

STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO



FINANCIAL AND COMPLIANCE AUDITS

Years Ended June 30, 2012 and 2011



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**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY  
Year Ended June 30, 2012**

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**PURPOSE AND SCOPE OF AUDITS**

The Office of the State Auditor, State of Colorado, engaged Anderson & Whitney, P.C. to conduct an audit of the University of Northern Colorado (the University) for its fiscal year ended June 30, 2012. Anderson & Whitney, P.C. performed this audit in accordance with auditing standards generally accepted in the United States, and *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related field work from May through September 2012.

The purpose and scope of this audit was to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2012. This includes a review of internal control as required by auditing standards generally accepted in the United States and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of state funds.
- Report on the University's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.

**Audit Opinions and Reports**

We expressed an unqualified opinion on the University's financial statements as of and for the year ended June 30, 2012.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements.

We also issued certain required communications related to the conduct of an audit including our responsibility under generally accepted auditing standards, significant accounting policies, audit adjustments, and accounting estimates. No delays or disagreements are reported. No audit adjustments were recorded by the University.

**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**ORGANIZATION AND FUNCTION OF THE UNIVERSITY  
Year Ended June 30, 2012**

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Eighteen years after the City of Greeley, Colorado 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 (UNC) was first known, was signed April 1, 1889. In 1911, the name was changed to Colorado State Teachers College. UNC 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 composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms (effective for terms beginning July 1, 1987); one faculty member elected by the faculty; and one student member elected by the student body.

The University of Northern Colorado seeks to provide all students with a broad general education 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. Historically, the principal emphasis has been preparing students for careers in education.

The University’s student enrollment not including extended studies (full-time equivalent) for the past three years as reported to the Colorado Department of Higher Education was:

	Resident	Nonresident	Total
2012	8,972	1,131	10,103
2011	8,988	1,052	10,040
2010	8,904	1,035	9,939

The University’s number of faculty for the past three years as reported to the Colorado Department of Higher Education was:

	Full-Time	Part-Time	Total Faculty
2012	492	191	683
2011	498	217	715
2010	488	206	694

The authority under which the University operates is Article 40 of Title 23, C.R.S.

**INDEPENDENT AUDITORS' REPORTS,  
MANAGEMENT DISCUSSION AND ANALYSIS,  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**



Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of the University of Northern Colorado (the University) and its discretely presented component unit, collectively a component unit of the State of Colorado, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. 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) which is the University's discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us. Our opinion insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation, which were audited by other accountants, were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. 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 and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit, as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012 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 compliance and the results of that testing, 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

*Anderson & Whitney, P.C.*

November 30, 2012



# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

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### Overview

#### Management Discussion and Analysis

We are pleased to present this financial discussion and analysis of the University of Northern Colorado (the University or UNC). It is intended to make the University's financial statements easier to understand and communicate its financial situation in an open and accountable manner. It provides an objective analysis of the University's financial position and results of operations as of and for the years ended June 30, 2012 and 2011 (fiscal year 2012 and 2011), respectively with comparative information for fiscal year 2010. University management is responsible for the completeness and fairness of this discussion and analysis, the financial statements, and related footnote disclosures.

The presented information relates to the financial activities of the University, a public comprehensive baccalaureate and specialized graduate research university, and focuses on the financial condition and results of operations as a whole. The financial statements for the University of Northern Colorado Foundation, Incorporated, a legally separate organization whose operations benefit the University – is discretely presented within the University's financial statements. Unless otherwise noted, the information and financial data included in management's discussion and analysis relate solely to the University.

#### Understanding the Financial Statements

Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following parts:

- ***Independent Auditors' Report*** presents an unqualified opinion prepared by the University's auditors (an independent certified public accounting firm, Anderson & Whitney, P.C.) on the fairness, in all material respects, of the University and its discretely presented component unit's respective financial position.
- ***Statement of Net Assets*** presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2012 and 2011). Its purpose is to present a financial snapshot of the University. This statement aids readers in determining the assets available to continue the University's operations; evaluating how much the University owes to vendors, investors, and lending institutions; and understanding the University's net assets and their availability for expenditure by the University.
- ***Statement of Revenues, Expenses, and Changes in Net Assets*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the years ended June 30, 2012 and 2011). Its purpose is to assess the University's operating results.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

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- *Statement of Cash Flows* presents University cash receipts and payments during a period of time (the years ended June 30, 2012 and 2011). Its purpose is to assess the University's ability to generate net cash flows and meet its payment obligations as they come due.
- *Notes to the Financial Statements* present additional information to support the financial statements and are commonly referred to as Notes. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found. We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety.

#### Financial Highlights

Selected financial highlights for the fiscal year ended June 30, 2012 include:

- The University purchased the University of Northern Colorado Foundation Student Housing LLC also known as Arlington Park Apartments on July 1, 2011. Arlington Park was previously shown as a component unit in the University's financial statements. Information has been restated according to generally accepted accounting principles for the fiscal years 2012, 2011, and 2010.
- In conjunction with the purchase of Arlington Park, the University assumed the Colorado Educational and Cultural Facilities Authority, Student Housing Revenue Bonds in the original amount of \$24.1 million and refunded them with variable rate demand Institutional Enterprise Revenue Refunding Bonds, Series 2011B in the amount of \$21.1 million.
- Auxiliary Revenue Refunding and Improvement bonds, issued July 31, 2001, in the original amount of \$50.0 million were refunded with Auxiliary Facilities System Revenue Refunding Bonds, Series 2011A bonds in the amount of \$41.7 million. A capital gift of \$2.1 million was used in the refunding of this issuance.
- University assets total \$360.0 million, with liabilities of \$182.4 million, resulting in net assets of \$177.6 million. Of this amount, \$24.6 million or 14% is restricted for purposes for which the donor, grantor or other external party intended and \$106.4 million or 60% is related to investments in capital assets, net of related debt. The remaining \$46.6 million or 26% is unrestricted and may be used to meet the University's ongoing obligations.
- The largest single factor impacting the increase in net assets is the increase in cash and equivalents generated through increased revenues, cost savings, and an effort to set aside reserves. Restricted and unrestricted cash and cash equivalents for fiscal year 2012 were \$84.2 million. Net cash provided by operating activities was \$14.3 million, net cash provided by noncapital financing activities was \$15.6 million, net cash used by capital and related financing activities was \$17.6 million and net cash provided by investing activities was \$1.3 million, for a net increase of \$13.5 million from fiscal year 2011.
- Total operating revenues of \$181.4 million, less total operating expenses of \$186.3 million, resulted in a net operating loss of \$4.9 million. This operating loss was offset by net nonoperating revenues of \$8.3 million, and other changes of \$2.0 million, resulting in a \$5.4 million increase in net assets.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

### Statement of Net Assets

The Statement of Net Assets is a financial snapshot of the University at June 30, 2012. 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. The Statement of Net Assets presents information on all of the University's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the strength of the financial position of the University. The tables and charts that relate to the Statement of Net Assets that follow have been restated to include the UNC Foundation Student Housing LLC (Arlington Park) for 2010 and 2011.

University of Northern Colorado			
Condensed Statement of Net Assets			
At June 30,			
	2012	2011	2010
<b>Assets</b>			
Current Assets	\$ 94,641,152	\$ 80,446,890	\$ 69,549,458
Capital, Noncurrent	255,541,478	264,724,483	272,213,114
Other Noncurrent Assets	<u>9,784,664</u>	<u>11,605,844</u>	<u>14,716,689</u>
Total Assets	<u>\$ 359,967,294</u>	<u>\$ 356,777,217</u>	<u>\$ 356,479,261</u>
<b>Liabilities</b>			
Current Liabilities	\$ 31,588,956	\$ 25,451,468	\$ 27,457,635
Bonds/Notes Payable, Noncurrent	145,274,808	153,497,393	156,746,265
Other Noncurrent Liabilities	<u>5,501,913</u>	<u>5,658,031</u>	<u>6,391,100</u>
Total Liabilities	<u>\$ 182,365,677</u>	<u>\$ 184,606,892</u>	<u>\$ 190,595,000</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	\$ 106,384,411	\$ 110,212,458	\$ 115,518,518
Restricted - Nonexpendable	307,555	307,555	307,555
Restricted - Expendable	24,260,277	22,052,091	20,160,425
Unrestricted	<u>46,649,374</u>	<u>39,598,221</u>	<u>29,897,763</u>
Total Net Assets	<u>\$ 177,601,617</u>	<u>\$ 172,170,325</u>	<u>\$ 165,884,261</u>

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)

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### Assets

#### Current Assets

The most significant change in current assets is unrestricted cash and cash equivalents. Unrestricted cash and cash equivalents at June 30, 2012, 2011, and 2010 comprise 22.3%, 18.6%, and 16.1%, of the University's total assets and total \$80.2, \$66.3, and \$57.3 million, respectively. The majority of the cash is held by the State Treasurer and is comprised of general, self-supported, restricted, agency and other cash funds. Cash and cash equivalents during fiscal years 2012, 2011, and 2010 increased \$13.9, \$9.0, and \$4.8 million, respectively.

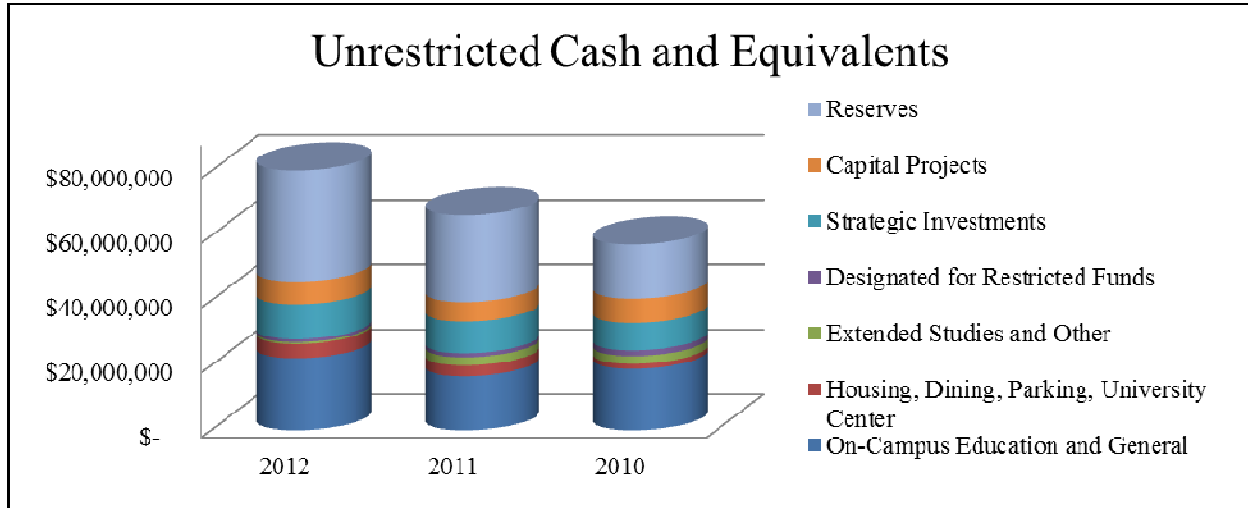
The unrestricted cash and equivalents increase over the previous fiscal year was a result of increased revenues, cost savings initiatives, and efforts to increase reserves. The following table shows the increase from fiscal year 2011 to 2012 of \$7.6 million in reserves, \$1.0 million in strategic investments, \$1.0 million in capital projects and \$4.3 million in operating. The University also holds \$750,000 in restricted cash for bond covenants as a noncurrent asset in reserves. The following table indicates the expected uses of unrestricted cash and cash equivalents:

Unrestricted Cash and Cash Equivalents for June 30			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating			
On-Campus Education and General	\$ 22,179,897	\$ 16,698,532	\$ 18,915,377
Housing, Dining, Parking, University Center	4,416,211	3,267,183	1,545,227
Extended Studies and Other	539,809	2,523,979	2,380,148
Designated for Restricted Funds	942,169	1,272,614	1,757,672
Strategic Investments	10,708,407	9,740,993	8,436,950
Capital Projects	7,038,391	6,033,735	7,530,338
Reserves	<u>34,355,697</u>	<u>26,789,230</u>	<u>16,760,960</u>
Total Cash and Equivalents	<u>\$ 80,180,581</u>	<u>\$ 66,326,266</u>	<u>\$ 57,326,672</u>

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



Student accounts receivable is the second largest current asset and is presented net of allowance for doubtful accounts. Net student accounts receivable as of June 30, 2012, 2011 and 2010 are \$6.4, \$5.7, and \$5.5 million, respectively. The net student accounts receivable increases of \$0.7, \$0.1, and \$1.1 million or 12.7%, 2.0%, or 23.8% over the previous three fiscal years were a result of increased costs of attendance and the impact of the economy on families' abilities to support educational expenses.

Other receivables increased by \$0.3 million. This asset consists primarily of amounts due to the University from reimbursable grants and contracts. The majority of these are Federal, State or UNC Foundation agreements that have a very high probability of collection. The University spends the money first and then bills the sponsoring agency afterwards.

### Capital Assets

Capital assets are defined as any asset used in operations with an initial useful life extending beyond one year. The University's single largest fiscal resource is its campus facility. As of June 30, 2012, capital assets, net of \$216.3 million accumulated depreciation, total \$255.5 million. This is a \$9.2 million decrease from fiscal year 2011, when capital assets, net of \$201.6 million accumulated depreciation, totaled \$264.7 million. Capital assets, net of \$187.0 million accumulated depreciation, totaled \$271.8 million at June 30, 2010. The capital assets decrease of \$16.3 million from fiscal year 2010 to 2012 is primarily because depreciation expense has been greater than additions for the past two fiscal years.

In fiscal year 2012 there were \$4.1 million of construction projects completed and reclassified from construction in progress. These capitalized projects consisted of roof, window, carpet and door replacements in various buildings, classroom and residence hall renovations, parking lot improvements, and the conversion of space in the University Center into a convenience store. Building improvements, equipment, and other capital purchases of \$2.7 million consisting of instructional equipment, facilities maintenance and operational equipment, information technology equipment, athletics equipment, commencement exhibits, copier/printers and library collection additions increased our capital assets. Depreciation expense of \$16.0 million decreased capital assets. In fiscal year 2011, the capitalization of

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

the west campus housing project and depreciation expense of \$16.1 million had the most significant impact on this asset category.

A summary of the capital asset balances is reflected in the following table. Additional information on additions, disposals, and transfers of capital assets can be found in Note 6.

	June 30, 2012		June 30, 2011		June 30, 2010	
Land and Improvements	\$ 25,717,269	10.1%	\$ 26,590,110	10.0%	\$ 27,409,725	10.1%
Buildings and Improvements	212,926,135	83.2%	218,399,477	82.5%	206,570,508	75.9%
Construction In Progress	1,948,028	0.8%	4,470,547	1.7%	21,501,130	7.9%
Library Books	7,876,189	3.1%	8,188,602	3.1%	8,564,291	3.2%
Equipment	5,523,512	2.2%	5,525,402	2.1%	6,158,578	2.3%
Art and Historical Treasures	1,550,345	0.6%	1,550,345	0.6%	1,550,345	0.6%
Total Capital Assets	<u>\$ 255,541,478</u>	100.0%	<u>\$ 264,724,483</u>	100.0%	<u>\$ 271,754,577</u>	100.0%

### Other Noncurrent Assets

Noncapital related noncurrent assets consist of loans to students, restricted cash and investments, and other items like surety deposits and unamortized bond issue costs. Loans to students are primarily Perkins loans and are managed, under the appropriate federal guidelines, through a third party loan processor. Loans to students net of allowance for doubtful accounts, which are greater than one year, totaled \$6.8, \$7.2, and \$7.4 million, at June 30, 2012, 2011, and 2010, respectively.

### Liabilities

#### Non-Debt Related Liabilities

The University's non-debt obligations and commitments arising from past events that are expected to result in an outflow of resources include amounts owed to vendors, personnel commitments, and deferred revenue. Note 7 provides more detailed information for current liabilities expected to be paid within one year and noncurrent liabilities expected to be paid after one year.

Accounts payable and accrued liabilities of \$14.7 million are the most significant non-debt related liabilities and increased \$1.4 million in fiscal year 2012. This change is primarily from increased fringe benefit costs and the timing of payments related to these obligations.

In fiscal year 2003 the state of Colorado moved the June 30 pay date to July 1. Salaries and benefits payable in fiscal years 2012, 2011, and 2010 of \$11.9, \$10.7, and \$11.6 million, respectively, were considered a commitment in the current fiscal year even though they were not paid until the next fiscal year.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

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Deferred revenues of \$7.9 million include amounts received for tuition and fees and certain auxiliary activities received by June 30, 2012, but related to services to be provided in fiscal year 2013; plus amounts received from grant and contract sponsors and the UNC Foundation that have not yet been earned. These amounts will be recognized as revenue in future periods after all conditions have been satisfied. Deferred revenue increased \$1.3 million and was primarily related to summer tuition and other activities.

Compensated absences is an estimate of the amount payable to employees in the future for their vested rights under the various leave and retirement programs. This estimate is based on personnel policies that define vacation and sick leave to which the employees may be entitled (see Note 1). The amount of compensated absences for fiscal years 2012, 2011, and 2010 is consistent at \$4.2 million, respectively.

#### University Debt

The single largest liability for the University is outstanding bonds payable. The \$7.9 million decrease in bonds payable is the most significant change in University debt between fiscal years 2011 and 2012. This decrease is in accordance with the established debt repayment schedule.

- In July 2011, the University issued \$41.7 million in bonds for the purpose of currently refunding \$46.0 million of then-outstanding Series 2001 Auxiliary Revenue Refunding and Improvement bonds. The outstanding balance related to this issuance is \$40.3 million.
- Also in July 2011, the University issued \$21.1 million in variable rate demand bonds for the purpose of currently refunding \$23.0 million of then-outstanding Colorado Educational and Cultural Facilities Authority, Student Housing Revenue Bonds (Arlington Park LLC Student Housing Facility Bonds), Series LLC 2001A bonds. The outstanding balance related to this issuance is \$21.1 million.

The University has an underlying rating of 'A1' by Moody's and 'A' by Standard and Poor's, both with stable outlooks. The 2005 and 2008 bond issuances were insured with ratings of 'Aaa' by Moody's and 'AAA' by Standard and Poor's. The 2011A fixed rate bonds have an enhanced rating of 'Aa2' by Moody's and an enhanced rating of 'AA' by Standard and Poor's based on the University's participation in the Colorado Higher Education State Aid Intercept Program. The 2011 B variable rate demand bonds are not rated and are held solely by Wells Fargo.

A detailed schedule of all outstanding bond debt is included in Note 8 to the financial statements. A summary of University debt is shown in the following table.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)

	Summary of Debt		
	June 30,		
	2012	2011	2010
Debt Outstanding:			
Revenue Bonds	\$ 148,794,808	\$ 156,722,393	\$ 159,816,265
Note Payable	3,185,910	-	-
Capital Lease Obligations	<u>1,959,300</u>	<u>2,419,331</u>	<u>3,251,901</u>
	153,940,018	159,141,724	163,068,166
Less Current Portion	<u>(7,146,458)</u>	<u>(3,813,065)</u>	<u>(3,805,485)</u>
Long-Term Debt	<u>\$ 146,793,560</u>	<u>\$ 155,328,659</u>	<u>\$ 159,262,681</u>

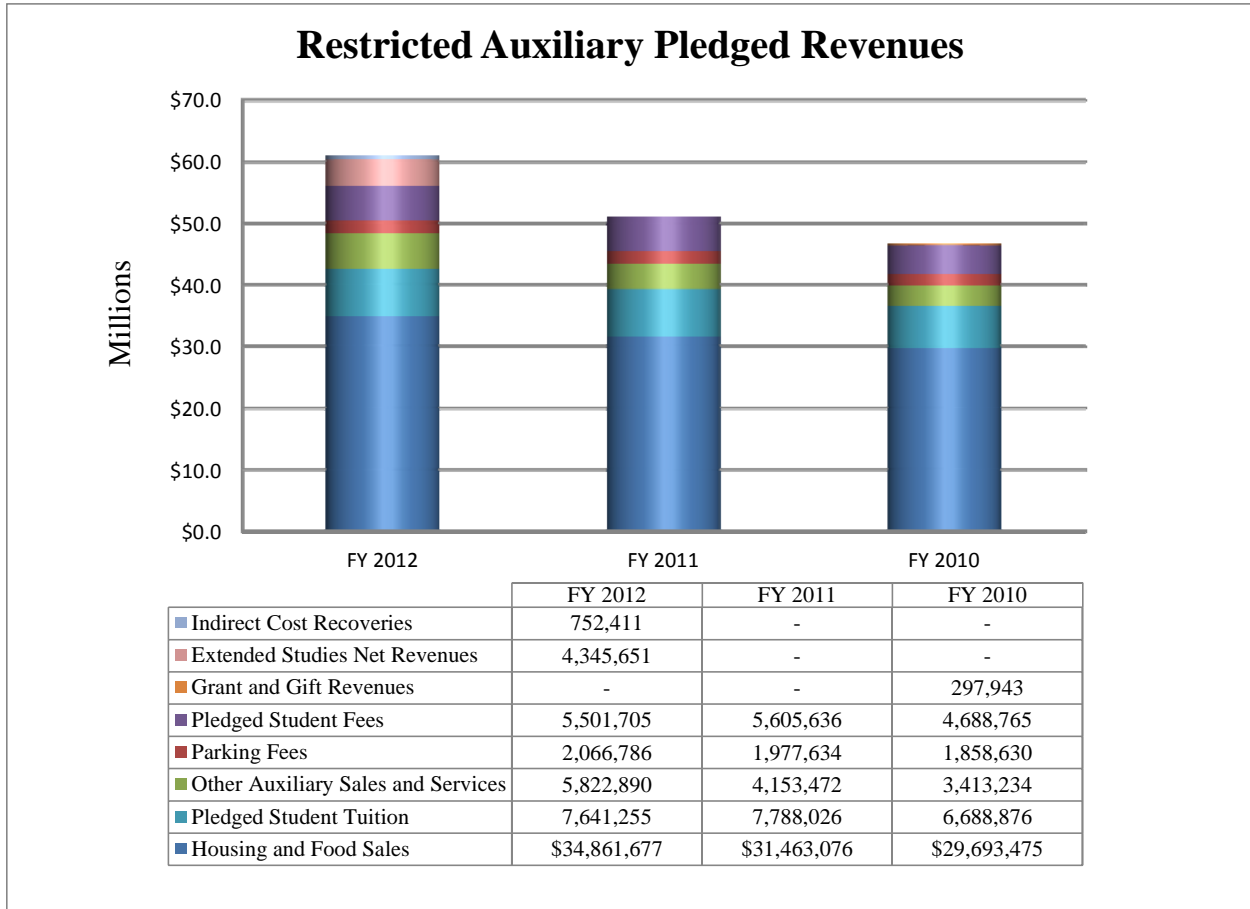
The bond debt payments are made from pledged revenues comprised of auxiliary housing, food service, parking and other sales, plus identified pledged student fee and student tuition revenues. A detailed schedule of actual and estimated revenues and expenses is included in the Other Budget, Financial, and Enrollment Data section of the annual financial report.



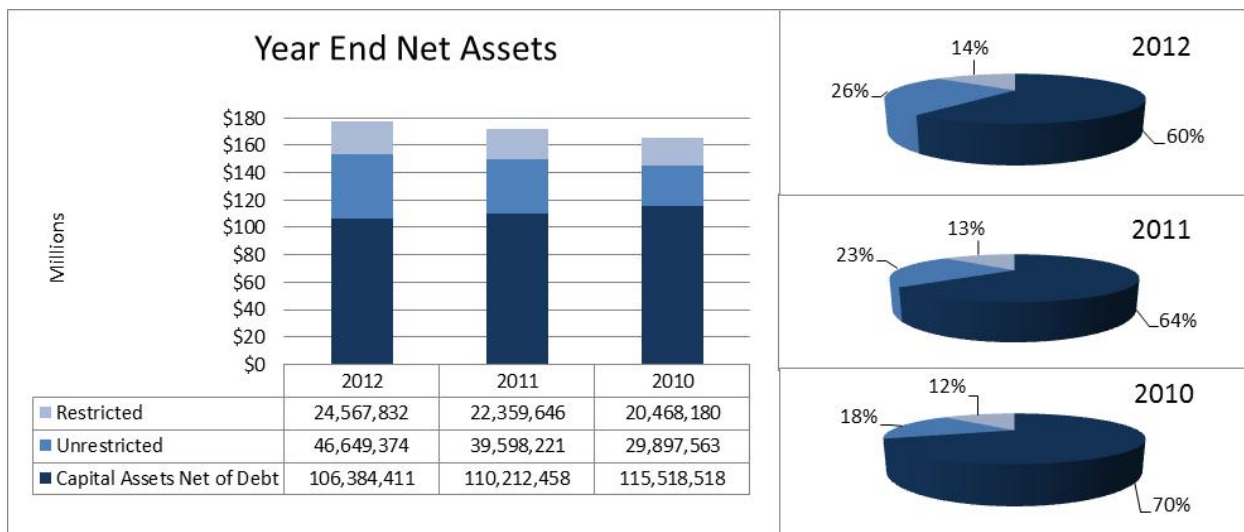
# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



### Net Assets



# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

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Total net assets increased by \$5.4, \$6.3, and \$7.6 million during fiscal years 2012, 2011 and 2010 with ending balances of \$177.6, \$172.2, and \$165.9 million, respectively. The three year increase in net assets from the beginning balance of \$165.9 million in fiscal year 2010 to the ending balance of \$177.6 million in fiscal year 2012 is \$11.7 million and represents 3.3% of total operating revenues for this period (operating revenues were \$181.4, \$178.0, and \$147.5 million, respectively).

Net assets increased \$19.3 million over the past three years. The composition of the University's net asset portfolio has shifted from a lower proportion of capital assets net of debt to a higher proportion of unrestricted net assets. This is the result of a slowdown in major construction activity on campus and a deliberate decision to build unrestricted reserves to smooth the impact of declining State funding for higher education.

The last large construction project, for the renovation of Butler Hancock, was mostly funded in fiscal years 2009 and 2010 with State issued certificates of participation and was fully capitalized in fiscal year 2011. Since then depreciation expense has exceeded capital additions.

Restricted net assets are a larger percentage of the portfolio because the University pledged more net assets when the master bond resolution was updated for the July 2011 bond refinancing.

The University's net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant, and equipment). To help understand the nature of the University's net assets, net assets are classified into the following categories:

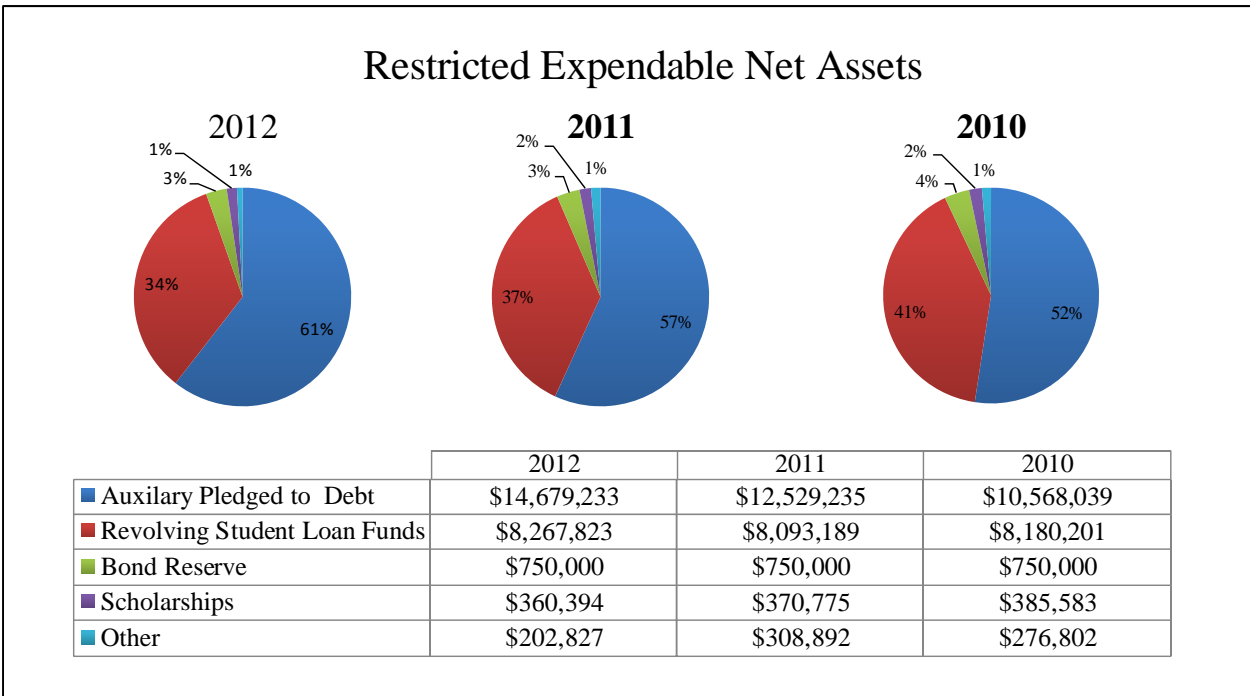
- *Invested in Capital Assets Net of Related Debt* - The University's largest class of net assets is its capital assets, net of related debt, which comprises 59.9%, 64.0%, and 69.8% of the University's net assets for fiscal years 2012, 2011, and 2010, respectively. This net asset balance equals the cumulative amount expended for capital assets, less the outstanding debt incurred to finance those capital assets and the capital assets' related accumulated depreciation. These net capital assets represent the University's net investment in campus facilities and equipment necessary to fulfill academic, student housing and food service, athletics, and other purposes.
- *Restricted Nonexpendable* - The University's restricted nonexpendable net assets are endowment funds for which the donor has required that the original principal be set aside for perpetual investment. The University's restricted nonexpendable net assets have remained at \$0.3 million for the last three fiscal years and include only those endowment funds that cannot be legally transferred to the University of Northern Colorado Foundation, Inc. (the Foundation). The majority of the endowment assets benefiting the University are held by the Foundation, which is a discretely presented component unit in the financial statements.
- *Restricted Expendable* - The University's restricted expendable net assets are assets that may be fully expended but only for specific purposes identified by the donor or entity originally providing the funds. The majority of restricted expendable net assets include revolving Perkins loan funds, net auxiliary revenues pledged to outstanding bond debt and restricted bond reserves. Some net assets identified as restricted expendable are generated from investment earnings on restricted nonexpendable endowment net assets described above. Allowable expenditures for these funds are scholarships and other academic support expenditures.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

As restricted expendable net assets are often generated in one fiscal year and expended in the following year, this amount remains relatively stable from year to year. The University's restricted expendable net assets at June 30, 2012, 2011, and 2010 were \$24.3, \$22.1, and \$20.2 million, respectively.

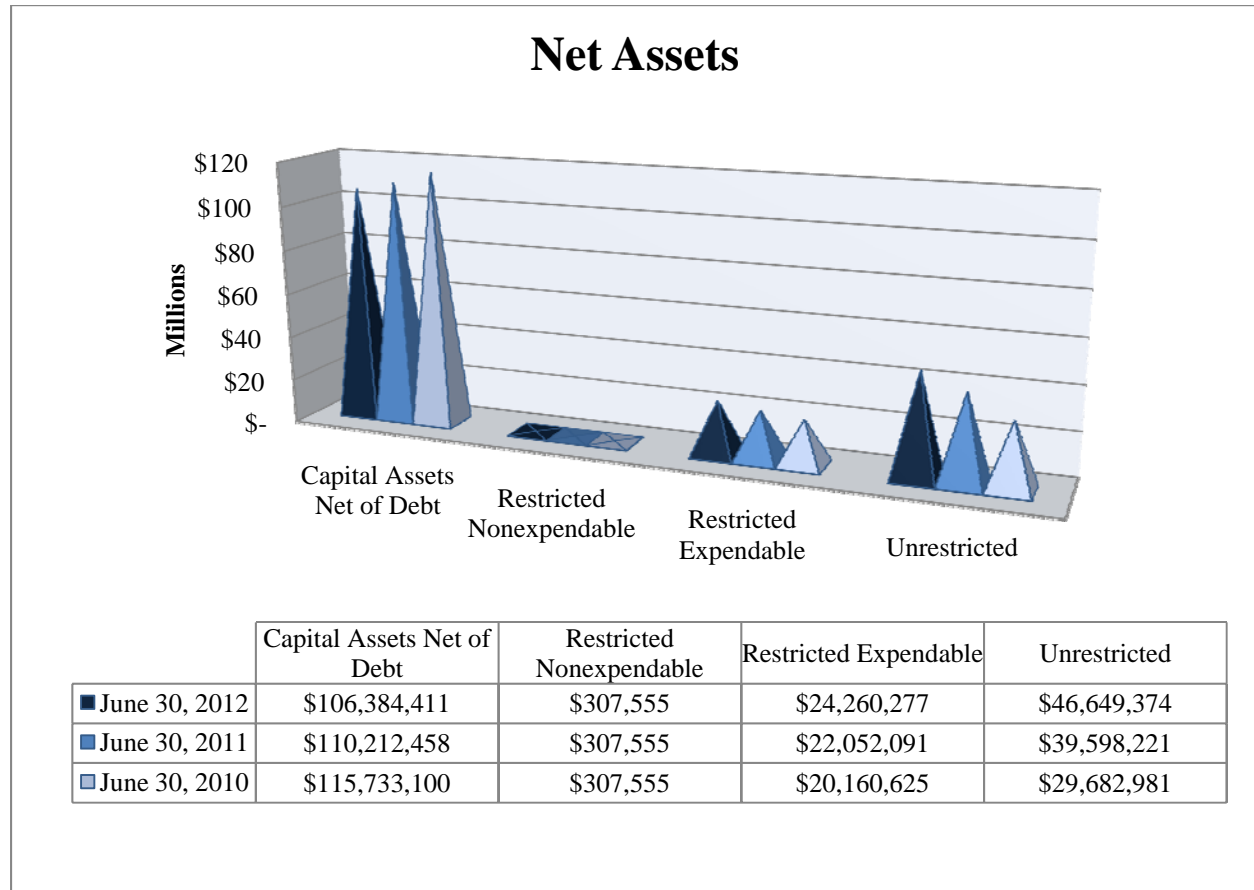


- Unrestricted** - Unrestricted net assets are usually available for spending for any lawful purpose under the full discretion of management. However, the University may place some limitations on future use by designating unrestricted net assets for certain purposes during the annual budget process. Unrestricted net assets of \$46.6 million include departmental operating funds, inventory, self-funded operation working capital, and reserves.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



### 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 over the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. A key component of this statement is the differentiation between operating and nonoperating activities. The tables and charts related to the Statement of Revenues, Expenses and Changes in Net Assets that follow have been restated to include the UNC Foundation Student Housing LLC (Arlington Park) for 2010 and 2011.

Operating revenues are earned by providing goods and services to the various customers and constituencies of the University. Operating expenses are paid to acquire or produce goods and services necessary to carry out the mission of the University for which the University earns operating revenues.

Nonoperating revenues include investment income, state appropriations, federal funds received from the State Fiscal Stabilization program, Pell grant revenue, and gains or losses on the disposal of assets. These revenues are not earned from the sale of goods and services, and are therefore, considered nonoperating.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

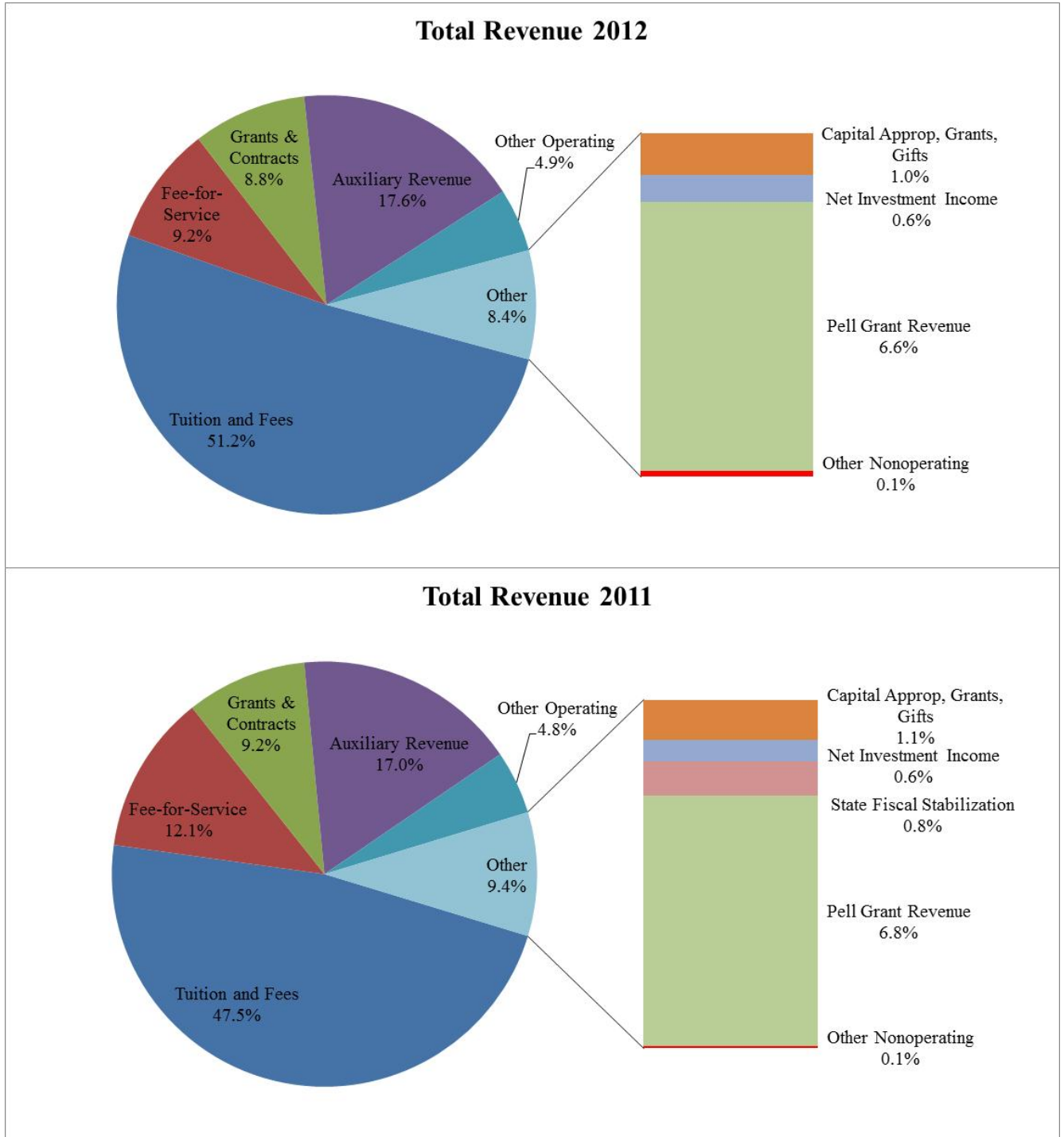
University of Northern Colorado			
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
For the Year Ended June 30,			
	2012	2011	2010
<b>Operating Revenues</b>			
Net Tuition and Fees	\$ 101,347,695	\$ 93,322,869	\$ 79,990,155
Fee-for-Service	18,116,714	23,809,625	9,954,461
Grants and Contracts	17,343,578	17,999,479	18,737,068
Auxiliary	34,883,530	33,400,292	30,959,437
Other	9,683,399	9,487,684	7,841,158
Total Operating Revenues	<u>\$ 181,374,916</u>	<u>\$ 178,019,949</u>	<u>\$ 147,482,279</u>
<b>Operating Expenses</b>			
Education and General	\$ 143,691,423	\$ 139,771,455	\$ 136,521,499
Auxiliary	26,546,794	26,500,292	26,764,558
Depreciation	16,041,668	16,085,532	15,525,476
Total Operating Expenses	<u>\$ 186,279,885</u>	<u>\$ 182,357,279</u>	<u>\$ 178,811,533</u>
Operating Loss	\$ (4,904,969)	\$ (4,337,330)	\$ (31,329,254)
<b>Nonoperating Revenues &amp; Expenses</b>			
Federal Grant and Contracts - Pell	12,990,167	13,285,570	10,074,848
Other Nonoperating Revenue	1,564,580	3,071,605	25,253,306
Other Nonoperating Expenses	\$ (6,264,975)	\$ (7,851,762)	\$ (7,142,494)
Gain (Loss) before Other Items	<u>\$ 3,384,803</u>	<u>\$ 4,168,083</u>	<u>\$ (3,143,594)</u>
Capital Appropriations and Contributions	5,630	2,125,498	10,127,645
Capital Grants and Gifts	2,053,248	-	702,755
Loss on Disposal of Assets	(12,389)	(7,517)	(58,718)
Increase (Decrease) in Net Assets	<u>\$ 5,431,292</u>	<u>\$ 6,286,064</u>	<u>\$ 7,628,088</u>
Net Assets- Beginning of Year	<u>172,170,325</u>	<u>165,884,261</u>	<u>158,256,173</u>
Net Assets- End of Year	<u><u>\$ 177,601,617</u></u>	<u><u>\$ 172,170,325</u></u>	<u><u>\$ 165,884,261</u></u>

Total University revenues of \$198.0, \$196.5, and \$193.6 million in fiscal years 2012, 2011 and 2010, respectively, consist of operating revenue, Pell grants, other nonoperating revenue, capital appropriations and contributions, and capital grants and gifts. Total revenues increased \$1.5 million or 0.8% between fiscal year 2011 and 2012 and \$2.9 million or 1.5% between fiscal year 2010 and 2011.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

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### Operating Revenues

Operating revenue for fiscal years 2012, 2011, and 2010 of \$181.4, \$178.0, and \$147.5 million, respectively, is derived from tuition and fees, auxiliary activity, grants and contracts, state Fee-for-Service, and other operating revenues.

Tuition and fee revenues increased \$8.0 million as a result of growth in student enrollment and tuition increases. Tuition and fees is the University's largest source of revenue and is shown net of \$16.0, \$16.0, and \$13.3 million in scholarship allowances for fiscal years 2012, 2011, and 2010, respectively. Auxiliary revenue for fiscal years 2012, 2011, and 2010 is net of \$4.8, \$5.0, and \$5.4 million in scholarship allowances, respectively. Scholarship allowances are those portions of the University's tuition and fees which are paid by other revenues, primarily federal and state grants for financial aid, and also general institutional scholarships.

During fiscal years 2012, 2011, and 2010, the Colorado Department of Higher Education (CDHE) provided the University \$32.8, \$40.6, and \$44.1 million, respectively, in College Opportunity Fund (COF), Fee-for-Service (FFS), and State Fiscal Stabilization Funds (SFSF). COF is included in tuition revenue and FFS, which has its own line on the financial statements, is classified as operating revenue and the SFSF is classified as nonoperating revenue.

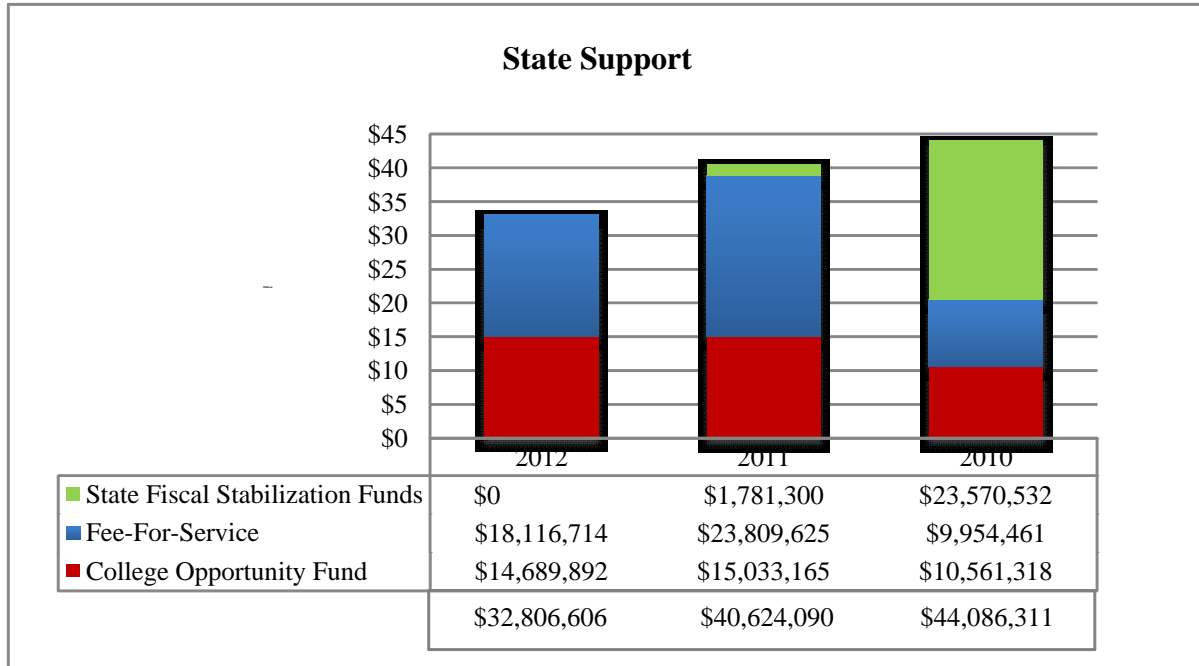
- The College Opportunity Fund provides a stipend to qualified undergraduate students. The students use the stipend to pay a portion of their tuition. The COF stipend provided to students was \$62, \$62, and \$44 per credit hour for fiscal years 2012, 2011, and 2010, respectively. In fiscal years 2012, 2011, and 2010, the University applied \$14.7, \$15.0, and \$10.6 million of COF stipends against student tuition bills, respectively. This amount is included in tuition revenues.
- State FFS contract revenue helps support graduate and specialized undergraduate education services. These funds are in addition to tuition paid by students. During fiscal years 2012, 2011, and 2010 CDHE provided the University \$18.1, \$23.8, and \$10.0 million, respectively.
- State Fiscal Stabilization Funds, provided through the American Recovery and Reinvestment Act (ARRA), were granted to the Office of the Governor for use in fiscal years 2009 through 2011. The University received \$1.8 and \$23.6 million, respectively, in 2011 and 2010. These funds are classified as nonoperating revenue but are included in this section to demonstrate the total University support from the state of Colorado.

The total amount of COF, FFS and SFSF support was \$7.8 million lower between 2011 and 2012; \$3.5 million lower between 2010 and 2011 and no change between 2009 and 2010.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



Auxiliary revenues increased \$1.5 million between 2011 and 2012 and \$2.4 million between 2010 and 2011. Increases in housing and food service contract rates and higher student housing occupancy were the primary sources. Auxiliary revenue is a major source of support for the University's debt service payments. A detailed schedule of actual and estimated revenues and expenses for debt service is included in the Other Budget, Financial, and Enrollment Data section of the annual financial report.

Other operating revenues increased \$0.2 million between fiscal year 2011 and fiscal year 2012 and \$1.7 million between fiscal year 2010 and fiscal year 2011. The change in reporting structure of alumni and major gifts from the Foundation to the University resulted in a memorandum of understanding between our organizations and accounts for the majority of the increase in fiscal year 2011. The other changes were related to the same areas as previous years: athletic camp fees, accounts receivable service charges, Bear Logic computer sales, and various other charges for services.

### Grants and Contracts Revenue

At June 30, 2012, 2011, and 2010, Grants and Contracts Revenue comprise \$30.3, \$31.3, and \$28.8 million or 15.3%, 16.1%, and 15.0% of the University's total revenues, respectively. Grant and Contracts Revenue is categorized as restricted grants and contracts, which is made up of sponsored programs and UNC Foundation support, and certain financial aid that is received by the University from federal, state, and other sponsors in the form of grants to students. The financial aid reported as revenue is based on generally accepted accounting principles for proper financial statement recognition and is not a comprehensive measure of financial aid awards. It does not include amounts received from third parties, institutional support, loans or other support provided to students.



# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

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### **Restricted Grants and Contracts**

For fiscal year 2012, total restricted grants and contracts revenue in the amount of \$12.6 million comprised 41.4% of the total grants and contracts revenue. The primary sources of funding for restricted grants and contracts are from the federal government and the UNC Foundation.

In fiscal year 2012, federal funding for restricted grants and contracts makes up \$7.6 million or 60.7% of the total restricted grants and contracts revenue. Federal funding decreased \$28,000 or 0.4% from fiscal year 2011 to fiscal year 2012. The main sources of federal revenue come from the U.S. Department of Education (\$3.6 million), the National Science Foundation (\$2.3 million), the U.S. Department of Health and Human Services (\$.5 million), and all other federal sources ( \$1.2 million).

UNC Foundation funding makes up \$4.6 million or 36.9% of the total restricted grants and contracts revenue in fiscal year 2012 and decreased \$139,400 or 3.1% from fiscal year 2011 to fiscal year 2012. These dollars are administered on behalf of the University for program support or scholarship support for students.

State, local, and private funding in restricted grants and contracts makes up \$0.3 million or 2.4% of the total restricted grants and contracts revenue in fiscal year 2012 and increased \$68,900 or 29.0% from fiscal year 2011 to fiscal year 2012. State, local and private grants do not provide a significant source of restricted grants and contracts revenue.

### **Financial Aid**

For fiscal year 2012, total financial aid is 58.6% of the total grants and contracts revenue, or 15.8% when excluding federal Pell grants of \$13.0 million. Federal Pell grant financial aid is considered nonoperating revenue, but is included in this analysis of all grants and contracts revenue. The federal Pell grant program is awarded to eligible students based on financial need, but other criteria are considered. All students who are eligible for the Pell grant are awarded the money and the University is not limited to a certain amount of Pell grant awards in an academic or fiscal year. The variance in Pell grant revenue from academic year to academic year is based on changes in the eligibility of our students and federal legislation (the federal government cut Pell funding for the summer semester 2012). In fiscal year 2012, Pell revenue decreased \$0.3 million or 2.2% from fiscal year 2011.

The most significant change in grants and contract revenue was due to decreases in federal and state funding for financial aid. Non-Pell federal financial aid revenue decreased \$0.3 million or 29.3% from fiscal year 2011 to fiscal year 2012. The Colorado Commission on Higher Education did not award Special Leveraging Educational Assistance Partnership (SLEAP) or Colorado Leveraging Educational Assistance Partnership (CLEAP) grants which included a federal portion in them. Additionally, the Federal Academic Competitive Grant and SMART grant funds were not awarded in fiscal year 2012.

State financial aid revenue decreased \$0.5 million or 11.4% from fiscal year 2011 to fiscal year 2012, which is reflective of state budget reductions. The Colorado Need Based Grant and Colorado Governor's Opportunity Grant awards were both reduced in fiscal year 2012 by the state.

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

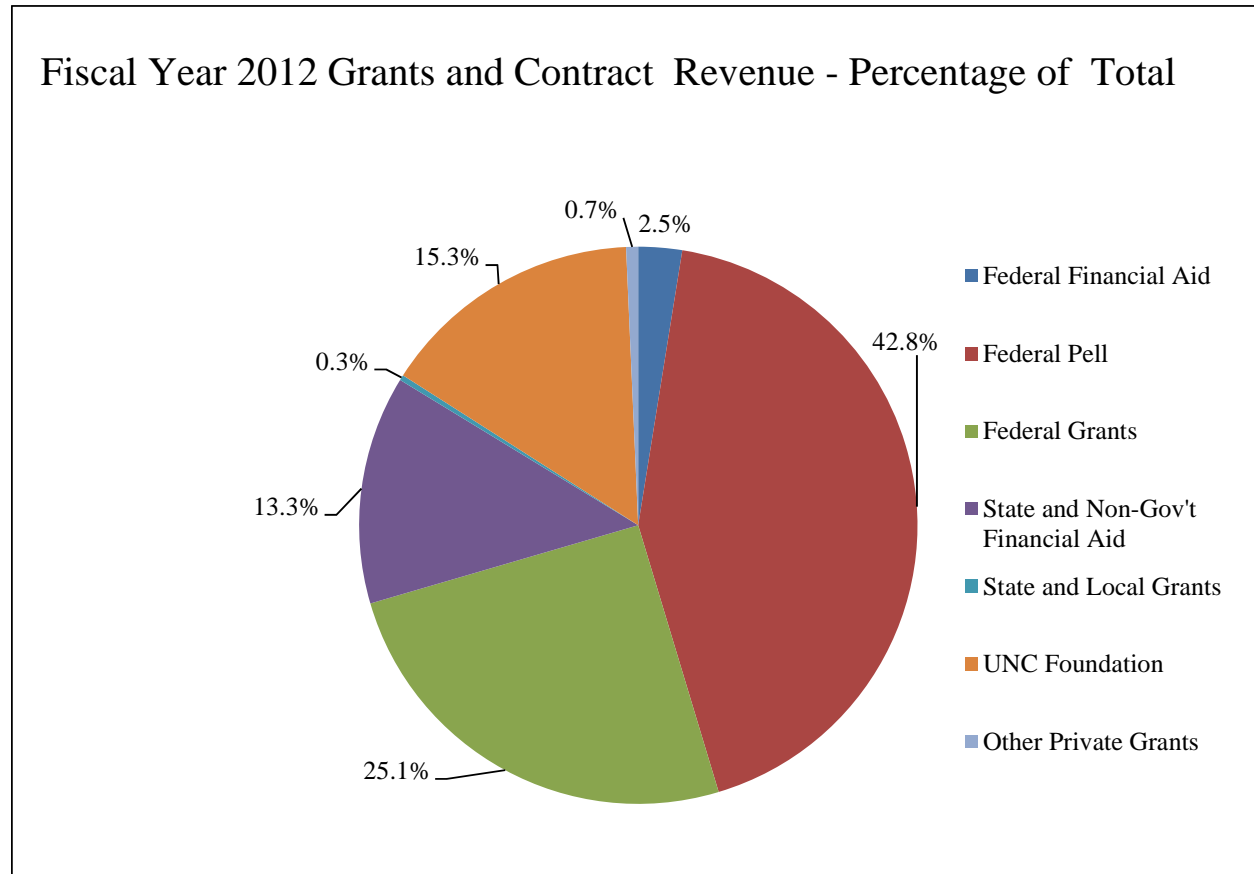
June 30, 2012 and 2011 (Unaudited)

Grants and Contract Revenue			
	2012	2011	2010
Federal Grants	\$ 7,619,971	\$ 7,648,178	\$ 7,709,644
State and Local Grants	94,691	66,917	233,228
UNC Foundation	4,626,743	4,487,355	4,506,633
Other Private Grants	211,850	170,683	127,430
Total Restricted Grants and Contracts	<u>12,553,255</u>	<u>12,373,133</u>	<u>12,576,935</u>
Federal Financial Aid	765,919	1,082,902	1,036,118
Federal Pell Financial Aid	12,990,167	13,285,570	10,074,848
State and Non-Govt Financial Aid	4,024,404	4,543,445	5,124,015
Total Financial Aid	<u>17,780,490</u>	<u>18,911,917</u>	<u>16,234,981</u>
Total Grants and Contract Revenue	<u>\$ 30,333,745</u>	<u>\$ 31,285,050</u>	<u>\$ 28,811,916</u>

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2012 and 2011 (Unaudited)



### Operating Expenses

For fiscal year 2012, total expenses of \$192.6 million included operating expenses of \$186.3 million and interest expenses and other losses of \$6.3 million. Operating expenses increased from fiscal year 2011 by \$3.9 million or 2.0%.

### Natural Classification

<b>Operating Expenses by Natural Class</b>						
	<b>2012</b>		<b>2011</b>		<b>2010</b>	
Personnel Costs	\$ 114,704,535	61.6%	\$ 112,894,916	61.9%	\$ 112,360,819	62.8%
Cost of Goods Sold	5,467,052	2.9%	4,905,775	2.7%	3,613,667	2.0%
Other Operating Expense	50,066,630	26.9%	48,471,056	26.6%	47,311,571	26.5%
Depreciation	16,041,668	8.6%	16,085,532	8.8%	15,525,476	8.7%
<b>Total Operating Expenses</b>	<b>\$ 186,279,885</b>	<b>100.0%</b>	<b>\$ 182,357,279</b>	<b>100.0%</b>	<b>\$ 178,811,533</b>	<b>100.0%</b>

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

Natural classification is a method of grouping expenses according to the type of costs that are incurred. The classifications tell what was purchased rather than why an expense was incurred. Personnel costs are the University's largest expense and increased \$1.1 million for graduate and teaching assistant wages and \$0.8 million in fringe benefits. Cost of goods sold increased proportionally with the increased revenue generated from them. The changes in other current expenses were from increases in scholarships, utilities, and travel.

### Functional Classification

Operating Expenses by Function						
	2012		2011		2010	
Instruction	\$ 67,617,904	36.3%	\$ 64,542,638	35.4%	\$ 63,903,417	35.7%
Research	2,490,339	1.3%	2,999,559	1.6%	3,450,700	1.9%
Public Service	2,117,438	1.1%	2,017,375	1.1%	1,814,955	1.0%
Academic Support	18,608,335	10.0%	19,382,304	10.6%	19,233,255	10.8%
Student Services	22,037,795	11.8%	21,587,036	11.8%	19,759,991	11.1%
Institutional Support	9,232,840	5.0%	9,008,519	4.9%	8,878,558	5.0%
Operation of Plant	9,286,508	5.0%	8,514,133	4.7%	8,452,738	4.7%
Scholarships and Fellowships	12,300,264	6.6%	11,719,891	6.5%	11,027,885	6.2%
Auxiliary Operating Expenditures	26,546,794	14.3%	26,500,292	14.6%	26,764,558	15.0%
Depreciation	16,041,668	8.6%	16,085,532	8.8%	15,525,476	8.6%
Total Operating Expenses	<u>\$ 186,279,885</u>	<u>100.0%</u>	<u>\$ 182,357,279</u>	<u>100.0%</u>	<u>\$ 178,811,533</u>	<u>100.0%</u>

Functional classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased. There were increases in most of the functional categories with the most significant in instruction, scholarships and fellowships, and operation and maintenance of plant.

The matrix comparing natural and functional classifications in Note 14 to the financial statements provides more information on operating expenses.

### Nonoperating Revenues and Expenses

The nonoperating financial statement line item titled "Federal grant and contract revenue – Pell" is the largest portion of nonoperating revenue. The University received \$0.3 million less in fiscal year 2012 than in fiscal year 2011. The amount of Pell revenue is based on student need and several other factors set by the federal government. The University financial aid office works with all eligible students to help them determine if they qualify for this aid.

The University's other nonoperating revenues are made up of investment income and activities that are not earned from the sale of goods and services. In fiscal year 2012 investment income of \$1.3 million is primarily from interest proceeds on the cash held by the State Treasurer for University operations. Investment income increased \$0.1 million in fiscal year 2012. In fiscal year 2011 the State Fiscal

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

### June 30, 2012 and 2011 (Unaudited)

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Stabilization Funds provided through the American Recovery and Reinvestment Act of 2009 ended and there were no funds reported for this in fiscal year 2012.

The University's nonoperating expense is interest on capital debt of \$6.3 million in fiscal year 2012, which represents the interest paid on capital bonds and leases payable. This interest decreased \$1.6 million in fiscal year 2012.

#### Other Changes

The most significant change in fiscal year 2012 was a capital gift of \$2.1 million from the UNC Foundation used for refunding of the 2001A auxiliary revenue bonds. In fiscal years 2011 and 2010 capital appropriations and contributions (mostly from the State certificates of participation) of \$2.1 and \$10.1 million, respectively, had the greatest impact.

#### **Economic Outlook**

The University's financial (or economic) position is impacted by legislation and funding from the State legislature. The September 2012 Legislative Council revenue estimates were positive. State general fund revenue was up 9.2% in fiscal year 2011-12, but they are anticipating 2.3% growth in fiscal year 2012-13 and 4.9% in fiscal year 2013-14. They are forecasting a budget surplus for the current year. This provides a more optimistic outlook for the near term cuts in higher education funding. The University was anticipating a reduction in the range of \$2.0 million to \$6.0 million for fiscal year 2013 and the actual reduction was \$950,000. University management still anticipates continued reductions in funding, but they may be more gradual over a longer period of time than was indicated in the 2009-2011 time frame.

As the national economy continues toward a slow recovery, the University continues to examine its tuition pricing and discounting policies. As a result, the University has increased the institutional financial aid budget to fill the gaps in declining federal and state financial aid and to continue to support students experiencing economic challenges. Since fiscal year 2008-09, the University increased internally funded scholarships from \$10.3 million to forecasted expenditures of \$20.5 million for fiscal year 2012-13. These investments in our students have increased the institutional discounting rate from 17.3% to 26.1%. The discount rate is calculated using student share of graduate and undergraduate tuition (not including accounting related adjustments for scholarship allowance or summer proration) divided by the institutionally funded scholarships and graduate tuition waivers. The institutionally funded scholarships are primarily from tuition and other operating revenues and are not funded through other outside sources or our foundation. Pricing, discounting and finding the optimal enrollment for the institution will be a continued focus as we move into a future of uncertainty in higher education funding.

<b>Tuition Discounting</b>	
<u>Fiscal</u> <u>Year</u>	<u>Discount</u> <u>Percent</u>
2013	26.1%
2012	24.9%
2011	23.1%
2010	24.7%
2009	17.3%

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

**June 30, 2012 and 2011 (Unaudited)**

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The University experienced enrollment growth in fall 2009 and fall 2010 but it has leveled off for fall 2011 and is expected to remain level for fall 2012 based on census information. The University's strategic enrollment strategy is focused on targeting the optimal size enrollment for the institution so we can continue to deliver a transformational education to our students in a fiscally sustainable manner.

<b>Student Enrollment*</b>				
Fall Final (for Fiscal Year)	Under-Grad	Grad	Total	Percent Change
Fall 11 (FY12)	10,414	2,624	13,038	0.06%
Fall 10 (FY11)	10,464	2,566	13,030	2.51%
Fall 09 (FY10)	10,297	2,414	12,711	1.70%
Fall 08 (FY09)	10,109	2,389	12,498	-1.61%
Fall 07 (FY08)	10,441	2,261	12,702	-4.95%

\*Student head count

The University continues to implement changes in the way it operates and has developed a Strategic Framework which includes nine core plans for Student Support Services, Research, Scholarships and Creative Works, Community and Civic Engagement, Compensation Identity, Academic Portfolio, Equity and Diversity, Sustainability, Internationalization, and Enrollment Plan and Pricing Strategy. Through these plans and support plans for Staffing, Marketing, Facilities, Information Technology, and Fundraising, the University continues to align our financial resources with our strategic priorities of building exemplary academic programs, advancing our research focus, and building ever-stronger community relationships.

For additional information regarding this report please contact:

Office of the Assistant Vice President for Finance

University of Northern Colorado

501 20<sup>th</sup> Street

Campus Box 44

Greeley, CO 80639

(970) 351-2237

[www.unco.edu](http://www.unco.edu)

# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF NET ASSETS

June 30, 2012

	University of Northern Colorado	University of Northern Colorado Foundation, Inc.
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 80,180,581	\$ 2,580,491
Restricted cash and cash equivalents with trustee	3,228,808	—
Student accounts receivable, net of allowance of \$5,301,770	6,377,234	—
Pledges receivable, net	—	551,255
Other receivables	2,842,607	268,777
Investments	—	26,736,014
Inventories	1,187,651	—
Loans to students, net	411,238	—
Other assets	413,033	109,437
Total Current Assets	94,641,152	30,245,974
Noncurrent Assets		
Restricted cash and cash equivalents	750,000	—
Restricted investments	669,348	—
Pledges receivable, net	—	354,368
Loans to students, net	6,772,338	—
Other noncurrent assets	1,592,978	—
Investments permanently restricted for endowment	—	63,734,695
Capital assets, net	255,541,478	1,071,591
Total Noncurrent Assets	265,326,142	65,160,654
TOTAL ASSETS	359,967,294	95,406,628
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	14,739,650	1,282,436
Deferred revenue	7,856,365	—
Bonds/notes payable, current portion	6,705,910	—
Capital leases payable, current portion	440,548	—
Funds held for the University of Northern Colorado	—	674,576
Other current liabilities	1,846,483	—
Total Current Liabilities	31,588,956	1,957,012
Noncurrent Liabilities		
Bonds/notes payable	145,274,808	—
Capital leases payable	1,518,752	—
Other long-term liabilities	192,000	—
Annuity obligations	—	169,504
Compensated absence liabilities	3,791,161	—
Total Noncurrent Liabilities	150,776,721	169,504
TOTAL LIABILITIES	182,365,677	2,126,516
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	106,384,411	1,071,591
Restricted for:		
Nonexpendable		
Scholarships and fellowships	306,155	32,207,947
Academic support	1,400	—
Other	—	31,526,748
Expendable		
Auxiliary expenditures	14,679,233	—
Scholarships and fellowships	360,394	5,267,247
Loans	8,267,823	—
Bond reserve	750,000	—
Other	202,827	10,376,684
Unrestricted	46,649,374	12,829,895
TOTAL NET ASSETS	\$ 177,601,617	\$ 93,280,112

See Notes to the Financial Statements

# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF NET ASSETS

June 30, 2011

	University of Northern Colorado, As Restated	University of Northern Colorado Foundation, Inc.
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 66,326,266	\$ 2,315,095
Funds held in trust	3,569,908	—
Student accounts receivable, net of allowance of \$4,249,940	5,657,657	—
Pledges receivable, net	—	640,012
Other receivables	2,546,264	331,115
Investments	—	30,708,018
Inventories	1,176,501	—
Loans to students, net	426,756	—
Other assets	743,538	100,568
Total Current Assets	80,446,890	34,094,808
Noncurrent Assets		
Restricted cash and cash equivalents	750,000	—
Restricted investments	679,707	—
Pledges receivable, net	—	465,348
Loans to students, net	7,232,221	—
Other noncurrent assets	2,943,916	—
Investments permanently restricted for endowment	—	65,173,727
Capital assets, net	264,724,483	995,803
Total Noncurrent Assets	276,330,327	66,634,878
TOTAL ASSETS	356,777,217	100,729,686
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	13,343,743	1,294,302
Deferred revenue	6,540,878	16,667
Bonds/notes payable, current portion	3,225,000	—
Capital leases payable, current portion	588,065	—
Funds held for the University of Northern Colorado	—	685,955
Other current liabilities	1,753,782	—
Total Current Liabilities	25,451,468	1,996,924
Noncurrent Liabilities		
Bonds/notes payable	153,497,393	—
Capital leases payable	1,831,266	—
Other long-term liabilities	50,000	—
Annuity obligations	—	186,201
Compensated absence liabilities	3,776,765	—
Total Noncurrent Liabilities	159,155,424	186,201
TOTAL LIABILITIES	184,606,892	2,183,125
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	110,212,458	995,803
Restricted for:		
Nonexpendable		
Scholarships and fellowships	306,155	32,945,594
Academic support	1,400	—
Other	—	32,228,133
Expendable		
Auxiliary expenditures	12,529,235	—
Scholarships and fellowships	370,775	5,092,311
Loans	8,093,189	—
Bond reserve	750,000	—
Other	308,892	13,624,336
Unrestricted	39,598,221	13,660,384
TOTAL NET ASSETS	\$ 172,170,325	\$ 98,546,561

See Notes to the Financial Statements



# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year Ended June 30, 2012

	University of Northern Colorado	University of Northern Colorado Foundation, Inc.
Operating Revenues		
Student tuition and fees, net	\$ 101,347,695	\$ —
Contributions	—	4,819,769
Contributed services	—	46,484
Federal grants and contracts	8,385,890	—
State and local grants and contracts	4,119,096	—
State fee-for-service	18,116,714	—
Nongovernmental grants and contracts	4,838,592	—
Sales and services of educational activities	412,884	—
Auxiliary operating revenue	34,883,530	—
Interest and dividends	—	2,425,120
Net realized and unrealized loss	—	(1,226,077)
Other operating revenue	9,270,515	597,128
Total Operating Revenues	<u>181,374,916</u>	<u>6,662,424</u>
Operating Expenses		
Educational and general		
Instruction	67,617,904	—
Research	2,490,339	—
Public service	2,117,438	—
Academic support	18,608,335	—
Student services	22,037,795	—
Institutional support	9,232,840	—
Operation of plant	9,286,508	—
Scholarships and fellowships	12,300,264	—
Program	—	9,357,324
Management and general	—	884,006
Fundraising	—	1,558,018
Pledged receivable write off	—	129,525
Auxiliary operating expenditures	26,546,794	—
Depreciation and amortization	16,041,668	—
Total Operating Expenses	<u>186,279,885</u>	<u>11,928,873</u>
Operating Income (Loss)	<u>(4,904,969)</u>	<u>(5,266,449)</u>
Nonoperating Revenues (Expenses)		
Investment income, net of investment expense	1,282,577	—
State fiscal stabilization fund	—	—
Interest on capital asset related debt	(6,264,975)	—
Federal grants and contracts revenue	12,990,167	—
Other nonoperating revenue	282,003	—
Net Nonoperating Revenues (Expenses)	<u>8,289,772</u>	<u>—</u>
Income (Loss) Before Other Revenues (Expenses), Gains (Losses)	<u>3,384,803</u>	<u>(5,266,449)</u>
Capital appropriations	5,630	—
Capital contribution - certificates of participation	—	—
Capital grants and gifts	2,053,248	—
Loss on disposal of capital assets	(12,389)	—
Total Other Changes	<u>2,046,489</u>	<u>—</u>
Increase (Decrease) in Net Assets	5,431,292	(5,266,449)
Net Assets, Beginning of Year	<u>172,170,325</u>	<u>98,546,561</u>
Net Assets, End of Year	<u>\$ 177,601,617</u>	<u>\$ 93,280,112</u>

See Notes to the Financial Statements

# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year Ended June 30, 2011

	University of Northern Colorado, As Restated	University of Northern Colorado Foundation, Inc.
Operating Revenues		
Student tuition and fees, net	\$ 93,322,869	\$ —
Contributions	—	4,894,976
Contributed services	—	48,701
Federal grants and contracts	8,731,080	—
State and local grants and contracts	4,610,362	—
State fee-for-service	23,809,625	—
Nongovernmental grants and contracts	4,658,037	—
Sales and services of educational activities	469,919	—
Auxiliary operating revenue	33,400,292	—
Interest and dividends	—	2,370,575
Net realized and unrealized gain	—	14,095,605
Other operating revenue	9,017,765	610,342
<b>Total Operating Revenues</b>	<b>178,019,949</b>	<b>22,020,199</b>
Operating Expenses		
Educational and general		
Instruction	64,542,638	—
Research	2,999,559	—
Public service	2,017,375	—
Academic support	19,382,304	—
Student services	21,587,036	—
Institutional support	9,008,519	—
Operation of plant	8,514,133	—
Scholarships and fellowships	11,719,891	—
Program	—	6,932,545
Management and general	—	812,827
Fundraising	—	1,570,922
Pledged receivable write off	—	25,000
Auxiliary operating expenditures	26,500,292	—
Depreciation and amortization	16,085,532	—
<b>Total Operating Expenses</b>	<b>182,357,279</b>	<b>9,341,294</b>
<b>Operating Income (Loss)</b>	<b>(4,337,330)</b>	<b>12,678,905</b>
Nonoperating Revenues (Expenses)		
Investment income, net of investment expense	1,162,063	—
State fiscal stabilization fund	1,781,300	—
Interest on capital asset related debt	(7,851,762)	—
Federal grants and contracts revenue	13,285,570	—
Other nonoperating revenue	128,242	—
<b>Net Nonoperating Revenues (Expenses)</b>	<b>8,505,413</b>	<b>—</b>
<b>Income (Loss) Before Other Revenues (Expenses), Gains (Losses)</b>	<b>4,168,083</b>	<b>12,678,905</b>
Capital appropriations	172,104	—
Capital contribution - certificates of participation	1,953,394	—
Capital grants and gifts	—	—
Loss on disposal of capital assets	(7,517)	—
<b>Total Other Changes</b>	<b>2,117,981</b>	<b>—</b>
<b>Increase in Net Assets</b>	<b>6,286,064</b>	<b>12,678,905</b>
<b>Net Assets, Beginning of Year</b>	<b>165,884,261</b>	<b>85,867,656</b>
<b>Net Assets, End of Year</b>	<b>\$ 172,170,325</b>	<b>\$ 98,546,561</b>

See Notes to the Financial Statements

# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF CASH FLOWS Years Ended June 30, 2012 and 2011

	2012	2011, As Restated
<b>Operating Activities</b>		
Cash received		
Tuition and fees	\$ 101,104,704	\$ 92,847,629
Colorado State Fee-for-Service	18,116,714	23,809,625
Sales and services of educational activities	489,623	621,132
Sales and services of auxiliary activities	34,435,610	33,701,886
Grants and contracts	7,606,588	8,614,613
Federal financial aid	747,984	935,501
State financial aid	4,024,405	4,543,445
UNC Foundation grants	1,008,287	1,186,249
UNC Foundation gifts	3,618,456	3,301,106
Other receipts	9,389,270	9,248,985
Student loans collected	1,209,454	1,077,790
Cash payments		
Payments to/for employees	(113,541,999)	(114,673,932)
Payments to suppliers	(40,838,820)	(40,795,443)
Scholarships disbursed	(12,300,264)	(11,719,892)
Student loans disbursed	(797,753)	(1,075,109)
Net cash provided by operating activities	<u>14,272,259</u>	<u>11,623,585</u>
<b>Noncapital Financing Activities</b>		
State fiscal stabilization nonoperating funds	-	1,781,300
Federal grant and contract – Pell	12,990,167	13,285,570
Other nonoperating revenues-rental, lease, other	2,398,900	120,649
Agency inflows – campus organizations and scholarships	12,200,233	10,819,711
Agency outflows – campus organizations and scholarships	(12,000,203)	(10,915,270)
Agency loan inflows – student loans	84,280,831	77,719,580
Agency loan outflows – student loans	(84,280,831)	(77,719,580)
Net cash provided by noncapital financing activities	<u>15,589,097</u>	<u>15,091,960</u>
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(6,866,042)	(7,107,380)
Proceeds from restricted note payable	3,185,911	-
Proceeds from 2011A refinancing bonds issued	44,701,186	-
Proceeds from 2011B refinancing bonds issued	21,130,000	-
Bond refinancing costs paid	(282,951)	(158,244)
Principal refinanced 2001 UNC bonds	(46,040,000)	-
Principal refinanced 2001A Student Housing LLC bonds	(22,975,000)	-
Principal paid on bonds payable	(3,010,000)	(3,070,000)
Principal paid on capital leases	(459,247)	(832,570)
Interest paid on capital debt	(7,024,935)	(7,817,771)
Net cash used by capital and related financing activities	<u>(17,641,078)</u>	<u>(18,985,965)</u>
<b>Investing Activities</b>		
Investment earnings	1,292,937	1,160,782
Net cash provided by investing activities	<u>1,292,937</u>	<u>1,160,782</u>
Increase in Cash and Cash Equivalents	13,513,215	8,890,362
Cash and Cash Equivalents, Beginning of Year	<u>70,646,174</u>	<u>61,755,812</u>
Cash and Cash Equivalents, End of Year	<u>\$ 84,159,389</u>	<u>\$ 70,646,174</u>

See Notes to the Financial Statements

# UNIVERSITY OF NORTHERN COLORADO

## STATEMENT OF CASH FLOWS - Continued Years Ended June 30, 2012 and 2011

	2012	2011, As Restated
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (4,904,969)	\$ (4,395,047)
Depreciation and amortization expense	16,041,668	16,213,611
Student loan cancellations	114,044	128,954
Changes in operating assets and liabilities		
Student accounts receivable, net	(836,116)	13,562
Other receivables, net	(314,878)	881,187
Loans to students, net	361,358	(5,538)
Inventories	(11,151)	(146,669)
Other current assets	265,885	259,251
Accounts payable	846,312	(662,898)
Accrued payroll	1,209,433	(937,106)
Deferred revenues	1,315,487	1,182,141
Other liabilities	181,839	(877,270)
Accrued compensated absences	3,347	(30,593)
Net cash provided by operating activities	<u>\$ 14,272,259</u>	<u>\$ 11,623,585</u>
Reconciliation of Cash and Cash Equivalents to the		
Statements of Net Assets		
Cash and cash equivalents	\$ 80,180,581	\$ 66,326,266
Restricted cash with trustee	3,228,808	3,569,908
Restricted cash and cash equivalents	750,000	750,000
Total cash and cash equivalents	<u>\$ 84,159,389</u>	<u>\$ 70,646,174</u>
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchase	\$ —	\$ 621
Capital assets financed by state capital contribution	5,630	172,104
Construction in progress financed by state COP	—	480,119
Loss on disposal of assets	12,389	7,517
2011A Bond issue costs prepaid June /reimbursed July 2011	—	158,243

See Notes to the Financial Statements

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **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, Incorporated (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 Fee-for-Service contracts with the state.

#### **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.

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

#### **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 Board of 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, 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.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Restatement**

The fiscal year 2011 Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, Statement of Cash Flows and associated notes to the financial statements have been restated to reflect the July 1, 2011, University purchase and dissolution of the University of Northern Colorado Foundation Student Housing LLC I in accordance with the Governmental Accounting Standards Board Statement No. 62 paragraphs 71 and 86. This had the effect of reducing the University's previously reported net assets by \$4,000,053.

### **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 Foundation reports under Financial Accounting Standards Board (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 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, 2012 and 2011, 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.

### **Restricted Cash and Cash Equivalents with Trustee**

Cash is reported as held in trust when a third party retains the money in a fiduciary capacity, whether as a trustee, agent, escrow agent, or otherwise, for a short period of time.

### **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 endowments for the University in accordance with its investment policy.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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.

### 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 \$2,251,803 and \$2,200,077 at June 30, 2012 and 2011, 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 is presented in the following table:

<b>University Interest Capitalized and Expensed</b>	2012	2011
Total interest expense incurred on borrowings for projects	\$ -	\$ -
Interest expense capitalized related to self-funded projects	47,565	48,018
Interest expense capitalized related to state certificates of participation	-	480,119
Interest income from investment of bond proceeds for projects	-	-
Net interest cost capitalized	<u>\$ 47,565</u>	<u>\$ 528,137</u>
Interest capitalized	\$ 47,565	\$ 528,137
Interest charged to expense	<u>6,281,196</u>	<u>6,529,926</u>
Total Interest Incurred	<u>\$ 6,328,761</u>	<u>\$ 7,058,063</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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 life of the asset, 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.

### **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 on a fifty percent split between two fiscal years. 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 Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements and Management's Discussion and Analysis*, such as state appropriations and investment income.

Pell grants of \$12,990,167 and \$13,285,570 at June 30, 2012 and 2011, respectively, are recorded as nonoperating revenue as defined by the 2007 amendment of the *GASB Comprehensive Implementation Guide* regarding nonoperating presentation of Pell grants (Question 7.72.10).

### **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 of the Internal Revenue Code and a similar provision of



# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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, 2012 or 2011.

### **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.

### **Compensated Absences Accrued Liability**

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 absences 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 behalf of the students. 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 scholarship allowances. The scholarship allowances on tuition and fees and housing were approximately \$20.7 million and \$21.0 million for the years ended June 30, 2012 and 2011, respectively.

### **Bad Debt Allowance**

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

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Note 2: Cash and Cash Equivalents

#### Unrestricted Cash and Cash Equivalents

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.

Unrestricted Cash and Cash Equivalents	2012	2011
Cash on hand	\$ 48,095	\$ 39,397
Cash with U.S. financial institutions	851,819	545,599
Cash with Colorado State Treasurer	78,193,013	64,748,474
Unrealized gain (loss) – cash with State Treasurer	<u>1,087,654</u>	<u>992,796</u>
Total unrestricted cash and cash equivalents	\$ <u>80,180,581</u>	\$ <u>66,326,266</u>

The University deposits its unrestricted cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury 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 Treasury are invested until the cash is needed. As of June 30, 2012, the University had cash on deposit with the State Treasurer of \$78.2 million, which represented approximately 1.2 percent of the total \$6,541.7 million fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal yearend. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state'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 state's name. As of June 30, 2012, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

#### Restricted Cash and Cash Equivalents

The University holds restricted cash of \$750,000 at June 30, 2012 and 2011 with the State Treasurer to meet required bond covenants related to the auxiliary revenue refunding and improvement bonds.

#### 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

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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, 2012 and 2011, 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. The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2011-12. Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2012.

### Restricted Cash and Cash Equivalents with Trustee

At June 30, 2012 the University holds \$3,228,808 of current restricted cash with a trustee, Sovereign Bank. These funds are in a short term escrow account to pay for capital equipment that is being financed through them. The funds held in trust at Sovereign Bank on June 30, 2012 are uninsured and uncollateralized. There is a corresponding note payable (Note 7) and subsequent event (Note 19) associated with these funds.

As a requirement of the former UNC Foundation Student Housing LLC bond agreement, bond escrow accounts on June 30, 2011 were \$3,569,908. These accounts were held by a trustee and consisted of commercial paper and money market funds which were carried at market value or amortized cost, which approximates market value. On June 30, 2011 all funds were classified as current since they were used to refinance the Colorado Educational and Cultural Facilities Authority Student Housing Revenue Series 2001A Bonds on July 1, 2011. These funds were collateralized with the underlying investments.

### Note 3: Investments

The University's investments on June 30, 2012 are certain endowments held at the Foundation and are restricted by the donors. These investments are subject to Colorado Revised Statutes Title 15, Article 1, Part 11 "Uniform Prudent Management of Institutional Funds" or UPMIFA.

Fair value of investments held at June 30, 2012 and 2011 are detailed in the following table:

Investment Types	2012	2011	Maturity
Fixed Income U.S. Government Obligations	\$ 579,370	\$ 505,314	1-5 years
Fixed Income U.S. Government Obligations	76,869	153,737	Less than 1 year
Money Market Funds	<u>13,109</u>	<u>20,656</u>	Less than 1 year
Total University Restricted Investments	<u>\$ 669,348</u>	<u>\$ 679,707</u>	

### 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.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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The balances of the University's investments are endowment funds managed by the Foundation according to the custodial agreement between the University and the Foundation approved on 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.

### **Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in the market rate of interest 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 method uses 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.

### **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 have a Moody's rating of Aaa or better and a Standard & Poor's rating of AA+ or better. Credit quality risk is not available for the Foundation.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

Maturities and credit ratings for the University's investments held at June 30, 2012 and 2011 are detailed below:

2012				
Maturities and Credit Ratings by Investment Type	Fair Value	Duration to Maturity	Weighted- Average Maturity	S & P Credit Rating
The University:				
U.S. Government Obligations	\$ 656,239	2.72 years	2.91 years	AA+
Money Market Funds	<u>13,109</u>	N/A	N/A	N/A
Total Investments at June 30	\$ <u>669,348</u>			

2011				
Maturities and Credit Ratings by Investment Type	Fair Value	Duration to Maturity	Weighted- Average Maturity	S & P Credit Rating
The University:				
U.S. Government Obligations	\$ 659,051	2.4 years	2.6 years	AAA
Money Market Funds	<u>20,656</u>	N/A	N/A	N/A
Total Investments at June 30	\$ <u>679,707</u>			

The UNC Foundation's investments held at June 30, 2012 and 2011 are detailed below:

Investment Types	2012	2011
The Foundation:		
Cash and cash equivalents	\$ 1,665,592	\$ 2,375,670
Equities	35,039,921	38,563,820
Fixed income	29,184,079	31,387,429
Alternative investments	8,389,762	8,324,959
Other	<u>16,191,355</u>	<u>15,229,867</u>
Total Foundation Investments	\$ <u>90,470,709</u>	\$ <u>95,881,745</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Note 4: Accounts, Contributions and Loans Receivable

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

	2012	2011
Student accounts receivable – current	\$ 11,679,004	\$ 9,907,597
Allowance for doubtful accounts	(5,301,770)	(4,249,940)
Subtotal student accounts receivable – net	<u>6,377,234</u>	<u>5,657,657</u>
Student loans receivable – current	1,807,972	1,679,997
Allowance for doubtful accounts	(1,396,734)	(1,253,241)
Subtotal current student loans receivable – net	<u>411,238</u>	<u>426,756</u>
Student loans receivable – noncurrent	7,627,407	8,179,057
Allowance for doubtful accounts	(855,069)	(946,836)
Subtotal noncurrent student loans receivable – net	<u>6,772,338</u>	<u>7,232,221</u>
Other receivables – current		
Sponsored programs – federal grants receivable	996,266	764,201
Sponsored programs – nonfederal grants receivable	40,238	28,965
Student loans program – federal loans receivable	167,172	167,172
Accounts receivable related party – the Foundation	1,235,396	1,184,796
Other accounts receivable	<u>403,535</u>	<u>401,130</u>
Subtotal other receivables – current	<u>2,842,607</u>	<u>2,546,264</u>
Total University accounts, loans & other receivables	<u>\$ 16,403,417</u>	<u>\$ 15,862,898</u>

#### Related Party Receivable

Gifts and grants receivable from the Foundation to the University were approximately \$1,235,396 and \$1,184,796 at June 30, 2012 and 2011, respectively.

#### Foundation Contributions and Pledges Receivable

Foundation gifts of cash and other assets received without donor stipulations are reported as unrestricted contributions. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted contributions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows discounted by using a risk-free interest rate. An allowance for uncollectible contributions is established by Foundation management based on management's analysis of specific pledge receivables.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Note 5: Other Assets

Inventories and other current and noncurrent assets are shown in the accompanying Statement of Net Assets at June 30 and are detailed below:

	2012	2011
The University		
Inventories for supply use	\$ 938,031	\$ 888,242
Inventories for resale	<u>249,620</u>	<u>288,259</u>
Total inventories	<u>\$ 1,187,651</u>	<u>\$ 1,176,501</u>
Prepaid expenses	\$ 341,384	\$ 665,512
Current portion bond issuance costs	<u>71,649</u>	<u>78,026</u>
Total other current assets	<u>\$ 413,033</u>	<u>\$ 743,538</u>
Athletics conference surety deposit	\$ 100,000	\$ 200,000
Noncurrent portion bond issuance costs	<u>1,492,978</u>	<u>2,743,416</u>
Total other noncurrent assets	<u>\$ 1,592,978</u>	<u>\$ 2,943,916</u>
The Foundation		
Prepaid expenses and other current assets	<u>\$ 109,437</u>	<u>\$ 100,568</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Note 6: Capital Assets

The following is a summary of University capital asset activity for the year ended June 30, 2012:

Capital Assets and Accumulated Depreciation	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Capital assets</b>					
Land	\$ 10,270,198	\$ —	\$ —	\$ —	\$ 10,270,198
Land improvements	20,545,438	—	—	31,835	20,577,273
Non-depreciable land improvements	4,264,026	—	—	—	4,264,026
Buildings and improvements	365,465,640	2,375,392	—	4,110,491	371,951,523
Equipment and vehicles	15,183,499	1,405,595	(358,778)	—	16,230,316
Software	2,840,604	149,921	—	—	2,990,525
Library materials	40,722,586	1,325,337	(1,008,039)	—	41,039,884
Non-depreciable art/historical	1,550,345	—	—	—	1,550,345
Leasehold improvements	1,059,732	—	—	—	1,059,732
Construction in progress	4,470,547	1,619,807	—	(4,142,326)	1,948,028
Total capital assets	<u>466,372,615</u>	<u>6,876,052</u>	<u>(1,366,817)</u>	<u>—</u>	<u>471,881,850</u>
<b>Less accumulated depreciation</b>					
Land improvements	8,932,771	848,243	—	—	9,781,014
Buildings and improvements	147,066,163	11,959,225	—	—	159,025,388
Equipment and vehicles	9,855,326	1,395,450	(341,389)	—	10,909,387
Software	2,643,375	144,567	—	—	2,787,942
Library materials	32,533,984	1,637,750	(1,008,039)	—	33,163,695
Leasehold improvements	616,513	56,433	—	—	672,946
Total accumulated depreciation	<u>201,648,132</u>	<u>16,041,668</u>	<u>(1,349,428)</u>	<u>—</u>	<u>216,340,372</u>
<b>Net capital assets</b>	<u>\$ 264,724,483</u>	<u>\$ (9,165,616)</u>	<u>\$ (17,389)</u>	<u>\$ —</u>	<u>\$ 255,541,478</u>

The following is a summary of University capital asset activity for the year ended June 30, 2011:

Capital Assets and Accumulated Depreciation	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
<b>Capital assets</b>					
Land	\$ 10,270,198	\$ —	\$ —	\$ —	\$ 10,270,198
Land improvements	20,463,228	76,270	—	5,940	20,545,438
Non-depreciable land improvements	4,264,026	—	—	—	4,264,026
Buildings and improvements	342,256,615	3,389,849	—	19,819,176	365,465,640
Equipment and vehicles	14,863,268	1,000,576	(680,345)	—	15,183,499
Software	2,845,639	—	(5,035)	—	2,840,604
Library materials	39,690,318	1,281,827	(249,559)	—	40,722,586
Non-depreciable art/historical	1,550,345	—	—	—	1,550,345
Leasehold improvements	1,059,732	—	—	—	1,059,732
Construction in progress	21,501,130	2,794,533	—	(19,825,116)	4,470,547
Total capital assets	<u>458,764,499</u>	<u>8,543,055</u>	<u>(934,939)</u>	<u>—</u>	<u>466,372,615</u>
<b>Less accumulated depreciation</b>					
Land improvements	8,087,379	845,392	—	—	8,932,771
Buildings and improvements	135,686,107	11,380,056	—	—	147,066,163
Equipment and vehicles	9,049,016	1,479,137	(672,827)	—	9,855,326
Software	2,501,313	147,098	(5,036)	—	2,643,375
Library materials	31,126,027	1,657,516	(249,559)	—	32,533,984
Leasehold improvements	560,080	56,433	—	—	616,513
Total accumulated depreciation	<u>187,009,922</u>	<u>15,565,632</u>	<u>(927,422)</u>	<u>—</u>	<u>201,648,132</u>
<b>Net capital assets</b>	<u>\$ 271,754,577</u>	<u>\$ (7,022,577)</u>	<u>\$ (7,517)</u>	<u>\$ —</u>	<u>\$ 264,724,483</u>



# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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The following is a summary of Foundation capital assets activity at June 30:

	2012	2011
The Foundation		
Capital assets		
Buildings and improvements	\$ 1,228,500	\$ 1,137,742
Equipment and vehicles	<u>219,739</u>	<u>209,748</u>
Total capital assets	<u>1,448,239</u>	<u>1,347,490</u>
Less accumulated depreciation	<u>(376,648)</u>	<u>(351,687)</u>
Net capital assets	<u>\$ 1,071,591</u>	<u>\$ 995,803</u>

**UNIVERSITY OF NORTHERN COLORADO**

**NOTES TO FINANCIAL STATEMENTS**

**Note 7: Liabilities**

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

The University	2012	2011
Accounts payable and accrued liabilities		
Accounts payable	\$ 2,219,104	\$ 1,986,518
Accrued salaries and benefits	11,868,977	10,659,544
Accrued interest expense	490,806	567,873
Other accrued liabilities	<u>160,763</u>	<u>129,808</u>
Total accounts payable and accrued liabilities	<u>14,739,650</u>	<u>13,343,743</u>
Current deferred revenue		
Unearned revenue – summer tuition and other activities	7,192,698	5,808,052
Unearned revenue – restricted grants and contracts	84,744	140,574
Unearned revenue – Foundation contract	520,923	461,967
Current portion unearned auxiliary and housing	50,000	122,285
Current portion unearned broadband lease	<u>8,000</u>	<u>8,000</u>
Total current deferred revenue	<u>7,856,365</u>	<u>6,540,878</u>
Other current liabilities		
Deposits held	737,063	740,624
Current insurance liability	56,654	21,253
Deposits held in custody for agency funds	659,232	587,324
Current portion of compensated absences liability	<u>393,534</u>	<u>404,581</u>
Subtotal other current liabilities	<u>1,846,483</u>	<u>1,753,782</u>
Other noncurrent liabilities		
Long-term deposit liabilities held	30,000	30,000
Long-term unearned revenue broadband lease	12,000	20,000
Long-term unearned revenue auxiliary and housing	150,000	-
Noncurrent compensated absences liability	<u>3,791,161</u>	<u>3,776,765</u>
Subtotal other noncurrent long-term liabilities	<u>3,983,161</u>	<u>3,826,765</u>
Bonds, capital leases and notes payable		
Current notes payable	3,185,910	-
Current bonds and capital leases	3,960,548	3,813,065
Noncurrent bonds, capital leases	<u>146,793,560</u>	<u>155,328,659</u>
Total bonds, capital leases and notes payable	<u>153,940,018</u>	<u>159,141,724</u>
Total liabilities – the University	<u>\$ 182,365,677</u>	<u>\$ 184,606,892</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### The Foundation - Liabilities and Deferred Revenues

The following is a summary of Foundation liabilities at June 30:

	2012	2011
The Foundation		
Accounts payable and accrued liabilities	\$ 1,282,436	\$ 1,294,302
Deferred revenue	-	16,667
Funds held for the University	674,576	685,955
Long-term debt		
Annuity obligations	<u>169,504</u>	<u>186,201</u>
Total liabilities – the Foundation	<u>\$ 2,126,516</u>	<u>\$ 2,183,125</u>

### Charitable Gift Annuity Obligations

The Foundation has entered into several charitable gift annuity contracts. These contracts require the Foundation to make fixed payments to the beneficiaries over their lifetimes. Under a charitable gift annuity contract, the assets received by the Foundation are not held in trust separately from other investments of the Foundation. On the date each charitable gift annuity was established, the Foundation recorded a contribution equal to the difference between the amount transferred from the donor and the present value of the future cash flows expected to be paid to the specified beneficiaries, using a discount rate equal to the then current Applicable Federal Rate. At the end of these contracts, the majority of these assets are to be endowed and are included in permanently restricted net assets as follows at June 30, 2012:

Assets held under gift annuity contracts	\$ 279,775
Less associated liabilities	<u>(169,504)</u>
Present value of assets held under contract	<u>\$ 110,271</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Note 8: Bonds, Capital Leases and Notes Payable

#### Bonds, Capital Leases and Notes Payable

The following table provides a summary of Bonds, Capital Leases and Notes Payable liabilities for the years ended June 30:

Bonds, Capital Leases and Notes Payable Summary	Interest Rates	Final Maturity	Balance 2012	Balance 2011
Fixed Rate - Auxiliary Revenue Bonds	2.00% - 5.375%	2040	\$ 128,913,900	\$156,722,393
Variable Rate - Institutional Enterprise Revenue Bonds (2011B)	0.868%	2036	19,880,908	-
Capital Leases Payable	1.43% -11.50%	2017	1,959,300	2,419,331
Note Payable	1.49%	2012	<u>3,185,910</u>	-
Total Bonds, Capital Leases and Notes Payable			<u>\$ 153,940,018</u>	<u>\$ 159,141,724</u>

The interest rate on the Series 2011B variable rate demand bonds is calculated monthly based on 70% of the one month London Interbank Offered Rate (LIBOR) that is published two business days prior to the reset date plus a spread factor of 0.70. The interest rate on the Series 2001B as of June 30, 2012 was 0.868%. The 2011B bond issue documents utilize a projected annual interest rate of 3.5%.

#### Changes in Bonds, Capital Leases and Notes Payable

The tables below presents the summary of changes in bonds, notes and capital leases payable for the years ended June 30, 2012 and 2011.

Changes in Bonds, Capital Leases and Notes Payable	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds payable	\$ 154,765,000	\$64,650,000	\$73,855,000	\$145,560,000	\$3,520,000
Plus unamortized premiums	3,601,950	3,011,186	292,918	6,320,218	-
Less unamortized discounts	487,027	-	487,027	-	-
Less unamortized deferred amount	1,157,530	3,099,166	1,171,286	3,085,410	-
Total revenue bonds payable	<u>156,722,393</u>	<u>64,562,020</u>	<u>72,489,605</u>	<u>148,794,808</u>	<u>3,520,000</u>
Capital leases payable	2,419,331	2,156,259	2,616,290	1,959,300	440,548
Notes payable	-	<u>3,185,910</u>	-	<u>3,185,910</u>	<u>3,185,910</u>
Total bonds, capital leases and notes	<u>\$ 159,141,724</u>	<u>\$ 69,904,189</u>	<u>\$ 75,105,895</u>	<u>\$153,940,018</u>	<u>\$7,146,458</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

2011					
Changes in Bonds, Capital Leases and Notes Payable	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds payable	\$ 157,835,000	\$ -	\$ 3,070,000	\$ 154,765,000	\$ 3,225,000
Plus unamortized premiums	3,736,659	-	134,709	3,601,950	-
Less unamortized discounts	508,822	-	21,795	487,027	-
Less unamortized deferred loss	1,246,571	-	89,041	1,157,530	-
Total revenue bonds payable	159,816,266	-	3,093,873	156,722,393	3,225,000
Capital leases payable	3,251,902	-	832,571	2,419,331	588,065
Notes payable	-	-	-	-	-
Total bonds, capital leases and notes	<u>\$ 163,068,168</u>	<u>\$ -</u>	<u>\$ 3,926,444</u>	<u>\$ 159,141,724</u>	<u>\$ 3,813,065</u>

### Revenue and Refunding Bonds

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2012 and 2011 is detailed in the table "Revenue Bond Detail". The University's fixed rate revenue bonds are payable semi-annually (Series 2005, 2008, 2011A). The University's variable rate demand bonds are payable annually (Series 2011B). The bonds are not secured by any encumbrance mortgage, or other pledge of property, except pledged revenues.

Bond provisions require the University to maintain compliance with certain rate covenants related to the bonds. The master enterprise bond resolution authorizing the issuance of institutional enterprise revenue bonds, and adopted by the University's Board of Trustees, specifies debt service coverage requirements. The debt service coverage provisions require net pledged revenues to be equal to the combined principal and interest payments of the revenue bonds due during any subsequent fiscal year for the life of the associated revenue bonds. These debt service requirements are detailed in the table "Revenue Bonds Future Minimum Payments."

The master enterprise bond resolution also includes a covenant which provides that during the period in which the bonds are outstanding and subject to applicable law, the University will continue to impose such fees and charges as are included within the gross revenues, and will continue the present operation and use of the University's facilities. The University will continue to maintain reasonable fees, rental rates, and other charges for the use of all facilities and for services rendered by the University as will return annually gross revenues sufficient to pay all amounts required with respect to prior bond obligations; to pay operation and maintenance expenses; to pay the annual debt service requirements of the bonds and any parity obligations payable from net revenues. The University believes it is in compliance with all existing pledged revenue requirement of its outstanding bonds.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

The 2005 and 2008 Bonds payable are secured by a first lien, but not necessarily an exclusive first lien, derived from 10 percent of gross general fund tuition revenues, net student fee revenues, and net auxiliary facility system revenues. The 2011A and 2011B bonds are also secured by a pledge of the revenues derived from net extended studies revenues and gross facility and administrative indirect cost recoveries. The University has pledged these revenues through 2040 to repay \$145,560,000 in auxiliary revenue bonds. As of June 30, 2012 and 2011, total pledged revenue, and the associated debt service coverage are summarized in the table below:

<b>Net Pledged Revenue Available for Revenue Bond Debt Service</b>	<b>2012</b>	<b>2011</b>
Gross auxiliary facility and student fee revenues	\$ 48,253,058	\$ 43,199,818
Less auxiliary facility and student fee operating expenses	<u>29,984,891</u>	<u>27,145,167</u>
Net auxiliary and student fee facility revenue	18,268,167	16,054,651
Other pledged tuition and revenue		
10% of tuition revenue	7,641,255	7,788,026
Indirect cost recoveries	752,411	-
Extended campus net revenue	<u>4,345,651</u>	<u>-</u>
Subtotal other pledged tuition and revenue	<u>12,739,317</u>	<u>7,788,026</u>
<b>Total Net Pledged Revenue</b>	<b>\$ <u>31,007,484</u></b>	<b>\$ <u>23,842,677</u></b>
Net prior bonds debt service (2001, 2005, 2008 bonds)	5,742,631	9,296,441
2011A and B bond debt service	<u>3,764,822</u>	<u>-</u>
<b>Total Net Debt Service</b>	<b>\$ <u>9,507,453</u></b>	<b>\$ <u>9,296,441</u></b>
Prior debt service coverage (2001, 2005, 2008 bonds)	4.51 x	2.56 x
2011A and B bond debt service coverage	6.71 x	
Total net debt service as a percentage of gross auxiliary facilities and student fee revenues	19.7%	21.5%
Total net debt service as a percentage of total net pledged revenues	30.7%	39.0%

### Refunding Revenue Bond Activity

On July 1, 2011, the University issued at par \$41,690,000 Series 2011A Auxiliary Facilities System Revenue Refunding Bonds for the purpose of currently refunding \$46,040,000 of then outstanding Series 2001 Auxiliary Revenue Refunding and Improvement bonds. The Series 2011A bonds bear fixed interest rates of 2.00% to 5.00%, payable semiannually. Principal maturities began June 1, 2012 and continue through June 1, 2031. The current refunding resulted in a decrease in payments to service the new debt versus the old debt of \$9,319,293, an economic gain of \$4,539,354, and a deferred loss of \$1,795,767. The deferred loss is being amortized as an adjustment to interest expense over the remaining life of the new debt.

On July 1, 2011, the University issued at par \$21,130,000 Series 2011B Variable Rate Demand Institutional Enterprise Revenue Refunding Bonds for the purpose of currently refunding \$22,975,000 of then outstanding Series 2001A Colorado Educational and Cultural Facilities Authority, Student Housing LLC I, Revenue Bonds (Arlington Park). Principal maturities will begin June 1, 2013 and continue through June 1, 2036. The current refunding resulted in a decrease in payments to service the new debt versus the old debt of \$8,848,340, an economic gain of \$3,954,295, and a deferred loss of \$1,303,399. The deferred loss is being amortized as an adjustment to interest expense over the remaining life of the new debt.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Revenue Bond Detail

<b>June 30</b>	Original Issuance	Outstanding Balance 2012	Outstanding Balance 2011
<b><u>Fixed Rate Revenue Bonds</u></b>			
<b>Series 2001</b>			
3.0%-5.5%, 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. These bonds were refunded on July 1, 2011.	\$50,000,000	\$ -	\$46,040,000
<b>Series 2001A</b>			
3.375% to 5.375% Colorado Educational and Cultural Facilities Authority, Student Housing Revenue Bonds (Arlington Park LLC Student Housing Facility Bonds), Series LLC 2001A. Issued August 15, 2001 in the original amount of \$24,145,000 and maturing in varying amounts through July 1, 2037. These bonds were current refunded with a redemption date of August 1, 2011 by the Series 2011B Variable rate demand institutional enterprise revenue bonds issued July 1, 2011.	24,145,000	-	22,975,000
<b>Series 2005</b>			
3.25%-5.00%, 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.	85,000,000	78,310,000	79,620,000
<b>Series 2008</b>			
3.25%-5.00%, Auxiliary Revenue Refunding bonds, issued May 22, 2008, in the original amount of \$9,145,000, and maturing in varying amounts through June 1, 2024.	9,145,000	5,815,000	6,130,000
<b>Series 2011A</b>			
2.00%-5.00% Auxiliary Facilities System Revenue Refunding Bonds. Issued July 1, 2011 in the original amount of \$41,690,000 and maturing in varying amounts through June 1, 2031.	41,690,000	40,305,000	-
Total Fixed Rate Revenue Bonds	\$ 209,980,000	\$124,430,000	\$154,765,000
Add unamortized premium		6,320,218	3,601,950
Less unamortized discount		-	487,027
Less deferred amount on refunding		1,836,318	1,157,530
<b>Total Outstanding Fixed Rate Revenue Bonds Payable</b>		<b>\$128,913,900</b>	<b>\$156,722,393</b>
<b><u>Variable Rate Revenue Bonds</u></b>			
<b>Series 2011B</b>			
Variable rate demand institutional enterprise revenue refunding bonds. Issued July 1, 2011 in the original amount of \$21,130,000 and maturing June 1, 2036. These bonds are held by Wells Fargo NA and the demand begins July 1, 2014. These bonds current refund all of the outstanding Colorado Educational and Cultural Facilities Authority, Student Housing (LLC Revenue Bonds (Arlington Park)	\$21,130,000	\$21,130,000	\$ -
Less unamortized discount		-	-
Less deferred amount on refunding		1,249,092	-
<b>Total Outstanding Variable Rate Revenue Bonds</b>		<b>\$19,880,908</b>	<b>\$ -</b>
Total bonds before premium, discount and deferred amounts	\$231,110,000	145,560,000	154,765,000
Add total unamortized premium		6,320,218	3,601,950
Less unamortized discount		-	487,027
Less deferred amount on refunding		3,085,410	1,157,530
<b>Total Outstanding Revenue Bonds Payable</b>		<b>\$148,794,808</b>	<b>\$156,722,393</b>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Debt Service Requirements on Revenue Bonds

The future minimum revenue bonds debt service requirements as of June 30, 2012 are reported in the “Combined Fixed and Variable Rate Bond Debt Service Requirements Table” below:

Fixed Rate Bonds Debt Service Requirements		
Year Ending June 30	Principal	Interest
2013	\$ 2,945,000	\$ 5,889,675
2014	3,020,000	5,805,425
2015	3,240,000	5,672,225
2016	3,345,000	5,570,487
2017	3,495,000	5,424,213
2018-2022	19,915,000	24,667,425
2023-2027	25,130,000	19,455,419
2028-2032	28,135,000	12,712,625
2033-2037	21,785,000	6,550,250
2038-2040	13,420,000	1,364,000
Total	\$ 124,430,000	\$ 93,111,744

Variable Rate Bonds Debt Service Requirements		
Year Ending June 30	Principal	Interest
2013	\$ 575,000	\$ 183,409
2014	595,000	178,417
2015	615,000	173,253
2016	640,000	167,915
2017	660,000	162,359
2018-2022	3,675,000	721,525
2023-2027	4,360,000	550,572
2028-2032	5,180,000	347,634
2033-2037	4,830,000	106,634
2038-2040	-	-
Total	\$ 21,130,000	\$ 2,591,718

The University calculates the interest for the 2011B variable rate bonds using rate of 0.868 percent in effect on June 30, 2012, the financial statement date. The stated interest rate is 3.5 percent.

Combined Fixed and Variable Rate Bond Debt Service Requirements			
Year Ending June 30	Principal	Interest	Total
2013	\$ 3,520,000	\$ 6,073,084	\$ 9,593,084
2014	3,615,000	5,983,842	9,598,842
2015	3,855,000	5,845,478	9,700,478
2016	3,985,000	5,738,402	9,723,402
2017	4,155,000	5,586,572	9,741,572
2018-2022	23,590,000	25,388,950	48,978,950
2023-2027	29,490,000	20,005,991	49,495,991
2028-2032	33,315,000	13,060,259	46,375,259
2033-2037	26,615,000	6,656,884	33,271,884
2038-2040	13,420,000	1,364,000	14,784,000
Total	\$ 145,560,000	\$ 95,703,462	\$ 241,263,462



# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Capital Lease Obligations

Assets under capital leases at June 30, 2012 and 2011 include equipment totaling \$8,424,956 for both years. 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, 2012, are detailed below:

### Capital Lease Minimum Payments

<b>Fiscal Years Ending June 30,</b>	<b>Lease Payments</b>
2013	\$ 475,274
2014	469,998
2015	465,861
2016	394,559
2017	243,064
2018-2022	<u>-</u>
Total minimum lease payments	2,048,756
Less amount representing interest	<u>(89,456)</u>
Amount representing principal for future minimum lease payments	<u>\$ 1,959,300</u>

### Note Payable

On May 29, 2012 the University entered into a \$3.2 million agreement to build a generator on the west campus, a short term note payable was recorded and the unspent cash proceeds are held with a trustee. The completion is scheduled for the middle of fiscal year 2013 at which time the debt obligation will be reclassified as a capital lease and financed through 2018.

### Note 9: Operating Leases

The University leases property and equipment under operating leases expiring in various years through 2021. Rental expense under these agreements for the years ended June 30, 2012 and 2011 was \$835,845 and \$826,013, respectively. The University's future minimum lease payments under non-cancelable operating leases as of June 30, 2012, are detailed below:

<b>Fiscal Years Ending June 30,</b>	
2013	\$ 862,266
2014	478,840
2015	397,303
2016	300,332
2017	302,699
2018-2021	<u>762,106</u>
	<u>\$ 3,103,546</u>

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# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Note 10: 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 an actuarial assessment and 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 PO Box 5800, Denver, Colorado, 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting [www.copera.org](http://www.copera.org). Non-higher education 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 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.

Prior to legislation passed during the 2006 session, employees and other state higher education employees may have participated in Social Security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, University employees and other state higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional 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. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than 5 years of service credit as of January 1, 2011 age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as 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 and limited to a 15 percent increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are 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, beneficiaries, or the member's estate may be entitled to a survivor's benefit.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### 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 percent (10.0 percent for State troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2011 Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5 percent.

- From July 1, 2011, to December 31, 2011, the University contributed 12.25 percent (14.95 percent for state troopers and 14.86 percent for the Judicial Branch) of the employee's salary.
- From January 1, 2012, through June 30, 2012, the University contributed 13.15 percent (15.85 percent for state troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2011-12, 1.02% of the employee's 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, 2011, the division of PERA in which the state participates has a funded ratio of 57.7 percent and a 56 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly lower at 57.6 percent.

In the 2004 and 2010 legislative sessions, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, 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, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase employee's salaries.

At a 103 percent funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90 percent funded both the AED and SAED will be increased by one-half percentage point. For the Judicial Division, if the funding ratio reaches 90 percent and subsequently declines, the AED and SAED will be increased by one-half percentage point.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The University's contributions to PERA and/or the defined contribution plan for the fiscal years ending June 30, 2012, 2011, and 2010 were \$4,402,762, \$4,233,731, and \$5,447,110, respectively. These contributions met the contribution requirement for each year.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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The GASB issued Statement No. 68 Accounting and Financial Reporting for Pensions (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The University provides certain employees with pension benefits through the State's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the University, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the University's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in their Comprehensive Annual Financial Report.

### **Note 11: Other PERA Retirement Plans**

#### **Defined Contribution Plan**

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. For Fiscal Years 2009-10 and 2010-11 the legislature temporarily increased the required contribution rate to 10.5 percent (12.5 percent for state troopers). At December 31, 2011, the plan had 4,029 participants.

#### **Deferred Compensation Plan**

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution with a temporarily increase to 10.5 percent for fiscal years 2010-11 and 2011-12) to a maximum of \$16,500. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2010, for total contributions of \$22,000. Contributions and earnings are tax deferred. At December 31, 2011, the plan had 17,821 participants.

#### **Voluntary Tax-Deferred Retirement Plans**

PERA also offers a voluntary 401k 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 offered 403(b) or 401(a) plans.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Note 12: University Retirement Plans**

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: Citistreet, TIAA-CREF, and VALIC. These vendors provide a range of investment accounts for participants. For fiscal years 2012 and 2011, the employee contributed 8 percent and the University contributed 11.5 percent. The University's contribution to the ORP for the years ending June 30, 2012 and 2011 was \$4,974,845 and \$4,909,503, respectively. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is 65. 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 a contribution of \$46,000 for fiscal years 2012 and 2011. The contribution to be paid in fiscal year 2013 is expected to be \$54,500.

### **Note 13: Post-Retirement Healthcare and Life Insurance Benefits**

#### **Health Care Plan**

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. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting [www.copera.org](http://www.copera.org).

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. 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 percent for each year less than 20 years.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 10 – Funding Policy. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The University contributed \$354,062, \$366,326, and \$414,816 as required by statute in fiscal years 2011-12, 2010-11, and 2009-10, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5 percent, and a 49-year amortization period.

### **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. CHEIBA Trust members include: Adams State University, Auraria Higher Education Center, Colorado School of Mines, Colorado State University – Pueblo, Colorado State University System and Colorado State University - Global Campus, Fort Lewis College, Metropolitan State University of Denver, University of Northern Colorado, and Western State Colorado University.

As of June 30, 2012 there were 21 participants utilizing post-retirement coverage from the trust membership, of which 8 are from the University.

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 services department at 970-351-2718. Contributions are recognized in the period due. 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 year's notice to the CHEIBA board.

**UNIVERSITY OF NORTHERN COLORADO**

**NOTES TO FINANCIAL STATEMENTS**

**Note 14: Operating Expenses by Function Compared with Operating Expenses by Natural Classification**

For the Year Ended June 30, 2012

	Wages and Benefits	Cost of Sales	Other Current Expenses	Scholarship / Financial Aid	Utilities	Travel	Depreciation	Total
Instruction	\$ 60,589,858	\$ 1 26,617	\$ 5,696,734	\$ -	\$ -	\$ 1,204,695	\$ -	\$ 67,617,904
Research	1,366,598	658	625,631	-	-	497,452	-	2,490,339
Public Service	1,102,149	401,774	577,352	-	-	36,163	-	2,117,438
Academic Support	12,458,062	93,797	5,857,057	-	-	199,419	-	18,608,335
Student Services	13,862,288	190,473	5,775,248	-	276,024	1,933,762	-	22,037,795
Institutional Support	5,615,578	202,943	3,307,645	-	646	106,028	-	9,232,840
Operation of Plant	5,387,884	-	1,017,176	-	2,880,756	692	-	9,286,508
Scholarships & Fellowships	-	-	-	12,300,264	-	-	-	12,300,264
Auxiliary	14,322,118	4,450,790	5,074,756	-	2,679,746	19,384	-	26,546,794
Depreciation	-	-	-	-	-	-	16,041,668	16,041,668
Total Expenses	\$114,704,535	\$ 5,467,052	\$ 27,931,599	\$ 12,300,264	\$ 5,837,172	\$ 3,997,595	\$16,041,668	\$186,279,885

For the Year Ended June 30, 2011

	Wages and Benefits	Cost of Sales	Other Current Expenses	Scholarship / Financial Aid	Utilities	Travel	Depreciation	Total
Instruction	\$ 58,156,115	\$ 7,722	\$ 5,321,076	\$ -	\$ 360	\$ 1,057,365	\$ -	\$ 64,542,638
Research	1,539,041	540	1,074,333	-	-	385,645	-	2,999,559
Public Service	1,103,766	204,367	658,496	-	238	50,508	-	2,017,375
Academic Support	13,003,243	56,466	6,165,376	-	-	157,219	-	19,382,304
Student Services	13,689,646	297,137	5,491,663	-	276,101	1,832,489	-	21,587,036
Institutional Support	5,532,579	253,837	3,134,828	-	-	87,275	-	9,008,519
Operation of Plant	5,180,966	-	516,240	-	2,812,976	3,951	-	8,514,133
Scholarships & Fellowships	-	-	-	11,719,891	-	-	-	11,719,891
Auxiliary	14,689,560	4,085,706	5,053,609	-	2,638,716	32,701	-	26,500,292
Depreciation	-	-	-	-	-	-	16,085,532	16,085,532
Total Expenses	\$112,894,916	\$ 4,905,775	\$ 27,415,621	\$ 11,719,891	\$5,728,391	\$ 3,607,153	\$16,085,532	\$182,357,279



# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Summary of Wages and Benefits

	2012		2011	
<b>Wages and Benefits</b>				
Faculty	\$ 37,362,634	32.6%	\$ 36,312,002	32.2%
Administrative	21,368,197	18.5%	22,105,953	19.6%
Graduate and Teaching Assistants	8,798,099	7.7%	7,698,225	6.8%
Classified	18,649,236	16.3%	19,360,707	17.1%
Student	6,062,553	5.3%	5,975,600	5.3%
Other	1,448,886	1.3%	1,229,029	1.1%
Fringe Benefits	21,014,930	18.3%	20,213,400	17.9%
<b>Total Wages and Benefits</b>	<u>\$ 114,704,535</u>	<u>100.0%</u>	<u>\$ 112,894,916</u>	<u>100.0%</u>

### Note 15: Legislative Appropriations

#### Appropriated Funds

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill. The Long Bill appropriated funds include an amount from the State of Colorado's College Opportunity Fund. In prior years, the annual appropriations bill included certain cash revenues from the student share of tuition and fees.

For the years ended June 30, 2012 and 2011, appropriated expenditures were within the authorized spending authority. For the years ended June 30, 2012 and 2011, the University had a total appropriation of \$32,806,606 and \$114,785,455, respectively.

For years ended June 30, 2012 and 2011, the University's appropriated funds consisted of \$15,004,620 and \$15,033,165, respectively, received from students who qualified for stipends from the College Opportunity Fund and \$18,116,714 and \$23,809,625, respectively, as Fee-for-Service contract revenue. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

#### Capital Construction State Appropriations

Capital construction state appropriations are recognized only to the extent of current expenditures of \$41,457. At June 30, 2012, there were unexpended capital construction state appropriations of \$0. State appropriations for capital construction include University cash funded projects and controlled maintenance.

#### *University Cash Funded Appropriated Projects*

During the 2009 regular session of the Colorado General Assembly, Senate Bill 09-290 was passed. This bill changed the statutes that affected higher education capital construction. It provided greater flexibility and changed the way higher education capital construction is approved and recorded for state budgeting. During the transition in implementing this bill, it was determined that projects previously appropriated under the prior statutory rules would continue to follow those rules and would continue to be recorded on the state's budget as appropriated cash projects. At June 30, 2012 the University has current expenses of \$35,827 and unexpended appropriations of \$0 for the Butler-Hancock interior renovation.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### *Controlled Maintenance*

The University makes approved expenditures for various controlled maintenance projects. At June 30, 2011, the University has current expenses of \$5,630 and unexpended appropriations of \$0 to reroof several buildings.

## **Note 16: Commitments and Contingencies**

### **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.

### **Collateral for State Treasury Certificates of Participation**

On November 6, 2008, the state treasurer entered into a lease purchase agreement under which a trustee issued \$230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008. The University's Butler-Hancock interior renovation project was funded with \$11,591,235 from the lease purchase agreement as a state appropriation and Parsons Hall was provided as collateral.

## **Note 17: 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 Philadelphia for \$3,000,000 with no deductible
- Professional liability covered by Philadelphia for \$3,000,000 with a \$25,000 deductible
- Automobile liability covered by Philadelphia for \$1,000,000 with no deductible
- Errors and omissions covered by RSUI Group, Inc. for \$3,000,000 with a \$25,000 deductible
- Employment practices liability covered by RSUI Group, Inc. for \$3,000,000 with a \$25,000 deductible
- Workers compensation covered by Pinnacol Assurance for \$500,000/\$500,000/\$500,000 with a \$1,000 deductible
- Umbrella liability covered by Philadelphia for \$2,000,000 with a self-insured retention of \$10,000
- Fidelity (employee dishonesty) covered by Philadelphia for \$1,000,000 with a \$5,000 deductible
- Other property covered by Midwestern Higher Education Compact for \$500,000,000 with a \$25,000 deductible

The University became fully insured through several insurance companies in 2006 and is covered by insurance for everything above its reserve and deductible. The coverage in fiscal year 2012 is consistent with previous years and there have 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, 2012 and 2011 was \$56,653 and \$21,253, respectively.

**UNIVERSITY OF NORTHERN COLORADO**

**NOTES TO FINANCIAL STATEMENTS**

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**Note 18: Other Disclosures**

**Multi-Year Employment Contracts**

During fiscal year 2012, the University maintained four multi-year employment contracts for coaches. The intent of the multi-year terms (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.

**Note 19: Subsequent Events**

On July 30, 2012 the University entered into a \$1.9 million agreement to purchase information technology networking equipment that will be financed through 2017. On September 19, 2012 the amount on the agreement to purchase technology networking equipment was amended to \$1.79 million.

During the fiscal year 2013 the University will complete the addition of a \$3.2 million generator, and will convert a short term note payable (Note 8) to a capital lease.

Assets under capital leases will increase from \$8.4 million to \$13.4 million and the University debt service payments, including interest, required for these capital leases payable are presented below:

<b>Fiscal Years Ending June 30,</b>	<b>Lease Payments</b>
2013	\$ 1,379,292
2014	1,405,028
2015	1,400,890
2016	1,329,589
2017	1,178,093
2018-2022	<u>546,987</u>
Total minimum lease payments	7,239,879
Less amount representing interest	<u>(303,763)</u>
Amount representing principal for future minimum lease payments	<u>\$ 6,936,116</u>



Report on Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of 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, a component unit of the State of Colorado as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States 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), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation 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 *deficiency in internal control* 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 and correct misstatement on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

### Compliance

As part of obtaining reasonable assurance about whether the University of Northern Colorado's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

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This report is intended for the information of the Legislative Audit Committee, the Board of Trustees and management of the University of Northern Colorado, and 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.

*Anderson & Whitney, P.C.*

November 30, 2012



### Required Auditor Communications

Members of the Legislative Audit Committee:

We have audited the financial statements of University of Northern Colorado for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS**

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the University of Northern Colorado. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the University of Northern Colorado's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

#### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used by the University of Northern Colorado are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except that Governmental Accounting Standards Board Statement No. 62 was adopted regarding changes in the reporting entity such as the dissolution of the UNCF Student Housing LLC. We noted no transactions entered into by the institution during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the allowance for doubtful accounts and loan receivables and the accrual for compensated absences.

The process used by management in formulating the allowance for doubtful receivables is based on estimated loss percentages applied to aged accounts and loans receivable. The process used to formulate compensated absences is based on an estimate of employees that will be eligible in the future to receive payment for accumulated sick leave multiplied by current average pay rates. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. This includes investments (Note 3), liabilities (Note 7), and subsequent events (Note 19).

#### **AUDIT ADJUSTMENTS**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. No audit adjustments were recommended.

#### **MANAGEMENT REPRESENTATIONS**

We have received certain representations from management that are included in the management representation letter dated November 30, 2012.

#### **DISAGREEMENTS WITH MANAGEMENT**

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

#### **CONSULTATIONS WITH OTHER ACCOUNTANTS**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

#### **MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.

#### **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

This information is intended solely for the use of the Legislative Audit Committee and is not intended and should not be used by any others than these specified parties. However, upon release by the Legislative Audit Committee this report becomes a matter of public record and its distribution is not limited.

November 30, 2012

*Anderson & Whitney, P.C.*

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

Report Control Number 2108-12