2007

Standard Nine: Financial Resources

Standard 9

Financial Resources

Overview [9.1, 9.2]

During the last ten years the University of Connecticut has received an enormous amount of support from the State Legislature. Beginning in 1995, the state funded an unprecedented rebuilding campaign to spend $1.0 billion over a ten-year period in a Bill known as UConn 2000. In 2002, the state extended this rebuilding campaign by $1.26 billion, again, over a ten year period in a Bill known as 21st Century UConn. For purposes of this document both of these Bills are referred to collectively as UConn 2000. There has also been a state matching fund program for private donations to the University endowment during this period of time which has generated $55 million, to date, for the University of Connecticut Foundation. On the operating side, the University has almost doubled its revenues as shown in Table 9.1 below.

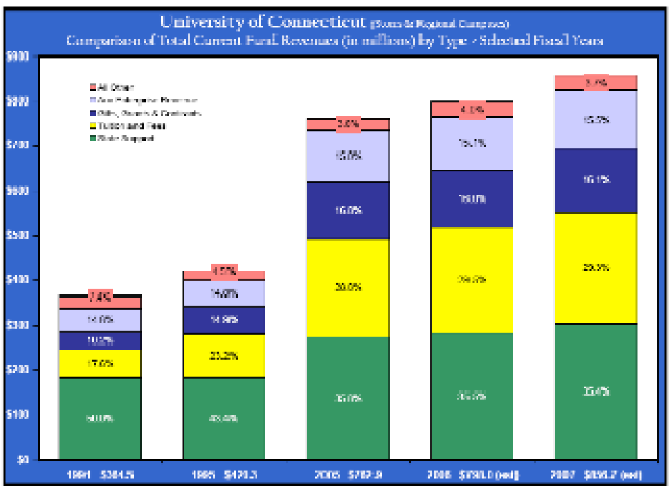

Table 9.1

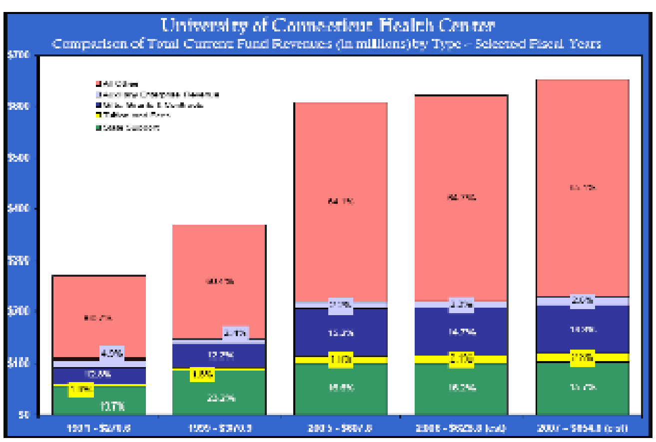

Table 9.1

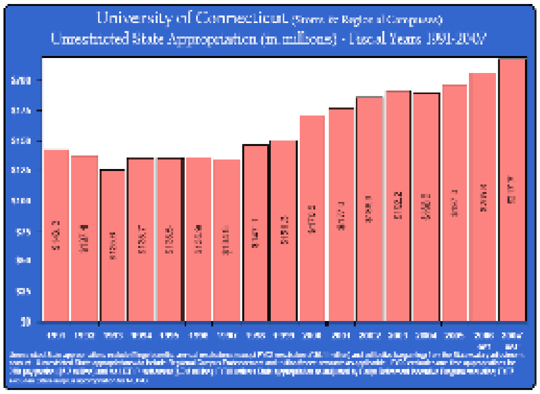

Table 9.2

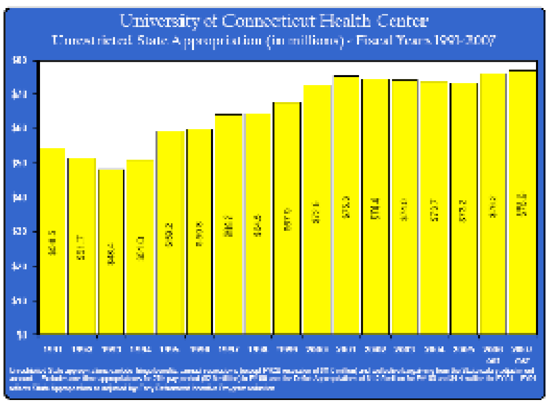

Table 9.2

These tables are also contained in the June 2006 Board of Trustees' Budget Workshop, Tab 4, Page 1. (BOT_BW_4.1). The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. All charts contained herein are presented in this format. The current funds format shows gross 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 since FY 2002. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense and does not include depreciation and the State debt service commitment for interest. Presenting the data in the current funds format provides us with many years of comparable data. State support has increased in dollar terms every year over the last ten years with slight declines in 1997 and 2004 due to early retirement incentive plans as shown in Table 9.2 below. (from BOT_BW_4.3).

The transformation of the University, made possible by UConn 2000, has led to an expansion of the number of students served by the University and higher expectations of students, faculty and staff in terms of the academic quality of our offerings.

Enrollment declined in the early part of the decade to a low of 21,753 in fall 1997 and has since surged to an estimate of 28,611 in the fall of 2006, as depicted by Table 6.1, Chapter Six (BOT_BW_4.8). In order to provide outstanding education to our student body and to support an increasing expectation of research, the University has had to increase its operating budget beyond the ability of the state to provide this support. The University has responded over the last ten years to this declining state support (on a percentage basis) as well as tremendous growth in both facilities and enrollment by greatly expanding its non-state support. It has done so through increases in tuition & fees as well as in gifts, grants and contracts. Hence, as Table 9.1 above depicts, the percentage of operating budget revenues received from state support has declined from 43.4 percent in 1995 to approximately 35.5 percent in 2006.

As Table 9.3 indicates, to ensure that education at the University remains accessible, a significant portion of the operating budget is also allocated to student aid and academic support. See Table 6.3 in Chapter Six for a breakdown on types of financial aid. Given the University's mission of research, teaching and service the FY 2007 spending plan is consistent with this mission as shown in the expenditures table (Table 9.3, BOT_BW_6.3) with thirty-eight percent going to instruction and ten percent to research.

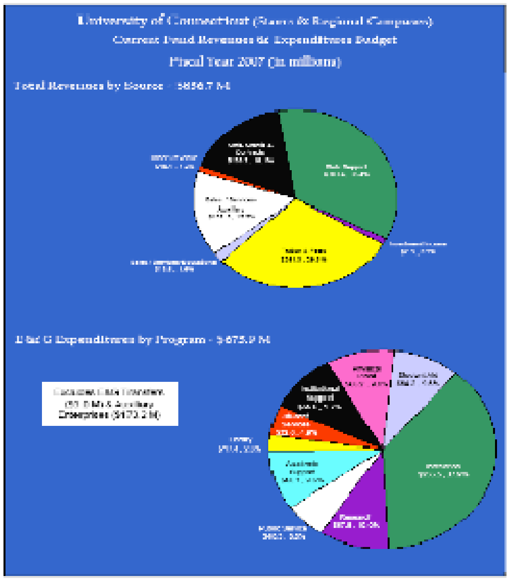

Table 9.3

The University is fiscally sound, but the growth in enrollments and the increased expectations of state residents, alumni, faculty, staff, and students will continue to put pressure on the ability of the University to raise sufficient revenues to meet them. In the first ten years of the transformation that started with UConn 2000 in 1995 the University has been very successful in responding to these increased demands. The challenge will be how to continue to grow the University's non-State funds on the operating side to meet the increased expectations of the quality of education and research.

Exhibit 9.1 depicts the Storrs and Regional Campus budget for current operating and research funds as presented at the June 2006 Board of Trustees Budget Workshop. The full Power Point Presentation that accompanied the Administration's presentation to the Trustees at that Workshop is contained in Exhibit 9.2.

Board of Trustees' Fiscal Responsibilities & Processes [9.3, 9.5]

The University is governed by a Board of Trustees (BOT) that meets to review and approve the University's operating and capital budgets. In odd-numbered years the University prepares a state-mandated biennial operating budget and in even-numbered years, a single fiscal year operating spending plan, for BOT approval. The biennial budget is then submitted to the Office of Policy and Management, OPM, (the Governor's budget agency) and the State Department of Higher Education (DHE). In June of each year the BOT's Budget Workshop is held. A notebook is prepared that contains financial, enrollment and other exhibits for the meeting. The 2006 Budget Workshop notebook is being sent to all Review Team members with the other self-study materials. The budget workshop includes budgets for both the University at Storrs (plus the Regional Campuses) and the Health Center. The BOT annually reviews and approves the capital budget for expenditures from UConn 2000 (and its successor program, 21st Century UConn).

Operating Budget Process [9.3, 9.6, 9.7]

The University establishes and implements the projected and out-year budgets in consultation with relevant constituencies within the University and State government. The University budget process includes the integration of academic, student service, fiscal, development and physical resource priorities, in order to advance objectives. The University budgeting and expenditure process is implemented through the utilization of the University's financial accounting system known as the Financial Records System (FRS). Under this system, each unit and sub-unit within the University establishes a budget. These budgets are approved and put in place by relevant academic and/or financial officers. Once budgets are established, expenditures are compared against budgeted amounts, to ensure proper funds utilization and to prevent cost overruns. Due to the special fiduciary position of the University regarding grant and contract funds, the Office of Sponsored Programs (OSP) maintains a targeted monitoring procedure for grant and contract expenditures.

In the early 1990s the University was granted operational autonomy and responsibility by several pieces of legislation known as the Flexibility Acts. These Acts gave the University a block grant appropriation, position control regarding the hiring of employees, check-writing authority, purchasing authority and capital project management authority (up to $2 million). Capital project management authority was later increased in 1995 by the UCONN 2000 Infrastructure Improvement Program.

The Current Funds Budget request sets forth a proposed expenditure plan for the amount necessary to meet cost increases while providing a constant level of services. It may also include an amount for new or expanded programs. The Current Funds Budget includes various revenue sources including the State appropriation and tuition and fees as well as other revenue sources. During the fiscal year the University also submits a quarterly report of actual year-to-date revenues and expenditures for Operating Funds to the Department of Higher Education.

The budget process incorporates significant consultation with the academic units as well as all other aspects of the operations of the University. The same process applies to all units. Since the last NEASC review a Student Fee Committee has been formed. All student fee proposals except institutional fees such as tuition, room/board, and certain other self-supporting fees are reviewed by this committee which is composed of representatives from across campus as well as student representatives. All fee proposals reviewed by this committee are open to public comment. A subcommittee of the Student Fee Committee was also created to review proposals for course fees for consumable materials (such as lab fees, etc.). Recommendations are then forwarded to the Provost and Vice President & CFO for approval before they are presented to the BOT.

In addition, the Faculty Senate also has a standing committee that reviews the University's operating, capital and other budgets. The following is its stated mission:

This committee shall review the planning, negotiation, and allocation of the University operating, capital, and other budgets, the process of making budgetary and financial decisions and the determination of priorities among academic and other programs having financial implications. This committee may recommend any desirable expressions of Senate opinion on these matters, and it shall make an annual report at the April meeting of the Senate. The committee shall include two undergraduate students and one graduate student.

Operating Budget Results [9.2, 9.4, 9.5, 9.8]

The University's revenue sources include state support, tuition and fees, private support, research funding, room and board, and other revenues. The FY 06 State Appropriation brought the University closer to a "current services" request than in recent years. As a percentage of our revenue budget, the State appropriation has been decreasing steadily (rather than drastically) over the past decade. The University's non-state revenues play an increasing role in our financial health and the expectation is that we become more and more fiscally self-reliant. See Table 9.1 above which displays the University's revenue sources.

Substantially all of the institution's revenue streams are devoted to the support of its mission as a land grant university. As indicated in Table 9.3, the projected FY 07 spending plan revenues of $856.7M will be spent on the dissemination of instruction, research endeavors, public service or the support services that sustain these three main objectives. Recently, the University has been allocating expenditures according to the University's Academic Plan to target resources to support increasing quality in undergraduate and graduate instruction, growing its research productivity, and enhancing its reputation as a center for scholarly endeavor.

With regard to financial aid the University has set aside 17.8 percent of its net tuition revenue after tuition waivers to support need based financial aid. This can be seen in the Board of Trustees 2006 Budget Workshop Binder – Tab 6, Page1 (BOT_BW_6.1) where the assumptions underlying the preparation of the budget are listed. The dollar commitment to fund financial aid can also be seen in the Budget Workshop Binder – Tab 6, Page 12 (BOT_BW_6.12). Connecticut's Department of Higher Education requires the University to set aside 15 percent and the University has chosen to exceed this amount. The University has been consistent in setting aside appropriate amounts of financial aid to ensure access to our programs.

The University's unrestricted net assets (fund balance = $91.7 million in 2005) are made up of three major categories: unrestricted current funds ($48.5 million in 2005), reserves for retirement of indebtedness ($37.6 million in 2005) which are internally designated for this purpose, and plant funds ($5.6 million in 2005). Under the provisions of the Master Indenture for UCONN 2000, the University is required to maintain renewal and replacement funds to keep projects in sound operating condition.

The unrestricted current fund balance is the University's operating capital and reserves from programs and activities that generate revenue. The balances are also available for renewal and replacement. It should be noted that many of these current fund balances are maintained at the unit level. An example would be the Department of Residential Life setting aside funds to use to buy dormitory replacement furniture.

The University of Connecticut addresses most of its contingency needs by maintaining fund balances upon which it can draw if necessary. The fund balance is the operational capital and reserve for programs and activities that generate revenue and are not supported by state appropriation or tuition funds. We have the ability to draw on these funds when necessary. Traditionally, the University has been conservative with its reserves for debt service obligations and maintains approximately 1.6 times of its annual debt service in reserves for retirement of indebtedness. These are invested in the State's Short-Term Investments and the revenue is reflected in the current funds investment income revenue source. Over the past few years, the University's unrestricted current funds net assets have remained stable, except for 2005 which reflects unspent equipment funds which were planned expenditures in 2006, as shown in the exhibit in the Board of Trustees Workshop Book (BOT_BW_F12).

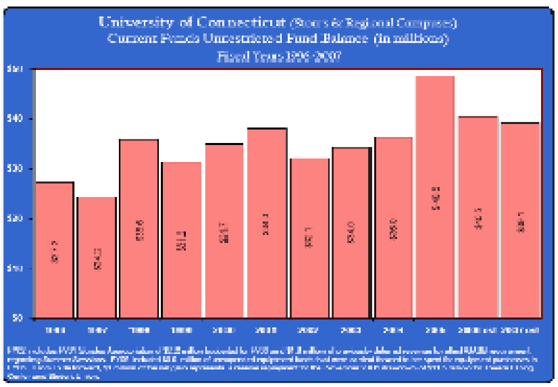

Table 9.4

In addition, the University sets aside dollars in accounts for planned one-time expenditures, mostly capital. The need for fund balances to protect against uncertainties was highlighted in 2005 when several construction code violations were discovered in new buildings which resulted in unanticipated (and unbudgeted) construction costs. The University had to act swiftly in order to correct the violations so students could move in before classes began. Although the University is seeking recovery of these costs from the contractors, without the financial flexibility to pay for these unexpected costs these residential facilities may not have opened on a timely basis. In this case the University utilized its unexpended plant funds balance in 2005 to pay for these unbudgeted costs. The University was able to demonstrate its ability to analyze its position and construct a plan to fund such a plan. The FY 05 Capital Budget included the funds that had already been allocated for equipment, library collections and telecommunications. This specific project line had to be decreased by $12.5 million as additional funding was needed primarily for Deferred Maintenance. For FY 05, the net effect for schools/colleges/units was that there was still funding available for equipment purchases but the funding source was different. Were this plan not to be put into effect, the University would not have been able to fund capital equipment purchases.

The amount of tuition, especially for undergraduates, is a critical component of University funding. Enrollment decisions regarding the number of students and the in-state/out-of-state mix is very important financially to the University. Therefore, it has set goals for undergraduate enrollment at both its Storrs campus as well as the Regional campuses and have generally been stated based on first-time freshman and transfer students as follows:

New Freshman	New Transfers	Total

Storrs	3250	650	3900
Regionals	1050	250	1300
Total	4300	900	5200

The following table reflects the changes in these statistics over the last ten years and 2005 data reflect the achievement of these goals (Source: Office of Enrollment Management).

Table 9.4

UConn “New Enrollment” Trend Data *	FALL	FALL	FALL	FALL	FALL	FALL	FALL	FALL	FALL	FALL	FALL
Storrs	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Enrolled	2,020	2,163	2,198	2,561	2,956	2,836	3,149	3,186	3,208	3,247	3,260
New Transfer Students	640	580	516	524	443	572	556	645	666	622	636
Total, New Enrollment	2,660	2,743	2,714	3,085	3,399	3,408	3,705	3,831	3,874	3,869	3,896
Regional Campuses	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Enrolled	668	611	563	666	689	749	748	849	909	1,028	986
New Transfer Students	192	172	171	184	199	170	162	191	188	240	228
Total, New Enrollment	860	783	734	850	888	919	910	1,040	1,097	1,268	1,214

*Source: Federal IPEDS Fall Enrollment reports and Connecticut Department of Higher Education Undergraduate Transfer Surveys.

The growth in student enrollments has placed an additional burden on the teaching loads of faculty members at the university. A review of the recent trends in the student/faculty ratio (as computed via the US News & World Report formula) shows that the student/faculty ratio had increased from 15.19:1 in Fall, 1999 to 18.16:1 in Fall, 2003 with a somewhat more promising trend by Fall 2005 when the ratio was 17.21:1. While there has been some modest growth in faculty over this six year period it has not been sufficient to maintain the ratio that existed in 1999. The target for the University is to return to a ratio of 15:1 which would put us more in line with our peer schools. The comparison with peer schools can be found in Table 9.5 below, from the BOT Budget Workshop Book, 7.2 (BOT_BW_7.2).

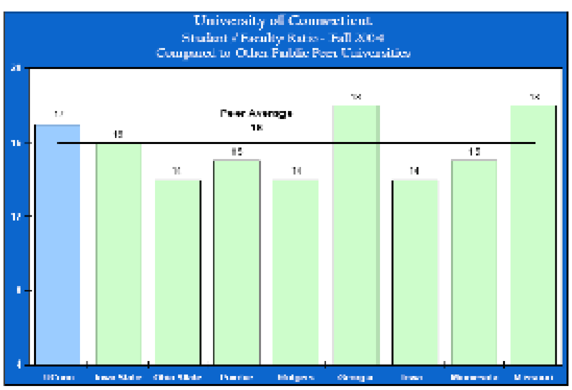

Table 9.5

UConn 2000 Capital Projects Program [9.8, 9.10]

In 1995 the legislature of the State of Connecticut passed the UCONN 2000 Infrastructure Improvement Program which provided ten years of capital budget funding for the Storrs and the Regional Campuses. In 2002, another Act was signed into law, known as An Act Concerning 21st Century UConn, which amended the original Act to extend the UCONN 2000 program for an additional ten-year period and authorized additional UCONN 2000 Phase III projects for Storrs, the Regional Campuses and the University of Connecticut Health Center. Pursuant to the Acts as of April 2006, not including refunding bonds, the University has issued $1.1 billion General Obligation State Debt Service Commitment Bonds payable from the State General Fund; $205 million of Special Obligation Bonds payable from certain Pledged Revenues of the University; and entered into an $81.9 million Governmental Tax-Exempt Lease Purchase Agreement which is payable from University resources. The UCONN 2000 General Obligation Bonds secured by the State's Debt Service Commitment are general obligations of the University. However, the repayment is not included in the University's budget as repayment is provided by the State Debt Service Commitment directly from the State's General fund. A spreadsheet depicting all named UCONN 2000 projects (Phases I-III) is contained in Appendix 6.2.

When all phases of UCONN 2000 are completed the total amount funded by General Obligation Debt Service Commitment Bonds is expected to be $2.26 billion; $1.965 billion for Storrs/Regionals and $297.0 million for the University of Connecticut Health Center. The total program is estimated to cost $2.598 billion with the difference to be met by Special Obligation Bonds, gifts, other revenue or other borrowing. Additionally both the State of Connecticut and the UConn Foundation have issued bonds for construction on UConn campuses, and the University has entered into loan agreements with the U.S. Department of Education and other entities. This funding is providing the University with the unprecedented ability to construct new buildings and to renovate many others, and to fund deferred maintenance, and equipment, library collections and telecommunications costs. The BOT approves the capital budgets and all funding including all UCONN 2000 General Obligation, Special Obligation and other debt on an annual basis with individual project budget revisions approved as needed. These acts enable the University to make long-term plans regarding capital projects.

Since the inception of UCONN 2000, the University's bond issues have experienced a favorable credit rating history, including several credit rating upgrades. For example, Moody's assigns an "Aa3" rating to both the University's General Obligation Bonds secured by the State's Debt Service Commitment and the University's Special Obligation Student Fee Revenue Bonds. It is a strong vote of confidence in the University that both these ratings are ranked the same as the State's General Obligation Bond "Aa3" credit rating. As of February 28, 2006, the UCONN 2000 General Obligation Debt Service Commitment Bonds were rated "AA" by Standard & Poor's; "Aa3" by Moody's Investors Service; and "AA-" by Fitch Investors Service. Also the University's Special Obligation Bonds not secured by SCRF were rated "AA-" by Standard & Poor's and "Aa3" by Moody's Investors Service. Fitch Investors Service does not rate the Special Obligation Bonds not secured by SCRF. The Special Obligation Bonds Series 1998-A carry a Special Capital Reserve Fund and are rated "AA" by Standard & Poor's, "Aa3" by Moody's, and "AA-" by Fitch. In addition to the underlying credit ratings, "AAA" rated municipal bond insurance secures certain maturities of several of the above bond issues. To date the University has always made timely debt service payments on its outstanding bonds. There is no reason to expect this to change in the near future.

During the past few years, the UCONN 2000 construction program has undergone restructuring through the implementation of the Corrective Action Plan. Some of the problems that were identified had their roots in an administrative, organization and oversight structure that the University's Board of Trustees started to address a year before code compliance issues came to light in the autumn of 2004. Beginning in 2003, the President and Board moved to strengthen the University's administrative structure with the establishment of two new operational, administrative and financial positions: Chief Operating Officer (COO) and Chief Financial Officer (CFO), both reporting directly to the President. The Board further reinforced this initiative by creating the position of Chief Audit and Compliance Officer, who reports to the Board, and by taking other steps to strengthen the capacity and independence of the University's audit and compliance function.

The construction plan is also guided by the University's Master Plan for the Storrs and Regional Campuses, as discussed in Chapters Two and Eight of this self-study.

Fiscal Oversight [9.6, 9.10, 9.14]

The Laws, By-Laws and Rules of the University of Connecticut provide that it is the duty of the Board of Trustees to direct the Expenditures of Funds (Article 1). In order to assist the Board in this duty, Article VII of the *By-Laws* provides that the President of the University must:

- Summarize and coordinate the budget estimates submitted by schools, colleges, divisions and departments, and in consultation with the Vice Presidents, the deans of several schools and colleges and the directors of divisions, prepare a budget adjusted to the income and the needs of the University.

- Present to the Board for prior approval the annual budget for each fiscal year.

As provided in these *By-Laws*, the University's governing board, the Board of Trustees, has the responsibility for recommending the University's budget and ultimately overseeing expenditures pursuant to that budget

The General Assembly appropriates and allocates funds directly to the University. The Board of Trustees determines general policy, appoints the President, and directs the expenditures of the University. The BOT is required by law to review and approve University budget requests and propose facility, planning and capital expenditure budget priorities. The BOT approves the University's operating budget biennially via the BOT's Annual Budget Workshop, with annual updates as well as periodic revised budgets. Members of the Finance subcommittee of the BOT also receive periodic updates throughout the year so the BOT can monitor the University's budget-to-actual operating and research fund activity. The BOT also approves project budgets and expenditures for UConn 2000.

The President is responsible for carrying out and enforcing all policies, procedures and regulations adopted by the BOT for the operation of the University. Reporting to the President is the Vice President and Chief Financial Officer (VP & CFO) who is responsible for the University's finances. The University of Connecticut Health Center and the Storrs-based program each have a Chief Financial Officer who reports to the Vice President. See Exhibit 9.3 for the detailed organizational chart for the Vice President and Chief Financial Officer. As depicted in these University organizational charts the administration is structured to ensure prudent financial management.

In fiscal year 2004 the University created the position of Vice President and Chief Operating Officer (VP & COO) in order to strengthen accountability and operational efficiencies. In FY 05 more restructuring was completed in response to construction code violations and contract management issues related to UConn 2000. The offices responsible for capital projects and contract administration as well as the office responsible for managing building construction and renovations (Architectural and Engineering Services) now report directly to the VP & COO. In order to achieve a separation of functions and internal controls, the accounting functions and project control functions were assigned to the Chief Financial Officer in 2005. A Capital Project Delivery Process Manual was developed and Chapter 2 outlines the approval process that is now followed. Additionally, in 2005 a new Office of the Fire Marshal and Building Inspector was created, and in 2006, an Office of Construction Assurance was also created. This office is responsible for administering a comprehensive inspection program which encompasses all new non-threshold construction and renovations at the University.

New Program Planning [9.9]

Schools and Colleges within the University are encouraged to seek other revenue sources to enhance the quality of their programs and research capabilities. A significant portion of any proposal brought forth needs to have a sound budget which demonstrates the financial viability of the proposal. Initiatives to offer new degree programs must also meet a market and budget test with the Department of Higher Education after gaining approval of the University of Connecticut Board of Trustees.

As an example, over the last ten years the role of the University's Regional Campuses has seen significant change. The campuses have been designated to support certain four-year degree programs. For instance, Avery Point became a center for the Marine Sciences. In the process of doing this Schools and Colleges were asked to make proposals to operate these degree programs at the various campuses. As an example of School and College participation, the state provided resources to construct a new Waterbury Campus building. While the funding for the building was provided by the State, the programs that would operate in the facility also required funding. Significant business and other programs were started at this location and budgets were put in place to ensure that the programs offered there would have comparable quality to those provided at other locations throughout the University system. The Waterbury campus has been quite successful in generating student enrollments growing from an enrollment of 498 in fall of 1999 (prior to the move to the new campus) to 893 in fall 2005.

The University also instituted a Program Review Process in which all programs and departments would be reviewed for both program quality and financial viability. The process then resulted in Memorandums of Understanding being agreed upon which indicated what needed to be done to improve or sustain the quality of the program (if it was to continue) and what resources might be needed to make it financially viable.

Audit & Compliance [9.10, 9.11, 9.14]

In this age of heightened audit awareness and increased accountability for institutions, the University Board of Trustees' Audit Committee has evolved from a subcommittee of the Financial Affairs Committee to a standing committee of the Board of Trustees. Established in 2004, the Joint Audit and Compliance Committee (JACC) members consist of seven financially knowledgeable individuals of which at least one is a financial expert. As mandated by its Charter, the Committee's purpose is to facilitate the Board's fulfillment of their oversight responsibilities relating to the integrity of the University's financial statements and systems of internal control, compliance with legal and regulatory requirements and the performance of the internal audit function. Accordingly, the Committee is authorized to take the appropriate action to set overall University tone for quality financial reporting, sound business risk practices, and ethical behavior.

In 2004, at the direction of the Board of Trustees, the University expanded its internal audit function through the establishment of the Office of Audit, Compliance and Ethics (OACE). OACE is led by the Director who reports functionally to the Chairman of the JACC and administratively to the President of the University. The first Director was hired in January of 2005. OACE, whose website is www.audit.uconn.edu, monitors an annual budget for Storrs, Regional Campuses and the Health Center in excess of $1.5 billion. A new position, Storrs and Regional Campuses' Director of Compliance and Ethics, which serves as the University's liaison to the Office of State Ethics was also created. The position's responsibilities include coordinating ethics training and monitoring the University's compliance with State ethics laws and policies. Under the Director's guidance, the University has implemented a comprehensive Compliance Program, ethics hotline, employee training program and Uniform Code of Conduct.

The State of Connecticut Auditors of Public Accounts (State Auditors) performs the annual audit in accordance with *Government Auditing Standard* for financial and compliance audits, the Federal Single Audit Act Amendments of 1996 and the provisions of Federal Office of Management and Budget Circular A-133. In addition, biennially as allowed by State Statute, the State auditors examine the books and records of the University focusing on internal controls and compliance. As directed by the General Assembly in Public Act 06-134, the University also retains an external independent accounting firm to audit annually all UCONN 2000 construction projects.

Internally, OACE has developed a risk-based audit and compliance plan, which is approved by the BOT JACC. OACE solicits the services of external experts in order to effectively manage risk.

External and internal audit reports and management letters are presented to senior administration and the JACC. OACE tracks audit recommendations to ensure that appropriate action is initiated and incorporated. The JACC monitors the audit process and the status of management action.

University of Connecticut Foundation [9.12]

The University of Connecticut conducts its fund-raising efforts through The University of Connecticut Foundation, Inc. ("Foundation"), incorporated in Connecticut as a non-stock private corporation exempt from taxation under IRS code section 501(c)(3) and is totally independent of the State of Connecticut. The mission of the Foundation is to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut. As the primary fund-raising vehicle to solicit and administer private gifts and grants that will enhance the University's mission, the Foundation supports the University's pursuit of excellence in teaching, research, and public service.

The Foundation is also responsible for managing and investing the endowed and non-endowed restricted funds resulting from fund-raising efforts. The investment management is directed through the Investment Committee of the Foundation's Board of Directors. The Committee is currently chaired by the Senior Vice President and Chief Investment Officer of Aetna, Inc.

The Foundation is managed by a self-perpetuating Board of Directors comprised of forty-six directorships. Board members include ex-officio representatives from the University and individual volunteers with significant professional experience. The officers of the Foundation include the following full-time staff members: President, Vice President of Development, and Vice President of Finance and Controls.

The Foundation has an annual audit performed by PricewaterhouseCoopers, and the University also conducts a disbursement audit through its OACE to ensure, among other things, that donors' intentions are met.

The Foundation has increased it scope of operations and results dramatically over the past ten years. In terms of staff size, approximately ten staff members worked for the Foundation in 1995 and now there are approximately one hundred. In 1999, the Foundation moved into a new building in the center of campus. Over the last ten years the total assets of the Foundation have increased from $65 million in FY 1995 to $343 million in FY 2005.

Fund-raising results have increased significantly from $8.1 million raised in 1995 to $55.8 million raised in the year ending June 30, 2005. The Foundation directs its fund-raising efforts in coordination with the University's strategic plan and the goals of the deans of each school. The Foundation has established gift acceptance policies and has adopted the statement of ethics and reporting guidelines issued by the Council for the Advancement and Support of Education.

In June of 2004, the Foundation completed a $300 million capital campaign that resulted in gifts and pledges of approximately $325 million. In addition, a software gift valued at $146 million was also received in 2004 and is not included in the capital campaign amount.

While only two years have passed since the completion of the last capital campaign, the planning for the next campaign has begun. To coincide with the 125th year anniversary of the University, the next campaign is expected to be launched sometime in 2007. A goal of at least $600 million is expected for the next campaign. The campaign goals will be directed by the Board of Trustees and the President, with input from key university leaders. A management overview of the University of Connecticut Foundation's performance for fiscal year 2006 is contained in Exhibit 9.4.

The 1995 UCONN 2000 State of Connecticut legislation provided for an endowment matching program. Each dollar of contributions received for endowment was matched by $1 for the first two years and by $.50 since then from the State of Connecticut up to an annual maximum. In the spring of 2005, the program was reduced to a match of $.25 on the dollar and included a provision that payments from the State would not occur until the amount in the State's Budget Reserve Fund equals 10 percent of the net General Fund appropriations. Through December 31, 2005 a total of $55 million has been received under the state matching program.

The University of Connecticut Foundation has faced challenges as it has grown. Since 2004, there have been some discussions in the state legislature regarding an audit of the Foundation by the State Auditors. Currently the Foundation is audited by PricewaterhouseCoopers. The Foundation management and Board of Directors feel this is a more than adequate audit review. If a state audit requirement were to ins titute a state audit procedure, this might be viewed as a challenge to the private status of the Foundation, potentially exposing donor identities and gift amounts.

Another challenge for the Foundation is the turnover of fundraising staff. This is due to employment opportunities offered by other universities and foundations that are significantly expanding their staff in preparation for major campaigns and because of the increasing numbers of social service programs and school-based programs that are tapping into the philanthropic landscape.

Yet another challenge in fundraising is securing financial support from corporations and foundations. Corporations have begun to limit the amount of their giving and foundations have reduced the levels of their grant making.

Athletics [9.12]

The Division of Athletics and Recreational Services offers twenty-four intercollegiate sports to nearly 600 student-athletes and recreational opportunities to approximately seventy-five percent of the undergraduate student population. In the last decade, the Division has experienced an unprecedented level of success. Since 1995, UConn has captured eight NCAA National Championships and eighty-two Big East Championships.

During this period, 140 student-athletes have been named All-American. UConn made history in 2004 as it became the first school in NCAA history to win the men's and women's basketball championship in the same year. In addition, UConn has successfully made the transition to Division I-A football as a member of the Big East Conference and the Bowl Championship Series. The Huskies won their first-ever bowl game with a victory in the 2004 Motor City Bowl.

Between July 1, 1995 and June 30, 2006, seventeen UConn student-athletes have been named Academic All-American by the College Sports Information Directors of America. During the 2005-06 academic year, more than forty percent of UConn's 650 student-athletes earned a grade point average of 3.0 or better. In addition, fourteen student-athletes had a perfect 4.0 or better in either or both the fall and spring semesters.

The Department of Recreational Services within the Division provides opportunities for students, faculty and staff via Informal Recreation (fitness & weights, aquatics, racquetball, indoor climbing, open hours for play), Intramurals and Special Events, Husky Xcursions (outdoor adventure trips and programs with an emphasis on the educational experience), BodyWise (group exercise classes and wellness program) and Natural High (alternative programs). During the academic year and at peak times, as many as 4,200 people (of which about 3,900 are students) per day may utilize these programs. This equates to over 500,000 participations per year which is more than double what it was in 1995.

The Division has attained national prominence by providing an appropriate level of funding to its programs. The operating expense budget for salaries, operating and scholarships in FY 1996 was $18.8M. The FY 2006 operating expense budget that includes salaries, operating and scholarship was $49.9M.

In FY 1996, the university support for athletics and recreation was $4.5M or about twenty-four percent of the $19.1M total budget. In contrast, the FY 2006 support for athletics and recreation was $9.9M or about twenty percent of the total budget. The Division was responsible for the remaining eighty percent. The total university support for athletics and recreation includes $2.0 million for Title IX support to ensure gender equity. University support also includes funding from the General University Fees (GUF) paid by students. In FY 2006, the Division received $6.3M in GUF and used it to offset expenses for services and benefits received by students who pay the fee.

The Division has funded the growth in annual operating budgets by increased revenue from ticket sales, corporate sponsorships, Big East Conference revenue and fundraising. In FY 2006, the Division was responsible for the about $40M (80%) of the $49.9M revenue budget. The $40M was derived from ticket sales ($13.2M), corporate sponsorships ($5.2M), the Big East Conference ($4.2M), TV and Radio ($1.9M) and fundraising ($10.1M). Revenue increases in these areas are primarily due to the success of the men's and women's basketball as well as football. Table 9.6 contains FY 2006 Division revenue and expenditures compared to FY 1996.

Table 9.6 – Division of Athletics and Recreation Revenue and Expenses

REVENUE	**FY 1996**	**FY 2006**	**% Inc**
Division	$14.6M	$40.0M	174%
University	$4.5M	$9.9M	121%
TOTAL	$19.1M	$49.9M	161%
EXPENSES			
Operating	$15.9M	$42.2M	166%
Scholarships	$2.9M	$7.7M	163%
TOTAL	$18.8M	$49.9M	165%

The Division of Athletics and Recreational Services' fundraising efforts provide funding for the annual scholarship expense. In the past decade, the Division's fundraising success has also contributed to maintaining a sufficient operating budget, and partially supported the construction of additional facilities as well as increased the athletics endowment market value.

Table 9.7 – Division of Athletics Fundraising

Annual and Endowment Value	**FY 1996**	**FY 2006**	**% Inc**
Annual Fundraising	$4.6M	$18.2M	293%
Endowment Market Value	$7.6M	$42.7M	464%

The Division of Athletics and Recreational Services will continue to meet its mission as defined by the University and its Board of Trustees. It is confident in its ability to enhance its current revenue streams and develop new ones as needed. As such, it is projected that revenues and expenses are expected to grow 5 percent annually. The major revenue streams that can affect future growth are ticket sales, corporate sponsorships, Big East Conference revenue and fundraising. The success of our programs and the general economic climate can directly impact these external revenue streams. On the expense side, the Division continues to exercise cost containment with its annual zero-based budgeting approach. The areas that pose the greatest challenge are: salary cost of living increases, tuition increases impacting the scholarship cost, travel expense increases due to general transportation costs and Big East Conference realignment, and the cost of facility maintenance and improvements. The Division is not alone in facing the challenge of maintaining what is essentially a self-supported program. With the appropriate strategies and systems to develop revenue and expense goals and effectively monitor those activities, the Division will continue to meet its mission while mindful of its fiscal challenges.

Fiscal Policies & Documentation [9.13]

All fiscal policies, including, budgeting, investments, insurance, risk management, contracts and grants, transfer and inter-fund borrowing, fund-raising and development activities are clearly stated in writing and can be found in the resource room. Many of these policies are in written form on the web sites of various departments.

The University of Connecticut Foundation has its own policies and procedures regarding fund-raising and other institutional advancement and development activities. Annually the University and Foundation sign a Memorandum of Understanding outlining the relationship including fund-raising expectations.

In addition, the Office of Audit, Compliance and Ethics exists to help ensure compliance with University, State and Federal regulations and policies and to educate employees to ensure they maintain the highest ethical standards.

The University reports its financial position throughout the year to the Board of Trustees. In addition, it is required to submit quarterly reports to the Department of Higher Education. As a State agency these periodic fiscal reports, including an end-of-year financial report are required by State law. Copies of the audited financial statements for fiscal year ending 2005 are in the resource room.

Finally, the University records and transactions are subject to both internal and external auditing. As previously mentioned, the Office of Audit, Compliance and Ethics, which reports directly to the President, conducts regular audits of various University activities and transactions. In addition, the State of Connecticut has auditing staff housed on the Storrs campus that regularly monitor the University's financial policies and practices.

Appraisal

The University of Connecticut is a financially stable institution with very high quality education programs and research. It has enjoyed great support from the State of Connecticut via the UConn 2000 initiative and the State match on fundraising efforts. The collection of the State matching dollars has recently become somewhat of an issue as the State policy is now to only fund the match as long as there is a surplus in the State budget. It also continues to receive increased dollar funding from the State for its operating budgets. However, this source of operating revenue has not kept pace with inflation and the University has had to become more self-reliant in generating operating revenues. It has managed to increase its non-State revenues through a combination of student tuition increases and other external sources such as gifts, grants and fundraising. The growth in student tuition revenues has come from an increase in tuition rates as well as an influx of students with the University reaching an all-time enrollment high exceeding 27,500 students during FY 06. The University concluded a very successful capital campaign exceeding a campaign goal of $300 million to the Foundation endowment. Also, in the Academic Plan the University has a goal to significantly increase its grant funding to be more in line with our peer research schools. Perhaps the strongest measure of the financial viability of the institution is that the University has a very good rating of its bonds and that it has met all bond payments.

The increase in student enrollments has put additional pressure on the teaching loads of faculty members and there is a need to hire new faculty members to ensure that students can graduate in four years. As indicated earlier the University has met its enrollment goals, however the student/ faculty ratio has also increased over time. An important metric in the Academic Plan is to compare ourselves to our peer schools on the student/faculty ratio. Our peer institutions average 16:1 student/faculty ratio as compared with our current 17+:1 ratio. To improve on this ratio proposals have been put forward to the legislature to assist in the funding of a total of 175 new positions over a five-year period to meet this quality dimension of our delivery to students.

While the BOT's budget process has been in place for many years the advent of UCONN 2000 and the increasing responsibilities of the University to manage its own construction projects have led to some significant changes in the management of the University. This has resulted in the creation of the VP & CFO and VP & COO positions, new offices of the Fire Marshal and Building Inspector and Construction Assurance, the office of Audit, Compliance and Ethics (with a Director of Compliance and Ethics), the revamping of the BOT's audit commitment to be the Joint Audit and Compliance Committee, and creation of new Board of Trustees committees— the Building, Grounds and Environment (BGE) committee and the Construction Management Oversight Committee (CMOC). These changes in structure not only speak to the importance of the issues of oversight and compliance but also position the University well to effectively manage its responsibilities in the future.

Projection

The challenges for the University are in trying to be more self-reliant in the generation of operating revenues and in meeting the increased expectations and numbers of students. The University has met its enrollment goals at both the

Storrs and the Regional Campuses. To return to a student/faculty ratio more comparable with our peers an important goal will be to seek sufficient funding from all sources to allow for the hiring of additional faculty members to support the current enrollment which has now stabilized. A new capital campaign is expected to be announced in 2007 with a goal of around $600 million. The University will continue to work with the Governor and the legislature on operating budget issues to ensure that citizens of the State have adequate access to and receive the best possible education. The University will continue to review and make intelligent decisions about what to offer based on the University's Academic and Master Facilities Plans. The building campaign created by UConn 2000 will continue through the next ten years with projects in place through 2015.

INSTITUTIONAL EFFECTIVENESS

The University of Connecticut has appropriate internal and external mechanisms in place to evaluate its fiscal conditions and financial management and to maintain its integrity. From 2003 through 2006, issues were identified which led to the strengthening of these mechanisms in order to more effectively administer the massive building endeavors of the University, and ensure integrity in financial administration. The University has moved quickly and assertively to refine and strengthen both its financial position, and the monitoring of its revenues and expenditures.