

State of Colorado
University of Northern Colorado

(A Component Unit of the State of Colorado)

Financial and Compliance Audit

June 30, 2007 and 2006

**LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS**

Senator Stephanie Takis
Chair

Representative James Kerr
Vice-Chair

Senator Jim Isgar
Representative Rosemary Marshall
Representative Victor Mitchell
Representative Dianne Primavera
Senator Nancy Spence
Senator Jack Taylor

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Adam Ochs
Legislative Auditor

BKD, LLP
Contract Auditor

State of Colorado
University of Northern Colorado
June 30, 2007 and 2006

Contents

Report Summary	1
Recommendation Locator	3
Description of the University of Northern Colorado	4
Accountants' Findings and Recommendations	5
Disposition of Prior Audit Recommendations.....	7
Independent Accountants' Report on Financial Statements and Supplementary Information.....	8
Management's Discussion and Analysis	10
Financial Statements	
Statements of Net Assets	20-21
Statements of Revenues, Expenses and Changes in Net Assets	22-23
Statements of Cash Flows	24-25
Notes to Financial Statements	26
Independent Accountants' Report on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56
Independent Accountants' Audit Committee Communication	58
Audit Report Distribution Summary	60

State of Colorado
University of Northern Colorado
Report Summary
June 30, 2007 and 2006

Purposes and Scope of Audit

The purposes and scope of this audit were to:

- Express an opinion on the financial statements of the University of Northern Colorado (the University or UNC) as of and for the years ended June 30, 2007 and 2006, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2007.
- Issue a report on the University's compliance with certain provisions of laws, regulations, contracts and grants and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate progress in implementing prior year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Auditor's Findings and Recommendations section contains the following:

- The University's software system does not have automated controls in place to control the sequential numbering of checks produced. In addition, the payroll module will allow a duplicate check number to be processed through the system.
- The payroll accountants have the ability to change their own salary information without any approval. There is a risk that funds could be misappropriated prior to detection.

State of Colorado
University of Northern Colorado
Report Summary (continued)
June 30, 2007 and 2006

Summary of Progress in Implementing Prior Audit Recommendations

The report for the year ended June 30, 2006, which is dated September 22, 2006, included four recommendations. All of these recommendations were implemented.

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the University's financial statements as of and for the years ended June 30, 2007 and 2006.

No significant deficiencies or material weaknesses in internal controls over financial reporting were identified.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

We did note certain areas in which the University could improve its internal controls and other procedures. These areas are discussed in the Auditor's Findings and Recommendations section of this report.

Significant Audit Adjustments

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented, were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These areas included:

- Capitalized interest on the University funded projects
- Deferred revenue

The effect of the uncorrected misstatements, had they been recorded, would have been to increase the change in net assets by \$305,587 for the year ended June 30, 2007, increase noncurrent assets by \$69,873, and decrease beginning net assets by \$235,714 as of June 30, 2007.

State of Colorado
University of Northern Colorado
Recommendation Locator
June 30, 2007 and 2006

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	5	Implement specific documented controls over disbursements to ensure all payments are proper and that adequate segregation of duties are maintained.	Agree	June 2008
2	6	UNC should implement a process in which payroll is subjected to a second review for the payroll personnel, during the 3 day lag time between when payroll is submitted and disbursed. This review process should be performed by someone independent of payroll.	Agree	Implemented

State of Colorado
University of Northern Colorado
Description of the University of Northern Colorado
June 30, 2007 and 2006

Eighteen years after the City of Greeley was founded, a movement was started to establish a “normal” school to supply teachers for the community and the State. The law creating the State Normal School, as the University of Northern Colorado (the University) was first known, was signed April 1, 1889. In 1911, the name was changed to Colorado State Teachers College. The University retained that name until 1935 when it was renamed Colorado State College of Education. In 1957, another name change occurred making it the Colorado State College. The Act changing the name to the University of Northern Colorado became law May 1, 1970, thus making official the University-level work, which it has offered since 1929.

The Board of Trustees is the governing body of the University and is comprised of seven members appointed by the Governor, confirmed by the Senate, for four-year terms; one faculty member elected by the faculty and one student member elected by the student body.

The University seeks to provide all students with a broad general education as well as preparation for selected professions within the fields of business, education, health service, music and related areas; and pre-professions such as pre-law, pre-medicine and others. Historically, the principal emphasis has been preparing students for careers in education.

Student FTE Enrollment

	In-State Student FTE	Out-of-State Student FTE	Total Student FTE
2007	9,658	1,137	10,795
2006	9,880	1,103	10,983
2005	9,878	1,134	11,012

State of Colorado
University of Northern Colorado
Accountants' Findings and Recommendations
June 30, 2007 and 2006

Sequential Numbering of Disbursement Checks

The University of Northern Colorado (the University of UNC) has implemented the Banner software as its accounting system in various phases over the prior two fiscal years. Payroll expense at the University for the fiscal year ended June 30, 2007 was approximately \$91 million. During our documentation of the internal controls for the fiscal year 2007 financial audit, we noted that the software does not currently have automated systems in place to control the sequential numbering of checks produced. In addition, the payroll module of the software will actually allow a duplicate check number to be processed through the system. Accounting for and monitoring all checks written is essential for a strong internal control environment. Having gaps or duplicates in the numbering sequence creates an opportunity for error or fraud to occur and not be detected in a timely manner. The University should investigate the possibility of implementing a Banner system control through software modification by the vendor in order to correct the issue and sequentially number disbursement checks.

Under the Auditing Standards, a *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. We noted that the University has implemented manual procedures whereby employees assigned to processing check runs manually verify the previous check number in the software prior to processing the next check run, however this manual control is undocumented. Based on complementing controls identified in the disbursement and payroll cycle, we do not consider this to be a control deficiency in internal control over financial reporting,

Recommendation No. 1

The University should implement specific documented controls over disbursements to ensure all payments are proper. For example, an employee not involved in the disbursement process should review and ensure that there are no gaps or duplicate check numbers prior to processing. This review should be evidenced by documented approval. The continuing sequence of the checks should also be noted during the bank reconciliation process. Periodically, an employee not involved in the disbursement cycles should download the check registers and sort by check number to look for gaps or duplicates as well as scan for unusual payees or amounts. All discrepancies should be timely investigated and resolved. The University should also investigate the possibility of implementing a Banner system control through software modification by the vendor in order to correct the issue and sequentially number disbursement checks.

University of Northern Colorado Response

Agree – The University will document and implement controls over disbursements, including review and approval, to ensure that there are no gaps or duplicate check numbers prior to processing all payments. Unusual check numbering will be looked for and investigated during the bank reconciliation process. The University will continue to have an employee, not involved in the disbursement cycles, review the check registers and scan for unusual payees or amounts, gaps in sequential check numbering and duplicate check numbers. All discrepancies will be investigated and resolved. The University will request a Banner system control through software modification by the vendor in order to correct the issue and sequentially number disbursement checks.

Implementation Date: June 30, 2008

State of Colorado
University of Northern Colorado
Accountants' Findings and Recommendations
June 30, 2007 and 2006

Segregation of Duties in Payroll Cycle

We noted during our review of internal controls, that the payroll accountants have the ability to change salary information for all employees and personnel, including themselves. This can be performed without approvals, either prior to the change in salary information, or subsequent to the change. When payroll is complete, it is reviewed and approved by the payroll manager and then returned to the payroll accountants to be submitted to the bank for processing and disbursement to the employees' accounts. Although once payroll is submitted to the bank, it can not be altered by the payroll accountants, the payroll could be changed after the payroll is initially reviewed and prior to submitting to the bank by the IT department. However, there is a lag in time of approximately three days between the time payroll is submitted to the bank and the time when the payroll is actually disbursed, which can be utilized to detect changes to the payroll that have not been authorized. While compensating controls are in place to mitigate this risk, including a restriction on the payroll accountant's ability to alter the account number for direct deposit, reviews of budget reports and reviews of payroll change reports, it is possible for a payroll accountant to significantly alter their own pay and obtain the funds before detection. Under the current structure, the University is at risk for misappropriation of assets by the payroll accountants. We consider this situation to be a control deficiency, in accordance with the definition on the preceding page however no instances of misappropriation were detected.

Recommendation No. 2

UNC should implement a process in which payroll is reviewed for the payroll personnel, during the three-day lag time. If errors or discrepancies are noted, the entire payroll can still be halted prior to disbursement. This review process should be performed by someone independent of the payroll department. Alternatively, a separate employee with no ability to change salary information could be responsible for submitting the payroll to the bank after proper approval.

University of Northern Colorado Response

Agree – UNC has implemented a process to review payroll for the staff with the ability to change salary information prior to disbursement. A report comparing current and prior pay information is reviewed, variances explained and approved by the Director of Human Resources, who does not have the ability to change payroll information.

Implementation Date: Implemented

State of Colorado
University of Northern Colorado
Disposition of Prior Audit Recommendations
June 30, 2007 and 2006

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2006, included four recommendations. The disposition of these audit recommendations as of November 19, 2007, was as follows:

	Recommendation	Disposition
1	Re-evaluate the method used in recording the collection fees related to student accounts remitted to the State for collection formulas used in calculating allowances for doubtful accounts.	Implemented
2	Identify the related risks on outstanding loans for loans that have delinquent payments.	Implemented
3	Enhance and improve the communication between the internal auditor and the audit committee and ensure the internal auditor is not directly involved in the accounting and finance function.	Implemented
4	Monitor compliance with IRS guidelines on spending the 2005 bond proceeds for construction and capitalized interest costs.	Implemented



Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the University of Northern Colorado (the University or UNC) and its discretely presented component units, collectively, a component unit of the State of Colorado, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Northern Colorado Foundation, Incorporated (the Foundation) or the University of Northern Colorado Foundation Student Housing LLC I (the LLC), which, collectively comprise the University's discretely presented component units. Those statements were audited by other accountants whose reports have been furnished to us. Our opinion, insofar as it relates to the amounts included for the Foundation and the LLC, is based solely on the reports of the other accountants.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation and the LLC, which were audited by other accountants, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component units as of June 30, 2007 and 2006, and their respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Legislative Audit Committee

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

\s\ **BKD, LLP**

November 19, 2007

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Overview

This section presents management's discussion and analysis of the financial operating results of the University of Northern Colorado (the University or UNC), a public comprehensive baccalaureate and specialized graduate research university, for the fiscal year ending June 30, 2007 with prior year data for comparative purposes. The statements focus on the financial condition and results of operations for the University as a whole. The financial statements for the University of Northern Colorado Foundation, Incorporated and the University of Northern Colorado Student Housing LLC I – legally separate organizations whose operations benefit the University – are discretely presented within UNC's financial statements. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relate solely to the University. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

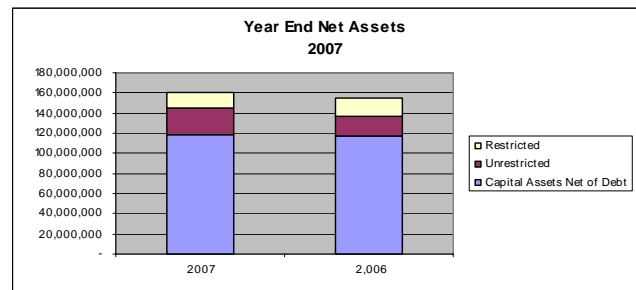
The statements are comprised of: the Statement of Net Assets; the Statement of Revenue, Expenses and Changes in Net Assets; and the Statement of Cash Flows. In addition, UNC's financial report includes note disclosures and is prefaced by this Management Discussion and Analysis (MD&A). The MD&A is required by Governmental Accounting Standards Board (GASB) standards to provide "an easily readable analysis of financial activities based on currently known facts."

Financial Highlights

The net assets of the University increased by \$6.3 million to \$161.1 million during the fiscal year ended June 30, 2007. The largest increase is in unrestricted net assets due to positive operating income.

Selected financial highlights for the fiscal year ending June 30, 2007, include:

- The University assets total \$337.7 million with liabilities of \$176.6 million resulting in net assets of \$161.1 million.
- Capital assets of \$201.0 million comprise 60% of the University assets.
- Total revenue in 2007 was \$153.3 million, including \$144.4 million of Operating Revenue, which includes College Opportunity Fund stipends and State Fee-for-Service contract revenue. Total revenue in 2006 was \$141.4 million including \$137.8 million of Operating Revenue.
- Operating Expenses for 2007 and 2006 totaled \$143.4 million and \$141.5 million, respectively.



State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Statement of Net Assets

The Statement of Net Assets is a financial snapshot of the University of Northern Colorado at June 30, 2007. It presents the fiscal resources of the University (assets), the claims against those resources (liabilities) and the residual available for future operations (net assets). Assets and liabilities are classified by liquidity as either current or noncurrent. Net assets are classified by the ways in which they may be used for future operations.

University of Northern Colorado			
Condensed Statement of Net Assets			
June 30,			
	2007	2006	2005
Assets			
Current Assets	\$ 61,374,255	\$ 55,505,811	\$ 54,941,752
Capital Assets	201,023,064	182,220,879	179,467,768
Other Noncurrent Assets	<u>75,286,387</u>	<u>92,310,548</u>	<u>9,616,626</u>
Total Assets	<u>\$ 337,683,706</u>	<u>\$ 330,037,238</u>	<u>\$ 244,026,146</u>
Liabilities			
Current Liabilities	\$ 25,631,854	\$ 23,147,234	\$ 20,056,947
Bonds/Notes Payable	140,651,092	142,301,092	57,058,594
Other Noncurrent Liabilities	<u>10,317,877</u>	<u>9,823,105</u>	<u>8,745,912</u>
Total Liabilities	<u>\$ 176,600,823</u>	<u>\$ 175,271,431</u>	<u>\$ 85,861,453</u>
Net Assets			
Invested in Capital Assets net of Related Debt	\$ 118,272,373	\$ 116,643,360	\$ 116,921,377
Restricted – Nonexpendable	315,553	307,555	307,555
Restricted – Expendable	16,204,979	17,604,788	21,398,187
Unrestricted	<u>26,289,978</u>	<u>20,210,104</u>	<u>19,537,574</u>
Total Net Assets	<u>\$ 161,082,883</u>	<u>\$ 154,765,807</u>	<u>\$ 158,164,693</u>

Liquid Assets

Unrestricted cash and cash equivalents (\$51.4 million) comprise 15.2% of the University's assets. The current ratio (current assets over current liabilities) is 2.4%, which is the same as June 30, 2006.

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Capital Assets

UNC's single largest fiscal resource is its campus facility. As of June 30, 2007, capital assets, net of \$153.1 million accumulated depreciation, total \$201.0 million. This is an \$18.8 million increase from fiscal year 2006. Major additions include the Butler Hancock building and Jackson field and building improvements. The University has \$16.9 million in construction in progress as part of its capital assets. Significant continuing projects include water mains and west campus housing projects. As of June 30, 2006, capital assets, net of \$140.8 million accumulated depreciation, totaled \$182.2 million. This was a \$2.7 million increase from fiscal year 2005. The University had \$9.9 million in construction in progress as part of its capital assets. Significant projects include bond funded sports and recreation facilities, state appropriated buried mains and auxiliary funded residence hall renovations.

Capital Assets, Net of Accumulated Depreciation						
	<u>June 30, 2007</u>		<u>June 30, 2006</u>		<u>June 30, 2005</u>	
Land and Improvements	\$ 25,260,995	12.6%	\$ 19,731,359	10.8%	\$ 19,365,823	10.8%
Buildings and Improvements	144,417,684	71.8	139,421,608	76.5	144,558,743	80.5
Construction in Progress	16,912,456	8.4	9,874,105	5.4	2,786,047	1.6
Library Books	8,217,848	4.1	7,874,582	4.3	7,554,352	4.2
Equipment	5,371,451	2.7	4,476,595	2.5	4,360,173	2.4
Art and Historical Treasures	842,630	0.4	842,630	0.5	842,630	0.5
Total Capital Assets	<u>\$ 201,023,064</u>	<u>100.0%</u>	<u>\$ 182,220,879</u>	<u>100.0%</u>	<u>\$ 179,467,768</u>	<u>100.0%</u>

Other Noncurrent Assets

The noncurrent assets primarily consist of restricted investments and loans to students. Proceeds from the fiscal year 2006 bond issuance of \$85.0 million, described in the Long-term Debt section, resulted in an \$82.3 million increase to restricted investments from fiscal year 2005 to 2006. As the bond proceeds are used, the restricted investments have decreased \$17.1 million from fiscal year 2006 to 2007.

Liabilities

The University's commitments of resources include: amounts owed to vendors; leases of equipment; and deferred revenue. Deferred revenues include amounts received for tuition and fees and certain auxiliary activities received by June 30, 2007, but related to services to be provided in fiscal year 2008; and amounts received from grant and contract sponsors that have not yet been earned. Compensated absences (employee accrued vacation and sick leave) of \$3.5 million is another significant liability. The single largest liability however, is outstanding bonds which, combining the current and non-current amounts, totaled \$142.3 million at June 30, 2007, \$143.9 million at June 30, 2006 and \$58.1 million at June 30, 2005.

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Long-term Debt

In July 2001, UNC issued bonds totaling \$50.0 million par. These bonds advance refunded the previously issued 1997 bonds and provided funding for West Campus Dining Improvements, Parking and additional Auxiliary Facility Improvements. Ratings by Moody's Investor Service and Standard & Poor's, based on insured bonds, were Aaa and AAA, respectively. The underlying ratings were A2 and A.

In July 2005, the University issued an additional \$85.0 million in bonds with maturities from 2006 through 2040. Like the 2001 bonds, these were insured with ratings of Aaa by Moody's and AAA by Standard and Poor's. The underlying ratings remained unchanged with a stable outlook at the time of issuance.

Other outstanding bonds include 1998 issuance, which was for Auxiliary projects and the refunding of prior bonds.

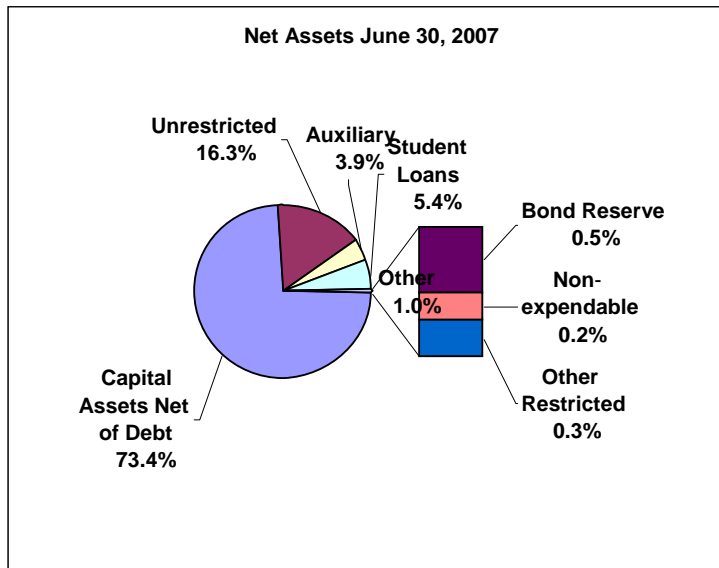
State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Net Assets

Net assets are the resources available for future operations, that is, assets reduced by liabilities. The University's largest class of net assets is its capital assets, net of related debt, which comprises 73.4%, 75.4% and 73.9% of UNC's net assets for fiscal years 2007, 2006 and 2005, respectively.

Net Assets			
	June 30, 2007	June 30, 2006	June 30, 2005
Capital Assets, Net of Related Debt	\$ 118,272,373	\$ 116,643,360	\$ 116,921,377
Unrestricted	26,289,978	20,210,104	19,537,574
Auxiliary	6,318,822	7,274,009	10,215,143
Student Loans	8,725,736	9,084,499	9,635,579
Bond Reserve	750,000	750,000	750,000
Non-expendable	315,553	307,555	307,555
Other Restricted	410,421	496,280	797,465
	<u>\$ 161,082,883</u>	<u>\$ 154,765,807</u>	<u>\$ 158,164,693</u>

Unrestricted Net Assets of \$26.3 million includes: departmental operating funds, inventory, self-funded operation working capital and reserves.



State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the financial activity of the University of Northern Colorado over the fiscal year. The focus is on Operating Revenues and Expenses.

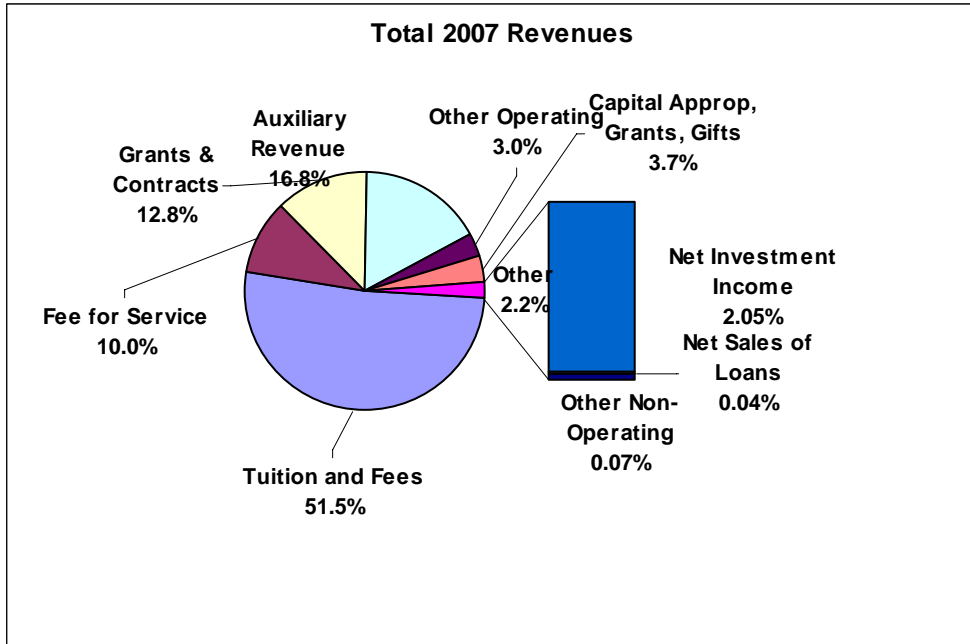
	2007	2006	2005
Operating Revenues			
Net Tuition and Fees	\$ 78,912,114	\$ 75,469,238	\$ 42,975,646
Fee for Services	15,345,095	14,016,078	—
Grants and Contracts	19,630,426	19,406,898	20,383,430
Auxiliary	25,681,389	24,920,551	30,201,148
Other	4,796,630	4,031,626	1,763,804
Total Operating Revenues	<u>144,365,654</u>	<u>137,844,391</u>	<u>95,324,028</u>
Operating Expenses			
Educational and General	109,687,620	107,813,020	96,514,044
Auxiliary	20,944,465	21,742,407	19,908,514
Depreciation	12,776,240	11,984,452	11,092,760
Total Operating Expenses	<u>143,408,325</u>	<u>141,539,879</u>	<u>127,515,318</u>
Operating Gain (Loss)	957,329	(3,695,488)	(32,191,290)
Nonoperating Revenues			
State Appropriations	—	—	33,590,906
Net Asset Adjustments	—	—	(817,809)
Other Nonoperating Revenues and Expenses	(256,880)	(772,334)	(955,988)
Gain (Loss) Before Other Revenues and Expenses	700,449	(4,467,822)	(374,181)
Capital Appropriations	5,593,925	1,290,484	410,080
Net Other Items	22,703	(221,548)	179,066
Increase (Decrease) in Net Assets	6,317,077	(3,398,886)	214,965
Net Assets, Beginning of Year	154,765,807	158,164,693	157,949,728
Net Assets, End of Year	<u>\$ 161,082,884</u>	<u>\$ 154,765,807</u>	<u>\$ 158,164,693</u>

Total Revenues

In fiscal year 2007, revenue from all sources totals \$153.3 million with \$144.4 million of that being Operating Revenue. In fiscal year 2006, total revenue was \$142.0 million with \$137.8 million operating revenue. In fiscal year 2005, total revenue was \$131.8 million with \$95.3 million operating revenue and a \$33.6 million general fund appropriation.

In fiscal year 2006, the State of Colorado discontinued direct state appropriations to public institutions of higher education, including UNC. Instead, state funds are being used to support Colorado students in two ways. First, the College Opportunity Fund (COF) provides a stipend to eligible undergraduate residents. A total of \$22.6 and \$21.2 million in COF stipends was paid toward UNC student tuition in FY 2007 and 2006, respectively. Second, in FY 2007 and 2006 the State contracted with UNC for \$15.3 and \$14.0 million in educational service, respectively – primarily graduate student education. These funds are in addition to tuition paid by students.

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006



Operating Revenues

Operating revenues for fiscal years 2007, 2006 and 2005 of \$144.4, \$137.8 and \$95.3 million is derived from Tuition and Fees, Auxiliary activity, Grants & Contracts, State Fee-for-Service, and Other. In fiscal year 2005 State Appropriations, associated with Tuition and Fees, of \$33.6 million were reported as nonoperating revenue and there was no State Fee-for-Service revenue.

Tuition and Fees for fiscal years 2007, 2006 and 2005 are shown net of \$6.4, \$7.0 and \$6.7 million scholarship allowances. Auxiliary revenue for fiscal years 2007, 2006 and 2005 is net of \$2.0, \$2.2 and \$2.1 million in scholarship allowances, respectively. Scholarship allowances are those portions of UNC's tuition and fees which are paid by other revenues, primarily federal and state grants for financial aid, but also general institutional scholarships.

Grants and Contracts Revenue			
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Federal Financial Aid	\$ 6,115,046	\$ 5,926,843	\$ 6,173,513
State Financial Aid	<u>4,526,564</u>	<u>4,141,896</u>	<u>4,319,367</u>
	10,641,610	10,068,739	10,492,880
Federal Grants	5,728,569	5,965,608	6,548,796
State and Local Grants	408,570	148,674	59,185
UNC Foundation	2,155,452	2,527,325	1,684,683
Other Grants	<u>696,225</u>	<u>696,552</u>	<u>1,597,886</u>
	<u>\$ 19,630,426</u>	<u>\$ 19,406,898</u>	<u>\$ 20,383,430</u>

About 54% of the Operating Grants and Contract revenue is federal and state financial aid with an additional 29% coming from federal grants for research, training, etc.

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Expenses

Operating expenses for fiscal year 2007 of \$143.4 million and \$3.6 million in interest expense contribute to total expenses of \$147.0 million.

Operating expenses have increased from fiscal 2006 by \$1.8 million primarily in Instruction, Scholarships, and Depreciation. In fiscal year 2005 to 2006 the operating expenses increased by \$14 million with significant increases in instruction and scholarships and fellowships.

Operating Expenses by Function						
	2007		2006		2005	
Instruction	\$ 51,870,525	36.2%	\$ 50,786,114	35.9%	\$ 47,256,404	37.1%
Research	2,189,973	1.5	2,467,491	1.7	2,755,929	2.2
Public Service	1,767,130	1.2	1,511,545	1.1	1,309,977	1.0
Academic Support	13,248,964	9.3	12,687,079	9.0	10,965,180	8.6
Student Services	15,105,402	10.5	16,408,932	11.6	15,143,766	11.9
Institutional Support	9,659,058	6.7	7,759,832	5.4	6,213,142	4.8
Operation of Plant	7,540,297	5.3	8,946,819	6.3	9,381,581	7.4
Scholarships & Fellowships	8,306,271	5.8	7,245,208	5.1	3,488,065	2.7
Auxiliary Operating Expenditures	20,944,465	14.6	21,742,407	15.4	19,908,515	15.6
Depreciation	<u>12,776,240</u>	<u>8.9</u>	<u>11,984,452</u>	<u>8.5</u>	<u>11,092,759</u>	<u>8.7</u>
Total Operating Expenses	<u>\$ 143,408,325</u>	<u>100.0%</u>	<u>\$ 141,539,879</u>	<u>100.0%</u>	<u>\$ 127,515,318</u>	<u>100.0%</u>

The single largest category of expense across all University functions is personnel.

Operating Expenses by Natural Class						
	2007		2006		2005	
Personnel Costs	\$ 90,790,174	63.3%	\$ 90,382,751	63.9%	\$ 82,818,727	64.9%
Cost of Goods Sold	8,989,034	6.3	8,969,186	6.3	8,873,157	7.0
Other Operating Expense	30,852,877	21.5	30,203,490	21.3	24,730,675	19.4
Depreciation	<u>12,776,240</u>	<u>8.9</u>	<u>11,984,452</u>	<u>8.5</u>	<u>11,092,759</u>	<u>8.7</u>
Total Operating Expenses	<u>\$ 143,408,325</u>	<u>100.0%</u>	<u>\$ 141,539,879</u>	<u>100.0%</u>	<u>\$ 127,515,318</u>	<u>100.0%</u>

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Economic Outlook

With Colorado's implementation of the College Opportunity Fund and discontinuation of direct state appropriations, UNC's finances are more immediately impacted by changes in enrollment.

Fiscal year 2007 headcount enrollment and credit hour

production were down slightly from fiscal year 2006. Early fall 2007 (fiscal year 2008) enrollment statistics indicate an additional enrollment decline.

Student Headcount Enrollment				
Fall, Fiscal Year	Under-graduate	Graduate	Total	Percent Change
Fall 06 (FY 07)	11,037	2,638	13,675	(0.96%)
Fall 05 (FY 06)	11,223	2,584	13,807	3.56%
Fall 04 (FY 05)	10,893	2,439	13,332	(0.04%)
Fall 03 (FY 04)	10,704	2,634	13,338	

Total Credit Hours

Fiscal Year	Total	Percent Change
2007	343,868	(1.39%)
2006	348,702	(0.59%)
2005	350,777	1.73%
2004	344,799	

The University community is addressing enrollment from both short-term and long-term perspectives. The short-term focus is on building resident and non-resident applicant pools by purchasing student names and targeting areas of the greatest return based on market research currently being conducted.

Long-term strategy focuses on building relationships with prospective students earlier, building our image and improving retention.

Information about enrollment trends including retention, the composition of the student body, and applications for admittance are critical to financial management of the University. An enrollment management team at UNC is working to define short-term enrollment goals and develop a strategic plan for enrollment management. This enrollment plan will be part of a larger academic plan that sets measurable goals for performance. This planning process is the foundation for effective financial planning and management.

State of Colorado
University of Northern Colorado
Management's Discussion and Analysis
June 30, 2007 and 2006

Statewide funding for higher education continues to be a concern in Colorado. A recent study by the National Center for Higher Education Management Systems (NCHEMS) reflects the fact that Colorado schools are funded on average at only 66% of their peers. The executive director of the Colorado Department of Higher Education is actively addressing this concern and convened a higher education summit in June 2007. Working groups have been established to address peer institution comparisons, metrics for productivity and statewide funding alternatives. The results of these efforts will affect UNC's future tuition and fee revenue (through the COF stipend) and Fee-for-Service revenue.

For additional information regarding this report please contact:

Office of the Assistant Vice President of Finance
University of Northern Colorado
501 20th Street
Greeley, CO 80639
(970) 351-2124
www.unco.edu

State of Colorado
University of Northern Colorado
Statement of Net Assets
June 30, 2007

	Component Units		
	University of Northern Colorado	University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
Assets			
Current Assets			
Cash and cash equivalents	\$ 51,380,618	\$ 1,831	\$ 171,070
Funds held in trust	—	—	1,482,800
Student accounts receivable, net of allowance of \$2,281,314	4,120,891	—	—
Contributions receivable, net	—	672,546	—
Other receivables	2,776,739	571,635	—
Investments	—	57,415,484	1,282
Inventories	1,028,958	—	—
Loans to students, net	1,457,918	—	—
Other assets	609,131	94,509	27,355
Total current assets	<u>61,374,255</u>	<u>58,756,005</u>	<u>1,682,507</u>
Noncurrent Assets			
Restricted cash and cash equivalents	750,000	—	—
Restricted investments	65,943,175	—	—
Contributions receivable, net	—	2,047,224	—
Loans to students, net	6,044,994	—	—
Other noncurrent assets	2,548,218	—	5,866,594
Other long-term investments	—	235,729	—
Investments restricted for endowment	—	48,373,168	—
Capital assets, net	201,023,064	1,154,261	14,741,036
Total noncurrent assets	<u>276,309,451</u>	<u>51,810,382</u>	<u>20,607,630</u>
Total assets	<u>337,683,706</u>	<u>110,566,387</u>	<u>22,290,137</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	15,624,881	570,307	708,884
Deferred revenue	5,538,408	69,017	97,479
Bonds/notes payable – current portion	1,650,000	—	180,000
Capital leases payable – current portion	639,290	—	—
Funds held for the University of Northern Colorado	—	696,956	—
Other current liabilities	2,179,275	—	—
Total current liabilities	<u>25,631,854</u>	<u>1,336,280</u>	<u>986,363</u>
Noncurrent Liabilities			
Bonds/notes payable	140,651,092	—	23,558,203
Capital lease payable	4,563,041	—	—
Other long-term liabilities	2,607,651	—	—
Annuity obligations	—	163,868	—
Compensated absence liabilities	3,147,185	—	—
Total noncurrent liabilities	<u>150,968,969</u>	<u>163,868</u>	<u>23,558,203</u>
Total liabilities	<u>176,600,823</u>	<u>1,500,148</u>	<u>24,544,566</u>
Net Assets			
Invested in capital assets, net of related debt	118,272,373	1,154,261	—
Restricted			
Nonexpendable			
Scholarships and fellowships	314,153	48,373,168	—
Academic support	1,400	—	—
Expendable			
Auxiliary expenditures	6,318,822	—	—
Scholarships and fellowships	256,817	48,731,442	—
Loans	8,725,736	—	—
Bond reserve	750,000	—	—
Other	153,604	—	—
Unrestricted	26,289,978	10,807,368	(2,254,429)
Total net assets	<u>\$ 161,082,883</u>	<u>\$ 109,066,239</u>	<u>\$ (2,254,429)</u>

State of Colorado
University of Northern Colorado
Statement of Net Assets
June 30, 2006

	University of Northern Colorado	Component Units	
		University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
Assets			
Current Assets			
Cash and cash equivalents	\$ 46,607,122	\$ 2,034	\$ 161,594
Funds held in trust	—	—	1,750,604
Student accounts receivable, net of allowance of \$1,991,921	3,295,209	—	—
Contributions receivable, net	—	567,181	—
Other receivables	2,660,729	585,432	—
Investments	—	47,830,803	630
Inventories	875,507	—	—
Loans to students, net	1,642,445	—	—
Other assets	424,799	90,515	22,578
Total current assets	<u>55,505,811</u>	<u>49,075,965</u>	<u>1,935,406</u>
Noncurrent Assets			
Restricted cash and cash equivalents	627,104	—	—
Restricted investments	83,021,606	—	—
Contributions receivable, net	—	312,256	—
Loans to students, net	6,050,196	—	—
Other noncurrent assets	2,611,642	—	5,577,558
Other long-term investments	—	215,784	—
Investments restricted for endowment	—	46,344,952	—
Capital assets, net	<u>182,220,879</u>	<u>1,180,847</u>	<u>15,274,103</u>
Total noncurrent assets	<u>274,531,427</u>	<u>48,053,839</u>	<u>20,851,661</u>
Total assets	<u>330,037,238</u>	<u>97,129,804</u>	<u>22,787,067</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13,777,987	463,728	709,708
Deferred revenue	4,949,845	—	130,961
Bonds/notes payable – current portion	1,612,276	—	140,000
Capital leases payable – current portion	379,687	—	—
Funds held for the University of Northern Colorado	—	691,438	62,408
Other current liabilities	<u>2,427,439</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>23,147,234</u>	<u>1,155,166</u>	<u>1,043,077</u>
Noncurrent Liabilities			
Bonds/notes payable	142,301,092	—	23,725,311
Capital lease payable	3,732,315	—	—
Other long-term liabilities	3,421,039	—	—
Annuity obligations	—	172,859	—
Compensated absence liabilities	<u>2,669,751</u>	<u>—</u>	<u>—</u>
Total noncurrent liabilities	<u>152,124,197</u>	<u>172,859</u>	<u>23,725,311</u>
Total liabilities	<u>175,271,431</u>	<u>1,328,025</u>	<u>24,768,388</u>
Net Assets			
Invested in capital assets, net of related debt	116,643,360	1,180,847	—
Restricted			
Nonexpendable			
Scholarships and fellowships	306,155	46,344,952	—
Academic support	1,400	—	—
Expendable			
Auxiliary expenditures	7,274,009	—	—
Scholarships and fellowships	256,817	38,373,891	—
Loans	9,084,499	—	—
Bond reserve	750,000	—	—
Other	239,463	—	—
Unrestricted	<u>20,210,104</u>	<u>9,902,089</u>	<u>(1,981,321)</u>
Total net assets	<u>\$ 154,765,807</u>	<u>\$ 95,801,779</u>	<u>\$ (1,981,321)</u>

State of Colorado
University of Northern Colorado
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2007

	Component Units		
	University of Northern Colorado	University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
Operating Revenues			
Student tuition and fees, net	\$ 78,912,114	\$ —	\$ —
Contributions	—	6,592,313	—
Contributed services	—	55,925	—
Rental income and fees	—	—	1,944,865
Federal grants and contracts	11,843,615	—	—
State and local grants and contracts	4,935,134	—	—
State Fee-for-Service	15,345,095	—	—
Nongovernmental grants and contracts	2,851,677	—	—
Sales and services of educational activities	444,967	—	—
Auxiliary operating revenue	25,681,389	—	—
Interest and dividends	—	3,060,542	—
Net realized and unrealized gains	—	11,118,801	—
Other operating revenue	4,351,663	784,697	—
Total operating revenues	<u>144,365,654</u>	<u>21,612,278</u>	<u>1,944,865</u>
Operating Expenses			
Educational and general			
Instruction	51,870,525	—	—
Research	2,189,973	—	—
Public service	1,767,130	—	—
Academic support	13,248,964	—	—
Student services	15,105,402	—	—
Institutional support	9,659,058	—	—
Operation of plant	7,540,297	—	—
Scholarships and fellowships	8,306,271	—	—
Agency	—	—	—
Program	—	6,007,090	—
Management and general	—	1,190,208	—
Fund raising	—	1,150,520	—
Auxiliary operating expenditures	20,944,465	—	—
Operating expenses	—	—	574,079
Ground lease with University of Northern Colorado	—	—	61,571
Depreciation and amortization	12,776,240	—	593,693
Total operating expenses	<u>143,408,325</u>	<u>8,347,818</u>	<u>1,229,343</u>
Operating Income	<u>957,329</u>	<u>13,264,460</u>	<u>715,522</u>
Nonoperating Revenues (Expenses)			
Investment income, net of investment expense	3,147,428	—	198,040
Interest on capital asset related debt	(3,450,400)	—	(1,186,670)
Sale of loans, net of expenses	59,234	—	—
Interest expense on lending line of credit	(119,405)	—	—
Other nonoperating revenues	106,263	—	—
Net nonoperating revenues (expenses)	<u>(256,880)</u>	<u>—</u>	<u>(988,630)</u>
Income (Loss) Before Other Revenues (Expenses),			
Gains or (Losses)	700,449	13,264,460	(273,108)
Capital appropriations	5,593,925	—	—
Capital grants and gifts	16,581	—	—
Gain on disposal of capital assets	6,121	—	—
Total Other Changes	5,616,627	—	—
Increase (Decrease) in Net Assets	6,317,076	13,264,460	(273,108)
Net Assets (Deficit), Beginning of Year	<u>154,765,807</u>	<u>95,801,779</u>	<u>(1,981,321)</u>
Net Assets (Deficit), End of Year	<u>\$ 161,082,883</u>	<u>\$ 109,066,239</u>	<u>\$ (2,254,429)</u>

State of Colorado
University of Northern Colorado
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006

	Component Units		
	University of Northern Colorado	University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
Operating Revenues			
Student tuition and fees, net	\$ 75,469,238	\$ —	\$ —
Contributions	—	3,614,050	—
Contributed services	—	259,417	—
Rental income and fees	—	—	1,963,213
Federal grants and contracts	11,892,451	—	—
State and local grants and contracts	4,290,570	—	—
State Fee-for-Service	14,016,078	—	—
Nongovernmental grants and contracts	3,223,877	—	—
Sales and services of educational activities	359,600	—	—
Auxiliary operating revenue	24,920,551	—	—
Interest and dividends	—	2,580,721	—
Net realized and unrealized gains	—	5,961,368	—
Other operating revenue	3,672,026	1,534,561	—
Total operating revenues	<u>137,844,391</u>	<u>13,950,117</u>	<u>1,963,213</u>
Operating Expenses			
Educational and general			
Instruction	50,786,114	—	—
Research	2,467,491	—	—
Public service	1,511,545	—	—
Academic support	12,687,079	—	—
Student services	16,408,932	—	—
Institutional support	7,759,832	—	—
Operation of plant	8,946,819	—	—
Scholarships and fellowships	7,245,208	—	—
Program	—	7,058,260	—
Management and general	—	1,139,226	—
Fund raising	—	828,187	—
Auxiliary operating expenditures	21,742,407	—	—
Operating expenses	—	—	629,517
Ground lease with University of Northern Colorado	—	—	61,571
Depreciation and amortization	11,984,452	—	591,883
Total operating expenses	<u>141,539,879</u>	<u>9,025,673</u>	<u>1,282,971</u>
Operating Income (Loss)	<u>(3,695,488)</u>	<u>4,924,444</u>	<u>680,242</u>
Nonoperating Revenues (Expenses)			
Investment income, net of investment expense	1,510,942	—	167,390
Interest on capital asset related debt	(3,262,509)	—	(1,202,268)
Sale of loans, net of expenses	149,226	—	—
Interest expense on lending line of credit	(82,824)	—	—
Other nonoperating revenues	912,831	—	—
Net nonoperating revenues (expenses)	<u>(772,334)</u>	<u>—</u>	<u>(1,034,878)</u>
Income (Loss) Before Other Revenues (Expenses), Gains or (Losses)	<u>(4,467,822)</u>	<u>4,924,444</u>	<u>(354,636)</u>
Capital appropriations	1,290,484	—	—
Capital grants and gifts	344,692	—	—
Gain on impairment – insurance proceeds	707,312	—	—
Loss on disposal of capital assets	(1,273,552)	—	—
Increase (Decrease) in Net Assets	<u>(3,398,886)</u>	<u>4,924,444</u>	<u>(354,636)</u>
Net Assets (Deficit), Beginning of Year	<u>158,164,693</u>	<u>90,877,335</u>	<u>(1,626,685)</u>
Net Assets (Deficit), End of Year	<u>\$ 154,765,807</u>	<u>\$ 95,801,779</u>	<u>\$ (1,981,321)</u>

State of Colorado
University of Northern Colorado
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Cash received		
Tuition and fees	\$ 78,794,316	\$ 76,208,984
Colorado State Fee-for-Service	15,345,095	14,016,078
Sales of services	25,914,485	25,386,478
Grants and contracts	20,184,314	20,154,338
Student loans collected	3,497,764	2,044,093
Real property rental receipts	106,263	920,028
Other receipts	2,403,527	4,468,372
Cash payments		
Payments to/for employees	(90,541,596)	(86,744,163)
Payments to suppliers	(30,126,803)	(31,531,325)
Scholarships disbursed	(9,174,903)	(7,326,250)
Student loans disbursed	(4,153,156)	(1,616,101)
	12,249,306	15,980,532
Net cash provided by operating activities		
Noncapital Financing Activities		
Agency inflows	648,906	684,643
Agency outflows	(525,248)	(841,144)
Agency loan inflows	49,537,331	49,071,157
Agency loan outflows	(49,529,603)	(49,058,450)
	131,386	(143,794)
Net cash provided by (used in) noncapital financing activities		
Capital and Related Financing Activities		
State appropriations, capital	5,593,925	1,290,484
Capital grants, contracts and gifts	16,583	344,692
Gain on impairment – insurance proceeds	83,456	623,755
Proceeds from capital debt	1,619,778	85,000,000
Proceeds from bond premium	—	4,194,559
Expended for bond issuance	—	(1,274,462)
Acquisition or construction of capital assets	(31,271,962)	(15,036,217)
Proceeds from sale of capital assets	288,721	—
Principal paid on capital debt	(2,141,725)	(3,838,024)
Interest paid on capital debt	(3,553,044)	(2,939,137)
	(29,364,268)	68,365,650
Net cash provided by (used in) capital and related financing activities		
Investing Activities		
Investment earnings	3,210,286	1,229,095
Purchase of guaranteed investment contract	—	(86,198,293)
Proceeds from sale and maturity of investments	18,610,448	2,315,283
Net proceeds from sale of student loans	59,234	66,402
	21,879,968	(82,587,513)
Net cash provided by (used in) investing activities		
Increase in Cash and Cash Equivalents	4,896,392	1,614,875
Cash and Cash Equivalents, Beginning of Year	47,234,226	45,619,351
Cash and Cash Equivalents, End of Year	\$ 52,130,618	\$ 47,234,226

State of Colorado
University of Northern Colorado
Statements of Cash Flows (continued)
For the Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used in Operating Activities		
Operating income (loss)	\$ 957,329	\$ (3,695,488)
Depreciation and amortization expense	12,856,427	11,984,452
Other revenues and additions	106,263	912,831
Provision for accrued, nonoperating activities		
Agency fund receipts – nonoperating	(131,385)	136,597
Nonoperating receipts receivable	(1,638,828)	1,910,301
Nonoperating bond interest expense payable	(605,825)	(323,370)
Changes in operating assets and liabilities		
Receivables, net	(792,146)	1,607,633
Inventories and prepaid expenses	(353,868)	361,735
Accounts payable	1,846,894	438,391
Accrued payroll	588,563	—
Deferred revenues	—	856,306
Other liabilities	(1,061,553)	1,367,294
Compensated absences	477,435	423,850
	<u>\$ 12,249,306</u>	<u>\$ 15,980,532</u>
Net cash provided by operating activities		
	<u>\$ 12,249,306</u>	<u>\$ 15,980,532</u>
Reconciliation of Cash and Cash Equivalents to the		
Statements of Net Assets		
Cash and cash equivalents	\$ 51,380,618	\$ 46,607,122
Restricted cash and cash equivalents	<u>750,000</u>	<u>627,104</u>
	<u>\$ 52,130,618</u>	<u>\$ 47,234,226</u>
Total cash and cash equivalents		
	<u>\$ 52,130,618</u>	<u>\$ 47,234,226</u>
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	<u>\$ 589,063</u>	<u>\$ 974,800</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Governance

The University of Northern Colorado (the University or UNC) is a public institution of higher education with a broad general curriculum as well as preparation for selected professions within the fields of business, education, health services, music and related areas; and pre-professions such as pre-law, pre-medicine and others. The University is an institution of the State of Colorado with operations funded largely through student tuition, fees, and the State of Colorado College Opportunity Fund. The University also engages in research, offers student financial aid, and provides other services which are funded through grants and contracts, including grants from the University of Northern Colorado Foundation, Inc. (the Foundation).

The Board of Trustees is the governing body of the University, and is comprised of seven members appointed by the Governor, plus one faculty member elected by the faculty and one student member elected by the student body.

As an Institution of the State of Colorado, the University's operations and activities are funded in part through state appropriations. In accordance with Section 23-1-104, C.R.S., unspent revenues earned by the University in excess of appropriated amounts are retained by the University for future use.

Reporting Entity and Component Units

The financial statements of the University include all of the integral parts of the University's operations. The University applied various criteria to determine if it is financially accountable for any organization that would require that organization to be included in the University's reporting entity. These criteria include fiscal dependency, financial benefit/burden relationship, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

In accordance with accounting principles generally accepted in the United States of America, the financial statements present the University (primary government), and its discretely presented component units (DPCU). The component units are included in the University's reporting entity because of the significance of their operational and financial relationships with the University in accordance with Statement No. 39 of the Governmental Accounting Standards Board *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. Financial statements of the discretely presented component units can be obtained from their respective administrative offices. The University has the following discretely presented component units:

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The University of Northern Colorado Foundation, Incorporated

The University of Northern Colorado Foundation, Incorporated (the Foundation) is a legally separate, tax-exempt component unit of the University, incorporated under Article 40, Title 7 of the Colorado Revised Statutes of 1973. The Foundation was established in February 1966 to promote the welfare, development and growth of the University, and also to permit the Foundation to engage in activities as may be beyond the scope of the Trustees of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the funds that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

The Alumni Association was formerly a distinct entity organized under state law with a purpose of facilitating broad support for the University among alumni. The entity was dissolved in July 2004 and all assets were transferred to the Foundation. The Foundation activities encompass alumni relations. Therefore, the Alumni Association is not presented as a blended component unit of the University.

University of Northern Colorado Foundation Student Housing LLC I

The University of Northern Colorado Foundation Student Housing LLC I (the LLC) is a legally separate component unit of the University that was established as a Colorado limited liability company in May 2001 to construct and operate a 396-bed student housing facility for the University. The Foundation is the sole member of the LLC; however, the results of the LLC's operations do not accrue to the Foundation. The LLC has a 46-year ground lease with the University under which "net available cash flows" from the operations, as defined in the lease agreement, is paid to the University as rent (see Note 6). At the end of the ground lease in 2047, or upon earlier retirement of the bond issue, title to the housing facility is transferred to the University. As the majority of the LLC's available resources are paid to the University through the ground lease, the LLC is considered a component unit of the University and is discretely presented in the University's financial statements.

Basis of Accounting and Presentation

The basic financial statements of the University have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues from exchange transactions are recognized when earned and expenses from exchange transactions are recorded when an obligation is incurred. All significant intra-agency transactions are eliminated.

The University prepares its financial statements as a business-type activity in conformity with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). The University has chosen to only apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The Foundation and the LLC report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's or the LLC's financial information in the University's financial reporting for these differences.

Unrestricted Cash and Cash Equivalents

For purposes of reporting cash flows, the University defines cash and cash equivalents as cash on hand, demand deposit accounts with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with original maturities of three months or less. As of June 30, 2007 and 2006, cash equivalents consisted primarily of funds invested through the State Treasurer's Cash Management Program.

Restricted Cash and Cash Equivalents

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. For the University, restricted cash and cash equivalents include amounts restricted by bond covenants.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest and dividend income, plus the current year change in unrealized gain (loss) on the fair value of investments.

The University's investments generally include direct obligations of the U.S. Government and its agencies, money market funds, mutual funds and guaranteed investment contracts. Endowments are pooled to the extent possible under gift agreements. The Foundation manages certain of these endowments for the University in accordance with its investment policy.

The classification of investments as current or noncurrent is based on the underlying nature and restricted use of the asset. Current investments are those without restrictions imposed by third-parties that can be used to pay current obligations of the University. Noncurrent investments include restricted investments and those investments designated to be used for long-term obligations.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also includes amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories consisting of computer products, books, food and other consumable supplies, are carried at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) basis.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$1,658,745 and \$1,172,169 at June 30, 2007 and 2006, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation if acquired by gift. The University's capitalization policy includes items with a value of \$5,000 or more, and an estimated useful life greater than one year.

Renovations to buildings and other improvements that significantly increase the value and extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to expenses. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. The University capitalizes interest costs as a component of construction in progress.

Total interest capitalized was:

	2007	2006
Total interest expense incurred on borrowings for projects	\$ 3,787,367	\$ 3,693,021
Interest income from investment of proceeds of borrowings for projects	<u>(2,979,408)</u>	<u>(3,346,476)</u>
Net interest cost capitalized	<u>\$ 807,959</u>	<u>\$ 346,545</u>
Interest capitalized	\$ 807,959	\$ 346,545
Interest charged to expense	<u>3,450,400</u>	<u>3,262,509</u>
Total interest incurred	<u>\$ 4,258,359</u>	<u>\$ 3,609,054</u>

The University has capitalized collections, such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collection does not change over time. These collections have not been depreciated in the University's financial statements.

Assets under capital leases are recorded at the present value of the future minimum lease payments and are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset being leased. Such amortization is included as depreciation expense in the accompanying financial statements.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and improvements, 20 years for land improvements, 3 years for software, 10 years for library books and 3 – 10 years for equipment and vehicles. Depreciation expense is not allocated among functional categories.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Capital Lease Liabilities

Capital leases consist of various lease-purchase contracts and other lease agreements. Such contracts provide that any commitments beyond the current year are contingent upon funds being budgeted for such purposes by the Board of Trustees. It is reasonably assured that such leases will be renewed in the normal course of business and, therefore, are treated as non-cancelable for financial reporting purposes.

Deferred Revenues

The University prorates the summer session revenues and expenses based upon the number of days between the first day of summer session and June 30 as a percentage of the total number of days in the summer session. Tuition, fees and certain auxiliary revenues received before June 30, but determined by this proration to be earned in the following year, are recorded as deferred revenues. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) contracts and grants for research activities and (4) interest on student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations and investment income.

Tax Exempt Status and Income Taxes

As a Colorado State Institution of Higher Education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, any income unrelated to the exempt purpose of the University is subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The University had no income tax liability related to income generated from activities unrelated to the University's exempt purposes as of June 30, 2007 or 2006.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates. Significant estimates have been made regarding compensated absences expenses, scholarship allowances, and accounts receivable bad debt allowances as described below:

Bad Debt Allowance

Bad debt expense and an allowance against receivables are estimated based upon the age of the receivables and historical collection rates.

Compensated Absences Accrued Liability

The University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Vacation and sick leave benefits taken as paid time off are recognized as an expense when the time off occurs.

Accrued compensated absences liabilities are recognized based upon estimated cash payments due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems of the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation, whereas, only a portion of sick leave is paid upon specific types of separation, such as retirement.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the financial statements date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Scholarship Discounts and Allowances

Student tuition, fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third-parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing were approximately \$8.4 million and \$9.2 million for each of the years ended June 30, 2007 and 2006, respectively.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 2: Cash and Cash Equivalents

Unrestricted Cash and Cash Equivalents

The University deposits unrestricted cash and cash equivalents with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The Treasurer acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the State Treasury are invested until the cash is needed.

For financial reporting purposes, all of the State Treasurers' investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. The University reports its share of the Treasurer's unrealized gains or losses based on its participation in the State Treasurer's pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year. The State Treasurer does not invest any of the pool resources in any external investment pool and there is no assignment or income related to participation in the pool. Detailed information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

For operating purposes, the University holds unrestricted cash and cash equivalent deposits in several bank accounts at a U.S. financial institution. The University also maintains unrestricted cash on hand for petty cash and change fund daily operating purposes.

	2007	2006
University		
Cash on hand	\$ 38,849	\$ 39,856
Cash with U.S. financial institutions	(600,015)	2,293,289
Cash with Colorado State Treasurer	52,237,424	44,737,714
Unrealized loss – Cash with State Treasurer	(295,640)	(463,737)
Total unrestricted cash and cash equivalents	\$ 51,380,618	\$ 46,607,122

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Restricted Cash and Cash Equivalents

The University holds restricted cash of \$750,000 with the State Treasurer to meet required bond covenants related to the Auxiliary Revenue Refunding and Improvement Bonds.

	2007	2006
University		
Restricted Cash with State Treasurer	\$ 750,000	\$ 750,000
Unrealized loss – Restricted cash with State Treasurer	—	(122,896)
Total University restricted cash and cash equivalents	\$ 750,000	\$ 627,104

Custodial Credit Risk – Cash and Cash Equivalents

Custodial credit risk for cash and cash equivalents exists when, in the event of the failure of a depository financial institution, the University may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. Under GASB 40 Deposit and Investment Risk Disclosures, deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance and the deposits are (a) uncollateralized, or (b) collateralized with securities held by the pledging financial institution or the pledging financial institution’s trust department or agent, but not in the depositor-government’s name. To manage custodial credit risk, unrestricted cash and cash equivalents with the State Treasury and U.S. financial institutions are made in accordance with University policy and State law, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University’s name. As of June 30, 2007 and 2006, all of the cash and cash equivalents held by the State Treasurer and U.S. financial institutions are, therefore, not subject to custodial credit risk.

Note 3: Investments

The University has authority to invest institutional funds in any investment deemed advisable by the governing board per Section 15-1-1106, C.R.S. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in equity securities and guaranteed investment contracts.

During July 2005, the University issued \$85 million in Refunding and Improvement bonds. The bonds mature in varying annual amounts through June 1, 2040, at an interest rate ranging from 3.25% to 5.00%. The bond proceeds are to be used for the Sports and Recreation Facility Project, campus parking improvements, McCowen and Turner Hall and to refund a portion of the 1994 bonds. The bond proceeds were deposited on July 29, 2005, under a guaranteed investment contract (GIC) with Trinity Funding Company, LLC (TFC). This investment contract is a secured obligation of the TFC and guarantees a 4.228% per annum rate of earnings. The termination date for this GIC is December 31, 2009, however, the University may make withdrawals for permitted withdrawal purposes on any business day after providing one business day’s notice.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The guaranteed investment contract is invested by TFC in contract permitted investments that are restricted to U.S. Government Securities; U.S. Federal agency and set bond document securities that are not backed by the full faith and credit of the U.S. Government; repurchase agreements and reverse repurchase agreements; corporate securities; taxable municipal securities; single-family residential mortgage-backed securities; commercial mortgage-backed securities; asset-backed securities; certain foreign sovereign and foreign corporate U.S. dollar denominated obligations and Deutsche Cash Reserve Institutional. The credit risk exposures of these permitted investments are managed within defined credit risk policy limits that are detailed in the investment contract agreement.

Fair value of investments held at June 30, 2007 and 2006 are detailed below:

Investment Types	2007	Maturity	2006	Maturity
The University				
Guaranteed investment contract	\$ 65,261,325	2.5 years to termination	\$ 82,350,992	3.5 years to termination
Fixed income U.S. Government obligations	482,693	1-5 years	313,414	1-5 years
Fixed income U.S. Government obligations	186,948	Less than 1 year	273,682	Less than 1 year
Money market funds	<u>12,209</u>	Less than 1 year	<u>83,518</u>	Less than 1 year
Total University investments	<u>\$ 65,943,175</u>		<u>\$ 83,021,606</u>	
The Foundation				
Fixed income U.S. Government obligations	\$ 8,852,743		\$ 7,186,465	
Fixed income corporate notes	18,272,259		18,238,553	
Equity securities	62,225,266		57,266,577	
Other investments	<u>16,674,113</u>		<u>11,699,944</u>	
Total Foundation investments	<u>\$ 106,024,381</u>		<u>\$ 94,391,539</u>	

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Therefore, exposure arises if the securities are uninsured, are not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent, but not in the University's name. The University does not have a formal investment policy regarding custodial credit risk.

At June 30, 2007 and 2006, the guaranteed investment contract held by TFC was guaranteed by General Electric Capital Corporation. The balance of the University's investments are endowment funds managed by the Foundation according to the custodial agreement between the University and the Foundation approved December 14, 1988. These securities are held in the Foundation's name as agent of the University and are not subject to custodial credit risk. Custodial credit risk categories are not available for the Foundation.

Interest Rate Risk – Investments

Interest rate risk is the risk that changes in the market rate of interest that will adversely affect the value of an investment. Interest rate risk only applies to debt investments. Interest rate risk can be managed by managing the duration to effective maturity and/or the weighted average maturity of the investments. The duration methods use the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The weighted-average maturity method measures the time to maturity in years weighted to reflect the dollar size of the individual investments within an investment type.

The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The duration to effective maturity and weighted-average maturity of each investment type held by the University is identified in the investment risk schedule below. Interest rate risk is not available for the Foundation.

Credit Quality Risk

Credit quality risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk only applies to debt investments. Mutual funds and certain other investments are not categorized as to credit quality risk because ownership is not evidenced by a security. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments.

State law limits investments in securities, at the time of purchase, to securities with the top two ratings issued by nationally recognized statistical rating organizations. The University does not have a formal policy related to investment credit quality risk that would further limit its investment choices. All of the University's investments had a Moody's rating of Aaa and a Standard & Poor's rating of AAA at the time of purchase. Credit quality risk is not available for the Foundation.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Maturities and credit ratings for the University's investments held at June 30, 2007 and 2006 are detailed below:

2007

Maturities and Credit Ratings by Investment Type	Fair Value	Duration to Maturity	Weighted-Average Maturity	S & P Credit Rating
University				
Guaranteed investment contract	\$ 65,261,325	2.5 years	N/A	AAA
U.S. Government obligations	669,641	2.0 years	1.9 years	AAA
Money market funds	<u>12,209</u>	N/A	N/A	N/A
Total investments at June 30, 2007	<u>\$ 65,943,175</u>			

2006

Maturities and Credit Ratings by Investment Type	Fair Value	Duration to Maturity	Weighted-Average Maturity	S & P Credit Rating
University				
Guaranteed investment contract	\$ 82,350,992	3.5 years	N/A	AAA
U.S. Government obligations	587,097	2.4 years	2.36 years	AAA
Money market funds	<u>83,517</u>	N/A	N/A	N/A
Total investments at June 30, 2006	<u>\$ 83,021,606</u>			

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 4: Accounts, Contributions and Loans Receivable

Accounts and loans receivable are shown, net of allowances for doubtful accounts, in the accompanying statements of net assets. Net receivables at June 30 are detailed below:

	<u>2007</u>	<u>2006</u>
The University		
Student accounts receivable – current	\$ 6,402,205	\$ 5,287,130
Allowance for doubtful accounts	<u>(2,281,314)</u>	<u>(1,991,921)</u>
Subtotal student accounts receivable – net	<u>4,120,891</u>	<u>3,295,209</u>
Student loans receivable – current	2,352,084	1,840,900
Allowance for doubtful accounts	<u>(894,166)</u>	<u>(198,455)</u>
Subtotal current student loans receivable – net	<u>1,457,918</u>	<u>1,642,445</u>
Student loans receivable – noncurrent	6,809,573	7,023,910
Allowance for doubtful accounts	<u>(764,579)</u>	<u>(973,714)</u>
Subtotal noncurrent student loans receivable – net	<u>6,044,994</u>	<u>6,050,196</u>
Other receivables – current		
Sponsored programs – federal grants receivable	1,075,644	1,196,597
Sponsored programs – nonfederal grants receivable	281,805	82,907
Student loans program – federal grants receivable	140,559	154,456
Interest receivable	231,970	294,828
Accounts receivable related party – the Foundation	208,000	262,000
Accounts receivable related party – the LLC	416,890	400,804
Other accounts receivable	<u>421,871</u>	<u>269,137</u>
Subtotal other receivables	<u>2,776,739</u>	<u>2,660,729</u>
Total of the University’s accounts, loans and other receivables	<u>\$ 14,400,542</u>	<u>\$ 13,648,579</u>
The Foundation		
Contributions receivable in less than one year	\$ 672,546	\$ 567,181
Contributions receivable in one to five years	2,282,499	279,058
Contributions receivable in more than five years	<u>160,567</u>	<u>127,031</u>
Total contributions receivable	<u>3,115,612</u>	<u>973,270</u>
Less present value discounting	<u>(395,842)</u>	<u>(93,833)</u>
Net of the Foundation’s contributions receivable	<u>\$ 2,719,770</u>	<u>\$ 879,437</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Related Party Receivable

Grants receivable from the Foundation to the University were approximately \$208,000 and \$262,000 at June 30, 2007 and 2006, respectively.

The University provided the LLC working capital funds in 2001. Interest earnings are being imputed on these funds and full payment of \$500,000 is expected in 2012. The balance at June 30, 2007 and 2006, was approximately \$417,000 and \$401,000, respectively.

Foundation Contributions Receivable

Foundation contributions receivable as of June 30, 2007 and 2006, are substantially restricted. These unconditional promises to give are to be received by the Foundation in future years and management considers them fully collectible. These receivables are reflected at the present value of estimated future cash flows, using a discount rate based on the five-year treasury bond ranging from 3.7% to 6.75%. Contributions receivable from four donors at June 30, 2007 and 2006, represent approximately 85% and 50%, respectively, of total contributions receivable.

Note 5: Capital Assets

The following is a summary of capital asset activity for the year ended June 30, 2007:

Capital Assets and Accumulated Depreciation	2007				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
The University					
Capital assets					
Land	\$ 9,091,321	\$ 741,287	\$ —	\$ —	\$ 9,832,608
Land improvements	11,307,629	254	—	5,354,537	16,662,420
Non-depreciable land improvements	4,447,381	18,858	—	—	4,466,239
Buildings and improvements	239,177,764	1,807,153	(355,962)	12,087,669	252,716,624
Equipment and vehicles	12,202,472	2,688,629	(335,042)	—	14,556,059
Software	2,125,615	233,462	—	—	2,359,077
Library materials	33,510,058	1,846,541	(41,100)	—	35,315,499
Non-depreciable art/historical	842,630	—	—	—	842,630
Leasehold improvements	495,403	—	—	—	495,403
Construction in progress	9,874,105	24,524,841	(44,284)	(17,442,206)	16,912,456
Total capital assets	323,074,378	31,861,025	(776,388)	—	354,159,015
Less accumulated depreciation					
Land improvements	5,114,972	585,300	—	—	5,700,272
Buildings and improvements	99,756,156	8,681,628	(138,844)	—	108,298,940
Equipment and vehicles	8,868,097	1,261,199	(313,844)	—	9,815,452
Software	983,395	744,838	—	—	1,728,233
Library materials	25,635,476	1,503,275	(41,100)	—	27,097,651
Leasehold improvements	495,403	—	—	—	495,403
Total accumulated depreciation	140,853,499	12,776,240	(493,788)	—	153,135,951
Net capital assets	\$ 182,220,879	\$ 19,084,785	\$ (282,600)	\$ 0	\$ 201,023,064

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The following is a summary of capital asset activity for the year ended June 30, 2006:

Capital Assets and Accumulated Depreciation	2006				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
The University					
Capital assets					
Land	\$ 8,748,386	\$ 348,435	\$ (5,500)	\$ —	\$ 9,091,321
Land improvements	10,161,478	187,727	—	958,424	11,307,629
Non-depreciable land improvements	5,071,865	137,591	—	(762,075)	4,447,381
Buildings and improvements	236,013,413	1,931,611	(204,604)	1,437,344	239,177,764
Equipment and vehicles	11,528,810	1,542,094	(868,432)	—	12,202,472
Software	1,874,228	251,387	—	—	2,125,615
Library materials	31,906,041	1,749,647	(145,630)	—	33,510,058
Non-depreciable art/historical	842,630	—	—	—	842,630
Leasehold improvements	495,403	—	—	—	495,403
Construction in progress	<u>2,786,047</u>	<u>9,862,624</u>	<u>(1,140,873)</u>	<u>(1,633,693)</u>	<u>9,874,105</u>
Total capital assets	<u>309,428,301</u>	<u>16,011,116</u>	<u>(2,365,039)</u>	<u>—</u>	<u>323,074,378</u>
Less accumulated depreciation					
Land improvements	4,615,906	499,066	—	—	5,114,972
Buildings and improvements	91,454,670	8,394,526	(93,040)	—	99,756,156
Equipment and vehicles	8,724,432	996,482	(852,817)	—	8,868,097
Software	318,433	664,962	—	—	983,395
Library materials	24,351,689	1,429,417	(145,630)	—	25,635,476
Leasehold improvements	<u>495,403</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>495,403</u>
Total accumulated depreciation	<u>129,960,533</u>	<u>11,984,453</u>	<u>(1,091,487)</u>	<u>—</u>	<u>140,853,499</u>
Net capital assets	<u>\$ 179,467,768</u>	<u>\$ 4,026,663</u>	<u>\$ (1,273,552)</u>	<u>\$ 0</u>	<u>\$ 182,220,879</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The following is a summary of capital asset activity for the years ended June 30:

	<u>2007</u>	<u>2006</u>
The Foundation		
Capital assets		
Buildings and improvements	\$ 1,135,742	\$ 1,135,742
Equipment and vehicles	<u>167,035</u>	<u>143,546</u>
Total capital assets	<u>1,302,777</u>	<u>1,279,288</u>
Less accumulated depreciation	<u>148,516</u>	<u>98,441</u>
Net capital assets	<u>\$ 1,154,261</u>	<u>\$ 1,180,847</u>
The LLC		
Capital assets		
Buildings and improvements	\$ 16,510,217	\$ 16,506,410
Equipment and vehicles	<u>868,884</u>	<u>867,431</u>
Total capital assets	<u>17,379,101</u>	<u>17,373,841</u>
Less accumulated depreciation	<u>2,638,065</u>	<u>2,099,738</u>
Net capital assets	<u>\$ 14,741,036</u>	<u>\$ 15,274,103</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 6: Liabilities

The following is a summary of liabilities for the years ended June 30:

	<u>2007</u>	<u>2006</u>
The University		
Accounts payable and accrued liabilities	\$ <u>15,624,881</u>	\$ <u>13,777,987</u>
Current deferred revenue		
Deferred revenue summer student tuition and fees	4,560,549	3,996,754
Deferred revenue restricted grants and contracts	920,037	895,269
Current portion deferred revenue of the LLC	<u>57,822</u>	<u>57,822</u>
Total current deferred revenue	<u>5,538,408</u>	<u>4,949,845</u>
Bonds, capital leases and notes payable		
Current bonds, capital leases and notes payable	2,289,290	1,991,963
Noncurrent bonds, capital leases and notes payable	<u>145,214,133</u>	<u>146,033,407</u>
Total bonds, capital leases and notes payable	<u>147,503,423</u>	<u>148,025,370</u>
Other liabilities		
Current		
Deposits held	1,030,555	1,055,873
Current insurance liability	35,000	646,376
Line of credit payable	17,502	1,880
Deposits held in custody for agency funds	730,222	370,100
Current portion of compensated absences liability	<u>365,996</u>	<u>353,210</u>
Subtotal other current liabilities	<u>2,179,275</u>	<u>2,427,439</u>
Noncurrent		
Long-term deposit liabilities held	30,000	30,000
Long-term insurance liability	322,588	1,078,154
Long-term deferred revenue of the LLC	<u>2,255,063</u>	<u>2,312,885</u>
Subtotal other noncurrent long-term liabilities	<u>2,607,651</u>	<u>3,421,039</u>
Noncurrent compensated absence liability	<u>3,147,185</u>	<u>2,669,751</u>
Total other liabilities	<u>7,934,111</u>	<u>8,518,229</u>
Total liabilities – The University	\$ <u>176,600,823</u>	\$ <u>175,271,431</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

	2007	2006
The Foundation		
Accounts payable and accrued liabilities	\$ <u>570,307</u>	\$ <u>463,728</u>
Deferred revenue	69,017	—
Funds held for the University	<u>696,956</u>	<u>691,438</u>
	<u>1,336,280</u>	<u>1,155,166</u>
Long-term debt		
Current portion annuity obligations	22,311	23,612
Noncurrent portion annuity obligations	<u>141,557</u>	<u>149,247</u>
Total long-term debt	<u>163,868</u>	<u>172,859</u>
Total liabilities – the Foundation	\$ <u>1,500,148</u>	\$ <u>1,328,025</u>
The LLC		
Accounts payable and accrued liabilities	\$ <u>708,884</u>	\$ <u>709,708</u>
Unearned revenues	<u>97,479</u>	<u>130,961</u>
Tenant security deposits	<u>—</u>	<u>62,408</u>
Bond payable		
Current portion bond payable	180,000	140,000
Noncurrent portion bond payable	<u>23,558,203</u>	<u>23,725,311</u>
Total long-term debt	<u>23,738,203</u>	<u>23,865,311</u>
Total liabilities – the LLC	\$ <u>24,544,566</u>	\$ <u>24,768,388</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Long-term Liabilities

The following is a summary of long-term liability activity for the University for the years ended June 30, 2007 and 2006:

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Bonds payable	\$ 143,913,368	\$ —	\$ (1,612,276)	\$ 142,301,092	\$ 1,650,000
Capital leases payable	<u>4,112,002</u>	<u>1,619,778</u>	<u>(529,449)</u>	<u>5,202,331</u>	<u>639,290</u>
Total	<u>148,025,370</u>	<u>1,619,778</u>	<u>(2,141,725)</u>	<u>147,503,423</u>	<u>2,289,290</u>
Other long-term liabilities	3,478,861	—	(813,388)	2,665,473	57,822
Accrued compensated absences	<u>3,022,961</u>	<u>490,572</u>	<u>(352)</u>	<u>3,513,181</u>	<u>365,996</u>
Total other liabilities	<u>6,501,822</u>	<u>490,572</u>	<u>(813,740)</u>	<u>6,178,654</u>	<u>423,818</u>
Total long-term liabilities	<u>\$ 154,527,192</u>	<u>\$ 2,110,350</u>	<u>\$ (2,955,465)</u>	<u>\$ 153,682,077</u>	<u>\$ 2,713,108</u>

	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Bonds payable	\$ 58,133,808	\$ 89,180,521	\$ (3,400,961)	\$ 143,913,368	\$ 1,612,276
Notes payable	11,825	—	(11,825)	—	—
Capital leases payable	<u>4,523,202</u>	<u>—</u>	<u>(411,200)</u>	<u>4,112,002</u>	<u>379,687</u>
Total	<u>62,668,835</u>	<u>89,180,521</u>	<u>(3,823,986)</u>	<u>148,025,370</u>	<u>1,991,963</u>
Other long-term liabilities	2,492,649	1,078,154	(91,942)	3,478,861	57,822
Accrued compensated absences	<u>2,866,046</u>	<u>486,478</u>	<u>(329,563)</u>	<u>3,022,961</u>	<u>353,210</u>
Total other liabilities	<u>5,358,695</u>	<u>1,564,632</u>	<u>(421,505)</u>	<u>6,501,822</u>	<u>411,032</u>
Total long-term liabilities	<u>\$ 68,027,530</u>	<u>\$ 90,745,153</u>	<u>\$ (4,245,491)</u>	<u>\$ 154,527,192</u>	<u>\$ 2,402,995</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Bonds Payable

Bonds payable are secured by certain student fees and a first lien on the University Auxiliary Facilities System (the Auxiliary), but not necessarily an exclusive first lien and a pledge of the net revenues derived from the Auxiliary. Bond provisions require the University to maintain compliance with certain rate covenants related to the bonds.

The following is a summary of bonds payable for the years ended June 30:

	2007	2006
The University		
3.5%-6.0%; the Auxiliary Revenue Refunding Bonds; issued April 1, 1998 in the original amount of \$10,630,000; and maturing in varying annual amounts through June 1, 2024		
Outstanding bond principal	\$ 9,690,000	\$ 9,830,000
Less unamortized discount	<u>(97,450)</u>	<u>(103,267)</u>
	<u>9,592,550</u>	<u>9,726,733</u>
3.0%-5.5%; the Auxiliary Revenue Refunding and Improvement Bonds; issued July 31, 2001 in the original amount of \$50,000,000; and maturing in varying amounts through June 1, 2031		
Outstanding bond principal	47,625,000	47,985,000
Less unamortized discount	(313,471)	(326,578)
Less unamortized loss on refunding	<u>(1,288,442)</u>	<u>(1,364,233)</u>
	<u>46,023,087</u>	<u>46,294,189</u>
3.25%-5.00%; the Auxiliary Revenue Refunding and Improvement Bonds; issued July 28, 2005 in the original amount of \$85,000,000; and maturing in varying amounts through June 1, 2040		
Outstanding bond principal	82,710,000	83,810,000
Add unamortized premium	3,997,053	4,127,606
Less unamortized loss on refunding	<u>(21,598)</u>	<u>(45,160)</u>
	<u>86,685,455</u>	<u>87,892,446</u>
Total outstanding bond principal	140,025,000	141,625,000
Add total unamortized premium (discount)	3,586,132	3,697,761
Less unamortized loss on refunding	<u>(1,310,040)</u>	<u>(1,409,393)</u>
	<u>\$ 142,301,092</u>	<u>\$ 143,913,368</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The University's debt service payments required for bonds payable as of June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,650,000	\$ 6,851,497	\$ 8,501,497
2009	1,935,000	6,787,285	8,722,285
2010	2,015,000	6,707,745	8,722,745
2011	2,760,000	6,623,620	9,383,620
2012-2016	15,690,000	31,220,925	46,910,925
2017-2021	19,840,000	27,076,025	46,916,025
2022-2026	25,370,000	21,535,000	46,905,000
2027-2031	32,295,000	14,619,500	46,914,500
2032-2036	20,995,000	7,600,000	28,595,000
2037-2040	<u>17,475,000</u>	<u>2,237,750</u>	<u>19,712,750</u>
Total	<u>\$ 140,025,000</u>	<u>\$ 131,259,347</u>	<u>\$ 271,284,347</u>

Defeased Bonds

In August 1986, the Board of Trustees of the University in-substance defeased the Colorado State College Housing System Revenue Bonds of 1966 and the University of Northern Colorado Facilities Revenue Bonds Series 1972, by placing a portion of the proceeds of the Auxiliary Refunding and Construction Revenue Bonds Series 1986 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. At June 30, 2007, \$85,000 of these bonds remain outstanding and are considered in-substance defeased.

In July 2001, the Board of Trustees of the University in-substance defeased the Auxiliary Facilities System Revenue Bonds Series 1997 by placing a portion of the proceeds of the Auxiliary Facilities System Revenue Refunding and Improvement Bonds Series 2001 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. At June 30, 2007, \$875,000 of these bonds remain outstanding and are considered in-substance defeased.

In July 2005, the Board of Trustees of the University in-substance defeased the Auxiliary Facilities System Revenue Bonds Series 1994 by placing a portion of the proceeds of the Auxiliary Facilities System Revenue Refunding and Improvement Bonds Series 2005 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. At June 30, 2007, \$305,000 of these bonds remain outstanding and are considered in-substance defeased. The reacquisition price exceeded the net carrying amount of the Series 1994 bonds by \$66,758. This amount is being netted against the Series 2005 debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the Series 2005 debt. This advance refunding was undertaken to reduce the total debt service payments over for fiscal years 2007, 2008 and 2009 and resulted in an economic gain of \$42,508.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Capital Lease Obligations

Assets under capital leases at June 30, 2007 and 2006 include equipment totaling \$6,548,246 and \$4,928,469, respectively. These agreements provide that any obligations payable after the current fiscal year are contingent upon funds for that purpose being available.

The University debt service payments, including interest, required for these capital leases payable as of June 30, 2007 are detailed below:

Fiscal Years Ending June 30,	Lease Payments
University	
2008	\$ 844,371
2009	843,266
2010	843,266
2011	843,266
2012-2016	665,794
2017-2021	<u>2,114,237</u>
 Total minimum lease payments	 6,154,200
Less amount representing interest	<u>(951,869)</u>
	 <u>\$ 5,202,331</u>

Other Long-term Liabilities and Deferred Revenues

The University – Related Party Lease Agreement with the LLC

On August 1, 2001, the University entered into a ground lease agreement with the LLC for the site of a student housing facility. The lease period is for 46 years and total lease payments are \$2,655,000. The University received an advance lease payment of \$2,155,000 from the proceeds of the debt issued by the LLC to finance the LLC's student housing facility. The remaining \$500,000 was retained by the LLC for operating purposes and is disclosed as Related Party Loan Receivable in Note 4. The advance was initially recorded as deferred revenue to the University and is amortized annually as lease revenue over the term of the ground lease.

The University recognized \$54,263 in rental revenue and \$10,828 in interest revenue for fiscal year 2007 and will recognize an equal amount annually for the remaining 39 years. For fiscal year 2006, the University recognized \$54,263 in rental revenue and \$3,559 in interest revenue.

The Foundation – Annuity Obligations

The Foundation administers such life income agreements as gift annuities where an income beneficiary is the lifetime recipient of income and the Foundation is the remainder beneficiary. Upon receipt of the gift, a liability is established for the estimated net present value of the lifetime recipient's interest using applicable mortality tables and a discount rate commensurate with the risks involved. A contribution is recognized for the estimated remainder interest.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

The Foundation has also been named irrevocable remainder beneficiary for trusts administered by third-party corporate trustees. For this arrangement, the assets are added to the Foundation's investment pool and a contribution is recorded at the estimated present value of the remainder interest. These life income arrangements are re-valued annually to reflect changes in the remainder interest estimates. The Foundation does not have use of the funds until the expiration of the lifetime recipient's interest. Investment assets held in the charitable remainder trusts and charitable gift annuities totaled \$235,729 and \$215,784 at June 30, 2007 and 2006, respectively.

The Foundation's estimated future maturities of annuity obligations are detailed below:

Fiscal Years Ending June 30,

Foundation	
2008	\$ 22,311
2009	22,311
2010	18,081
2011	11,886
2012	11,733
After 2012	<u>77,546</u>
	<u>\$ 163,868</u>

The LLC – Other Long-term Debt

The Colorado Educational and Cultural Facilities Authority (the Authority), a political subdivision of the State of Colorado, loaned the proceeds of a \$24,320,000 bond issue to the LLC to finance the construction of a student housing facility. The loan is repayable in amounts sufficient to provide timely payment of the bond principal and interest. Interest rates on the bonds range from 3.375% to 5.375% and interest is payable semi-annually on January 1 and July 1. Bond principal is payable in annual installments beginning in July 2003. The loan is collateralized by the revenue generated from operation of the facility. At June 30, 2007, the balance outstanding on the loan was \$23,865,311, which is net of an original issue discount of \$259,689. The unamortized discount is \$246,797 as of June 30, 2007.

The LLC debt service payments for long-term debt for each of the next five years and thereafter are detailed below:

Fiscal Years Ending June 30,	Principal	Interest	Total
2008	\$ 180,000	\$ 1,188,643	\$ 1,368,643
2009	225,000	1,180,880	1,405,880
2010	275,000	1,170,992	1,445,992
2011-2015	2,110,000	5,619,514	7,729,514
2016-2020	2,825,000	5,013,058	7,838,058
2021-2025	3,605,000	4,209,814	7,814,814
2026-2030	4,600,000	3,188,687	7,788,687
2031-2035	5,870,000	1,879,916	7,749,916
2036-2038	<u>4,295,000</u>	<u>337,608</u>	<u>4,632,608</u>
	<u>\$ 23,985,000</u>	<u>\$ 23,789,112</u>	<u>\$ 47,774,112</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 7: Operating Leases

The University leases property and equipment under operating leases expiring in various years through 2011. Rental expense under these agreements, for the years ended June 30, 2007 and 2006 was \$42,696 and \$54,339, respectively.

The University's future minimum lease payments under noncancelable operating leases as of June 30, 2007 are detailed below:

Fiscal Years Ending June 30,		
2008	\$	50,987
2009		48,556
2010		47,071
2011		33,914
2012		28,203
Later years		50,837
	<u>\$</u>	<u>259,568</u>

Note 8: Defined Benefit Pension Plan

Plan Description

A significant number of the University's employees participate in a defined benefit pension plan (the Plan). The Plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The Plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the Plan is placed with the Board of Trustees of PERA. Changes to the Plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1.800.759.PERA (7372), or by visiting www.copera.org.

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee, rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA, rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members, but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, then financially dependent parents will receive a survivor's benefit.

Funding Policy

The contribution requirements of Plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0% (10.0% for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the Plan. From July 1, 2005 to December 31, 2005, the state contributed 10.15% (12.85% for state troopers and 13.66% for the Judicial Branch) of the employee's salary. From January 1, 2006 through June 30, 2006, the state contributed these same percentage amounts plus an additional .5% for the Amortization Equalization Disbursement discussed below. During all of fiscal year 2005-06, 1.02% of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5% of salary beginning January 1, 2006, another .5% of salary in 2007, and subsequent year increases of .4% of salary until the additional payment reaches 3.0% in 2012.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

In the 2006 legislative session, along with other significant provisions affecting the Plan, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100% funding. For state employers, each year's one-half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The University's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2007, 2006 and 2005 were \$3,676,152, \$3,422,213 and \$3,280,917, respectively. These contributions met the contribution requirement for each year.

Note 9: Optional Retirement Plan

On March 1, 1993, the Board of Trustees adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff. On the date of adoption, eligible University employees were offered the choice of remaining in PERA or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP, unless they have one year or more of service credit with PERA at the date of hire.

The ORP is a defined contribution plan with three vendors, Travelers/CitiStreet, TIAA_CREF, and VALIC, providing a range of investment accounts for participants. For fiscal years 2006-2007 and 2005-2006, the employee contributed 8% and the University contributed 11.5%. The University's contribution to the ORP for the years ended June 30, 2007 and 2006 was \$3,661,548 and \$3,353,042, respectively. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

The University provides a 403(b) deferred compensation plan to the University President. The Board of Trustees approved contributions of \$32,000 and \$30,000 for the years ended June 30, 2007 and 2006, respectively.

Note 10: Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer 403(b) or 401(a) plans.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 11: Postretirement Healthcare and Life Insurance Benefits

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the program and the Health Care Fund. The program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare, and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years. The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 8 – Funding Policy.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2006, there were 42,433 enrollees in the plan.

Life Insurance Program

During fiscal year 2006-07, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident, in which 41,101 members participated. Active members may join the UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post-employment health coverage until the retiree is eligible for Medicare. As of June 30, 2007 there were 41 participants in post retirement coverage from the eight member higher education institutions of which nine are from UNC.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States using the accrual basis of accounting following governmental accounting standards for a business type activity. The financial statements can be obtained by contacting the University's Human Resource Department at (970).351.2718. Contributions are recognized in the period date. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of CHEIBA's investments is based on quoted market prices from national securities exchanges.

There are no long-term contracts for contributions to the plan. Participating schools can withdraw their position in the plan with at least one years notice to the CHEIBA board.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 12: Natural Classifications with Functional Classifications

For the years ended June 30, the following tables represent operating expenses within both natural and functional classifications.

	Fiscal Year 2007						
	Employee and Personal Services	Operating and Travel	Cost of Goods Sold	Depreciation	Inter- Governmental Distributions	Prizes and Awards	Total Operating Expenses
Instruction	\$ 45,455,822	\$ 6,152,258	\$ 214,779	\$ —	\$ 46,020	\$ 1,646	\$ 51,870,525
Research	1,295,668	884,127	76	—	9,052	1,050	2,189,973
Public service	915,551	538,199	311,123	—	—	2,257	1,767,130
Academic support	8,920,962	4,323,539	2,857	—	—	1,606	13,248,964
Student services	9,354,120	5,269,777	467,442	—	—	14,063	15,105,402
Institutional support	9,839,487	(4,803,563)	4,622,096	—	—	1,038	9,659,058
Operation of plant	7,625,466	(85,169)	—	—	—	—	7,540,297
Scholarship/fellowship	—	8,306,271	—	—	—	—	8,306,271
Auxiliaries	7,383,098	10,190,064	3,370,661	—	—	642	20,944,465
Depreciation	—	—	—	12,776,240	—	—	12,776,240
Total	<u>\$ 90,790,174</u>	<u>\$ 30,775,503</u>	<u>\$ 8,989,034</u>	<u>\$ 12,776,240</u>	<u>\$ 55,072</u>	<u>\$ 22,302</u>	<u>\$ 143,408,325</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Fiscal Year 2006

	Employee and Personal Services	Operating and Travel	Cost of Goods Sold	Depreciation	Inter- Governmental Distributions	Prizes and Awards	Total Operating Expenses
Instruction	\$ 45,394,614	\$ 5,111,056	\$ 240,677	\$ —	\$ 37,782	\$ 1,985	\$ 50,786,114
Research	1,826,867	639,709	—	—	—	915	2,467,491
Public service	867,231	503,398	139,987	—	—	929	1,511,545
Academic support	9,581,311	3,104,190	1,383	—	—	195	12,687,079
Student services	9,897,138	6,114,254	383,363	—	2,568	11,609	16,408,932
Institutional support	7,351,161	(3,883,556)	4,137,353	—	154,418	456	7,759,832
Operation of plant	7,850,458	1,096,259	—	—	102	—	8,946,819
Scholarship/fellowship	21	7,245,187	—	—	—	—	7,245,208
Auxiliaries	7,613,950	10,062,034	4,066,423	—	—	—	21,742,407
Depreciation	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,984,452</u>	<u>—</u>	<u>—</u>	<u>11,984,452</u>
Total	<u>\$ 90,382,751</u>	<u>\$ 29,992,531</u>	<u>\$ 8,969,186</u>	<u>\$ 11,984,452</u>	<u>\$ 194,870</u>	<u>\$ 16,089</u>	<u>\$ 141,539,879</u>

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 13: Legislative Appropriations

Appropriated Funds

The Colorado State Legislature establishes spending authority for the University in its annual Long Appropriations Bill.

For the years ended June 30, 2007 and 2006, appropriated expenditures were within the authorized spending authority of \$89,730,758 and \$84,028,044, respectively. Actual appropriated revenues earned totaled \$87,289,756 and \$83,818,640, respectively. Actual appropriated expenditures and transfers totaled \$87,289,756 and \$81,956,684, respectively. The net increase in appropriated fund balance was \$0 and \$1,861,956, respectively.

Capital Construction State Appropriations

Capital construction state appropriations are recognized only to the extent of current expenditures of \$5,743,229. At June 30, 2007, there were unexpended capital construction state appropriations of \$2,196,546.

Controlled Maintenance Projects

The University makes approved expenditures for various controlled maintenance projects. There were no completed controlled maintenance projects added to the University for the year ended June 30, 2007. Ongoing controlled maintenance projects include replacing and servicing of electrical and fire alarms in several buildings and the repair and replacement of heating and ventilation and air conditioning for McKee Hall.

Note 14: Commitments and Contingencies

Construction Commitments

As of June 30, 2007, the University has construction commitments of \$52,402,993 for sports and recreation facilities, parking improvement and housing projects.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

State of Colorado
University of Northern Colorado
Notes to Financial Statements
June 30, 2007 and 2006

Note 15: Risk Management

The University is subject to risks of loss from liability for accident, property damage and personal injury. To mitigate these risks the University has purchased the following insurance:

- General liability covered by Lexington for \$3,000,000 with a \$5,000 deductible
- Product liability with malpractice covered by Lexington for \$3,000,000 with a \$5,000 deductible
- Automobile liability covered by Fireman's Fund for \$1,000,000 with a N/A deductible
- Errors and Omissions covered by Westchester for \$3,000,000 with a \$1,000 deductible
- Workers Compensation covered by Pinnacle for \$500,000/\$500,000/\$500,000 with a \$1,000 deductible
- Fidelity (employee dishonesty) covered by Fireman's Fund for \$100,000 with a \$10,000 deductible

Insurance coverage prior to fiscal year 2006 was with State Risk management. In fiscal year 2006 the University became fully insured through several insurance companies. The coverage in fiscal year 2007 is consistent with the previous year and there has been no significant reductions in coverage. There have been no settlements exceeding coverage.

The University uses a fringe benefit and risk management fund to pay expenses related to workers compensation and other liability insurance. The University's liability on June 30, 2007 is \$357,588. On June 30, 2006 the liability balance of \$1,724,530 was based on an actuarial study in conjunction with State Risk Management. Since the University is covered by insurance for everything above its reserve and deductible, no actuarial study was required in fiscal year 2007.

Note 16: Other Disclosures

Multi-year Employment Contracts

During 2007, the University maintained four multi-year employment contracts for coaches. The intent of the multi-year terms (either three or four years) is to allow the coaches sufficient time to recruit and build successful athletic teams. These contracts are subject to termination for just cause and fund availability.



Independent Accountants' Report on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Northern Colorado (the University or UNC) and its aggregate discretely presented component units, collectively a component unit of the State of Colorado, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 19, 2007, which contained a reference to the report of other accountants. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other accountants audited the financial statements of the University of Northern Colorado Foundation, Incorporated (the Foundation) and the University of Northern Colorado Foundation Student Housing LLC I (LLC), which collectively comprise the University's discretely presented component units, as described in our report on the University's financial statements. The financial statements of the Foundation and LLC were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the University's financial statements, that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Members of the Legislative Audit Committee

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters involving the internal control over financial reporting and its operation that are described in the Auditor's Findings and Recommendation section of this report as Recommendation No. 1 and 2.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees, the management of the University, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

November 19, 2007



Independent Accountants' Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of University of Northern Colorado (the University) and its aggregate discretely presented component units, collectively a component unit of the State of Colorado, as of and for the year ended June 30, 2007, we wish to communicate the following to you.

Auditors' Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our contract with the State Auditor more specifically describes our responsibilities.

Significant Accounting Policies

The University's significant accounting policies are described in Note 1 of the audited financial statements.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Allowance for uncollectible student loans
- Compensated absences
- Depreciation on capital assets and useful life of assets

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Members of the Legislative Audit Committee

Areas in which adjustments were proposed including those which management recorded, include:

Deferred grant revenue
Capitalized interest

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include accounting for deferred revenue, capital assets and capitalized interest. The effect of the uncorrected misstatements, had they been recorded, would have been to increase noncurrent assets by \$69,873, increase change in net assets by \$305,587 and decrease beginning net assets by \$235,714 for the year ended June 30, 2007.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Information in Documents Containing Audited Financial Statements

No matters are reportable.

Disagreements with Management

No matters are reportable.

Consultation with Other Accountants

No matters are reportable.

Major Issues Discussed with Management Prior to Retention

No matters are reportable.

Difficulties Encountered in Performing the Audit

No matters are reportable

* * * * *

This letter is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

\s\ BKD, LLP

November 19, 2007

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to the Report Control Number below when requesting this report.