

UNIVERSITY *of*  
NORTHERN COLORADO



FINANCIAL AND COMPLIANCE AUDITS

Years Ended June 30, 2010 and 2009



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**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY  
Year Ended June 30, 2010**

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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, 2010. 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 2010.

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, 2010. 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*.
- Evaluate progress in implementing prior audit findings and recommendations.

**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY — Continued  
Year Ended June 30, 2010**

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**Audit Opinions and Reports**

We expressed an unqualified opinion on the University's financial statements as of and for the year ended June 30, 2010.

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. However, we did note certain areas where the University could improve its internal control and other procedures, which are described in the Findings and Recommendations section of this report.

The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2010, Statewide Single Audit Report issued under separate cover.

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. There were uncorrected misstatements of \$444,761 from overstatement of investment gains due to an adjustment by the State Treasurer in the beginning of the year fair value of investments.

**SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS**

This report contains two recommendations. The recommendations address matters regarding check request forms and retirement plan contributions:

- Strengthen procedures to confirm that all check request forms are approved.
- Review the appropriateness of making retirement contributions into two retirement plans for certain PERA-retirees who are employed by the University.

A summary of the recommendations are included in the Recommendation Locator on page 4 of this report. A detailed description of the findings and recommendations begins on page 7 of this report. The University has agreed to implement the recommendations.

**SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS**

The audit report for the year ended June 30, 2009 included three recommendations. These recommendations were implemented.

# UNIVERSITY OF NORTHERN COLORADO

## RECOMMENDATION LOCATOR

Year Ended June 30, 2010

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Record Number	Page Number	Recommendation Summary	Agency Response	Implementation Date
<b><u>FINANCIAL STATEMENT RECOMMENDATIONS</u></b>				
1.	7	The University should strengthen its procedures to confirm that all Check/EFT request forms are signed before payment is made.	Agree	November 30, 2010
2.	8	The University should review the appropriateness of making contributions into two retirement plans for certain PERA-retirees who are still employed by the University.	Agree	December 31, 2010

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**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**ORGANIZATION AND FUNCTION OF THE UNIVERSITY  
Year Ended June 30, 2010**

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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.

Student enrollment not including extended studies (full-time equivalent) for the past three years of the University was:

	Resident	Nonresident	Total
2010	8,904	1,035	9,939
2009	8,637	1,032	9,669
2008	9,362	1,058	10,420

The number of faculty for the past three years of the University was:

	Full-Time	Part-Time	Total Faculty
2010	488	206	694
2009	458	179	637
2008	445	174	619

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

## **FINDINGS AND RECOMMENDATIONS**

**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**AUDITORS' FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2010**

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**FINDINGS AND RECOMMENDATIONS  
RELATING TO THE FINANCIAL STATEMENTS**

**CONFIRM THAT CHECK REQUEST FORMS ARE SIGNED**

The University spends approximately \$38 million annually for goods and services not including payroll. The majority of this spending is initiated through a Check/Electronic Funds Transfer (EFT) Request Form.

**What was the purpose of the audit work?**

The purpose of the audit work was to determine that the University's internal controls over disbursements were followed.

**What audit work was performed and how were results measured?**

To test compliance with internal controls, we selected a sample of 40 non-payroll disbursements to test various attributes which indicated compliance with internal controls. The results were measured against the University's requirements over spending procedures. The Check/EFT Request Form is part of the University's internal controls over spending. The form is required to be signed by a person authorized by the department paying for the expenditure.

**What problem did the audit work identify?**

In our testing of 40 non-payroll disbursements, we noted that one of the Check/EFT Request Forms tested was not signed as required by University internal control procedures. This check was for \$186.97 to a collection agency responsible for collecting delinquent student accounts.

**Why does this problem matter?**

By not having a signature on the Check/EFT Request Form noted, the University does not have evidence that the expenditure was approved.

**Why did the problem occur?**

The University's requirements that require an authorizing signature prior to payment being issued were not followed.

**Recommendation No. 1**

The University should strengthen its controls over disbursements by confirming that all Check/EFT Request Forms are signed before payment is made.

**University of Northern Colorado Response:**

Agree – Implementation date November 30, 2010. The University will continue to emphasize the importance of confirming that check/EFT Request forms are signed before payment is made.

**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**AUDITOR'S FINDINGS AND RECOMMENDATIONS - Continued  
Year Ended June 30, 2010**

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**REVIEW RETIREMENT CONTRIBUTIONS FOR RETIRED EMPLOYEES**

The University has approximately 90 employees who are receiving retirement benefits from the Colorado Public Employees Retirement Association (PERA) but who continue to work at the University. Beginning July 1, 2005, under state law the University was required to make the employer's portion of the retirement contribution to PERA, even though the employee is receiving retirement benefits from PERA.

In July 2010, PERA notified the University that the University's portion of the retirement contribution had not been made for these retired employees who continue to work. The University is analyzing this claim, but has recorded a liability of \$846,000 in the financial statements to make this contribution for four prior years.

**What was the purpose of the audit work?**

The purpose of the audit work was to review the accrual for the estimated contributions payable for employees who are receiving retirement benefits from PERA.

**What audit work was performed and how were results measured?**

We reviewed the methodology for determining the estimated amounts of PERA contributions due for employees who are receiving retirement benefits from PERA but are still working and the related contribution expense. This estimated liability was determined to be fairly stated.

**What problem did the audit work identify?**

Beginning July 1, 2010, the University has begun making the employer contributions to PERA for the 90 employees who are receiving PERA benefits. However, we determined that the University is also making employer retirement contributions into an optional retirement plan for approximately 30 of these qualified PERA-retirees.

**Why does this problem matter?**

The University is making retirement contributions into two plans for individuals who are currently receiving PERA benefits but continue to work at the University and are qualified to participate in the optional retirement plan. The contribution into an optional retirement plan is 11.5% of salary. The employer contribution into PERA is 13.85% of salary.

**Why did the problem occur?**

The University was not initially aware that the employer portion of retirement plan contributions was due to PERA for certain PERA-retirees also enrolled in an optional retirement plan. After the University began making the employer contribution to PERA for employees who are receiving PERA retirement benefits, it became evident that the University is making contributions into two retirement plans for these employees.

## **Recommendation No. 2**

The University should review the appropriateness of making contributions into two retirement plans for PERA-retirees who are still employed by the University and qualify for the optional retirement plan and determine whether this is consistent with University policy. If this practice is not consistent with policy, the University should identify and implement proper remedies.

### **University of Northern Colorado Response:**

Agree – Implementation date December 31, 2010. The University is reviewing the appropriateness of making contributions into two retirement plans and will remedy accordingly.

**STATE OF COLORADO  
UNIVERSITY OF NORTHERN COLORADO**

**DISPOSITION OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2010**

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The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2010:

<u>Record No.</u>	<u>Finding</u>	<u>Disposition</u>
1.	The University should improve its controls over cutoff procedures to properly record transactions around year-end.	Implemented
2.	The University should review the federal requirements and record retention practices for student employees and ensure that: a) required documentation is maintained, and b) forms W-4 and I-9 are obtained from the student employees.	Implemented
3.	The University should ensure that federal requirements for return of funds under Federal Title IV are met by improving the process for calculating the number of days per semester by ensuring proper withdrawal dates are used in calculations, and implementing a review process of adjustments to student accounts.	Implemented

**INDEPENDENT AUDITORS' REPORTS,  
MANAGEMENT DISCUSSION AND ANALYSIS,  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2010**



Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statement of net assets of the University of Northern Colorado (the University) and its discretely presented component units, collectively a blended component unit of the State of Colorado, as of June 30, 2010 and 2009, 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) or the University of Northern Colorado Foundation Student Housing, LLC I (the LLC), which collectively comprise the University's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us. Our opinion insofar as it relates to the amounts included for the Foundation and the LLC, is based solely on the reports of the other 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 and the LLC, which were audited by other accountants, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit 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 units, as of June 30, 2010 and 2009, 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 15, 2010 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.

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

*Anderson & Whitney, P.C.*

November 15, 2010

# UNIVERSITY OF NORTHERN COLORADO

## MANAGEMENT DISCUSSION AND ANALYSIS

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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, 2010 and 2009 (fiscal year 2010 and 2009, respectively), with comparative information for fiscal year 2008. 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 and the University of Northern Colorado Student Housing LLC I – legally separate organizations whose operations benefit the University – are discretely presented within UNC's financial statements. Unless otherwise noted, the information and financial data included in management's discussion and analysis relate solely to the University.

### Understanding the Financial Statements

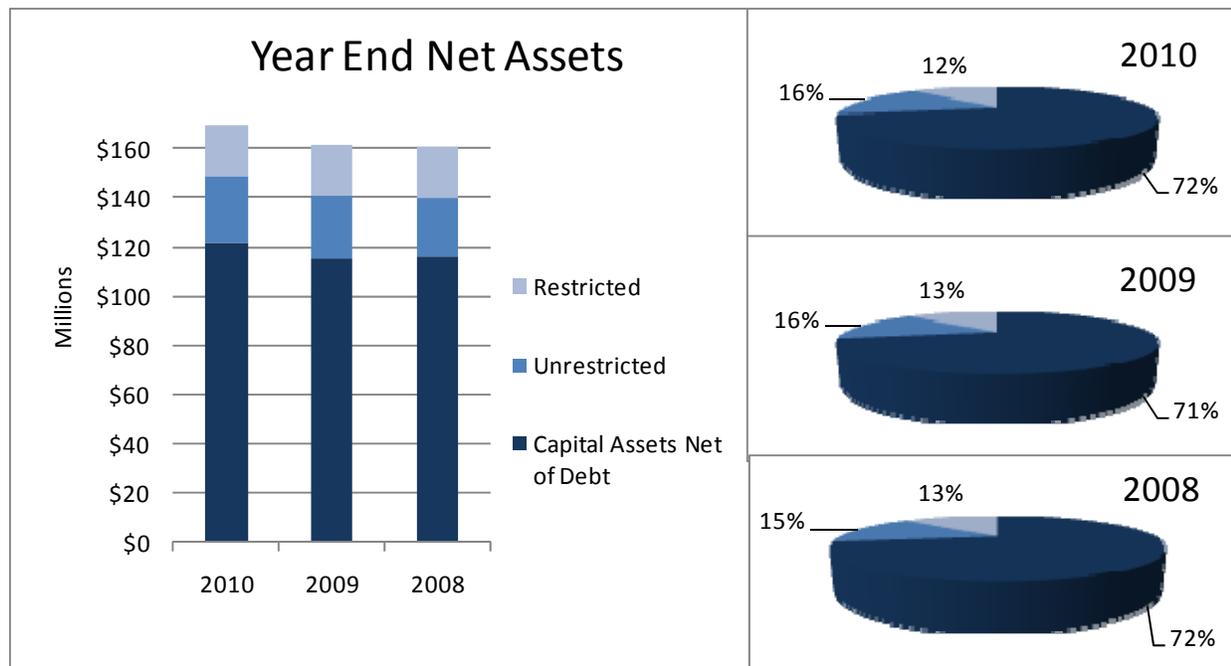
Financial highlights are presented in this discussion and analysis to help your assessment of the University's financial activities. Since this presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following five other parts.

- **Report of Independent Auditors** 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 units' respective financial position.
- **Statement of Net Assets** presents the assets, liabilities, and net assets of the University at a point in time (June 30, 2010 and 2009). 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, 2010 and 2009). Its purpose is to assess the University's operating results.
- **Statement of Cash Flows** presents University cash receipts and payments during a period of time (the years ended June 30, 2010 and 2009). 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 Note(s). 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

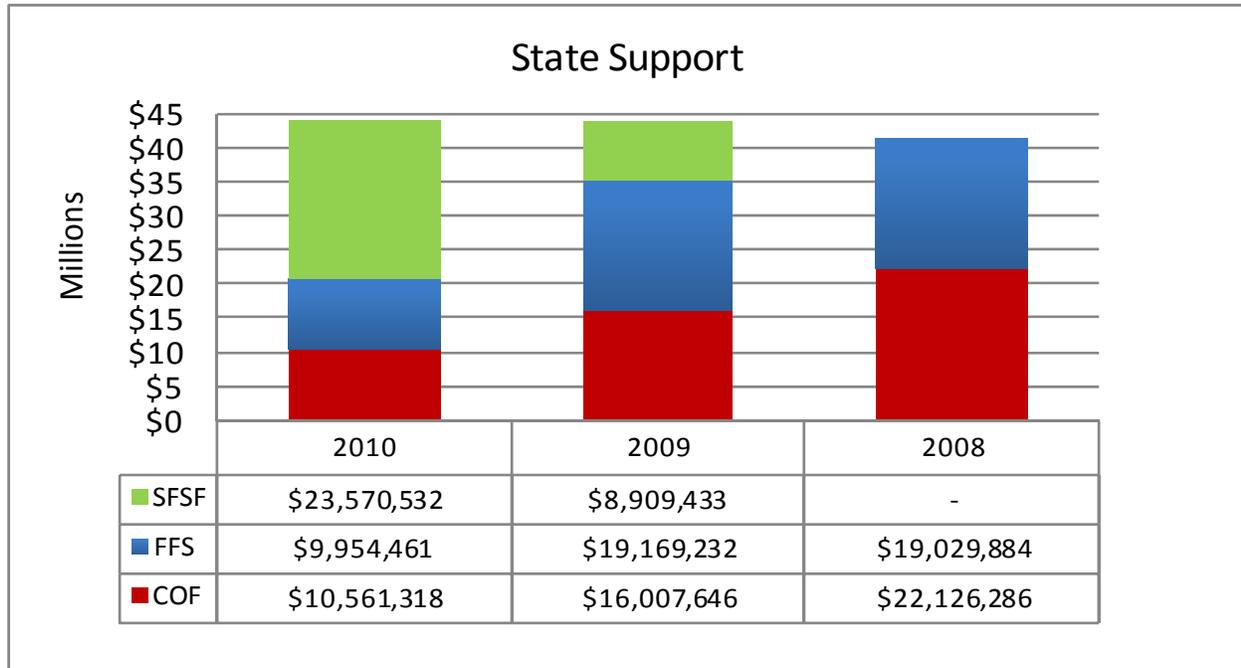
Selected financial highlights for the fiscal year ended June 30, 2010 include:

- University assets total \$ 338.5 million, with liabilities of \$168.9 million, resulting in net assets of \$169.6 million. Of this amount, \$20.5 million is restricted for purposes for which the donor, grantor or other external party intended and \$121.7 million is related to investments in capital assets, net of related debt. The remaining \$27.4 million 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 capital for the Butler Hancock building renovation funded through state certificates of participation.



- Total operating revenues of \$145.4 million, less total operating expenses of \$177.5 million, resulted in a net operating loss of \$32.1 million. This operating loss was offset by net non-operating revenues of \$29.3 million, and other changes of \$10.8 million, which resulted in an increase in net assets of \$8.0 million.
- Cash and cash equivalents for fiscal year 2010 were \$58 million. Net cash used by operating activities was \$16.4 million, net cash provided by noncapital financing activities was \$33.8 million, net cash used by capital and related financing activities was \$26.0 million and net cash provided by investing activities was \$12.9 million for a net increase of \$4.3 million from fiscal year 2009.
- Federal Pell grants were reclassified from operating revenue to non-operating revenue on the Statement of Revenues, Expenses, and Changes in Net Assets. The prior fiscal years have been restated on the same basis. This accounting reclassification has a significant impact on the financial statement classifications of operating income/loss and nonoperating net revenues; however, it does not have an impact on the change in net assets.

- Operating and nonoperating revenue classifications were significantly impacted by the changes in the State's approach to funding higher education. College Opportunity Fund (COF) and Fee for Service (FFS) operating revenues were reduced while State Fiscal Stabilization Funds (SFSF) nonoperating revenue increased. Although the changes did not have a net impact to the University, it did have a significant impact on the operating income/loss and net nonoperating revenues/expenses categories on the Statement of Revenues, Expenses and Changes in Net Assets. The table below demonstrates the changes in State funding.



## Statement of Net Assets

The Statement of Net Assets is a financial snapshot of the University of Northern Colorado at June 30, 2010. 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.

University of Northern Colorado Condensed Statement of Net Assets At June 30,			
	2010	2009	2008
<b>Assets</b>			
Current Assets	\$ 68,558,651	\$ 63,320,454	\$ 61,585,596
Capital	258,619,939	249,934,914	225,690,418
Other Noncurrent Assets	11,304,448	22,382,144	49,921,412
<b>Total Assets</b>	<b>\$ 338,483,038</b>	<b>\$ 335,637,512</b>	<b>\$ 337,197,426</b>
<b>Liabilities</b>			
Current Liabilities	\$ 26,456,815	\$ 27,951,960	\$ 28,081,725
Bonds/Notes Payable, Noncurrent	134,005,939	136,778,501	138,821,062
Other Noncurrent Liabilities	8,474,718	9,317,127	9,550,449
<b>Total Liabilities</b>	<b>\$ 168,937,472</b>	<b>\$ 174,047,588</b>	<b>\$ 176,453,236</b>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Related Debt	\$ 121,701,027	\$ 115,452,637	\$ 116,118,813
Restricted - Nonexpendable	307,555	307,555	307,555
Restricted - Expendable	20,160,625	20,427,269	20,386,181
Unrestricted	27,376,359	25,402,463	23,931,641
<b>Total Net Assets</b>	<b>\$ 169,545,566</b>	<b>\$ 161,589,924</b>	<b>\$ 160,744,190</b>

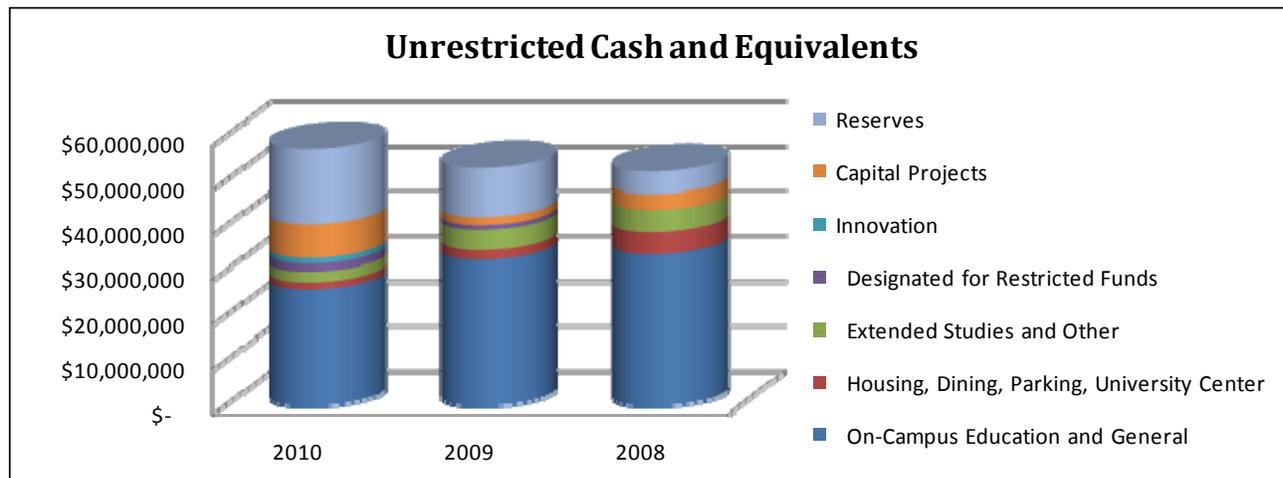
## **Current Assets**

The significant changes in current assets are in cash and cash equivalents and student accounts receivable.

Unrestricted cash and cash equivalents at June 30, 2010, 2009, and 2008 comprise 16.9%, 15.8%, and 15.5%, of the University's total assets and totaled \$57.3, \$53.0, and \$52.3 million, respectively. The majority of the cash is held at the State Treasury and is comprised of general, self-supported, restricted, agency and other cash funds. Cash and cash equivalents during fiscal year 2010, 2009, and 2008 increased \$4.3, \$0.8, and \$0.9 million, respectively. The cash balance at fiscal year-end 2010 includes \$1.8 million of the Trinity guaranteed investment contract cash drawdown. The remaining increase over the previous fiscal year came from normal activities that are outlined in the statement of cash flows presented with the financial statements,

The unrestricted cash and cash equivalents table below demonstrates that the University increased reserves by \$5.8 million between fiscal 2009 and 2010 and is designating funds for innovation and capital projects to reflect planned use of the university resources.

<b>Unrestricted Cash and Cash Equivalents for June 30,</b>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating			
On-Campus Education and General	\$ 26,060,834	\$ 32,587,265	\$ 33,792,953
Housing, Dining, Parking, University Center	1,545,227	2,108,198	4,972,983
Extended Studies and Other	2,380,148	4,582,073	4,913,343
Designated Funds	1,757,672	1,027,721	-
Innovation Projects	1,235,538	6,338	20,489
Capital Projects	7,530,338	1,780,257	3,543,370
Reserves	16,760,960	10,925,853	5,008,732
<b>Total Cash and Equivalents</b>	<b>\$ 57,270,717</b>	<b>\$ 53,017,705</b>	<b>\$ 52,251,870</b>



Student accounts receivable of \$5.5 million is the second largest current asset and is presented net of allowance for doubtful accounts. This receivable has increased \$1.1 million from fiscal 2009 to 2010 and a total of \$1.5 million over the previous three years. The fiscal year-end net accounts receivable balance was 23.8% higher at fiscal year-end 2010 than at fiscal yearend 2009 and 11.8% higher at fiscal year-end 2009 than at fiscal year-end 2008. We have identified increased tuition costs, poor economy, job loss, and changes such as loan availability as reasons for this trend.

### Capital Assets

Capital assets are defined as any asset used in operations with an initial useful life extending beyond one year. UNC's single largest fiscal resource is its campus facility.. As of June 30, 2010, capital assets, net of \$187.0 million accumulated depreciation, total \$258.6 million. This is an \$8.7 million increase from fiscal year 2009, when capital assets, net of \$176.8 million accumulated depreciation, totaled \$249.9 million. Capital assets, net of \$163.1 million accumulated depreciation, totaled \$225.7 million at June 30, 2008. The capital assets increase of \$8.7 million in fiscal year 2010 is primarily from the capitalization of the west campus housing construction and the Butler Hancock renovation, which is reflected in the balance of construction in progress.

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

<b>Capital Assets Net of Accumulated Depreciation</b>						
	June 30, 2010		June 30, 2009		June 30, 2008	
Land and Improvements	\$ 27,409,726	10.6%	\$ 27,925,708	11.2%	\$ 28,026,150	12.4%
Buildings and Improvements	193,521,621	74.9%	180,348,712	72.2%	140,181,602	62.1%
Construction In Progress	21,501,130	8.3%	27,123,941	10.9%	43,301,126	19.2%
Library Books	8,564,291	3.3%	8,783,295	3.5%	8,552,125	3.8%
Equipment	6,072,825	2.3%	4,910,628	1.9%	4,786,785	2.1%
Art and Historical Treasures	1,550,346	0.6%	842,630	0.3%	842,630	0.4%
<b>Total Capital Assets</b>	<b>\$ 258,619,939</b>	<b>100.0%</b>	<b>\$ 249,934,914</b>	<b>100.0%</b>	<b>\$ 225,690,418</b>	<b>100.0%</b>

As noted above, the University completed the west campus housing phase II project for additional student housing. The Butler Hancock renovation is over half of the balance of the construction in progress. The remaining construction in progress is for other University, state and debt funded projects.

## **Other Noncurrent Assets**

The 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 \$7,400,264, \$7,056,275, and \$7,304,448, at June 30, 2010, 2009, and 2008, respectively.

The most significant change in other noncurrent assets is the decrease of \$11.3 million in restricted investments. This change occurred as the result of the final draw down of the Trinity guaranteed investment contract. Proceeds of \$1.8 million were included in cash and cash equivalents at fiscal year end 2010.

## **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.

In fiscal year 2003 the State of Colorado moved the June 30 pay date to July 1<sup>st</sup>. Salaries and benefits payable in fiscal years 2010, 2009, and 2008 of \$11.6, \$11.2, and \$10.5 million, respectively, were considered a commitment in the current fiscal year even though they were not paid until the next fiscal year. Compensated absences estimate 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 that employees may be entitled (see Note 1.) The amount of compensated absences for fiscal year 2010, 2009, and 2008 are \$4.2, \$4.3, and \$3.8 million, respectively.

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities received by June 30, 2010, but related to services to be provided in fiscal year 2011; plus amounts received from grant and contract sponsors that have not yet been earned. These amounts will be recognized as revenue in future periods after all conditions have been satisfied.

The most significant change in non-debt related liabilities is the \$3.2 million dollar decrease in accounts payable and accrued liabilities. In fiscal 2010 there was approximately \$1.0 million less in year-end accruals for invoices on bonded projects because construction projects are fully or substantially complete. Retainage on construction projects was \$1.6 million less than the prior fiscal year.

## University Debt

The single largest liability for the University is outstanding bonds payable. The \$2.0 million decrease in bonds payable is the most significant change in university debt between fiscal 2009 and 2010. This decrease is in accordance with the established debt repayment schedule. The following is more information about outstanding bonds payable:

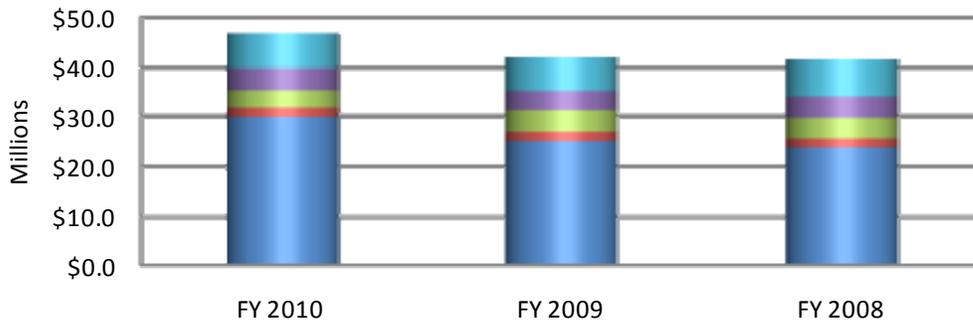
- During July 2001, the University issued bonds totaling \$50.0 million par. These bonds advance refunded the previously issued 1997 bonds and provided funding for west campus dining improvements, parking and additional auxiliary facility improvements.
- During July 2005, the University issued an additional \$85.0 million in bonds with maturities from 2006 through 2040. These bonds provided funding for the West Campus Housing Project, parking and athletics facility improvements.
- During May 2008, the University issued \$9.1 million in bonds for the purpose of currently refunding \$9.1 million of then-outstanding Series 1998 Auxiliary Refunding Revenue bonds. This current refunding was undertaken to reduce the total debt service payments and resulted in an economic gain of \$0.5 million.

All the above bond issuances were insured with ratings of Aaa by Moody's and AAA by Standard and Poors. The underlying ratings have remained unchanged with a stable outlook. A summary of the University debt is shown in the table below.

	Summary of Debt June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Debt Outstanding:			
Revenue Bonds	\$ 136,745,939	\$ 138,788,501	\$ 140,736,062
Capital Lease Obligations	<u>3,251,901</u>	<u>3,935,745</u>	<u>4,601,815</u>
	139,997,840	142,724,246	145,337,877
Less Current Portion	<u>(3,475,485)</u>	<u>(2,712,486)</u>	<u>(2,587,020)</u>
Long-Term Debt	<u>\$ 136,522,355</u>	<u>\$ 140,011,760</u>	<u>\$ 142,750,857</u>

Debt issuances go through the University bond counsel for recommendation and submission to the Board of Trustees for approval. 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 Financial, Enrollment, and Budget Data section of the annual report.

## Restricted Auxiliary Pledged Revenues



	FY 2010	FY 2009	FY 2008
■ Pledged Student Tuition	6,688,876	6,783,904	7,583,025
■ Pledged Student Fees	4,688,765	4,193,445	4,548,963
■ Other Auxiliary Sales and Services	3,711,177	4,274,069	4,055,029
■ Parking Fees	1,858,630	1,852,230	1,798,152
■ Housing and Food Sales	\$29,693,475	\$24,908,191	\$23,621,903

### **Net Assets**

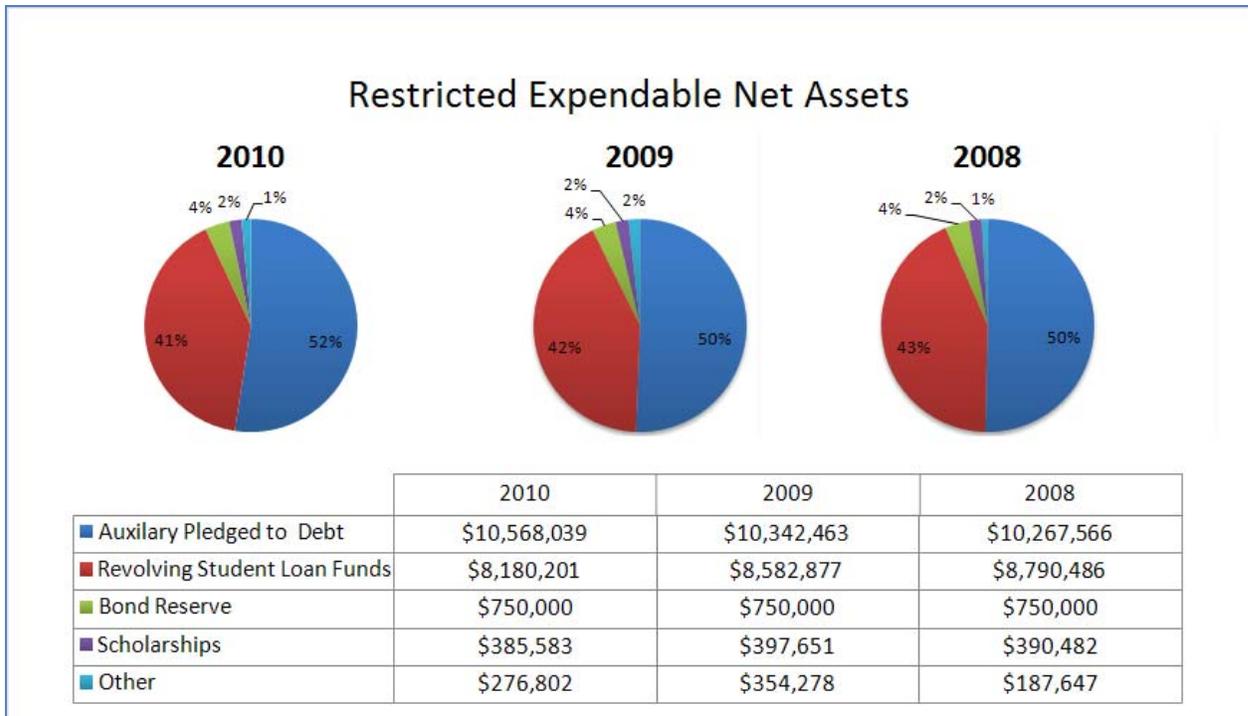
Total net assets increased by \$8.0 and \$0.8 million during fiscal year 2010 and 2009, respectively. This \$8.8 million increase over a two year period represents 5.9 % of total operating revenues for this period (FY10 \$145.4, FY09 \$149.5 million).

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 71.8%, 71.4%, and 72.2% of UNC's net assets for fiscal years 2010, 2009, and 2008. 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 included 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

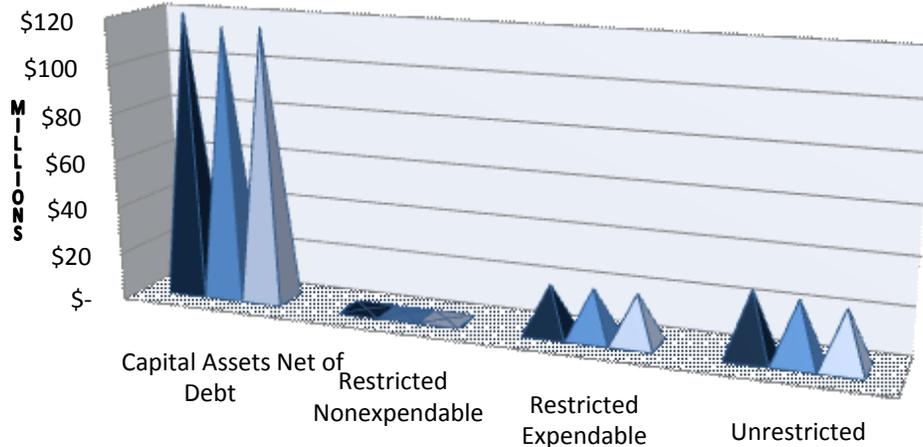
the funds. Some net assets identified as restricted expendable are generated from investment earnings on restricted nonexpendable endowment net assets described above. Allowable expenditures for these funds are scholarships and other academic support expenditures. The majority of restricted expendable net assets, however, include revolving Perkins loan funds, net auxiliary revenues pledged to outstanding bond debt and restricted bond reserves.

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, 2010, 2009, and 2008 were \$20.2, \$20.4, and \$20.4 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 \$27.4 million includes: departmental operating funds, inventory, self-funded operation working capital, and reserves.

## Net Assets



	Capital Assets Net of Debt	Restricted Nonexpendable	Restricted Expendable	Unrestricted
■ June 30, 2010	\$121,701,027	\$307,555	\$20,160,625	\$27,376,359
■ June 30, 2009	\$115,452,637	\$307,555	\$20,427,269	\$25,402,463
■ June 30, 2008	\$116,118,813	\$307,555	\$20,386,181	\$23,931,641

### Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the financial activity of the University of Northern Colorado over the fiscal year. 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 of operating and nonoperating activities.

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.

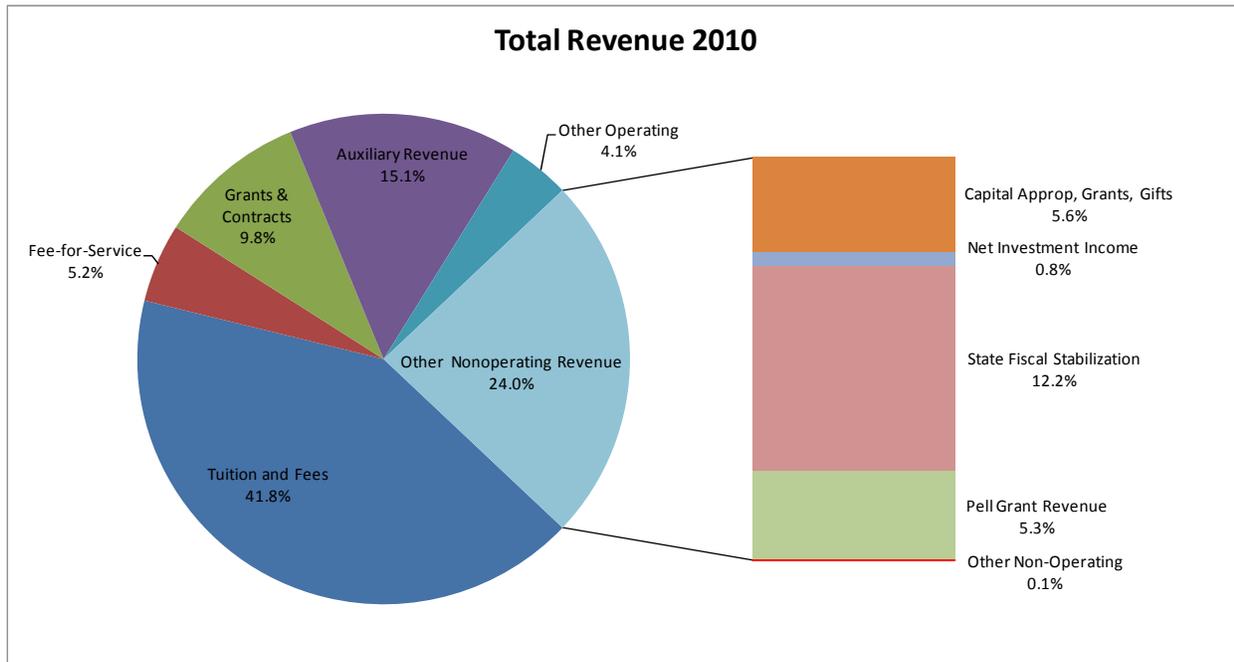
Nonoperating revenues include investment income, State appropriations, federal funds received from the State Fiscal Stabilization program, Pell grant revenue, and gains or losses on the disposal of assets. These revenues are not earned from the sale of goods and services, and are therefore, considered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

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

	2010	2009	2008
<b>Operating Revenues</b>			
Net Tuition and Fees	\$ 79,990,155	\$ 79,206,461	\$ 80,379,211
Fee-for-Service	9,954,461	19,169,232	19,029,884
Grants and Contracts	18,737,068	18,491,727	16,932,189
Auxiliary	28,844,960	26,463,559	25,811,604
Other	7,841,158	6,146,136	5,002,104
Total Operating Revenues	<u>\$ 145,367,802</u>	<u>\$ 149,477,115</u>	<u>\$ 147,154,992</u>
<b>Operating Expenses</b>			
Education and General	\$ 136,521,499	\$ 126,867,818	\$ 118,748,349
Auxiliary	25,962,992	23,115,374	21,359,351
Depreciation	15,017,068	14,013,492	13,340,349
Total Operating Expenses	<u>\$ 177,501,559</u>	<u>\$ 163,996,684</u>	<u>\$ 153,448,049</u>
Operating Gain (Loss)	<u>\$ (32,133,757)</u>	<u>\$ (14,519,569)</u>	<u>\$ (6,293,057)</u>
<b>Nonoperating Revenues</b>			
Other Revenues and Expenses	\$ 29,317,717	\$ 12,756,376	\$ 4,470,979
Gain/(Loss) before Other	<u>\$ (2,816,040)</u>	<u>\$ (1,763,193)</u>	<u>\$ (1,822,078)</u>
Capital Appropriations & Contributions	10,127,645	2,608,927	1,697,154
Net Other Items	<u>644,037</u>	<u>-</u>	<u>(213,769)</u>
Increase (Decrease) in Net Assets	7,955,642	845,734	(338,693)
Net Assets- Beginning of Year	161,589,924	160,744,190	161,082,883
Net Assets- End of Year	<u>\$ 169,545,566</u>	<u>\$ 161,589,924</u>	<u>\$ 160,744,190</u>

## **Operating Revenues**

Operating revenue for fiscal year 2010, 2009, and 2008 of \$145.4, \$149.5, and \$147.2 million is derived from Tuition and Fees, Auxiliary activity, Grants & Contracts, State Fee-for-Service, and Other Operating revenues.



Tuition and fees is the University's largest source of revenue and is shown net of \$13.3, \$9.8, and \$7.8 million scholarship allowances for fiscal years 2010, 2009, and 2008, respectively. Auxiliary revenue for fiscal years 2010, 2009, and 2008 is net of \$5.4, \$2.8, and \$2.4 million in scholarship allowances. Scholarship allowances are those portions of UNC's tuition and fees which are paid by other revenues, primarily federal and state grants for financial aid, but also general institutional scholarships. Tuition and fee revenues increased \$.8 million as a result of a slight growth in student enrollment and tuition. This was offset by the reduction in college opportunity funds provided for student tuition by the State. This reduction cut the amount of funding provided to students from \$68 to \$44 a credit hour. The reduction in the college opportunity fund was offset by an increase in SFSF funds that are classified as nonoperating revenue.

The College Opportunity Fund (COF) provides a stipend to qualified undergraduate students. The receiving students then use the stipends to pay a portion of their tuition. In fiscal year 2010, 2009, and 2008, the University applied \$10.6, \$16.0, and \$22.1 million of College Opportunity Fund stipends against student tuition bills; as such this amount is included in tuition revenues.

During fiscal years 2010, 2009, and 2008 the Colorado Department of Higher Education (CDHE) provided the University \$10.0, \$19.2, and \$19.0 million, respectively, in State Fee for Service (FFS) contract revenue. This contract revenue helps support graduate and specialized education services. These funds are in addition to tuition paid by students. The reductions in the State Fee for Service contracts were offset with State Fiscal Stabilization Funds, which are classified as nonoperating revenue. The total amount of appropriated revenue if you combine COF, FFS, and SFSF was the same between 2009 and 2010.

Auxiliary revenues increased \$2.4 million between 2009 and 2010. 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 is included in the Other Financial, Enrollment, and Budget Data section of the annual report.

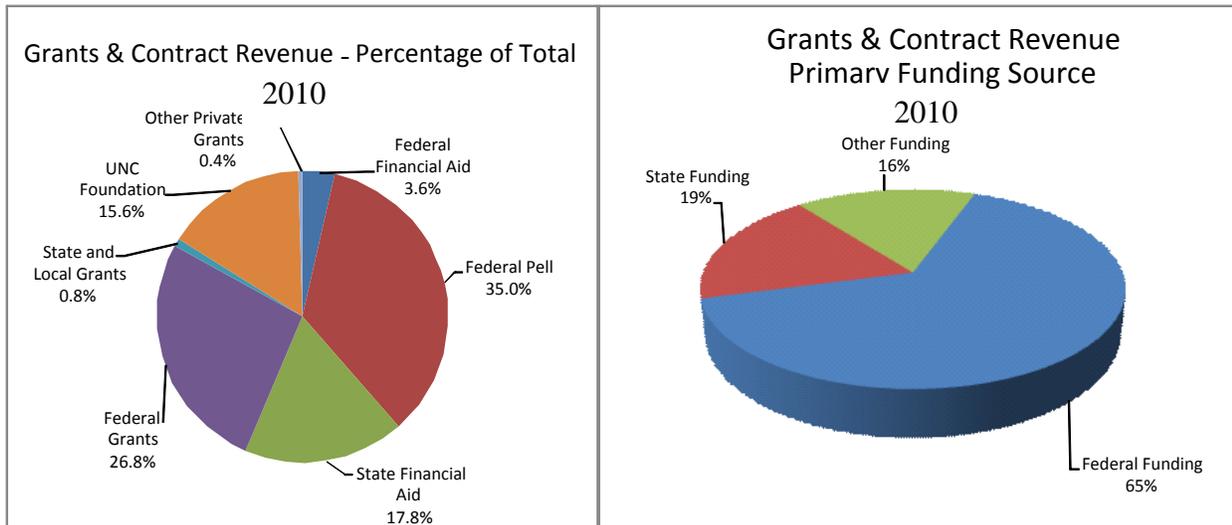
Other operating revenues increased \$1.7 million between fiscal 2009 to fiscal 2010 from a variety of things, such as; athletic camp fees, accounts receivable service charges, Bear Logic computer sales, and other charges for services.

**Grants and Contract Revenue**

Grants and contract revenue includes financial aid received from the state and federal government and makes up 15.0% of the total University revenue or 9.8% when excluding federal Pell grants. About 56.4% of this revenue is federal and state financial aid. Financial aid revenue increased 29.4% from fiscal year 2009. Grants and contract revenue increased 6.7% from fiscal year 2009. Federal Pell Financial Aid is considered nonoperating revenue, but is included in this analysis of all grants and contract revenue.

The most significant change in grants and contracts revenue was the \$4.2 million dollar increase in Pell from fiscal 2009 to fiscal 2010. The Federal Government increased the dollar amount of the Pell award to students and the University had a significant increase in Pell-eligible students accepting awards. Financial Aid from the State of Colorado decreased \$1.0 million, which is reflective of state budget reductions.

<b>Grants &amp; Contracts Revenue</b>				
		<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Federal Financial Aid	\$	1,036,118	\$ 933,096	\$ 1,103,526
Federal Pell Financial Aid		10,074,848	5,834,954	5,252,520
State Financial Aid		5,124,015	5,774,710	5,265,600
		<hr/>	<hr/>	<hr/>
		16,234,981	12,542,760	11,621,646
Federal Grants		7,709,644	7,267,583	6,230,824
State and Local Grants		233,228	543,090	531,424
UNC Foundation		4,506,633	3,666,700	3,191,929
Other Private Grants		127,430	306,548	608,886
<b>Total Grants &amp; Contract Revenue</b>	<b>\$</b>	<b>28,811,916</b>	<b>\$ 24,326,681</b>	<b>\$ 22,184,709</b>



### **Operating Expenses**

For fiscal year 2010, total expenses of \$183.5 million included operating expenses of \$177.5 million and interest expenses and other losses of \$6.0 million. Operating expenses have increased from fiscal year 2009 by \$13.5 million and are the result of increased personnel costs across all functional areas, scholarship awards, and depreciation expenses.

Below is a summary of the \$13.5 million change from fiscal year 2009 to 2010:

- As part of managing costs due to reductions in state funding, the University did not give raises to employees in fiscal year 2010 or in fiscal year 2011. A significant portion of the increases in personnel costs are from \$1.4 million in graduate tuition waivers and room and board waivers. Graduate tuition waivers increased as a result of increased tuition in accordance with a new tiered structure of pricing. Also, more assistantship packages were awarded over the prior fiscal year. Room and board waivers increased because of rate increases and more resident assistants were added for student support in the new west campus residence halls. The total of faculty, administrative, classified, student and other salaries increased \$1.2 million. This was primarily from filling open lines of previously approved positions in the University, and a small portion is from promotions.
- Employee benefits increased \$2.7 million dollars in fiscal 2010 primarily from increases in health insurance and employer contributions to the PERA retirement plan. A one-time benefit expense of \$0.8 million related to PERA contributions for approximately 90 employees who were simultaneously enrolled in both PERA and the ORP retirement plans was recorded along with a liability.
- The primary increases in other current expenses consist of building and equipment maintenance of \$1.4 million, onetime costs of \$1.0, technology equipment and costs of \$0.9 million, and library electronic databases of \$0.7 million. Additional increases in athletics, marketing, and advertising were identified.
- Scholarships/Financial Aid increased \$1.9 million dollars in fiscal 2010 over fiscal 2009. The increase was an intentional effort to increase need-based financial aid in times of economic challenges for our student population.

Depreciation expense increased \$1.0 million, which is reflective of the capitalization of the west campus housing project and the related depreciation expense.

Operating Expenses by Natural Class						
	2010		2009		2008	
Personnel Costs	\$ 112,360,819	63.3%	\$ 106,608,088	65.0%	\$ 98,187,644	64.0%
Cost of Goods Sold	8,390,438	4.7%	9,337,807	5.7%	8,653,395	5.6%
Other Operating Expense	41,733,234	23.5%	34,037,297	20.8%	33,266,661	21.7%
Depreciation	15,017,068	8.5%	14,013,492	8.5%	13,340,349	8.7%
Total Operating Expenses	\$ 177,501,559	100.0%	\$ 163,996,684	100.0%	\$ 153,448,049	100.0%

Operating Expenses by Function						
	2010		2009		2008	
Instruction	\$ 63,903,417	36.1%	\$ 60,159,710	36.7%	\$ 56,988,926	37.1%
Research	3,450,700	1.9%	3,034,464	1.9%	2,509,329	1.6%
Public Service	1,814,955	1.0%	2,300,092	1.4%	2,044,167	1.3%
Academic Support	19,233,255	10.8%	16,724,792	10.2%	15,121,652	9.9%
Student Services	19,759,991	11.1%	18,285,114	11.1%	16,516,144	10.8%
Institutional Support	8,878,558	5.0%	8,873,255	5.4%	8,576,536	5.6%
Operation of Plant	8,452,738	4.8%	8,076,677	4.9%	8,458,736	5.5%
Scholarships and Fellowships	11,027,885	6.2%	9,413,714	5.8%	8,532,859	5.6%
Auxiliary Operating Expenditures	25,962,992	14.6%	23,115,374	14.1%	21,359,351	13.9%
Depreciation	15,017,068	8.5%	14,013,492	8.5%	13,340,349	8.7%
Total Operating Expenses	\$ 177,501,559	100.0%	\$ 163,996,684	100.0%	\$ 153,448,049	100.0%

### **Nonoperating Revenues and Expenses**

The University's nonoperating revenues and expenses are primarily investment income, interest on capital debt, and federal and state support. Investment income is primarily earned from interest proceeds on the cash held by the state treasurer for university operations. Investment income decreased \$1.0 million in fiscal 2010 primarily because of changes in unrealized gains and losses on treasury investments. The interest earning on treasury investments was also lower due to the state of the economy.

The interest on capital debt represents the interest paid on capital bonds and leases payable. This interest decreased \$1.4 million in fiscal 2010. In the past three fiscal years a significant portion of the interest was capitalized as part of the construction of the west campus residence halls and the renovation of Butler Hancock. As those projects are coming to a close, less interest is capitalized and more is expensed. The University offset interest expense with interest revenue from the Trinity guaranteed investment contract. When that contract was drawn down in fiscal 2010, there was \$1.0 million less in interest income to offset interest expense.

In fiscal year 2009 Federal Stimulus money commonly known as ARRA (American Recovery and Reinvestment Act) was granted to the Office of the Governor. One hundred and fifty million dollars of these funds were designated for use in higher education of which UNC received \$23.6 and \$8.9 million in fiscal year 2010 and 2009, respectively.

State and federal funding is the largest portion of nonoperating revenue. As discussed earlier, UNC received State Fiscal Stabilization Funds of \$23.6 million, which is \$14.7 million more than the previous fiscal year. However, this increase is an offset to the reduction in college opportunity funds, which are recorded in tuition revenue, and the state fee for service contract. Total appropriated revenue provided in the combination of COF, FFS and SFSF was the same for fiscal 2009 to fiscal 2010, although the amounts by category changed significantly from fiscal 2009 to fiscal 2010.

## **Other Changes**

Capital appropriations of \$0.7 million were also received and were used for state appropriated building improvement projects, including the interior renovation of Butler Hancock, reroofing Candelaria, Butler Hancock and McKee and emergency maintenance on the West Campus switch gear. The State Treasury issued certificates of participation during November 2008. During 2010 and 2009 UNC received \$9.4 and \$1.2 million for the interior renovation of the Butler Hancock Athletic Facility. These items comprised the major portion of the \$8.2 million dollar increase in total other changes on the Statement of Revenues, Expenses and Changes in Net Assets.

## **Economic Outlook**

The University's financial (or economic) position is impacted by legislation and funding from the State legislature. State budget shortfalls have limited its ability to invest in higher education and State Fiscal Stabilization Funds (SFSF) provided through the American Recovery and Reinvestment Act (ARRA) has been used to maintain the University's budget at the fiscal year 2006 level. The SFSF funding will end during the fiscal year ending June 30, 2011 and the State will not be required to maintain the current funding level in future years. State and Federal support combined was reduced \$3.5 million for fiscal 2011 and a minimum of another \$5.8 million dollar reduction is expected for fiscal 2012.

In June of 2010, the legislature passed Senate Bill 10-003, commonly referred to as tuition flexibility legislation. All Colorado public higher education institutions were required to submit a financial accountability plan to the Colorado Commission on Higher Education if they desire to increase tuition above 9% over the next five years. The UNC Board of Trustees approved the submission of a financial accountability plan for the University that will allow the institution future flexibility in tuition pricing strategies established under Senate Bill 10-003.

Slower economic growth at the national level adds uncertainty to the speed of economic recovery in Colorado. The projection for employment and personal income growth in Colorado is minimal over the next year. There is anticipation that the national economy will improve but labor market circumstances and the ability of families to save for college education remain uncertain. These factors will continue to put pressure on the University budget and its limited resources.

To respond to the uncertain economic times and declining State support, the University has made efforts to manage those factors within its control. During fiscal year 2010 the University has:

- Articulated our shared vision for moving the University forward
- Enhanced our strategic enrollment management and financial aid awarding capabilities
- Developed the initial version of a multi-year financial plan
- Submitted a financial accountability plan under SB10-003 for future tuition flexibility
- Launched our Bringing Education to Life branding campaign
- Committed to better connect our fundraising and alumni operations to the University's operations
- Designated \$9.9 million of unrestricted net assets as a Colorado loss in funding reserve to smooth out reductions in state funding as the University implements a multi-year financial plan

As we look to the future, enrollment will continue to be a major area that will impact UNC's finances and growth. The table below shows a history of annual enrollment for UNC.

Student Enrollment				
Fall Final (for Fiscal Year)	Undergraduate	Graduate	Total	Percent Change
Fall 09 (FY 10)	10,297	2,414	12,711	1.70%
Fall 08 (FY 09)	10,109	2,389	12,498	-1.61%
Fall 07 (FY 08)	10,441	2,261	12,702	-4.95%
Fall 06 (FY 07)	10,823	2,541	13,364	-1.10%
Fall 05 (FY 06)	11,094	2,418	13,512	

Fall 2010 census information indicates that the University is moving into another year of increased enrollments. Initial data for fall 2010 reflects positively upon the efforts made by the University over the past year to enroll and retain students. The overall university headcount enrollment is 1.7% greater than at fall 2009 census, which continues the upward trend emerging in the table above.

The University is experiencing a 1.2% increase in overall undergraduate enrollment. A large increase in the sophomore population, and more returning juniors and seniors indicates that UNC's efforts toward improving undergraduate retention are successful. Enrollment strategies to attract transfer students have yielded a 12.7% increase in this population. Fall census data also indicates that graduate enrollment results have also been successful. Masters students increased 5% and doctoral students increased 13%. These graduate increases came more from full time than part time students, indicating success in building our full time graduate population. The University continues to address recruitment and retention with the implementation of a phased comprehensive enrollment management plan for both undergraduate and graduate education.

During fiscal year 2010, UNC increased institutional aid by \$2.9 million in an effort to support an increased number of students experiencing economic challenges. Enrollment Management and Student Access (EMSA) conducted a study to analyze student financial need and academic preparedness. EMSA utilized the data from the study to better understand how financial need and academic preparedness impacts student success, including graduation rates. This information is also being used to enhance advising and support services to students.

The goals of the undergraduate plan focus on improving the effectiveness of undergraduate recruitment, increasing persistence toward completion, expanding community outreach, and embracing diversity and inclusiveness. Additional goals focus on fostering an environment that centers around student success and rewarding staff contributions.

The graduate enrollment management plan includes partnering with every degree program on campus to implement an individualized recruitment plan, identifying new programs that can be offered in a combination of on and off-campus delivery, developing more strategic awarding policies for graduate student financial support, and expanding efforts in non-resident and international recruiting.

For additional information regarding this report please contact:

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 University of Northern Colorado  
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**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF NET ASSETS**

June 30, 2010

	<u>Component Units</u>		
	<u>University of Northern Colorado</u>	<u>University of Northern Colorado Foundation, Inc.</u>	<u>University of Northern Colorado Foundation Student Housing LLC I</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 57,270,717	\$ 1,571,622	\$ 55,955
Funds held in trust	—	—	920,602
Student accounts receivable, net of allowance of \$3,072,224	5,544,502	—	—
Pledges Receivable, net	—	748,668	—
Other receivables	3,551,478	367,096	—
Investments	—	27,401,445	—
Inventories	1,029,832	—	—
Loans to students, net	382,129	—	—
Other assets	779,993	109,191	14,250
Total Current Assets	<u>68,558,651</u>	<u>30,198,022</u>	<u>990,807</u>
<b>Noncurrent Assets</b>			
Restricted cash and cash equivalents	750,000	—	—
Restricted investments	694,512	—	—
Pledges receivable, net	—	793,071	—
Loans to students, net	7,400,264	—	—
Other noncurrent assets	2,459,672	—	6,018,828
Investments permanently restricted for endowment	—	56,198,766	—
Capital assets, net	258,619,939	1,022,522	13,593,175
Total Noncurrent Assets	<u>269,924,387</u>	<u>58,014,359</u>	<u>19,612,003</u>
<b>TOTAL ASSETS</b>	<u>338,483,038</u>	<u>88,212,381</u>	<u>20,602,810</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	14,990,862	1,424,195	631,472
Deferred revenue	5,318,809	16,667	97,170
Bonds/notes payable, current portion	2,740,000	—	330,000
Capital leases payable, current portion	735,485	—	—
Funds held for the University of Northern Colorado	—	696,076	—
Other current liabilities	2,671,659	—	—
Total Current Liabilities	<u>26,456,815</u>	<u>2,136,938</u>	<u>1,058,642</u>
<b>Noncurrent Liabilities</b>			
Bonds/notes payable	134,005,939	—	23,205,473
Capital leases payable	2,516,416	—	—
Other long-term liabilities	2,139,666	—	—
Annuity obligations	—	207,787	—
Compensated absence liabilities	3,818,636	—	—
Total Noncurrent Liabilities	<u>142,480,657</u>	<u>207,787</u>	<u>23,205,473</u>
<b>TOTAL LIABILITIES</b>	<u>168,937,472</u>	<u>2,344,725</u>	<u>24,264,115</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	121,701,027	1,022,522	—
Restricted for:			
Nonexpendable			
Scholarships and fellowships	306,155	28,272,014	—
Academic support	1,400	—	—
Other	—	27,926,752	—
Expendable			
Auxiliary expenditures	10,568,039	—	—
Scholarships and fellowships	385,583	4,182,914	—
Loans	8,180,201	—	—
Bond reserve	750,000	—	—
Other	276,802	14,277,431	—
Unrestricted	27,376,359	10,186,023	(3,661,305)
<b>TOTAL NET ASSETS (Deficit)</b>	<u>\$ 169,545,566</u>	<u>\$ 85,867,656</u>	<u>\$ (3,661,305)</u>

See Notes to Financial Statements

**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF NET ASSETS**

June 30, 2009

	<u>Component Units</u>		
	University of Northern Colorado	University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 53,017,705	\$ 2,217,135	\$ 226,149
Funds held in trust	—	—	929,735
Student accounts receivable, net of allowance of \$3,181,116	4,477,168	—	—
Pledged receivable, net	—	1,165,190	—
Other receivables	3,837,467	439,534	—
Investments	—	25,680,493	—
Inventories	947,256	—	—
Loans to students, net	426,729	—	—
Other assets	614,129	113,828	16,767
Total Current Assets	<u>63,320,454</u>	<u>29,616,180</u>	<u>1,172,651</u>
<b>Noncurrent Assets</b>			
Restricted cash and cash equivalents	750,000	—	—
Restricted investments	12,054,256	—	—
Pledged receivable, net	—	1,340,242	—
Loans to students, net	7,056,275	—	—
Other noncurrent assets	2,521,613	—	6,078,631
Investments permanently restricted for endowment	—	51,964,334	—
Capital assets, net	249,934,914	1,081,986	13,963,190
Total Noncurrent Assets	<u>272,317,058</u>	<u>54,386,562</u>	<u>20,041,821</u>
<b>TOTAL ASSETS</b>	<u>335,637,512</u>	<u>84,002,742</u>	<u>21,214,472</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	18,205,700	1,580,862	659,346
Deferred revenue	5,230,458	100,000	100,855
Bonds/notes payable, current portion	2,010,000	—	275,000
Capital leases payable, current portion	702,486	—	—
Funds held for the University of Northern Colorado	—	696,802	—
Other current liabilities	1,803,316	—	—
Total Current Liabilities	<u>27,951,960</u>	<u>2,377,644</u>	<u>1,035,201</u>
<b>Noncurrent Liabilities</b>			
Bonds/notes payable	136,778,501	—	23,513,022
Capital leases payable	3,233,259	—	—
Other long-term liabilities	2,169,419	—	—
Annuity obligations	—	155,754	—
Compensated absence liabilities	3,914,449	—	—
Total Noncurrent Liabilities	<u>146,095,628</u>	<u>155,754</u>	<u>23,513,022</u>
<b>TOTAL LIABILITIES</b>	<u>174,047,588</u>	<u>2,533,418</u>	<u>24,548,223</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	115,452,637	1,081,986	—
Restricted for:			
Nonexpendable			
Scholarships and fellowships	306,155	25,334,948	—
Academic support	1,400	—	—
Other	—	26,629,386	—
Expendable			
Auxiliary expenditures	10,342,463	—	—
Scholarships and fellowships	397,651	3,618,536	—
Loans	8,582,877	—	—
Bond reserve	750,000	—	—
Other	354,278	16,979,260	—
Unrestricted	25,402,463	7,825,208	(3,333,751)
<b>TOTAL NET ASSETS (Deficit)</b>	<u>\$ 161,589,924</u>	<u>\$ 81,469,324</u>	<u>\$ (3,333,751)</u>

See Notes to Financial Statements

**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

*For the Year Ended June 30, 2010*

	<u>Component Units</u>		
	University of Northern Colorado	University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
<b>Operating Revenues</b>			
Student tuition and fees, net	\$ 79,990,155	\$ —	\$ —
Contributions	—	3,969,736	—
Contributed services	—	224,797	—
Rental income and fees	—	—	2,114,477
Federal grants and contracts	8,745,762	—	—
State and local grants and contracts	5,357,243	—	—
State fee-for-service	9,954,461	—	—
Nongovernmental grants and contracts	4,634,063	—	—
Sales and services of educational activities	382,826	—	—
Auxiliary operating revenue	28,844,960	—	—
Interest and dividends	—	2,080,964	—
Net realized and unrealized gain	—	6,601,361	—
Other operating revenue	<u>7,458,332</u>	<u>1,510,207</u>	<u>—</u>
Total Operating Revenues	<u>145,367,802</u>	<u>14,387,065</u>	<u>2,114,477</u>
<b>Operating Expenses</b>			
Educational and general			
Instruction	63,903,417	—	—
Research	3,450,700	—	—
Public service	1,814,955	—	—
Academic support	19,233,255	—	—
Student services	19,759,991	—	—
Institutional support	8,878,558	—	—
Operation of plant	8,452,738	—	—
Scholarships and fellowships	11,027,885	—	—
Program	—	6,893,407	—
Management and general	—	1,220,998	—
Fundraising	—	1,324,328	—
Pledged receivable write off	—	550,000	—
Auxiliary operating expenditures	25,962,992	—	—
Operating expenses	—	—	801,566
Ground lease with University of Northern Colorado	—	—	57,717
Depreciation and amortization	<u>15,017,068</u>	<u>—</u>	<u>508,408</u>
Total Operating Expenses	<u>177,501,559</u>	<u>9,988,733</u>	<u>1,367,691</u>
<b>Operating Income (Loss)</b>	<u>(32,133,757)</u>	<u>4,398,332</u>	<u>746,786</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income, net of investment expense	1,496,808	—	91,153
State Fiscal Stabilization Fund	23,570,532	—	—
Interest on capital asset related debt	(5,977,001)	—	(1,165,493)
Federal Grant and Contract Revenue	10,074,848	—	—
Other nonoperating revenue	<u>152,530</u>	<u>—</u>	<u>—</u>
Net Nonoperating Revenues (Expenses)	<u>29,317,717</u>	<u>—</u>	<u>(1,074,340)</u>
<b>Income (Loss) Before Other Revenues (Expenses),</b>			
<b>Gains (Losses)</b>	(2,816,040)	4,398,332	(327,554)
Capital appropriations	727,006	—	—
Capital contribution - certificates of participation	9,400,639	—	—
Capital grants and gifts	702,755	—	—
Loss on disposal of capital assets	<u>(58,718)</u>	<u>—</u>	<u>—</u>
<b>Total Other Charges</b>	<u>10,771,682</u>	<u>—</u>	<u>—</u>
<b>Increase in Net Assets</b>	7,955,642	4,398,332	(327,554)
<b>Net Assets (Deficit), Beginning of Year</b>	<u>161,589,924</u>	<u>81,469,324</u>	<u>(3,333,751)</u>
<b>Net Assets (Deficit), End of Year</b>	<u>\$ 169,545,566</u>	<u>\$ 85,867,656</u>	<u>\$ (3,661,305)</u>

See Notes to Financial Statements

**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

*For the Year Ended June 30, 2009*

	University of Northern Colorado	Component Units	
		University of Northern Colorado Foundation, Inc.	University of Northern Colorado Foundation Student Housing LLC I
<b>Operating Revenues</b>			
Student tuition and fees, net	\$ 79,206,461	\$ —	\$ —
Contributions	—	4,565,306	—
Contributed services	—	175,150	—
Rental income and fees	—	—	2,043,183
Federal grants and contracts	8,200,679	—	—
State and local grants and contracts	6,317,800	—	—
State fee-for-service	19,169,232	—	—
Nongovernmental grants and contracts	3,973,248	—	—
Sales and services of educational activities	409,572	—	—
Auxiliary operating revenue	26,463,559	—	—
Interest and dividends	—	1,978,876	—
Net realized and unrealized loss	—	(20,562,647)	—
Other operating revenue	5,736,564	1,096,644	—
Total Operating Revenues	149,477,115	(12,746,671)	2,043,183
<b>Operating Expenses</b>			
Educational and general			
Instruction	60,159,710	—	—
Research	3,034,464	—	—
Public service	2,300,092	—	—
Academic support	16,724,792	—	—
Student services	18,285,114	—	—
Institutional support	8,873,255	—	—
Operation of plant	8,076,677	—	—
Scholarships and fellowships	9,413,714	—	—
Program	—	7,966,904	—
Management and general	—	1,493,781	—
Fundraising	—	1,319,365	—
Pledged receivable write off	—	—	—
Auxiliary operating expenditures	23,115,374	—	—
Operating expenses	—	—	764,239
Ground lease with University of Northern Colorado	—	—	57,717
Depreciation and amortization	14,013,492	—	640,014
Total Operating Expenses	163,996,684	10,780,050	1,461,970
<b>Operating Income (Loss)</b>	<b>(14,519,569)</b>	<b>(23,526,721)</b>	<b>581,213</b>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income, net of investment expense	2,544,467	—	119,070
State Fiscal Stabilization Fund	8,909,433	—	—
Interest on capital asset related debt	(4,615,082)	—	(1,176,493)
Federal Grant and Contract Revenue	5,834,954	—	—
Other nonoperating revenue	82,604	—	—
Net Nonoperating Revenues (Expenses)	12,756,376	—	(1,057,423)
<b>Income (Loss) Before Other Revenues (Expenses), Gains (Losses)</b>	<b>(1,763,193)</b>	<b>(23,526,721)</b>	<b>(476,210)</b>
Capital appropriations	1,386,840	—	—
Capital contribution - certificates of participation	1,222,087	—	—
Capital grants and gifts	—	—	—
Loss on disposal of capital assets	—	—	—
<b>Total Other Charges</b>	<b>2,608,927</b>	<b>—</b>	<b>—</b>
<b>Increase in Net Assets</b>	<b>845,734</b>	<b>(23,526,721)</b>	<b>(476,210)</b>
<b>Net Assets (Deficit), Beginning of Year</b>	<b>160,744,190</b>	<b>104,996,045</b>	<b>(2,857,541)</b>
<b>Net Assets (Deficit), End of Year</b>	<b>\$ 161,589,924</b>	<b>\$ 81,469,324</b>	<b>\$ (3,333,751)</b>

See Notes to Financial Statements

**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF CASH FLOWS**

*For the Years Ended June 30, 2010 and 2009*

	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Cash received		
Tuition and fees	\$ 78,535,307	\$ 77,806,606
Colorado state fee-for-service	9,954,461	19,169,232
Sales and services of educational activities	480,562	354,829
Sales and services of auxiliary activities	28,653,061	26,486,110
Grants and contracts	18,795,151	16,876,016
Student loans collected	1,279,400	1,109,679
Other receipts	7,191,598	5,718,529
Cash payments		
Payments to/for employees	(87,806,804)	(96,451,974)
Payments to/for employees – funded by State Fiscal Stabilization	(23,570,532)	(8,909,433)
Payments to suppliers	(37,297,197)	(32,733,734)
Scholarships disbursed	(10,839,175)	(9,734,320)
Student loans disbursed	<u>(1,730,616)</u>	<u>(869,962)</u>
Net cash used by operating activities	<u>(16,354,784)</u>	<u>(1,178,422)</u>
<b>Noncapital Financing Activities</b>		
State Fiscal Stabilization nonoperating funds	23,570,532	8,909,433
Federal Grant and Contract – Pell	10,074,848	5,834,954
Real property rental receipts	116,173	55,210
Agency inflows – campus organizations and scholarships	8,638,619	8,154,731
Agency outflows – campus organizations and scholarships	(8,647,538)	(8,028,761)
Agency loan inflows – student loans	64,696,415	55,147,274
Agency loan outflows – student loans	<u>(64,696,415)</u>	<u>(55,068,594)</u>
Net cash provided by noncapital financing activities	<u>33,752,634</u>	<u>15,004,247</u>
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(17,333,086)	(35,679,670)
Principal paid on capital leases	(705,771)	(674,784)
Principal paid on bonds payable	(2,010,000)	(1,915,000)
Interest paid on capital debt	<u>(5,986,867)</u>	<u>(4,626,263)</u>
Net cash used by capital and related financing activities	<u>(26,035,724)</u>	<u>(42,895,717)</u>
<b>Investing Activities</b>		
Investment earnings	1,543,233	2,608,722
Proceeds from sale and maturity of investments	11,347,653	27,235,377
Net proceeds from sale of student loans	<u>—</u>	<u>(8,372)</u>
Net cash provided by investing activities	<u>12,890,886</u>	<u>29,835,727</u>
<b>Increase in Cash and Cash Equivalents</b>	4,253,012	765,835
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>53,767,705</u>	<u>53,001,870</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 58,020,717</u>	<u>\$ 53,767,705</u>

*See Notes to Financial Statements*

**UNIVERSITY OF NORTHERN COLORADO**  
**STATEMENT OF CASH FLOWS – CONTINUED**

*For the Years Ended June 30, 2010 and 2009*

	<u>2010</u>	<u>2009</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (32,133,758)	\$ (14,519,569)
Depreciation expense	15,017,068	14,013,492
Amortization expense	72,756	63,163
Student loan cancellations	108,655	112,177
Changes in operating assets and liabilities		
Student accounts receivable, net	(1,128,310)	(460,294)
Other receivables, net	334,066	(847,015)
Loans to students, net	(408,044)	135,744
Inventories	(82,575)	(14,180)
Other current assets	(165,397)	306,428
Accounts payable	809,793	(312,712)
Accrued payroll	356,159	761,196
Deferred revenues	80,931	(437,836)
Other liabilities	838,257	(478,373)
Accrued compensated absences	<u>(54,385)</u>	<u>499,357</u>
Net cash used by operating activities	<u>\$ (16,354,784)</u>	<u>\$ (1,178,422)</u>
<b>Reconciliation of Cash and Cash Equivalents to the</b>		
<b>Statements of Net Assets</b>		
Cash and cash equivalents	\$ 57,270,717	\$ 53,017,705
Restricted cash and cash equivalents	<u>750,000</u>	<u>750,000</u>
Total cash and cash equivalents	<u>\$ 58,020,717</u>	<u>\$ 53,767,705</u>
<b>Supplemental Cash Flows Information</b>		
Accounts payable incurred for capital asset purchase	\$ 4,393,255	\$ 3,220,719
Capital assets financed by state capital contribution	\$ 727,006	\$ 1,386,840
Construction in progress financed by state COP	\$ 9,400,639	\$ 1,222,087
Capitalized bond issue and premium costs	\$ 13,193	\$ 39,323
Capital lease incurred for purchase of capital assets	\$ 21,928	\$ 8,714
Capital gifts	\$ 702,755	\$ —
Loss on disposal of assets	\$ 58,718	\$ —

# 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.

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

#### **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, the funds that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **University of Northern Colorado Foundation Student Housing LLC I**

The University of Northern Colorado Foundation Student Housing LLC I (the LLC) is a legally separate component unit of the University that was established as a Colorado limited liability company in May 2001 to construct and operate a 396-bed student housing facility for the University. The Foundation is the sole member of the LLC; however, the results of the LLC's operations do not accrue to the Foundation. The LLC has a 46-year ground lease with the University under which "net available cash flows" from the operations, as defined in the lease agreement, is paid to the University as rent (see Note 7). At the end of the ground lease in 2047, or upon earlier retirement of the bond issue, title to the housing facility is transferred to the University. As the majority of the LLC's available resources are paid to the University through the ground lease, the LLC is considered a component unit of the University and is discretely presented in the University's financial statements.

### **Basis of Accounting and Presentation**

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

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

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

### **Unrestricted Cash and Cash Equivalents**

For purposes of reporting cash flows, the University defines cash and cash equivalents as cash on hand, demand deposit accounts with financial institutions, pooled cash with the state Treasurer, and all highly liquid investments with original maturities of three months or less. As of June 30, 2010 and 2009, cash equivalents consisted primarily of funds invested through the state Treasurer's Cash Management Program.

### **Restricted Cash and Cash Equivalents**

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

### **Investments and Investment Income**

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest and dividend income plus the current year change in unrealized gain (loss) on the fair value of investments. The University's investments generally include direct obligations of the U.S. Government and its agencies, money market funds, mutual funds and guaranteed investment contracts. Endowments are pooled to the University accordance with its investment policy.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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 \$2,091,226 and \$1,889,317 at June 30, 2010 and 2009, 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 below:

<b><u>University interest capitalized and expensed</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Total interest expense incurred on borrowings for projects	\$ 600,690	\$ 1,794,360
Interest expense capitalized related to self-funded projects	59,350	52,532
Interest expense capitalized related to State Certificates of Participation	329,340	-
Interest income from investment of bond proceeds for projects	(33,092)	(721,802)
Net interest cost capitalized	\$ <u>956,288</u>	\$ <u>1,125,090</u>
Interest capitalized	\$ 956,288	\$ 1,125,090
Interest charged to expense	<u>5,826,279</u>	<u>4,437,158</u>
<b>Total interest incurred</b>	\$ <u><u>6,782,567</u></u>	\$ <u><u>5,562,248</u></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 lives of the assets, generally 40 years for buildings and improvements, 20 years for land improvements, 3 years for software, 10 years for library books and 3–10 years for equipment and vehicles. Depreciation expense is not allocated among functional categories.

### **Capital Lease Liabilities**

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

### **Deferred Revenues**

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

### **Classification of Revenues**

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

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

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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***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 \$10,074,848 and \$5,834,954 at June 30, 2010 and 2009, 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 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, 2010 or 2009.

### **Use of Estimates**

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

### **Bad Debt Allowance**

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

### **Compensated Absences Accrued Liability**

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

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

Compensated 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.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **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 \$18.7 million and \$12.6 million for the years ended June 30, 2010 and 2009, respectively.

### **Reclassifications**

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation.

Pell grant revenue has been reclassified as Federal Grant and Contract Revenue in the nonoperating revenue (expenses) section of the Statement of Revenue Expenses and Changes in Net Assets. Pell grant revenue was previously reported as Federal Grants and Contract operating revenue. The State Controller had made ongoing requests to the Governmental Accounting Standards Board (GASB) to remove or revise the guidance provided in the 2007 Amendment of the GASB 34 Implementation Guide regarding nonoperating presentation of Pell grants, but they elected not to do so. Because the GASB would not revise the guidance, the Office of the State Controller has decided that it will present Pell grants as nonoperating revenues in the State's comprehensive annual financial report. To be consistent with the State of Colorado and other state higher education institutions, the University of Northern Colorado has also elected to make the change.

### **UNC Foundation Restatement and Reclassification**

The Foundation's 2009 financial statements have been restated for the effects of understating fiscal year 2009 contribution revenue related to previously unrecognized net pledges receivable and the accrued allowance for doubtful accounts. Pledge receivables, net assets and changes in net assets were restated. The restatement resulted in a net increase to net assets of \$190,214.

Reclassifications between unrestricted, temporarily restricted and permanently restricted net assets were due to the combination of effects involving 1) Implementing certain donor spending policies on the endowment funds versus the reporting requirements under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and 2) the reclassification of earned management fees from temporary restricted to unrestricted for past fiscal years.

## **Note 2: Cash and Cash Equivalents**

### **Unrestricted Cash and Cash Equivalents**

The University deposits unrestricted cash and cash equivalents with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The state Treasurer pools these deposits and invests them in securities approved by CRS 24-7-601.1. The Treasurer acts as

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

a bank for all state agencies and most institutions of higher education, with the exception of the University of Colorado. Monies deposited in the state Treasury are invested until the cash is needed.

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

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

<b>Unrestricted Cash and Cash Equivalents</b>	<b>2010</b>	<b>2009</b>
<b>The University</b>		
Cash on hand	\$ 47,081	\$ 79,589
Cash with U.S. financial institutions	254,297	3,228,403
Cash with Colorado State Treasurer	56,538,626	49,350,633
Restricted cash with state Treasurer	(750,000)	(750,000)
Unrealized gain (loss) – cash with state Treasurer	<u>1,180,713</u>	<u>1,109,080</u>
Total unrestricted cash and cash equivalents	\$ <u>57,270,717</u>	\$ <u>53,017,705</u>

### Restricted Cash and Cash Equivalents

The University holds restricted cash of \$750,000 at June 30, 2010 and 2009 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 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

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

name. As of June 30, 2010 and 2009, all of the cash and cash equivalents held by the state Treasurer and U.S. financial institutions are, therefore, not subject to custodial credit risk.

### Note 3: Investments

The University's investments on June 30, 2010 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.

During the fiscal year ended June 30, 2010 the University drew down the remaining funds in a guaranteed investment contract (GIC) with Trinity Funding Company LLC (TFC). This investment held the proceeds of the \$85 million in refunding and improvement bond issued in July 2005.

Fair value of investments held at June 30, 2010 and 2009 are detailed below:

<b>Investment Types</b>	<b>2010</b>	<b>Maturity</b>	<b>2009</b>	<b>Maturity</b>
<b><u>The University</u></b>				
Guaranteed Investment Contract Fixed Income U.S. Government Obligations	\$ -	Terminated	\$ 11,347,652	0.5 years to termination
Fixed Income U.S. Government Obligations	634,724	1-5 years	154,235	1-5 years
Fixed Income U.S. Government Obligations	50,891	Less than 1 year	264,204	Less than 1 year
Money Market Funds	<u>8,897</u>	Less than 1 year	<u>288,165</u>	Less than 1 year
Total University Restricted Investments	\$ <u>694,512</u>		\$ <u>12,054,256</u>	

The University does not have a policy regarding custodial credit risk as all investments are held by the Foundation. Investment maturities are limited to five years or less from the date of purchase to limit exposure to fair values from increasing interest rates. The University does not have a policy related to investment credit quality that would limit its investment choices beyond State law. All of the University's investments had a Standard & Poor's rating of AAA at the time of purchase.

UNC Foundation's investments held at June 30, 2010 and 2009 are detailed below:

<b>Investment Types</b>	<b>2010</b>	<b>2009</b>
<b><u>The Foundation</u></b>		
Cash and cash equivalents	\$ 4,192,936	\$ 4,457,303
Equities	41,336,713	45,723,438
Bonds	21,503,954	17,985,200
Mutual funds, alternative and other investments	<u>16,566,608</u>	<u>9,478,886</u>
Total Foundation Investments	\$ <u>83,600,211</u>	\$ <u>77,644,827</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### 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:

	<u>2010</u>	<u>2009</u>
<b>The University</b>		
Student accounts receivable – current	\$ 8,616,726	\$ 7,658,284
Allowance for doubtful accounts	<u>(3,072,224)</u>	<u>(3,181,116)</u>
Subtotal student accounts receivable – net	<u>5,544,502</u>	<u>4,477,168</u>
Student loans receivable – current	1,539,055	1,695,144
Allowance for doubtful accounts	<u>(1,156,926)</u>	<u>(1,268,415)</u>
Subtotal current student loans receivable – net	<u>382,129</u>	<u>426,729</u>
Student loans receivable – noncurrent	8,334,564	7,677,177
Allowance for doubtful accounts	<u>(934,300)</u>	<u>(620,902)</u>
Subtotal noncurrent student loans receivable – net	<u>7,400,264</u>	<u>7,056,275</u>
Other receivables – current		
Sponsored programs – federal grants receivable	1,261,882	1,270,525
Sponsored programs – nonfederal grants receivable	135,608	72,082
Student loans program – federal loans receivable	167,172	167,172
Interest receivable	-	50,419
Accounts receivable related party – the Foundation	1,207,562	1,357,946
Other accounts receivable	<u>779,254</u>	<u>919,323</u>
Subtotal other receivables – current	<u>3,551,478</u>	<u>3,837,467</u>
Total of the University's accounts, loans and other receivables	<u>\$ 16,878,373</u>	<u>\$ 15,797,639</u>

### Related Party Receivable

Grants receivable from the Foundation to the University were approximately \$1,207,562 and \$1,357,946 at June 30, 2010 and 2009, respectively.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Foundation Contributions and Pledges Receivable

Foundation Gifts of cash and other assets received without donor stipulations are reported as unrestricted support. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted support. 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 statements 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. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. An allowance for uncollectible contributions is established by Foundation management based on past collection experience and current economic conditions.

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.

### 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:

	<u>2010</u>	<u>2009</u>
<b>The University</b>		
Inventories for supply use	\$ 880,419	\$ 172,846
Inventories for resale	<u>149,413</u>	<u>774,410</u>
Total inventories	<u>\$ 1,029,832</u>	<u>\$ 947,256</u>
Prepaid expenses	\$ 701,967	\$ 536,027
Current portion bond issuance costs	<u>78,026</u>	<u>78,102</u>
Total other current assets	<u>\$ 779,993</u>	<u>\$ 614,129</u>
Athletics conference surety deposit	\$ 250,000	\$ 250,000
Loan receivable related party – the LLC	465,147	449,062
Noncurrent portion bond issuance costs	<u>1,744,525</u>	<u>1,822,551</u>
Total other noncurrent assets	<u>\$ 2,459,672</u>	<u>\$ 2,521,613</u>
<b>The Foundation</b>		
Prepaid expenses and other current assets	<u>\$ 109,191</u>	<u>\$ 113,828</u>
<b>The LLC</b>		
Prepaid expenses and other current assets	<u>\$ 12,966</u>	<u>\$ 15,071</u>
Funds held in trust, net of current portion	\$ 2,758,538	\$ 2,767,830
Bond issuance costs	1,118,850	1,141,589
Prepaid ground lease	<u>2,141,440</u>	<u>2,169,212</u>
Total other noncurrent assets	<u>\$ 6,018,828</u>	<u>\$ 6,078,631</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Note 6: Capital Assets

The following is a summary of capital asset activity for the year ended June 30, 2010:

<b>Capital Assets and Accumulated Depreciation</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>The University</b>					
Capital assets					
Land	\$ 10,270,198	\$ —	\$ —	\$ —	\$ 10,270,198
Land improvements	20,266,572	196,656	—	—	20,463,228
Non-depreciable land improvements	4,264,026	—	—	—	4,264,026
Buildings and improvements	305,272,755	1,935,806	—	21,999,168	329,207,729
Equipment and vehicles	16,778,914	2,558,318	(4,559,716)	—	14,777,516
Software	2,524,180	339,055	(17,596)	—	2,845,639
Library materials	38,485,930	1,447,180	(242,792)	—	39,690,318
Non-depreciable art/historical	842,630	707,715	—	—	1,550,345
Leasehold improvements	860,009	199,723	—	—	1,059,732
Construction in progress	<u>27,123,941</u>	<u>16,376,357</u>	<u>—</u>	<u>(21,999,168)</u>	<u>21,501,130</u>
Total capital assets	<u>426,689,155</u>	<u>23,760,810</u>	<u>(4,820,104)</u>	<u>—</u>	<u>445,629,861</u>
Less accumulated depreciation					
Land improvements	7,221,464	865,915	—	—	8,087,379
Buildings and improvements	124,924,043	10,762,064	—	—	135,686,107
Equipment and vehicles	12,019,783	1,530,232	(4,500,999)	—	9,049,016
Software	2,372,683	146,226	(17,596)	—	2,501,313
Library materials	29,702,635	1,666,184	(242,792)	—	31,126,027
Leasehold improvements	<u>513,633</u>	<u>46,447</u>	<u>—</u>	<u>—</u>	<u>560,080</u>
Total accumulated depreciation	<u>176,754,241</u>	<u>15,017,068</u>	<u>(4,761,387)</u>	<u>—</u>	<u>187,009,922</u>
Net capital assets	<u>\$ 249,934,914</u>	<u>\$ 8,743,742</u>	<u>\$ (58,717)</u>	<u>\$ —</u>	<u>\$ 258,619,939</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

The following is a summary of capital asset activity for the year ended June 30, 2009:

<b>Capital Assets and Accumulated Depreciation</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>The University</b>					
Capital assets					
Land	\$ 9,953,567	\$ 316,631	\$ —	\$ —	\$ 10,270,198
Land improvements	20,139,268	—	—	127,304	20,266,572
Non-depreciable land improvements	4,264,026	—	—	—	4,264,026
Buildings and improvements	255,298,971	—	—	49,973,784	305,272,755
Equipment and vehicles	15,230,827	1,691,754	(143,667)	—	16,778,914
Software	2,434,074	90,106	—	—	2,524,180
Library materials	36,835,032	1,870,989	(220,091)	—	38,485,930
Non-depreciable art/historical	842,630	—	—	—	842,630
Leasehold improvements	495,403	364,606	—	—	860,009
Construction in progress	<u>43,301,126</u>	<u>33,923,903</u>	<u>—</u>	<u>(50,101,088)</u>	<u>27,123,941</u>
Total capital assets	<u>388,794,924</u>	<u>38,257,989</u>	<u>(363,758)</u>	<u>—</u>	<u>426,689,155</u>
Less accumulated depreciation					
Land improvements	6,330,711	890,753	—	—	7,221,464
Buildings and improvements	115,117,369	9,806,674	—	—	124,924,043
Equipment and vehicles	10,665,168	1,498,282	(143,667)	—	12,019,783
Software	2,212,948	159,735	—	—	2,372,683
Library materials	28,282,907	1,639,819	(220,091)	—	29,702,635
Leasehold improvements	<u>495,403</u>	<u>18,230</u>	<u>—</u>	<u>—</u>	<u>513,633</u>
Total accumulated depreciation	<u>163,104,506</u>	<u>14,013,493</u>	<u>(363,758)</u>	<u>—</u>	<u>176,754,241</u>
Net capital assets	\$ <u>225,690,418</u>	\$ <u>24,244,496</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>249,934,914</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2010</u>	<u>2009</u>
<b>The Foundation</b>		
Capital assets		
Buildings and improvements	\$ 1,137,742	\$ 1,137,742
Equipment and vehicles	<u>188,188</u>	<u>210,114</u>
Total capital assets	1,325,930	1,347,856
Less accumulated depreciation	<u>(303,408)</u>	<u>(265,870)</u>
Net capital assets	<u>\$ 1,022,522</u>	<u>\$ 1,081,986</u>
<b>The LLC</b>		
Capital assets		
Buildings and improvements	\$ 16,839,544	\$ 16,757,134
Furniture and Equipment	<u>1,007,180</u>	<u>959,172</u>
Total capital assets	17,846,724	17,716,306
Less accumulated depreciation	<u>(4,253,549)</u>	<u>(3,753,116)</u>
Net capital assets	<u>\$ 13,593,175</u>	<u>\$ 13,963,190</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:

	<u>2010</u>	<u>2009</u>
<b>The University</b>		
Accounts payable	\$ 2,072,641	\$ 4,424,515
Accrued salaries and benefits	11,597,502	11,241,344
Accrued interest expense	572,583	582,448
Other accrued liabilities	<u>748,136</u>	<u>1,957,393</u>
Total accounts payable and accrued liabilities	<u>14,990,862</u>	<u>18,205,700</u>
Current deferred revenue		
Deferred revenue – summer student tuition and fees	5,076,176	4,941,883
Deferred revenue – restricted grants and contracts	177,392	230,753
Current portion deferred broadband lease	7,419	-
Current portion deferred revenue of the LLC	<u>57,822</u>	<u>57,822</u>
Total current deferred revenue	<u>5,318,809</u>	<u>5,230,458</u>
Bonds, capital leases and notes payable		
Current bonds, capital leases and notes payable	3,475,485	2,712,486
Noncurrent bonds, capital leases and notes payable	<u>136,522,355</u>	<u>140,011,760</u>
Total bonds, capital leases and notes payable	<u>139,997,840</u>	<u>142,724,246</u>
Other liabilities		
Current		
Deposits held	755,576	764,256
Current insurance liability	870,865	23,926
Deposits held in custody for agency funds	651,916	663,259
Current portion of compensated absences liability	<u>393,302</u>	<u>351,875</u>
Subtotal other current liabilities	<u>2,671,659</u>	<u>1,803,316</u>
Noncurrent		
Long-term deposit liabilities held	30,000	30,000
Long-term deferred revenue broadband lease	28,069	-
Long-term deferred revenue of the LLC	<u>2,081,597</u>	<u>2,139,419</u>
Subtotal other noncurrent long-term liabilities	<u>2,139,666</u>	<u>2,169,419</u>
Noncurrent compensated absence liability	<u>3,818,636</u>	<u>3,914,449</u>
Total other liabilities	<u>8,629,961</u>	<u>7,887,184</u>
Total liabilities – the University	<u>\$ 168,937,472</u>	<u>\$ 174,047,588</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2010</u>	<u>2009</u>
<b>The Foundation</b>		
Accounts payable and accrued liabilities	\$ 1,424,195	\$ 1,580,862
Deferred revenue	16,667	100,000
Funds held for the University	<u>696,076</u>	<u>696,802</u>
	<u>2,136,938</u>	<u>2,377,664</u>
Long-term debt		
Annuity obligations	<u>207,787</u>	<u>155,754</u>
Total liabilities – the Foundation	<u>\$ 2,344,725</u>	<u>\$ 2,533,418</u>
<b>The LLC</b>		
Accounts payable and accrued liabilities	\$ <u>631,472</u>	\$ <u>659,346</u>
Unearned revenues	<u>97,170</u>	<u>100,855</u>
Notes payable – UNC	465,147	449,062
Bond payable		
Current portion bond payable	330,000	275,000
Noncurrent portion bond payable	<u>22,740,326</u>	<u>23,063,960</u>
Total long-term debt	<u>23,535,473</u>	<u>23,788,022</u>
Total liabilities – the LLC	<u>\$ 24,264,115</u>	<u>\$ 24,548,223</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

### Long-Term Liabilities

The following is a summary of long-term liability activity for the University for the years ended June 30, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Bonds payable	\$ 138,788,501	\$ 0	\$ (2,042,562)	\$ 136,745,939	\$ 2,740,000
Capital leases payable	<u>3,935,745</u>	<u>21,928</u>	<u>(705,772)</u>	<u>3,251,901</u>	<u>735,485</u>
Total	<u>142,724,246</u>	<u>21,928</u>	<u>(2,748,334)</u>	<u>139,997,840</u>	<u>3,475,485</u>
Other long-term liabilities	2,227,241	35,488	(57,822)	2,204,907	65,241
Accrued compensated absences	<u>4,266,324</u>	<u>6,822</u>	<u>(61,208)</u>	<u>4,211,938</u>	<u>393,302</u>
Total other liabilities	<u>6,493,565</u>	<u>42,310</u>	<u>(119,030)</u>	<u>6,416,845</u>	<u>458,543</u>
Total long-term liabilities	<u>\$ 149,217,811</u>	<u>\$ 64,238</u>	<u>\$ (2,867,364)</u>	<u>\$ 146,414,685</u>	<u>\$ 3,934,028</u>

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases					
Bonds payable	\$ 140,736,062	\$ —	\$ (1,947,561)	\$ 138,788,501	\$ 2,010,000
Capital leases payable	<u>4,601,815</u>	<u>8,714</u>	<u>(674,784)</u>	<u>3,935,745</u>	<u>702,486</u>
Total	<u>145,337,877</u>	<u>8,714</u>	<u>(2,622,345)</u>	<u>142,724,246</u>	<u>2,712,486</u>
Other long-term liabilities	2,285,063	—	(57,822)	2,227,241	57,822
Accrued compensated absences	<u>3,766,967</u>	<u>521,956</u>	<u>(22,599)</u>	<u>4,266,324</u>	<u>351,875</u>
Total other liabilities	<u>6,052,030</u>	<u>521,956</u>	<u>(80,421)</u>	<u>6,493,565</u>	<u>409,697</u>
Total long-term liabilities	<u>\$ 151,389,907</u>	<u>\$ 530,670</u>	<u>\$ (2,702,766)</u>	<u>\$ 149,217,811</u>	<u>\$ 3,122,183</u>

### Bonds Payable

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

The University has pledged certain Auxiliary, tuition, and student fee revenues through 2040 to repay \$134,530,000 in Auxiliary revenue bonds. Annual principal and interest payments on the bonds are expected to require less than 19% of pledged revenues. Principal and interest for the current year was approximately \$8.6 million and total pledged revenues were approximately \$46.6 million.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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

<b>The University</b>	<b>2010</b>	<b>2009</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		
Outstanding bond principal	\$ 46,460,000	\$ 46,865,000
Less unamortized discount	(274,150)	(287,257)
Less unamortized loss on refunding	<u>(1,061,070)</u>	<u>(1,136,861)</u>
Subtotal net bonds payable 2001 issue	<u>45,124,780</u>	<u>45,440,882</u>
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		
Outstanding bond principal	80,890,000	81,480,000
Add unamortized premium	3,614,954	3,740,918
Less unamortized loss on refunding	<u>—</u>	<u>—</u>
Subtotal net bonds payable 2005 issue	<u>84,504,954</u>	<u>85,220,918</u>
3.5%-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		
Outstanding bond principal	7,180,000	8,195,000
Add unamortized premium	121,705	130,451
Less unamortized loss on refunding	<u>(185,500)</u>	<u>(198,750)</u>
Subtotal net bonds payable 2008 issue	<u>7,116,205</u>	<u>8,126,701</u>
Total outstanding bond principal	134,530,000	136,540,000
Add total unamortized premium (discount)	3,462,509	3,584,112
Less unamortized loss on refunding	<u>(1,246,570)</u>	<u>(1,335,611)</u>
	<u>\$ 136,745,939</u>	<u>\$ 138,788,501</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

The University's debt service payments required for bonds payable as of June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	\$ 2,740,000	\$ 6,556,441	\$ 9,296,441
2012	2,840,000	6,453,356	9,293,356
2013	2,965,000	6,335,731	9,300,731
2014	3,080,000	6,212,831	9,292,831
2015	3,315,000	6,063,781	9,378,781
2016-2020	19,040,000	27,877,382	46,917,382
2021-2025	24,205,000	22,700,138	46,905,138
2026-2030	30,770,000	16,140,850	46,910,850
2031-2035	24,240,000	8,812,000	33,052,000
2036-2040	21,335,000	3,304,500	24,639,500
<b>Total</b>	<b>\$ 134,530,000</b>	<b>\$ 110,457,010</b>	<b>\$ 244,987,010</b>

### Capital Lease Obligations

Assets under capital leases at June 30, 2010 and 2009 include equipment totaling \$6,277,411 and \$6,255,124 respectively. These agreements provide that any obligations payable after the current fiscal year are contingent upon funds for that purpose being available.

The University debt service payments, including interest, required for these capital leases payable as of June 30, 2010, are detailed below:

Fiscal Years Ending June 30,	Lease Payments
<b>The University</b>	
2011	\$ 861,110
2012	680,438
2013	498,565
2014	493,289
2015	489,151
2016-2020	<u>649,268</u>
Total minimum lease payments	3,671,821
Less amount representing interest	<u>(419,920)</u>
Amount representing principal for future minimum lease payments	<u>\$ 3,251,901</u>

### Other Long-Term Liabilities and Deferred Revenues

#### The University – Related Party Lease Agreement with the LLC

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

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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The remaining \$500,000 was retained by the LLC for operating purposes and is identified as an other noncurrent asset - related party loan receivable in Note 5. Interest earnings are being imputed on these funds and full payment of the loan is expected in 2012.

The University recognized \$57,822 in rental revenue for fiscal years 2010 and 2009. The University will recognize an equal amount of rental income annually for the remaining 37 years of the ground lease agreement.

The University recognized \$16,086 of imputed interest revenue for fiscal years 2010 and 2009. This amount of interest will be recognized annually for the next two years when the loan becomes payable in 2012. The loan principal balance at June 30, 2010 and 2009 was \$465,147 and \$449,062 respectively.

### **The Foundation – 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.

Assets held under gift annuity contracts	\$ 273,244
Less associated liabilities	<u>(207,787)</u>
Net Present value of assets held under contract	<u>\$ 65,457</u>

### **The LLC – Other Long-Term Debt**

The Colorado Educational and Cultural Facilities Authority (the Authority), a political subdivision of the state of Colorado, loaned the proceeds of a \$24,320,000 bond issue to the LLC to finance the construction of a student housing facility. The loan is repayable in amounts sufficient to provide timely payment of the bond principal and interest. Interest rates on the bonds range from 3.375% to 5.375% and interest is payable semi-annually on January 1 and July 1. Bond principal is payable in annual installments beginning in July 2003. The loan is collateralized by the revenue generated from operation of the facility. At June 30, 2010, the balance outstanding on the loan was \$22,740,326, which is net of the unamortized discount of \$243,674.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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

<b>Fiscal years ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2011	\$ 330,000	\$ 1,158,727	\$ 1,488,727
2012	385,000	1,143,877	1,528,877
2013	445,000	1,126,113	1,571,113
2014	465,000	1,106,089	1,571,089
2015	485,000	1,084,708	1,569,708
2016-2020	2,825,000	5,013,058	7,838,058
2021-2025	3,605,000	4,209,814	7,814,814
2026-2020	4,600,000	3,188,687	7,788,687
2031-2035	5,870,000	1,879,916	7,749,916
2036-2038	4,295,000	337,608	4,632,608
<b>Total</b>	<b>\$ 23,305,000</b>	<b>\$ 20,248,597</b>	<b>\$ 43,553,597</b>

### Note 8: Operating Leases

The University leases property and equipment under operating leases expiring in various years through 2020. Rental expense under these agreements for the years ended June 30, 2010 and 2009 was \$595,466 and \$79,725, respectively.

The University's future minimum lease payments under non-cancelable operating leases as of June 30, 2010, are detailed below:

<b>Fiscal Years Ending June 30,</b>	
2011	\$ 826,013
2012	436,453
2013	443,292
2014	456,492
2015	376,407
2016-2020	<u>1,265,940</u>
	<u>\$ 3,804,597</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### Note 9: 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).

Prior to legislation passed during the 2006 session, University of Northern Colorado 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 of Northern Colorado employees and other state higher education employees, excluding 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.

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution plan. If that election is not made, the employee is automatically enrolled in the plan to which he or she last contributed or, if there was no prior participation, to the defined benefit plan. PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership 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 rules in effect for those hired on or after January 1, 2007, as discussed below. The employer contribution to the defined contribution plan is the same amount as the contribution 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 5 years of service.
- Hired on or after January 1, 2007 – 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.

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.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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.

Most 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, the HAS is calculated based on original hire date as follows:

- Hired before January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to a 15 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 15 percent increase.
- Hired on or after January 1, 2007 – HAS is calculated based on three periods of service credit and is limited to an 8 percent increase between periods; the lowest salary of four periods is used as a base for determining the maximum allowable 8 percent increase.

Prior to January 1, 2010, retiree benefits were increased annually based on their original hire date as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually.
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI).
- Hired on or after January 1, 2007 – the lesser of 3 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.)

In the 2010 legislative session, the general assembly set the current increase as the lesser of 2 percent or the average of the monthly CPI amounts for calendar year 2009. The 2009 CPI was negative resulting in a calendar year 2010 increase of 0 percent. The 2010 legislation moved the payment date of all increases to July. New rules governing the annual increase amount will be in effect beginning January 1, 2011.

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% (10.0% for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the Plan. The University contributed the following percentage of the employee's salary:

- From January 1, 2009, to December 31, 2009 – 12.95%;
- From January 1, 2010, to June 30, 2010 – 13.85%.

During all of fiscal year 2009 - 2010, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2009, the division of PERA in which the state participates was underfunded with an amortization period of 43 years.

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

In the 2006 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one-half percentage point through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED.

In the 2010 legislative session, the general assembly extended both the AED and SAED. The AED will continue to increase at a rate of .4 percent of salary from calendar years 2013 through 2017. The SAED will continue to increase by one-half percentage point from calendar years 2014 through 2017. If the funding ratio reaches 103%, both the AED and the SAED will be reduced by one-half percentage point. Neither the AED nor the SAED may exceed 5 percent.

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 the Health Care Trust Fund for the fiscal years ended June 30, 2010, 2009, and 2008, were \$5,447,110, \$4,484,963, and \$4,036,217, respectively. These contributions met the contribution requirement for each year.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Note 10: Optional Retirement Plan**

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

The ORP is a defined contribution plan with three vendors: Metlife, TIAA-CREF, and VALIC. These vendors provide a range of investment accounts for participants. For fiscal years 2010 and 2009, the employee contributed 8% and the University contributed 11.5%. The University's contribution to the ORP for the years ended June 30, 2010 and 2009 was \$4,767,817 and \$4,401,301, respectively. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

The University provides a 403(b) deferred compensation plan to the University President. The Board of Trustees approved a contribution of \$46,000 that was paid in fiscal years 2010 and 2009. The contribution to be paid in fiscal year 2011 is expected to be \$46,000.

### **Note 11: Voluntary Tax-Deferred Retirement Plans**

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The University also offers 403(b) or 401(a) plans.

### **Note 12: Postretirement 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 <http://www.copera.org>.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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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.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 9 – Funding Policy. Beginning July 1, 2004, state agencies and institutions are required to contribute 1.02% of gross covered wages to the Health Care Trust Fund. The University of Northern Colorado contributed \$414,816, \$365,992, and \$354,973 as required by statute in fiscal years 2009-2010, 2008-2009, and 2007-2008, respectively. In each year the amount contributed was 100% 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. In addition, two of PERA's insurance carriers offered high deductible health care plans in 2009. As of December 31, 2009, there were 46,985 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2009, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.50 billion, a funded ratio of 14.8 percent, and a 53-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. As of June 30, 2010, there were 29 participants in post retirement coverage from the eight member higher education institutions, of which 8 are from UNC.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States using the accrual basis of accounting, following governmental accounting standards for a business type activity. The financial statements can be obtained by contacting the University's Human Resource Department at 970-351-2718. Contributions are recognized in the period 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 13: Operating Expenses by Function Compared with Operating Expenses by Natural Classification

For the Years Ended June 30, 2010 and 2009

	2010		2009	
<b>Functional Classification</b>				
Instruction	\$ 63,903,417	36.1%	\$ 60,159,710	36.7%
Research	3,450,700	1.9%	3,034,464	1.9%
Public Service	1,814,955	1.0%	2,300,092	1.4%
Academic Support	19,233,255	10.8%	16,724,792	10.2%
Student Services	19,759,991	11.1%	18,285,114	11.1%
Institutional Support	8,878,558	5.0%	8,873,255	5.4%
Operation and Maintenance of Plant	8,452,738	4.8%	8,076,677	4.9%
Scholarships and Fellowships	11,027,885	6.2%	9,413,714	5.8%
Auxiliary	25,962,992	14.6%	23,115,374	14.1%
Depreciation	15,017,068	8.5%	14,013,492	8.5%
Total Operating Expenses	<u>\$ 177,501,559</u>	<u>100.0%</u>	<u>\$ 163,996,684</u>	<u>100.0%</u>
<b>Natural Classification</b>				
Wages and Benefits	\$ 112,360,819	63.3%	\$ 106,608,088	65.0%
Cost of Sales	8,390,348	4.7%	9,337,807	5.7%
Other current expenses	21,457,390	12.1%	15,530,965	9.5%
Scholarships/Financial Aid	11,540,432	6.5%	9,667,708	5.9%
Utilities	5,471,615	3.1%	5,457,943	3.3%
Travel	3,263,887	1.8%	3,380,681	2.1%
Depreciation	15,017,068	8.5%	14,013,492	8.5%
Total Operating Expenses	<u>\$ 177,501,559</u>	<u>100.0%</u>	<u>\$ 163,996,684</u>	<u>100.0%</u>
<b>Wages and Benefits</b>				
Faculty	\$ 36,486,752	32.5%	\$ 35,733,010	33.5%
Administrative	21,555,061	19.2%	20,272,380	19.0%
Graduate & Teaching assistants	6,844,462	6.1%	5,488,304	5.2%
Classified	20,075,402	17.9%	20,814,697	19.5%
Student	5,541,789	4.9%	5,200,238	4.9%
Other	1,162,128	1.0%	1,056,126	1.0%
Fringe benefits	20,695,225	18.4%	18,043,333	16.9%
Total Wages and Benefits	<u>\$ 112,360,819</u>	<u>100.0%</u>	<u>\$ 106,608,088</u>	<u>100.0%</u>

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Note 14: Legislative Appropriations**

#### **Appropriated Funds**

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

For the years ended June 30, 2010 and 2009, appropriated expenditures were within the authorized spending authority of \$110,596,183 and \$99,410,524, respectively. Actual appropriated revenues earned totaled \$110,596,183 and \$99,408,134, respectively. Actual appropriated expenditures and transfers totaled \$110,596,183 and \$99,408,134, respectively. The net increase in appropriated fund balance was \$0 for both fiscal years.

#### **Capital Construction State Appropriations**

Capital construction state appropriations are recognized only to the extent of current expenditures of \$11,034,909. At June 30, 2010, there were unexpended capital construction state appropriations of \$3,434,657. State appropriations for capital construction include cash funded projects and certificates of participation issued by the State Treasury.

#### **Controlled Maintenance Projects**

The University makes approved expenditures for various controlled maintenance projects. Projects to replace and service electrical and fire alarms in several buildings, and the repair and replacement of heating and ventilation and air conditioning for McKee Hall were completed during the year ended June 30, 2010. The University will continue projects to reroof several buildings for the year ending June 30, 2011.

#### **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 certificates were issued at a net premium of \$180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The certificates carried coupon rates ranging from 3.00% to 5.50% with a total interest cost of 5.38%. The certificate's proceeds will be used to fund renovations, additions, and new construction at 12 state institutions of higher education and were collateralized with existing properties at 11 of the 12 institutions. Legislation enacted in the 2008 session of the General Assembly authorized the lease purchase and limited the lease payments to average \$16.2 million for the first ten years and \$16.8 million for the second ten years. The legislation envisions annual appropriations of Federal Mineral Lease Program (FML) revenues to fund the semi-annual lease payments required. Total lease payments anticipated from the FML source are \$325.5 million, and three institutions will make \$42.8 million of lease payments over the life of the certificates to fund the portion of their required project match that they elected to finance through the certificates.

The University of Northern Colorado's Butler Hancock interior renovation project has been allocated \$11,591,235 from the lease purchase agreement as a state appropriation. UNC has received \$9,071,300 and \$1,046,660 in contributed capital and \$329,340 and \$175,427 of contributed capital interest as of June 30, 2010 and 2009 respectively. Parsons Hall was provided as collateral.

# UNIVERSITY OF NORTHERN COLORADO

## NOTES TO FINANCIAL STATEMENTS

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### **Note 15: Commitments and Contingencies**

#### **Construction Commitments**

As of June 30, 2010, the University has construction commitments of \$3,200,998 for sports and recreation facilities, parking improvement and housing projects.

#### **Government Grants**

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

### **Note 16: Risk Management**

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

- General liability covered by Lexington for \$3,000,000 with a \$5,000 deductible;
- Professional liability covered by Lexington for \$3,000,000 with a \$25,000 deductible;
- Automobile liability covered by Fireman's Fund for \$1,000,000 with no deductible;
- Errors and Omissions covered by Westchester for \$3,000,000 with a \$25,000 deductible;
- Employment Practices Liability covered by Westchester for \$3,000,000 with a \$50,000 deductible;
- Workers Compensation covered by Pinnacol Assurance for \$500,000/\$500,000/\$500,000 with a \$1,000 deductible;
- Fidelity (employee dishonesty) covered by Fireman's Fund for \$500,000 with a \$1,000 deductible;
- Other property covered by Lexington 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 2010 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, 2010 and 2009 was \$24,624 and \$23,296, respectively.

### **Note 17: Other Disclosures**

#### **Multi-Year Employment Contracts**

During 2010, the University maintained three multi-year employment contracts for coaches. The intent of the multi-year terms (either three or four years) is to allow the coaches sufficient time to recruit and build successful athletic teams. These contracts are subject to termination for just cause and fund availability.



A Professional Corporation of  
Certified Public Accountants

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 blended component unit of the State of Colorado as of and for the year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. 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) and the University of Northern Colorado Foundation Student Housing LLC I (the LLC), which collectively comprise the University's discretely presented component units, as described in our report on the University's financial statements. The financial statements of the Foundation and the LLC were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

*A 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*.

\* \* \* \* \*

The University's responses to the findings identified in our audit are described in the Auditor's Findings and Recommendations section of this report. We did not audit the University's responses and, accordingly, we express no opinion on them.

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 15, 2010



### 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, 2010, and have issued our report thereon dated November 15, 2010. 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 as discussed below. 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.

The Governmental Accounting Standards Board's implementation guide issued in 2007 clarified that Pell grants should be recorded as nonoperating revenues since they are nonexchange revenues and entities generally have administrative requirements for these funds. Previously, the University has recorded this Pell grant activity as operating revenue. The Colorado State Controller's Office has now recommended that public institutions in the state reflect Pell grant activity as non-operating revenue.

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) and liabilities (Note 7).

#### **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.

There were uncorrected misstatements of \$444,761 related to the June 30, 2009 fair value of investments, which was adjusted by the State Treasurer, and was determined by management to be immaterial for a prior period adjustment. This does not appear to be a matter which could have a significant effect on the financial reporting process.

#### **MANAGEMENT REPRESENTATIONS**

We have received certain representations from management that are included in the management representation letter dated November 15, 2010.

#### **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.

*Anderson & Whitney, P.C.*

November 15, 2010

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 2108-10