eminent Faculty program and Facilities Operations.

Student Aid was \$104.8 million and represented 102.2% of the amount budgeted. This category was slightly ahead of the budget due to increased availability of restricted funds and additional University support for Juniors and Seniors provided by the President.

Expenditures - Operating Fund Transfers

The **Transfers** line reflects transfers for bond and installment loan payments, payments for the capital lease for the cogeneration plant, and transfers to Plant Funds for construction and information technology projects. Transfers were over budget by \$9.1 million. On April 14, 2010, AN ACT CONCERNING DEFICIT MITIGATION FOR THE FISCAL YEAR ENDING JUNE 30, 2010 was passed by the Governor and the General Assembly. This plan required the University to transfer an additional \$5 million of operating reserves to the State's General Fund which is included in the \$9.1 million previously mentioned.

Expenditures - Research Fund

Finally, **Research Fund** expenditures and transfers totaled \$88.1 million and represented 102.6% of the budgeted amount. In Fiscal Year 2009, Research Fund expenditures and transfers totaled \$78.2 million and represented 106.1% of the budgeted amount.

Enrollment

Total University enrollment for fall 2009 (excluding the Health Center) is up 0.4% from fall 2008 and undergraduate enrollment (degree and non-degree) is up 0.6%. The budget is based on these enrollment levels.

Fund Balance

The University has a combined net gain of \$3.0 million for the fiscal year ended June 30, 2010, which is comprised of a \$2.4 million unrestricted net gain and a \$0.6 million restricted net gain. This results in a Current Funds Unrestricted Fund Balance of \$71.5 million (Operating Fund-\$49.8 million; Research Fund-\$21.7 million). The unrestricted fund balance represented 8.3% of the Fiscal Year 2010 unrestricted expenditure budget (\$862.0 million) or, alternatively stated, 30 days' worth of operations.

In accordance with standard University procedures, centrally funded unrestricted fund balances are carried forward in departmental accounts and are available for expenditure in the current and future fiscal years. The Fiscal Year 2010 budget assumed a consistent level of departmental fund balances at June 30, 2010. The \$71.5 million fund balance represents the funds, prepaid expenses and inventory remaining in these accounts: the Research Fund (designated for research); the Auxiliary Operations (residential, dining, health, student activities and recreational services); and Departmental accounts (self-supporting fee-based instructional programs such as Continuing Studies and MBA). The increase in unrestricted fund balance was primarily in the Research Fund due to greater than expected research activity which resulted in increased facilities and administrative costs recovered.

University of Connecticut (Storrs & Regional Campuses) – FY10

The fund balances, while not all technically encumbered, are committed in a more generic sense. First of all, funds may be held in a departmental account in anticipation of expenditure such as start-up costs for a new researcher. Second, under the provisions of UCONN 2000, the University is required to maintain a Renewal and Replacement Fund to keep projects in sound operating condition; the fund balance serves this purpose under the Master Indenture. Third, these amounts include inventory and prepaid expenses.

The fund balance is our operating capital and reserve for programs and activities that generate revenue and are not supported by state appropriation or tuition funds. We borrow from the fund balance to pay our bills when necessary. For example, in Fiscal Year 2004, the University did not receive \$13.4 million in state fringe benefit support until June—the very end of the fiscal year. In Fiscal Year 2005, the first quarter allotment of our entire appropriation did not arrive until September 28th—two days before the close of the fiscal quarter. Another example: the state generally informs us of changes in fringe benefit rates after the fiscal year has started, and frequently the increases have a significant fiscal impact. The fund balance allows us to manage these dislocations without disrupting the University's operations.

The total unrestricted net assets of \$162.8 million are made up of the \$71.5 million current funds balance, \$56.3 million in unexpended Plant Funds, and \$35.0 million in funds that are Internally Restricted for the Retirement of Indebtedness. The University has traditionally been very conservative with regard to savings for debt obligations, maintaining funds at a level of approximately 1.75 times our annual debt payments. We believe that this policy has served us well as the University's bond rating has remained consistently strong. In 2010, certain student fee revenue bonds were refunded thereby lowering the annual debt service; hence the University reduced the Internally Restricted for the Retirement of Indebtedness funds.

The Plant Funds balance of \$56.3 million includes cash resources for on-going code related corrective action and for projects for Auxiliary Enterprise operations such as Residential Life, Dining Services, Student Health Services, Student Union and Athletics. The University has a policy that a departmentally funded construction project does not begin unless the funding has been identified and transferred to Plant Funds. For Residential Life, the window of opportunity to actually complete many repairs and renovations is limited as some projects cannot be done while students are occupying the buildings, so the actual spending of the cash is a timing issue.

University of Connecticut (Storrs & Regionals)
Statement of Current Funds Budget Operations¹ and Variance Analysis
FY10
(Dollars in Millions)

	Budget	Actual	Variance	% Change
Current Funds Revenues:				
Operating Fund				
State Support	\$325.3	\$325.4	\$0.1	
Tuition	225.5	226.2	0.7	
Fees	87.5	88.6	1.1	
Grants & Contracts	78.2	75.6	(2.6)	
Investment Income	1.1	1.3	0.2	
Sales & Service Education	17.0	15.2	(1.8)	
Auxiliary Enterprise Revenue	161.5	164.8	3.3	
Other Revenue	<u>10.4</u>	<u>10.8</u>	<u>0.4</u>	
Total Operating Fund	906.5	907.9	1.4	0.2%
Research Fund	<u>85.8</u>	<u>89.7</u>	<u>3.9</u>	4.5%
Total Current Funds Revenues	\$992.3	\$997.6	\$5.3	0.5%
Current Funds Expenditures / Transfers:				
Operating Fund				
Personal Services	\$397.0	\$386.9	(\$10.1)	
Fringe Benefits	138.6	137.5	(1.1)	
Other Expenses	162.2	158.3	(3.9)	
Energy	30.7	27.8	(2.9)	
Equipment	21.3	26.0	4.7	
Student Financial Aid	102.6	104.8	2.2	
Transfers*	<u>56.1</u>	<u>65.2</u>	<u>9.1</u>	
Total Operating Fund	908.5	906.5	(2.0)	-0.2%
Research Fund	<u>85.8</u>	<u>88.1</u>	<u>2.3</u>	2.7%
Total Current Funds Expenditures / Transfers	\$994.3	\$994.6	\$0.3	0.0%
Net Gain²/Loss	<u>(\$2.0)</u>	<u>\$3.0</u>	<u>\$5.0</u>	

¹ The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. The current funds format shows gross student tuition and fees and does not net out scholarship allowances, as required in the financial statements which are prepared in the GASB Nos. 34/35 format. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense, does not include depreciation or amortization and does not include the State debt service commitment for principal and interest.

² The University had a net gain of \$3.0 million for the fiscal year ended June 30, 2010, which was comprised of a \$2.4 million unrestricted net gain and a \$0.6 million restricted net gain. The net gain included the \$1.0 million reserve repayment for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union; savings in food costs, energy and personnel costs in Residential Life, Dining Services and Student Health Services; and additional facilities and administrative cost recovery as a result of increased research activity.

* Includes required transfer of \$8 million to the State General Fund.



***University of Connecticut
Storrs & Regional Campuses***

FY11 Six Month Update

University of Connecticut (Storrs & Regional Campuses) – FY11

Quarterly Overview of the Operating and Research Funds For the Six Months Ended December 31, 2010

Summary

On June 10, 2010, the Board of Trustees approved a Spending Plan for Fiscal Year 2011 which includes \$1,033.5 million of revenue to cover \$1,047.5 million in expenses and transfers. The net loss of \$14.0 million consists of the \$1.0 million reserve repayment from the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union, and a \$15.0 million transfer from University operating reserves to the State General Fund as required by the 2011 State budget.

Financial results for the first six months of Fiscal Year 2011 reflected a number of different factors when compared to budget. Actual revenue totaled \$528.2 million or 51.1% of the budget. At the close of December, the University expenditures and transfers totaled \$544.0 million or 51.9% of the budget.

The net gain or loss shown in the six month report is not always indicative of expected annual results. More revenue is typically received in the first and second quarters of the fiscal year while expenditures are normally more evenly distributed throughout the year. This year, there is a higher level of expenditures at this point in time primarily due to the other expense and equipment encumbrances at the end of fiscal year 2010 that became expenses in the first two quarters of fiscal year 2011. In addition, the mandatory transfer of \$15M to the State General Fund was included in the second quarter as an accounting accrual even though the actual funds will not be moved until the end of the fiscal year. The current year-end forecast reflects a net loss of \$12.9 million.

A more detailed review of the first six months of Fiscal Year 2011 operations is presented below.

Revenues - Operating Fund

Total **Operating Fund** revenue collections for the first six months of Fiscal Year 2011 were \$477.4 million which represented 50.9% of the annual budget. At this point last fiscal year, Operating Fund revenue collections represented 49.7% of the annual budget. A major source of revenue, **State Support**, consisted of a \$115.7 million appropriation and a fringe benefit allotment of \$51.1 million. State Support represented 34.9% of total Operating Fund receipts for the first six months.

Tuition collections were the second largest source of revenue, totaling \$126.3 million, which represented 26.5% of total Operating Fund receipts. Tuition receipts were 52.6% of the annual amount budgeted (\$240.1 million). Tuition revenue collections reflect a 5.66% rate increase coupled with a 1.6% increase in the number of undergraduate degree-seeking students who account for approximately 86.8% of budgeted tuition revenues. Overall enrollment is 2.0% higher than budgeted. Tuition revenue is projected to be greater at fiscal year-end than originally budgeted.

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

University of Connecticut (Storrs & Regional Campuses) – FY11

Enterprise programs and various other fees such as the Infrastructure Maintenance Fee, Application Fees and Late Payment Fees. Due to higher enrollment than projected, the first six months Fee collections were ahead of budget at \$45.7 million or 50.3% of the amount budgeted. This category is forecasted to be higher than expected at year-end.

Auxiliary Enterprise Revenue for the first six months of Fiscal Year 2011 was \$86.3 million which represented 50.7% of the annual budgeted amount and will be more than budgeted due to a greater amount of students housed and more meal plans than anticipated. Auxiliary revenue consisted primarily of Room and Board Fees which reflect rate increases of 7.0% and 6.0% respectively (\$68.2 million) and Athletic Department receipts (\$16.0 million).

Gifts, Grants and Contracts revenue consists of restricted revenues from a granting agency or private donor and gifts transferred from the UConn Foundation. For the first six months of Fiscal Year 2011, Gifts, Grants and Contracts revenue of \$39.2 million, which included \$5.1 million from the UConn Foundation, was 49.6% of the annual budget. This category is expected to be greater than budgeted for the year because of additional federal and state financial aid funds.

Investment Income for the first two quarters of Fiscal Year 2011 was \$0.5 million. Interest rates continue to be low with the rate for December 2010 at 0.24% compared to 0.33% in December 2009. Investment income for the year is projected to be slightly less than budgeted. Actual results will depend on interest rates and the University's cash balance through the second half of the fiscal year.

Sales and Services of Educational Activities and Other Sources (primarily parking, transit fee, and rental income) revenue totaled \$12.6 million and were slightly ahead of budget primarily due to greater activity in select Educational Activities (i.e. Study Abroad, Roper Center, Institute of Materials Science).

Revenues - Research Fund

With respect to the **Research Fund**, the granting agency or donor restricts most of the revenues. For the first six months, Research Fund revenues were \$50.8 million and represented 53.5% of the amount budgeted. In Fiscal Year 2010, Research Fund revenues reported in the first six months totaled \$44.7 million and represented 52.1% of the amount budgeted.

Expenditures - Operating Fund

Total Operating Fund expenditures (excluding transfers) for the first six months of Fiscal Year 2011 were \$450.8 million or 51.3% of the annual budgeted amount. The spending pattern for the first two quarters of Fiscal Year 2010 reflected expenditures of 47.4% of the annual budget. Individual categories of expenditures as a percentage of the annual budget were as follows:

Personal Services	49.9%
Fringe Benefits	49.1%
Other Expenses	54.4%
Equipment	52.5%
Student Aid	53.8%

University of Connecticut (Storrs & Regional Campuses) – FY11

Personal Services/Fringe Benefits represented 49.7% of the annual budgeted amount of \$563.4 million. The official full-time faculty count (based on IPEDS federal reporting standards) is 18 more than the prior year. Due to the limited strategic hiring and the amount of time it takes to refill positions, especially faculty, we anticipate personal services and fringe benefits to end the year under budget.

Other Expenses (including energy costs) were \$102.1 million for the first six months and represented 54.4% of the amount budgeted. Energy expenditures are projected to be slightly below budget for the year due to favorable gas prices. Other Expenses (excluding energy costs) are greater than anticipated for the first two quarters, and are expected to end the year over budget. This is primarily due to the encumbrances at the end of fiscal year 2010 that became expenses in the first two quarters of fiscal year 2011 and the additional cost of hiring a consulting firm to examine operations and recommend savings and revenue-enhancements.

Equipment expenditures of \$9.4 million were 52.5% of the amount budgeted. This category was greater than expected for the first two quarters due to equipment that was encumbered at fiscal year 2010 year-end that became expenditures in fiscal year 2011. Annual equipment expenditures are projected to be higher than budgeted for the fiscal year.

Student Aid funds are predominantly expended in the first and third quarter of the fiscal year. For the first six months, Student Aid expenditures were \$59.3 million and represented 53.8% of the amount budgeted. This category was ahead of the first two quarters projection and will be greater than budgeted for the year due to additional federal and state funds. The increase in expenditures is offset by the additional state and federal revenue.

Expenditures - Operating Fund Transfers

Transfers for the first six months were slightly ahead of budget at \$39.9 million or 54.3% of the amount budgeted and consisted of transfers to Plant Funds for construction projects, bond and installment loan payments, and payments for the capital lease for the cogeneration plant. However, Transfers are expected to be under budget at year-end due to the revised funding plan for the water reclamation project that calls for the reallocation of some existing fund balances as opposed to use of current year revenues. In addition, the timing of future Student Affairs projects has been adjusted to accommodate the current construction schedule and to recognize the limited window of opportunity to actually complete many repairs and renovations since some projects may not be done while students are occupying the buildings.

Expenditures - Research Fund

Finally, **Research Fund** expenditures and transfers totaled \$53.3 million and represented 56.2% of the budgeted amount. In Fiscal Year 2010, Research Fund expenditures and transfers reported in the first six months totaled \$43.9 million and represented 51.1% of the budgeted amount. Due to the variability of research expenditures, quarterly comparisons are not necessarily indicative of annual results. However, it is anticipated that Research expenditures and transfers will exceed budget particularly in the equipment line item and also due to Research Fund support of the Torrey Life Sciences 1st Floor construction project.

University of Connecticut (Storrs & Regional Campuses) – FY11

Enrollment

Total University enrollment for fall 2010 (excluding the Health Center) is up 1.7% from fall 2009 and undergraduate enrollment (degree and non-degree) is up 1.8%. The budget was based on lower enrollment levels.

Fund Balance

The University's budget was projected to have a net loss of \$14.0 million for the fiscal year ended June 30, 2011. At this point, we are forecasting a net loss of \$12.9 million which results in a Current Funds Unrestricted Fund Balance of \$58.0 million (Operating Fund-\$42.0 million; Research Fund-\$16.0 million). The budgeted fund balance represented 6.3% of the current year's unrestricted expenditure budget (\$910.1 million). Also, in accordance with current University procedures, centrally funded unrestricted fund balances are carried forward in departmental accounts and are available for expenditures in the current and future fiscal years.

University of Connecticut (Storrs & Regionals)
Statement of Current Funds Budget Operations¹ and Variance Analysis
FY11 (unaudited)
(Dollars in Millions)

	12/31/10	6/30/11			
	Actual	Budget	Forecast	Variance	% Change
Current Funds Revenues:					
Operating Fund					
State Support	\$166.8	\$332.1	\$332.1	\$0.0	
Tuition	126.3	240.1	244.5	4.4	
Fees	45.7	90.8	93.1	2.3	
Grants & Contracts	39.2	78.9	80.1	1.2	
Investment Income	0.5	1.2	1.0	(0.2)	
Sales & Service Education	6.6	14.9	15.3	0.4	
Auxiliary Enterprise Revenue	86.3	170.2	174.6	4.4	
Other Revenue	<u>6.0</u>	<u>10.5</u>	<u>10.5</u>	<u>0.0</u>	
Total Operating Fund	477.4	938.7	951.2	12.5	1.3%
Research Fund	<u>50.8</u>	<u>94.8</u>	<u>94.2</u>	<u>(0.6)</u>	-0.6%
Total Current Funds Revenues	\$528.2	\$1,033.5	\$1,045.4	\$11.9	1.2%
Current Funds Expenditures / Transfers:					
Operating Fund					
Personal Services	\$205.6	\$411.9	\$410.7	(\$1.2)	
Fringe Benefits	74.4	151.5	149.2	(2.3)	
Other Expenses	90.8	158.9	173.9	15.0	
Energy	11.3	29.0	27.4	(1.6)	
Equipment	9.4	17.8	22.6	4.8	
Student Financial Aid	59.3	110.1	113.7	3.6	
Transfers*	<u>39.9</u>	<u>73.5</u>	<u>61.0</u>	<u>(12.5)</u>	
Total Operating Fund	490.7	952.7	958.5	5.8	0.6%
Research Fund	<u>53.3</u>	<u>94.8</u>	<u>99.8</u>	<u>5.0</u>	5.3%
Total Current Funds Expenditures / Transfers	\$544.0	\$1,047.5	\$1,058.3	\$10.8	1.0%
Net Loss²	<u>(\$15.8)</u>	<u>(\$14.0)</u>	<u>(\$12.9)</u>	<u>\$1.1</u>	

¹ The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. The current funds format shows gross student tuition and fees and does not net out scholarship allowances, as required in the financial statements which are prepared in the GASB Nos. 34/35 format. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense, does not include depreciation or amortization and does not include the State debt service commitment for principal and interest.

² The University had a budgeted net loss of \$14.0 million for the fiscal year ended June 30, 2011, which was comprised of a \$1.0 million reserve repayment for the November 2001 drawdown of \$11.5 million for the Towers Dining Center and Student Union and a \$15.0 million transfer from University operating reserves to the State General Fund as required by the 2011 State budget.

* Includes required transfer of \$15 million to the State General Fund.



***University of Connecticut
Storrs & Regional Campuses***

***Interim Financial Statements
for the Six Months Ended
December 31, 2010***

UNIVERSITY OF CONNECTICUT
INTERIM STATEMENTS OF NET ASSETS
As of December 31, 2010 and 2009 and June 30, 2010
UNAUDITED

ASSETS	December 31, 2010	December 31, 2009	June 30, 2010
Current Assets		(Restated)	
Cash and cash equivalents	\$ 264,119,191	\$ 256,519,220	\$ 265,554,579
Accounts receivable, net	27,621,453	23,749,587	30,257,906
Student loans receivable, net	2,268,868	2,573,325	2,268,868
Due from State of Connecticut	68,953,610	65,515,425	44,849,519
Due from related agencies	-	-	157,687
State debt service commitment	90,424,760	81,318,554	87,665,731
Inventories	3,343,263	3,078,130	3,343,263
Deposit with bond trustee	106,286,442	85,223,225	146,323,290
Deferred charges	763,536	794,102	957,455
Prepaid expenses	1,894,411	1,515,607	3,259,106
Total Current Assets	565,675,534	520,287,175	584,637,404
Noncurrent Assets			
Cash and cash equivalents	1,355,300	1,362,653	1,472,925
Investments	9,808,033	9,509,016	9,799,182
Student loans receivable, net	10,702,878	9,865,669	9,986,153
State debt service commitment	804,310,000	780,167,441	804,310,000
Property and equipment, net	1,395,242,405	1,404,986,372	1,397,529,232
Deferred charges	7,815,577	8,112,427	7,958,572
Total Noncurrent Assets	2,229,234,193	2,214,003,578	2,231,056,064
Total Assets	\$ 2,794,909,727	\$ 2,734,290,753	\$ 2,815,693,468
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 26,227,642	\$ 27,961,751	\$ 24,197,806
Deferred income	55,690,186	47,491,739	27,189,085
Wages payable	36,348,812	32,031,436	50,118,035
Compensated absences	20,473,464	17,363,619	20,473,464
Due to the State of Connecticut	27,659,526	12,124,666	17,795,768
Due to affiliate	22,841,637	18,347,664	30,817,478
Due to related agencies	7,074	5,508	-
Current portion of long-term debt and bonds payable	84,421,863	75,271,259	84,486,321
Other current liabilities	33,540,550	34,521,899	35,084,685
Total Current Liabilities	307,210,754	265,119,541	290,162,642
Noncurrent Liabilities			
Compensated absences	10,713,625	8,802,453	10,713,625
Deposits held for others	3,800,424	4,125,004	2,419,847
Long-term debt and bonds payable	1,052,835,035	1,033,612,304	1,058,650,212
Refundable for federal loan program	9,419,941	9,450,638	9,419,941
Total Noncurrent Liabilities	1,076,769,025	1,055,990,399	1,081,203,625
Total Liabilities	\$ 1,383,979,779	\$ 1,321,109,940	\$ 1,371,366,267
NET ASSETS			
Invested in capital assets, net of related debt	\$ 1,135,477,948	\$ 1,141,047,536	\$ 1,131,885,140
Restricted nonexpendable	11,013,484	10,831,244	11,122,259
Restricted expendable			
Research, instruction, scholarships and other	15,818,973	16,067,798	15,748,406
Loans	4,020,846	3,857,468	3,944,573
Capital projects	82,924,400	57,982,793	110,838,274
Debt service	7,826,734	9,978,541	7,981,547
Unrestricted (see Note 7)	153,847,563	173,415,433	162,807,002
Total Net Assets	\$ 1,410,929,948	\$ 1,413,180,813	\$ 1,444,327,201

UNIVERSITY OF CONNECTICUT
INTERIM STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Six Months Ended December 31, 2010 and 2009 and the Year Ended June 30, 2010
UNAUDITED

OPERATING REVENUES	December 31, 2010	December 31, 2009	June 30, 2010
		(Restated)	
Student tuition and fees (Net of scholarship allowances of \$55,028,292 for December 31, 2010, \$45,545,085 for December 31, 2009 and \$95,347,872 for June 30, 2010)	\$ 116,970,232	\$ 112,704,651	\$ 223,765,739
Federal grants and contracts	64,463,469	53,210,733	110,021,873
State and local grants and contracts	13,091,989	13,191,056	26,086,262
Nongovernmental grants and contracts	6,564,878	7,125,004	11,075,416
Sales and services of educational departments	6,604,957	6,015,955	15,203,884
Sales and services of auxiliary enterprises (Net of scholarship allowances of \$1,724,618 for December 31, 2010, \$1,648,336 for December 31, 2009 and \$2,990,651 for June 30, 2010)	84,606,128	81,669,683	161,779,750
Other sources	6,080,651	5,777,832	10,854,684
Total Operating Revenues	298,382,304	279,694,914	558,787,608
OPERATING EXPENSES			
Educational and general			
Instruction	145,273,013	134,314,506	271,938,477
Research	37,121,920	34,944,355	72,285,788
Public service	20,199,759	17,149,151	35,623,219
Academic support	50,027,841	44,277,516	90,592,861
Student services	19,987,913	17,886,180	37,063,394
Institutional support	45,667,420	39,425,777	83,175,410
Operations and maintenance of plant	36,195,379	32,132,140	66,742,254
Depreciation and amortization	44,416,434	43,826,282	90,038,785
Student aid	2,314,157	1,898,384	4,637,480
Auxiliary enterprises	76,700,362	70,712,227	145,413,740
Other operating expenses	7,460,794	8,421,786	24,508,359
Total Operating Expenses	485,364,992	444,988,304	922,019,767
Operating Loss	(186,982,688)	(165,293,390)	(363,232,159)
NONOPERATING REVENUES (EXPENSES)			
State appropriation	166,778,664	160,916,806	325,461,758
State debt service commitment for interest	20,957,792	19,366,807	38,557,064
Transfer of reserves to State General Fund	(15,000,000)	(3,000,000)	(8,000,000)
Gifts	5,810,455	6,229,122	18,080,658
Investment income	564,129	770,884	1,313,379
Interest expense	(25,409,304)	(24,635,291)	(48,557,957)
Other nonoperating expenses, net	(573,977)	(428,653)	(1,956,883)
Net Nonoperating Revenues	153,127,759	159,219,675	324,898,019
Loss Before Other Changes in Net Assets	(33,854,929)	(6,073,715)	(38,334,140)
OTHER CHANGES IN NET ASSETS			
State debt service commitment for principal	-	-	61,714,293
Capital grants and gifts	591,551	174,626	2,396,433
Disposal of property and equipment, net	(133,875)	(165,081)	(727,240)
Additions to permanent endowments	-	-	32,872
Net Other Changes in Net Assets	457,676	9,545	63,416,358
Increase (Decrease) in Net Assets	(33,397,253)	(6,064,170)	25,082,218
NET ASSETS			
Net Assets-beginning of year, adjusted (see Note 8)	1,444,327,201	1,419,244,983	1,419,244,983
Net Assets-end of year	\$ 1,410,929,948	\$ 1,413,180,813	\$ 1,444,327,201

**Notes to Interim Financial Statements
For the Six Months Ended December 31, 2010 and 2009 and
the Year Ended June 30, 2010**

1. RELATED ENTITIES

This financial report for the six months ended December 31, 2010 and 2009 and the year ended June 30, 2010 represents the transactions and balances of the University of Connecticut (University), here defined as all programs except the University of Connecticut Health Center (Health Center). Two related, but independent, corporate entities support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and The University of Connecticut Law School Foundation, Inc. (Law School Foundation). These Foundations raise funds to promote, encourage, and assist education and research at the University and the Health Center. The Law School Foundation, which is organized for the benefit of the University and whose economic resources can only be used by or for the benefit of the University, is included as a component with the University with its annual report. While shown as a component unit in the June 30, 2010 financial report, it is not included with the financial statements for the six months ended December 31, 2010 and 2009. The Foundation materially supports the mission of the University and the Health Center, which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore, the Foundation is not included as a component unit in the accompanying financial statements.

2. INTERIM FINANCIAL STATEMENT PRESENTATION

The Statements of Net Assets as of December 31, 2010 and 2009 and the Statements of Revenues, Expenses, and Changes in Net Assets for the six months ended December 31, 2010 and 2009 are prepared on the same basis as the June 30, 2010 statements except for the items listed below.

- (1) No physical inventory of consumable supplies is completed as of December 31 and therefore the amount on the Statement of Net Assets has not been changed since June 30 of the respective years.
- (2) Current student loans receivable, net is adjusted only at June 30.
- (3) The fair value adjustments for endowments invested by the Foundation are adjusted only at June 30.
- (4) Compensated absences are calculated only at June 30; therefore, the amount on the Statements of Net Assets for compensated absences has not changed since June 30 of the respective years.
- (5) The liability, refundable for federal loan program, is adjusted only at June 30.
- (6) Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires recipients of government-mandated and voluntary nonexchange transactions to recognize revenue when all applicable eligibility requirements are met for these transactions. The adjustments related to this requirement are completed only at June 30.
- (7) Waived tuition related to employees and their dependents is included only at June 30 as fringe benefit cost and tuition revenue in the Statement of Revenues, Expenses and Changes in Net Assets.
- (8) Depreciation and amortization is calculated for most assets and estimated for certain assets at December 31. Since buildings are only capitalized in June of each year no depreciation has been included for any new buildings that may have been completed as of December 31.

3. PROPERTY AND EQUIPMENT

The following table describes the changes in property and equipment for the six months ended December 31, 2010 and 2009 and the year ended June 30, 2010. In the following table, adjustments were made to the balances as of July 1, 2009 and to the Changes in Property and Equipment for the Six Months ended December 31, 2009 as a result of the retroactive application of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requirements to capitalize certain intangible assets (see Note 8).

Changes in Property and Equipment for the Six Months Ended December 31, 2010:

	Balance July 1, 2010	Additions	Retirements	Transfers and Other	Balance December 31, 2010
<u>Property and equipment:</u>					
Land	\$ 14,826,476	\$ -	\$ -	\$ -	\$ 14,826,476
Non-structural Improvements	196,282,243	992,803	-	-	197,275,046
Buildings	1,618,617,612	5,803,918	-	-	1,624,421,530
Equipment	428,735,616	9,035,788	(47,677,915)	-	390,093,489
Construction in Progress	45,330,175	26,430,973	-	-	71,761,148
Total property and equipment	<u>2,303,792,122</u>	<u>42,263,482</u>	<u>(47,677,915)</u>	<u>-</u>	<u>2,298,377,689</u>
<u>Less accumulated depreciation and amortization:</u>					
Non-structural Improvements	91,804,756	3,825,928	-	-	95,630,684
Buildings	565,314,793	27,713,178	-	-	593,027,971
Equipment	249,143,341	12,877,328	(47,544,040)	-	214,476,629
Total accumulated depreciation and amortization	<u>906,262,890</u>	<u>44,416,434</u>	<u>(47,544,040)</u>	<u>-</u>	<u>903,135,284</u>
<u>Property and equipment, net:</u>					
Land	14,826,476	-	-	-	14,826,476
Non-structural Improvements	104,477,487	(2,833,125)	-	-	101,644,362
Buildings	1,053,302,819	(21,909,260)	-	-	1,031,393,559
Equipment	179,592,275	(3,841,540)	(133,875)	-	175,616,860
Construction in Progress	45,330,175	26,430,973	-	-	71,761,148
Property and equipment, net:	<u>\$ 1,397,529,232</u>	<u>\$ (2,152,952)</u>	<u>\$ (133,875)</u>	<u>\$ -</u>	<u>\$ 1,395,242,405</u>

Changes in Property and Equipment for the Six Months Ended December 31, 2009 (Restated):

	Balance July 1, 2009	Additions	Retirements	Transfers and Other	Balance December 31, 2009
<u>Property and equipment:</u>					
Land	\$ 14,826,476	\$ -	\$ -	\$ -	\$ 14,826,476
Non-structural Improvements	193,757,185	1,122,777	-	-	194,879,962
Buildings	1,590,324,316	6,808,049	-	-	1,597,132,365
Equipment	428,019,393	7,251,990	(7,997,802)	-	427,273,581
Construction in Progress	23,184,870	21,214,261	-	-	44,399,131
Total property and equipment	2,250,112,240	36,397,077	(7,997,802)	-	2,278,511,515
<u>Less accumulated depreciation and amortization:</u>					
Non-structural Improvements	83,910,632	3,939,454	-	-	87,850,086
Buildings	509,882,449	27,638,749	-	-	537,521,198
Equipment	243,738,501	12,248,079	(7,832,721)	-	248,153,859
Total accumulated depreciation and amortization	837,531,582	43,826,282	(7,832,721)	-	873,525,143
<u>Property and equipment, net:</u>					
Land	14,826,476	-	-	-	14,826,476
Non-structural Improvements	109,846,553	(2,816,677)	-	-	107,029,876
Buildings	1,080,441,867	(20,830,700)	-	-	1,059,611,167
Equipment	184,280,892	(4,996,089)	(165,081)	-	179,119,722
Construction in Progress	23,184,870	21,214,261	-	-	44,399,131
Property and equipment, net:	\$ 1,412,580,658	\$ (7,429,205)	\$ (165,081)	\$ -	\$ 1,404,986,372

Changes in Property and Equipment for the Year Ended June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Transfers and Other	Balance June 30, 2010
<u>Property and equipment:</u>					
Land	\$ 14,826,476	\$ -	\$ -	\$ -	\$ 14,826,476
Non-structural Improvements	193,757,185	1,598,393	(412,431)	1,339,096	196,282,243
Buildings	1,590,324,316	23,302,485	-	4,990,811	1,618,617,612
Equipment	428,019,393	22,338,509	(21,622,286)	-	428,735,616
Construction in Progress	23,184,870	28,475,212	-	(6,329,907)	45,330,175
Total property and equipment	2,250,112,240	75,714,599	(22,034,717)	-	2,303,792,122
<u>Less accumulated depreciation and amortization:</u>					
Non-structural Improvements	83,910,632	7,937,673	(43,549)	-	91,804,756
Buildings	509,882,449	55,432,344	-	-	565,314,793
Equipment	243,738,501	26,668,768	(21,263,928)	-	249,143,341
Total accumulated depreciation and amortization	837,531,582	90,038,785	(21,307,477)	-	906,262,890
<u>Property and equipment, net:</u>					
Land	14,826,476	-	-	-	14,826,476
Non-structural Improvements	109,846,553	(6,339,280)	(368,882)	1,339,096	104,477,487
Buildings	1,080,441,867	(32,129,859)	-	4,990,811	1,053,302,819
Equipment	184,280,892	(4,330,259)	(358,358)	-	179,592,275
Construction in Progress	23,184,870	28,475,212	-	(6,329,907)	45,330,175
Property and equipment, net:	\$ 1,412,580,658	\$ (14,324,186)	\$ (727,240)	\$ -	\$ 1,397,529,232

4. LONG-TERM DEBT PAYABLE

Long-term debt activity, including refunding of debt, for the six months ended December 31, 2010 and 2009 and the year ended June 30, 2010 was as follows:

Long-term Debt Activity for the Six Months Ended December 31, 2010:

	Balance			Balance	Current
	July 1, 2010	Additions	Retirements	December 31, 2010	Portion
General Obligation Bonds	\$ 877,492,441	\$ -	\$ -	\$ 877,492,441	\$ 73,182,441
Revenue Bonds	164,375,000	-	(3,185,000)	161,190,000	5,025,000
Self Liquidating Bonds	3,792,218	-	-	3,792,218	839,778
Installment Loans	241,087	-	(46,553)	194,534	88,687
Obligation Under Capital Lease for Cogeneration	69,267,318	-	(1,566,798)	67,700,520	3,240,534
Campus Associates Limited Partnership Loan	12,454	-	(12,454)	-	-
Total long-term debt	1,115,180,518	-	(4,810,805)	1,110,369,713	82,376,440
Premiums/discounts/debt difference due to refunding	27,956,015	-	(1,068,830)	26,887,185	2,045,423
Total long-term debt, net	<u>\$ 1,143,136,533</u>	<u>\$ -</u>	<u>\$ (5,879,635)</u>	<u>\$ 1,137,256,898</u>	<u>\$ 84,421,863</u>

Long-term Debt Activity for the Six Months Ended December 31, 2009:

	Balance			Balance	Current
	July 1, 2009	Additions	Retirements	December 31, 2009	Portion
General Obligation Bonds	\$ 844,944,715	\$ -	\$ -	\$ 844,944,715	\$ 64,777,274
Revenue Bonds	172,830,000	-	(2,880,000)	169,950,000	4,815,000
Self Liquidating Bonds	4,785,684	-	-	4,785,684	993,466
Installment Loans	379,267	-	(91,960)	287,307	92,772
Obligation Under Capital Lease for Cogeneration	72,297,889	-	(1,498,370)	70,799,519	3,098,999
Campus Associates Limited Partnership Loan	37,348	-	(12,487)	24,861	24,861
Total long-term debt	1,095,274,903	-	(4,482,817)	1,090,792,086	73,802,372
Premiums/discounts/debt difference due to refunding	18,824,685	-	(733,208)	18,091,477	1,468,887
Total long-term debt, net	<u>\$ 1,114,099,588</u>	<u>\$ -</u>	<u>\$ (5,216,025)</u>	<u>\$ 1,108,883,563</u>	<u>\$ 75,271,259</u>

Long-term Debt Activity for the Year Ended June 30, 2010:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Current Portion
General Obligation Bonds	\$ 844,944,715	\$ 133,210,000	\$ (100,662,274)	\$ 877,492,441	\$ 73,182,441
Revenue Bonds	172,830,000	47,545,000	(56,000,000)	164,375,000	5,085,000
Self Liquidating Bonds	4,785,684	-	(993,466)	3,792,218	839,778
Installment Loans	379,267	-	(138,180)	241,087	90,760
Obligation Under Capital Lease for Cogeneration	72,297,889	-	(3,030,571)	69,267,318	3,168,975
Campus Associates Limited Partnership Loan	37,348	-	(24,894)	12,454	12,454
Total long-term debt	1,095,274,903	180,755,000	(160,849,385)	1,115,180,518	82,379,408
Premiums/discounts/debt difference due to refunding	18,824,685	11,085,934	(1,954,604)	27,956,015	2,106,913
Total long-term debt, net	<u>\$ 1,114,099,588</u>	<u>\$ 191,840,934</u>	<u>\$ (162,803,989)</u>	<u>\$ 1,143,136,533</u>	<u>\$ 84,486,321</u>

5. DEFERRED INCOME

Deferred income is comprised of: tuition, fees and auxiliary enterprises revenues received in advance of services rendered for winter and spring sessions; certain restricted research grants that are not included in revenue until the funds are expended; athletic ticket sales and commitments received in advance of the season; and other revenues received but not earned.

6. CONTINGENCIES

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on the University's financial statements.

7. UNRESTRICTED NET ASSETS

The University adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, for external reporting purposes, which requires net assets to be classified for accounting and reporting purposes into one of three net asset categories. Unrestricted net assets, as defined by the GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

8. ACCOUNTING CHANGE AND RESTATEMENT OF NET ASSETS

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires that certain intangible assets be classified as capital assets. The University had previously capitalized costs related to internally generated software according to the provisions of this statement. The Statement of Net Assets as of December 31, 2009 and the Statement of Revenues, Expenses, and Changes in Net Assets for the six months ended December 31, 2009 have been restated in order to retroactively apply the provisions of this statement to include purchased software which was previously expensed. The following adjustments have been made to reflect the cumulative effect of this accounting change:

Net assets as previously reported, July 1, 2009	\$ 1,418,478,476
Increase in Invested in capital assets, net of related debt	<u>766,507</u>
Net assets adjusted, July 1, 2009	<u>1,419,244,983</u>
Decrease in Net Assets December 31, 2009, as previously reported	<u>(6,064,170)</u>
Net assets adjusted, December 31, 2009	<u>\$ 1,413,180,813</u>