

STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO



FINANCIAL AND COMPLIANCE AUDITS

Years Ended June 30, 2013 and 2012



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TABLE OF CONTENTS

Report Summary2

Recommendation Locator.....4

Organization and Function of the University.....5

FINDINGS AND RECOMMENDATIONS REPORT SECTION

 Auditors’ Findings and Recommendations6

FINANCIAL STATEMENTS REPORT SECTION

 Independent Auditors’ Report12

 Management Discussion and Analysis (Unaudited)14

 Financial Statements:

 Statement of Net Position41

 Statement of Revenues, Expenses, and Changes in Net Position43

 Statement of Cash Flows45

 Notes to Financial Statements47

 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*80

 Required Auditor Communications.....82

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS REPORT SECTION

 Independent Auditors’ Report85

 Financial Statement:

 Statement of Appropriations, Expenditures, Transfers, and Reversions of
 the State-Funded Assistance Programs87

 Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions
 of the State-Funded Student Assistance Programs88

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY
Year Ended June 30, 2013**

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, 2013. 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 2013.

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, 2013. 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*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the University for the years ended June 30, 2013.

Audit Opinions and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2013.

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

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

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY
Year Ended June 30, 2013**

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

This report contains two recommendations. The recommendations address matters regarding federal student financial assistance programs:

- The University should develop further procedures to ensure appropriate action is taken on delinquent Perkins loans.
- The University should ensure that federal requirements for return of funds under federal Title IV programs are met.

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, 2012 included no recommendations.

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**RECOMMENDATION LOCATOR
Year Ended June 30, 2013**

| <u>Recommendation Number</u> | <u>Page Number</u> | <u>Recommendation Summary</u> | <u>Agency Response</u> | <u>Implementation Date</u> |
|--|------------------------|--|----------------------------|--------------------------------|
| <u>FEDERAL FINANCIAL ASSISTANCE RECOMMENDATIONS</u> | | | | |
| 1. | 7 | The University should develop further procedures to ensure appropriate action is taken on delinquent Perkins loans. | Agree | February 28, 2014 |
| 2. | 9 | The University should ensure that federal requirements for return of funds under federal Title IV programs are met by improving the process for calculating the portion of the term completed by withdrawn students. | Agree | December 31, 2013 |

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**ORGANIZATION AND FUNCTION OF THE UNIVERSITY
Year Ended June 30, 2013**

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

The Board of Trustees is the governing body of the University and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms (effective for terms beginning July 1, 1987); one faculty member elected by the faculty; and one student member elected by the student body.

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

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

| | Resident | Nonresident | Total |
|------|----------|-------------|--------|
| 2013 | 8,752 | 1,227 | 9,979 |
| 2012 | 8,972 | 1,131 | 10,103 |
| 2011 | 8,988 | 1,052 | 10,040 |

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

| | Full-Time | Part-Time | Total Faculty |
|------|-----------|-----------|---------------|
| 2013 | 483 | 254 | 737 |
| 2012 | 492 | 191 | 683 |
| 2011 | 498 | 217 | 715 |

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, 2013**

**FINDINGS AND RECOMMENDATIONS
RELATING TO FEDERAL FINANCIAL ASSISTANCE**

COLLECTION OF DELINQUENT FEDERAL PERKINS LOANS

The federal Perkins loan program is a revolving loan fund to provide low-interest loans to students with financial need. The University makes new loans to students from the proceeds of the collection of previous loans. No new federal contributions to the fund have been received in recent years. The University had a total of approximately \$9 million of Perkins loans outstanding to 3,000 borrowers at June 30, 2013. Borrowers for approximately 300 of the loans equaling \$470,000 were over four years delinquent in payments at that time.

What was the purpose of the audit work?

The purpose of the audit work was to review the University's compliance with federal grant requirements relating to the recovery of funds from delinquent Perkins loan borrowers.

What audit work was performed and how were results measured?

Federal regulations require the University to exercise due diligence in the collection of loans from defaulted borrowers. If collection agencies utilized by the University are not successful in collecting the loan, the loan is returned to the University where there must be an annual attempt to collect until the loan is recovered through litigation against the borrower, assigned to the U.S. Department of Education, or written off. The University generally does not write off loans at this stage. If collection efforts are unsuccessful, institutions are encouraged to assign delinquent loans to the U.S. Department of Education for collection.

We reviewed the status of approximately 300 delinquent loans for which collection agency efforts were unsuccessful. The Federal Student Aid Handbook, Volume 6, Chapter 5, indicates that if collection procedures have not resulted in the repayment of a loan, the school must consider litigation against the borrower once every two years.

What problem did the work identify?

Our audit identified that the University did not assign delinquent Perkins loans to the U.S. Department of Education or document litigation considerations every two years, as required, for any of the approximately 300 borrowers that were over four years delinquent as of June 30, 2013.

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**AUDITORS' FINDINGS AND RECOMMENDATIONS - Continued
Year Ended June 30, 2013**

Why did the problem occur?

The problem has occurred because the University has not fully developed its delinquent Perkins loans collection procedures to address due diligence requirements when collection agencies are unsuccessful and the loan is returned to the University.

Why does this problem matter?

If full collection efforts are not undertaken, it is unlikely that delinquent loans will be collected, which reduces funds available for new loans to students.

Classification of Finding: Significant Deficiency

(CFDA No. 84.038; Student Financial Aid Cluster, Special Tests and Provisions)

Total Known Questioned Costs: None

Recommendation No. 1:

The University of Northern Colorado should revise its procedures for addressing delinquent Perkins loans to ensure that actions are taken, including that litigation considerations are made and documented at least every two years and that delinquent loans are assigned to the U.S. Department of Education, as determined appropriate.

University of Northern Colorado Response:

Agree – implementation date February 28, 2014. The University of Northern Colorado will review and revise its procedures for addressing delinquent Perkins loans to ensure that timely and appropriate actions are taken and documented. This includes ensuring that litigation considerations are made and documented at least every two years and that delinquent loans are assigned to the U.S. Department of Education, as determined appropriate.

UNIVERSITY OF NORTHERN COLORADO

AUDITORS' FINDINGS AND RECOMMENDATIONS – Continued

Year Ended June 30, 2013

CONTROLS OVER THE RETURN OF TITLE IV FUNDS

The University participates in the Title IV programs of the U.S. Department of Education including Federal Pell Grants, Federal Supplemental Educational Opportunity Grants and Federal Direct Student Loans. Total federal Title IV assistance paid to students at the University of Northern Colorado in Fiscal Year 2013 was approximately \$90 million, including loans. Approximately 211 student financial aid recipients withdrew from the University during the year. When a financial aid recipient withdraws in the first 60 percent of a semester, University staff are required to perform a calculation to determine if the financial aid recipient or the University needs to return funds to the U.S. Department of Education Title IV programs.

What was the purpose of the audit work?

The purpose of the audit work was to review the University's compliance with respect to the return of Title IV grant or loan assistance calculations for the 211 aid recipients who withdrew from the University during Fiscal Year 2013.

What audit work was performed and how were results measured?

We tested a sample of 21 files out of the 211 student financial aid recipients who withdrew from the University during the fiscal year. We performed testing to determine whether the University has implemented adequate internal controls over the return of Title IV funds calculations. The 21 files tested represented a total of approximately \$28,000 of financial aid received.

Two counselors at the University are responsible for calculating the amount of funds earned and the amount to be returned, and reviewing the calculations completed by the other counselor to ensure proper determinations are made. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student as of the date of the student's withdrawal determined by the institution, the excess distributed must be returned to the Title IV programs. Federal regulations require that institutions return Title IV funds to the U.S. Department of Education programs no later than 45 days after the date of the student's withdrawal as determined by the institution.

UNIVERSITY OF NORTHERN COLORADO

AUDITORS' FINDINGS AND RECOMMENDATIONS – Continued

Year Ended June 30, 2013

What problem did the work identify?

We identified problems with 2 of the 21 (10 percent) calculations we reviewed. In both cases, the students had withdrawn prior to spring break during the Spring 2013 semester; however the nine days of spring break were inadvertently included in the University's determination of total days in the semester for each of these students. This resulted in excess funds being returned to the programs. This error was not detected as there was no review performed on these two calculations by either another counselor or supervisor. These two determinations were completed during a vacation period of one counselor, and no further review was requested.

Why did the problem occur?

We found that the University does not have a formal policy in place for its supervisory review or maintenance of documentation of the review of Title IV refund calculations. The University's review process over these determinations is designed to function in a fully-staffed environment, and the problem occurred when a key individual in this process was absent.

Why does this problem matter?

Failure to properly calculate refunds in the timeline required increases the risk that Title IV funds will not be returned in accordance with federal regulations. The University may refund too much to the federal programs, as in these cases, or it may not refund enough funds.

Classification of Finding: Significant Deficiency

(CFDA No. 84.063; 84.268; Student Financial Aid Cluster, Special Tests and Provisions)

Total Known Questioned Costs: The amount of excess funds returned was \$758 and \$270 for a total of \$1,028 for the two students combined.

Recommendation No. 2:

The University of Northern Colorado should ensure that federal requirements for return of funds under federal Title IV programs are met by establishing a formal policy relating to its supervisory review process and maintenance of documentation of its supervisory reviews.

University of Northern Colorado Response:

Agree – implementation date December 31, 2013. The University will ensure that federal requirements for return of funds under federal Title IV programs are met. The University will ensure this by reviewing, improving and following its established formal policy and procedures. Specific attention relating to the supervisory review process and maintenance of documentation of its supervisory reviews will be reinforced.

**INDEPENDENT AUDITORS' REPORTS,
MANAGEMENT DISCUSSION AND ANALYSIS,
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**



Independent Auditors' Report

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying statements of net position of the University of Northern Colorado (the University) and its discretely presented component unit, collectively an institution of higher education of the State of Colorado, as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of the internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Northern Colorado Foundation, Incorporated (the Foundation) which is the University's discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us. Our opinion insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Northern Colorado and its discretely presented component unit as of June 30, 2013 and 2012, and their respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the University of Northern Colorado, are intended to present the financial position, the changes in financial position and cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 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.

Anderson & Whitney, P.C.

November 15, 2013

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Overview

Management Discussion and Analysis

We are pleased to present this financial discussion and analysis of the University of Northern Colorado (the University or UNC). It is intended to make the University's financial statements easier to understand and to 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 fiscal years ended June 30, 2013, and 2012, respectively, with comparative information for fiscal year 2011. University management is responsible for the completeness and fairness of this discussion and analysis, the financial statements, and related footnote disclosures.

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

Understanding the Financial Statements

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

- ***Independent Auditors' Report*** presents an unqualified opinion prepared by the University's auditors (an independent certified public accounting firm, Anderson & Whitney, P.C.) on the fairness, in all material respects, of the University and its discretely presented component units' respective financial position.
- ***Statement of Net Position*** presents the assets, liabilities, and net position of the University at a point in time (June 30, 2013 and 2012). 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 position and its availability for expenditure by the University.
- ***Statement of Revenues, Expenses and Changes in Net Position*** 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, 2013 and 2012). Its purpose is to assess the University's operating results.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

- *Statement of Cash Flows* presents University cash receipts and payments during a period of time (the years ended June 30, 2013 and 2012). Its purpose is to assess the University's ability to generate net cash flows and meet its payment obligations as they come due.
- *Notes to the Financial Statements* present additional information to support the financial statements and are commonly referred to as Notes. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found. We suggest that you combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety.

Financial Highlights

Selected financial highlights for the fiscal year ended June 30, 2013, include:

- University assets total \$353.2 million with liabilities of \$179.6 million, resulting in a net position of \$173.6 million. Of this amount, \$21.2 million, or 12%, is restricted for purposes for which the donor, grantor, or other external party intended and \$102.6 million, or 59%, is related to investments in capital assets. The remaining \$49.8 million, or 29%, is unrestricted and may be used to meet the University's ongoing obligations.
- The largest single factor impacting net position is the decrease of \$3.7 million in net investments in capital assets. This is primarily because depreciation for fiscal year 2013 was greater than the additions to capital assets. There was also an offsetting shift of \$3.0 million between expendable auxiliary expenditures and unrestricted net position. This was primarily because the University utilized \$2.6 million of auxiliary capital reserves to fund fiscal year 2013 capital projects, which includes addressing deferred maintenance. As a result, these resources were moved from the restricted expendable classification to the unrestricted classification on the Statement of Net Position.
- Total operating revenues of \$182.3 million, less total operating expenses of \$194.4 million, resulted in a net operating loss of \$12.1 million. This operating loss was partially offset by net nonoperating revenues of \$7.9 million and other changes of \$0.2 million, resulting in a \$4.0 million decrease in net position.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Statement of Net Position

The Statement of Net Position is a financial snapshot of the University at June 30, 2013. This statement was previously called the Statement of Net Assets, prior to the implementation of Governmental Accounting Standards Board Statement No. 63. It presents the fiscal resources of the University (assets), the claims against those resources (liabilities), and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent. Net Position is classified by the ways in which it may be used for future operations. The Statement of Net Position presents information on all of the University's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the strength of the financial position of the University. The tables and charts related to the Statement of Net Position that follow have been restated for comparative purposes to include the Arlington Park apartments for fiscal year 2011. The University purchased Arlington Park on July 1, 2011. Prior to the purchase, Arlington Park was discretely presented as a component unit of the University.

| Condensed Statement of Net Position | | | |
|--|-----------------------|-----------------------|-----------------------|
| as of June 30, | | | |
| | 2013 | 2012 | 2011 |
| Assets | | | |
| Current Assets | \$ 92,449,966 | \$ 94,641,152 | \$ 80,446,890 |
| Capital | 251,524,258 | 255,541,478 | 264,724,483 |
| Other Noncurrent Assets | 9,246,636 | 9,784,664 | 11,605,844 |
| Total Assets | <u>353,220,860</u> | <u>359,967,294</u> | <u>356,777,217</u> |
| Liabilities | | | |
| Current Liabilities | 29,439,314 | 31,588,956 | 25,451,468 |
| Bonds/Notes Payable, Noncurrent | 141,552,896 | 145,274,808 | 153,497,393 |
| Other Noncurrent Liabilities | 8,579,810 | 5,501,913 | 5,658,031 |
| Total Liabilities | <u>179,572,020</u> | <u>182,365,677</u> | <u>184,606,892</u> |
| Net Assets | | | |
| Net Investment in Capital Assets | 102,661,696 | 106,384,411 | 110,212,458 |
| Restricted - Nonexpendable | 307,555 | 307,555 | 307,555 |
| Restricted - Expendable | 20,894,091 | 24,260,277 | 22,052,091 |
| Unrestricted | 49,785,498 | 46,649,374 | 39,598,221 |
| Total Net Assets | <u>\$ 173,648,840</u> | <u>\$ 177,601,617</u> | <u>\$ 172,170,325</u> |

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Assets

Current Assets

The most significant change in current assets is the change in restricted cash and cash equivalents held with trustee. This cash was drawn down from \$3.2 million in fiscal year 2012 to \$0.5 million in fiscal 2013 to purchase the west campus generator, which is now included in the financial statements as a capital lease.

Unrestricted cash and cash equivalents and capital assets are the largest portions of the University's total assets.

Unrestricted cash and cash equivalents at June 30, 2013, 2012, and 2011 comprise 22.6%, 22.3%, and 18.6% of the University's total assets and total \$79.9, \$80.2, and \$66.3 million, respectively. The majority of the cash is held by the state treasury and is comprised of general, self-supported, restricted, agency, and other cash funds. Cash and cash equivalents decreased \$0.3 million during fiscal year 2013 and increased \$13.9 and \$9.0 million during fiscal years 2012 and 2011, respectively.

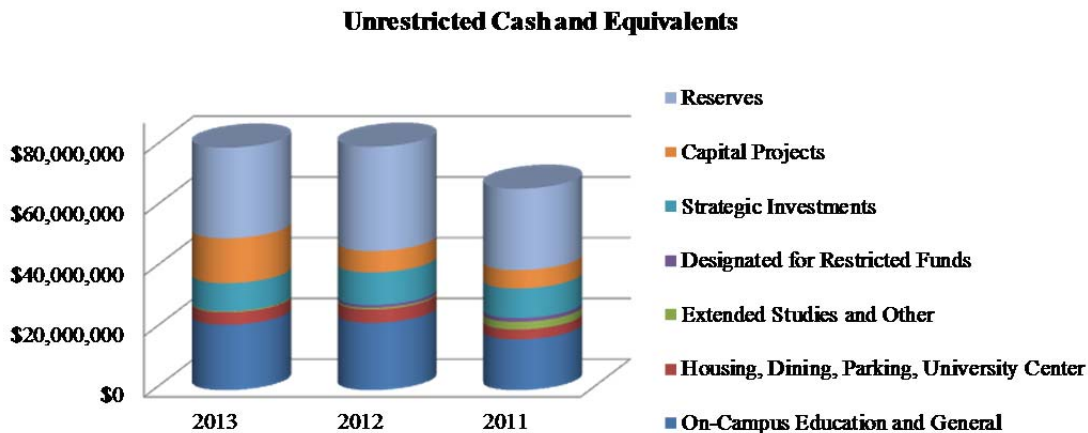
In fiscal year 2013 management utilized reserves to invest in capital projects, which includes addressing deferred maintenance. Each year the University invests approximately \$2.6 million in strategic investments. The remaining amount for strategic investments in the table below is from cash balances that have been redirected to fund activities identified in UNC's nine core strategic plans. The strategic investment cash will be spent over several years. The University also holds \$750,000 in restricted cash for bond covenants as a noncurrent asset in reserves. The following table indicates the expected uses of unrestricted cash and cash equivalents.

| Unrestricted Cash and Cash Equivalents | | | |
|---|----------------------|----------------------|----------------------|
| as of June 30, | | | |
| | 2013 | 2012 | 2011 |
| Operating | | | |
| On-Campus Education and General | \$ 21,552,142 | \$ 22,179,897 | \$ 16,698,532 |
| Housing, Dining, Parking, University Center | 4,083,652 | 4,416,211 | 3,267,183 |
| Extended Studies and Other | 387,388 | 539,809 | 2,523,979 |
| Designated for Restricted Funds | 60,190 | 942,169 | 1,272,614 |
| Strategic Investments | 9,165,522 | 10,708,407 | 9,740,993 |
| Capital Projects | 14,793,010 | 7,038,391 | 6,033,735 |
| Reserves | 29,848,805 | 34,355,697 | 26,789,230 |
| Total Cash and Equivalents | <u>\$ 79,890,709</u> | <u>\$ 80,180,581</u> | <u>\$ 66,326,266</u> |

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)



Student accounts receivable is the second largest current asset and presented net of allowance for doubtful accounts. Net student accounts receivable as of June 30, 2013, 2012, and 2011 are \$7.2, \$6.4, and \$5.7 million, respectively. The net student accounts receivable increases of \$0.8, \$0.7, and \$0.1 million, or 13.1%, 12.7%, and 2.0% over the previous three fiscal years, were a result of increased costs of attendance and the impact of the economy on families' abilities to support educational expenses.

All other categories of current assets combined, which includes other receivables, inventories, loans to students, and other assets, remained essentially the same amount between fiscal 2012 and fiscal 2013.

The largest asset in this group is other receivables, which consists primarily of amounts due to the University from reimbursable grants and contracts. The majority of these are federal, state, or UNC Foundation agreements that have a very high probability of collection. The University spends the money first and then bills the sponsoring agency for reimbursement. Other receivables as of June 30, 2013, 2012, and 2011 are \$2.7, \$2.8, and \$2.5 million, respectively.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Capital Assets

Capital assets are defined as any asset used in operations with an initial useful life extending beyond one year. The University's single largest fiscal resource is its campus facilities. As of June 30, 2013, capital assets, net of \$230.1 million accumulated depreciation, totaled \$251.5 million. This is a \$4.0 million decrease from fiscal year 2012, when capital assets, net of \$216.3 million accumulated depreciation, totaled \$255.5 million. Capital assets, net of \$201.6 million accumulated depreciation, totaled \$264.7 million at June 30, 2011. The capital assets decrease of \$13.2 million from fiscal year 2011 to 2013 is primarily because depreciation expense has been greater than additions for the past two fiscal years.

In fiscal year 2013 there were \$2.0 million of construction projects completed and reclassified from construction in progress to the appropriate asset categories. These capitalized projects consisted of card access system upgrades, signage upgrades, elevator renovations and door replacements in various buildings, classrooms and residence hall renovations, and landscape improvements. Building improvements, equipment, and other capital purchases of \$10.3 million, consisting of instructional equipment, facilities maintenance and operational equipment, information technology equipment, athletics equipment, copier/printers, and library collections increased capital assets. Depreciation expense of \$16.3 million decreased capital assets. In fiscal year 2013, the capitalization of the west campus housing project and depreciation expense of \$16.1 million had the most significant impact on this asset category. In fiscal year 2013 equipment was increased by the capitalization of the lease/purchase of the voice over internet protocol equipment, improved data back-up equipment, and the purchase of various scientific and other instructional equipment totaling \$3.2 million. Numerous construction projects were initiated in fiscal year 2013 and UNC ended the year with \$7.5 million in construction in progress.

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

| Capital Assets Net of Accumulated Depreciation | | | | | | |
|---|-----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| as of June 30, | | | | | | |
| | 2013 | | 2012 | | 2011 | |
| Land and Improvements | \$ 25,152,778 | 10.0% | \$ 25,717,269 | 10.1% | \$ 26,590,110 | 10.0% |
| Buildings and Improvements | 202,350,178 | 80.4% | 212,926,135 | 83.2% | 218,399,477 | 82.5% |
| Construction In Progress | 7,475,411 | 3.0% | 1,948,028 | 0.8% | 4,470,547 | 1.7% |
| Library Books | 7,744,094 | 3.1% | 7,876,189 | 3.1% | 8,188,602 | 3.1% |
| Equipment | 7,251,452 | 2.9% | 5,523,512 | 2.2% | 5,525,402 | 2.1% |
| Art and Historical Treasures | 1,550,345 | 0.6% | 1,550,345 | 0.6% | 1,550,345 | 0.6% |
| Total Capital Assets | <u>\$ 251,524,258</u> | <u>100.0%</u> | <u>\$ 255,541,478</u> | <u>100.0%</u> | <u>\$ 264,724,483</u> | <u>100.0%</u> |

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Other Noncurrent Assets

Other noncurrent assets consist of loans to students, restricted cash and investments, and other items such as surety deposits and unamortized bond issue costs. All of these items combined were essentially the same from 2012 to 2013. Loans to students, the largest portion, 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, that are due after June 30, 2014, totaled \$6.4, \$6.8, and \$7.2 million, at June 30, 2013, 2012, and 2011, respectively.

Liabilities

Non-Debt Related Liabilities

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

Accounts payable and accrued liabilities of \$15.1 million are the most significant non-debt related liabilities and increased \$0.4 million in fiscal year 2013. The largest portion of this liability is \$11.4 million of payroll earned in June 2013, which is payable to employees on July 1, 2013; therefore, it is an accrued liability at fiscal year-end each year.

Deferred revenues of \$7.8 million include tuition and fees and certain auxiliary revenues received by June 30, 2013, but are for services to be provided in fiscal year 2014. It also includes revenues received from grant and contract sponsors and the UNC Foundation that have not yet been earned. These amounts will be recognized as revenue in future periods after all conditions have been satisfied. Deferred revenue decreased an insignificant amount of \$48,000 and the change is primarily related to summer tuition and other activities.

Compensated absences are an estimate of the amount payable to employees in the future for their vested rights under the various leave and retirement programs. This estimate is based on personnel policies that define vacation and sick leave to which the employees may be entitled (see Note 1). The liability for compensated absences for fiscal years 2012 and 2011 was consistent at \$4.2 million, but the estimate was increased to \$4.5 million in fiscal year 2013.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

University Debt

The single largest liability for the University is outstanding bonds payable. The \$3.6 million decrease in bonds payable is the most significant change in University debt between fiscal years 2012 and 2013. This decrease is in accordance with the established debt repayment schedule. In July 2011, the University issued \$41.7 million in bonds for the purpose of currently refunding \$46.0 million of then-outstanding Series 2001 Auxiliary Revenue Refunding and Improvement bonds. The outstanding balance related to this issuance is now \$39.1 million. Also in July 2011, the University issued \$21.1 million in variable rate demand bonds for the purpose of currently refunding \$23.0 million of then-outstanding Colorado Educational and Cultural Facilities Authority, Student Housing Revenue Bonds (Arlington Park LLC Student Housing Facility Bonds), Series LLC 2001A bonds. The outstanding balance related to this issuance is now \$20.1 million.

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

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

| | Summary of Debt Outstanding | | |
|---------------------------|------------------------------------|-----------------------|-----------------------|
| | as of June 30, | | |
| | 2013 | 2012 | 2011 |
| Revenue Bonds | \$ 145,167,896 | \$ 148,794,808 | \$ 156,722,393 |
| Note Payable | - | 3,185,910 | - |
| Capital Lease Obligations | 5,680,697 | 1,959,300 | 2,419,331 |
| | 150,848,593 | 153,940,018 | 159,141,724 |
| Less Current Portion | (4,944,286) | (7,146,458) | (3,813,065) |
| Long-Term Debt | <u>\$ 145,904,307</u> | <u>\$ 146,793,560</u> | <u>\$ 155,328,659</u> |

UNIVERSITY OF NORTHERN COLORADO

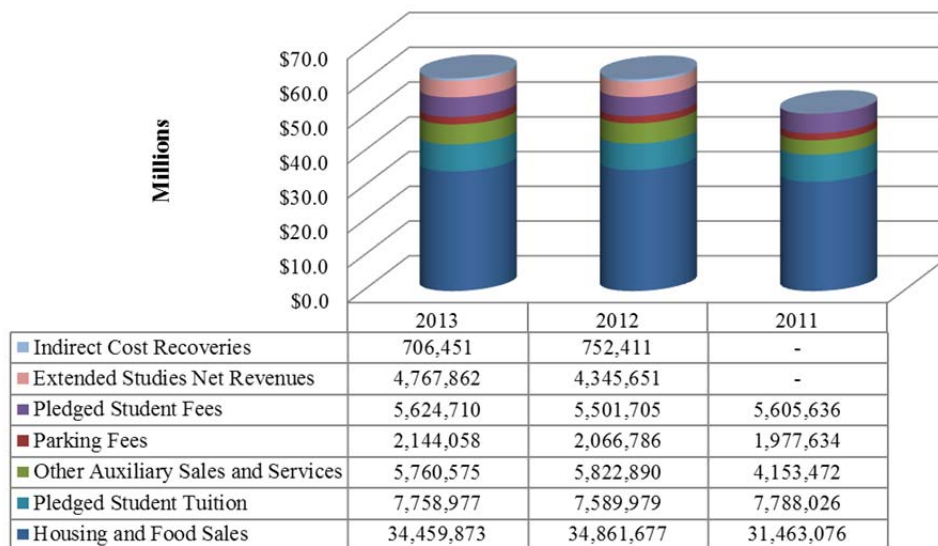
MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

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

The note payable in fiscal year 2012 was for the west campus generator and was converted to a capital lease payable in fiscal year 2013.

Restricted Auxiliary Pledged Revenues



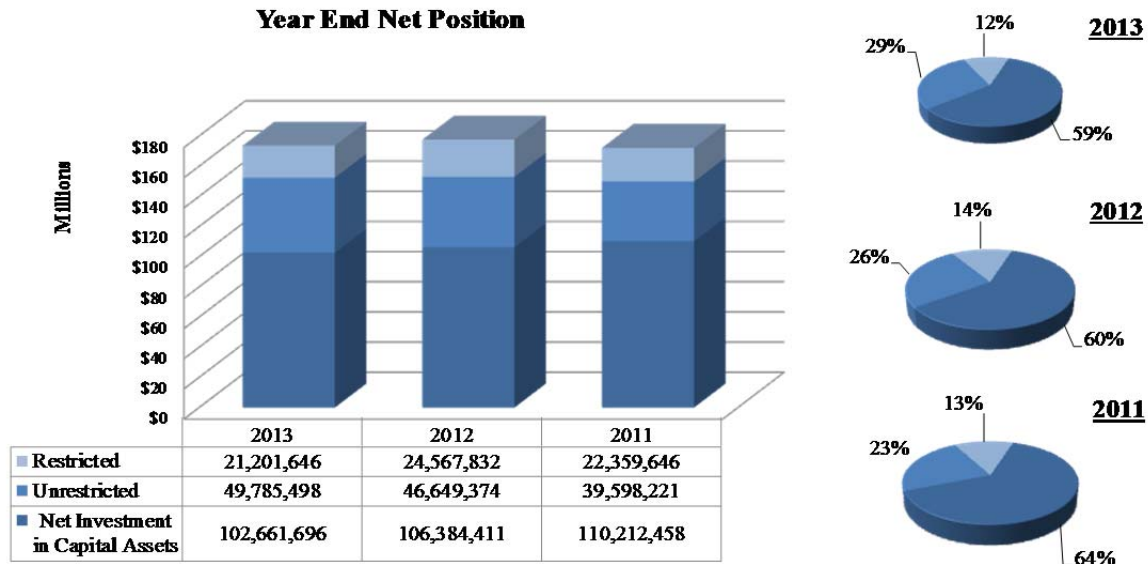
Net Position

Total net position decreased by \$4.0 million during fiscal year 2013 and increased \$5.4, and \$6.3 million during fiscal years 2012 and 2011, with ending balances of \$173.6, \$177.6, and \$172.2 million, respectively. The three year change in net position from the beginning balance of \$165.9 million in fiscal year 2011 to the ending balance of \$173.6 million in fiscal year 2013 is \$7.8 million and represents 1.4% of total operating revenues for this period. Operating revenues were \$182.4, \$180.4, and \$176.9 million, respectively.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)



The composition of the University’s net asset portfolio has shifted from a lower proportion of capital assets net of debt to a higher proportion of unrestricted net position. This was the result of a slowdown in major construction activity on campus and a deliberate decision to build unrestricted reserves to smooth the impact of declining state funding for higher education. However, in the next fiscal year there will be a shift back to net investment in capital assets because management has allocated significant resources to capital projects, primarily to address deferred maintenance on campus.

Restricted net position decreased \$3.4 million from fiscal 2012 to fiscal 2013 primarily because \$2.6 million in capital reserves previously classified as restricted expendable were utilized for capital projects and the resources were reclassified as unrestricted.

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

Net Investment In Capital Assets – The University’s largest class of net position is its capital assets, net of related debt, which comprises 59%, 60%, and 64% of the University’s net position for fiscal years 2013, 2012, and 2011, respectively. This net asset balance equals the cumulative amount expended for capital assets, less the outstanding debt incurred to finance those capital assets and the capital assets’ related accumulated depreciation.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

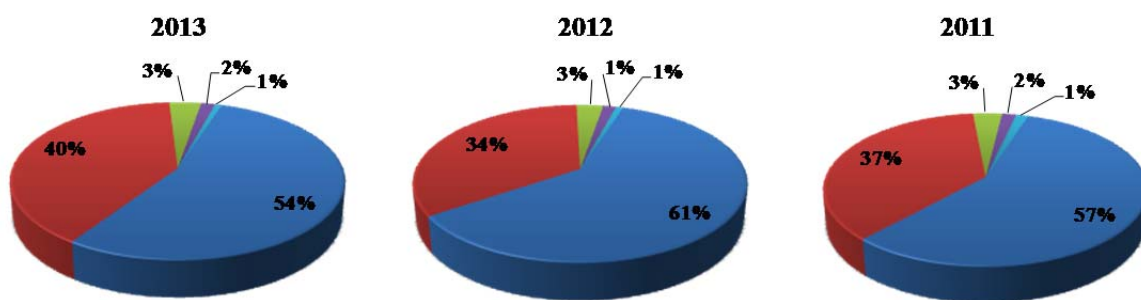
June 30, 2013 and 2012 (Unaudited)

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 position is comprised of endowment funds for which the donor has required that the original principal be set aside for perpetual investment. The University's restricted nonexpendable net position has remained at \$0.3 million for the last three fiscal years and includes 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 position is comprised of resources that may be fully expended but only for specific purposes identified by the donor or entity originally providing the funds. The majority of the restricted expendable net position category consists of revolving Perkins loan funds, net auxiliary revenues pledged to outstanding bond debt, and restricted bond reserves. A very small portion of net position identified as restricted expendable is generated from investment earnings on restricted nonexpendable endowment net position described above. Allowable expenditures for these funds are scholarships and other academic support expenditures.

Restricted Expendable Net Position



| | 2013 | 2012 | 2011 |
|--------------------------------|------------|------------|------------|
| ■ Auxiliary Pledged to Debt | 11,358,524 | 14,679,233 | 12,529,235 |
| ■ Revolving Student Loan Funds | 8,295,465 | 8,267,823 | 8,093,189 |
| ■ Bond Reserve | 750,000 | 750,000 | 750,000 |
| ■ Scholarships | 332,611 | 360,394 | 370,775 |
| ■ Other | 157,491 | 202,827 | 308,892 |

The University's restricted expendable net position at June 30, 2013, 2012, and 2011 was \$20.9, \$24.3, and \$22.1 million, respectively.

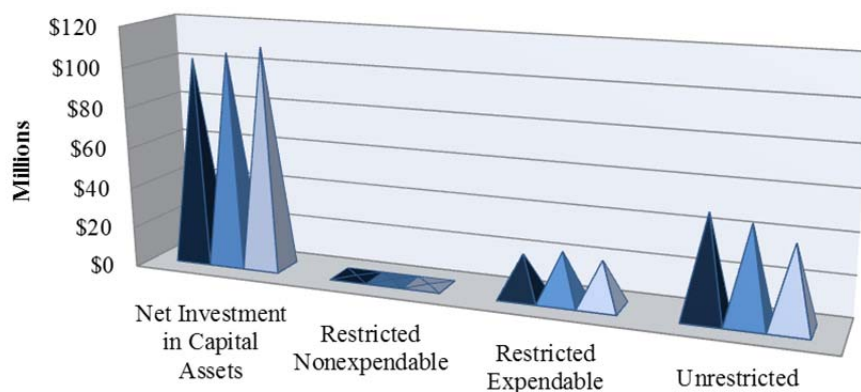
UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Unrestricted - Unrestricted net position is 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 position for certain purposes during the annual budget process. Unrestricted net position of \$49.8 million includes departmental operating funds, inventory, self-funded operation working capital, and reserves.

Net Position



| | Net Investment in Capital Assets | Restricted Nonexpendable | Restricted Expendable | Unrestricted |
|-----------------|----------------------------------|--------------------------|-----------------------|--------------|
| ■ June 30, 2013 | 102,661,696 | 307,555 | 20,894,091 | 49,785,498 |
| ■ June 30, 2012 | 106,384,411 | 307,555 | 24,260,277 | 46,649,374 |
| ■ June 30, 2011 | 110,212,458 | 307,555 | 22,052,091 | 39,598,221 |

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the financial activity of the University over the fiscal year. All changes in net position 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 result in cash flows only in future fiscal periods. A key component of this statement is the differentiation between operating and nonoperating activities. The tables and charts related to the Statement of Revenue, Expenses, and Changes in Net Position that follow have been restated for comparative purposes to include Arlington Park for fiscal year 2011 because it was purchased from the UNC Foundation Student Housing LLC on July 1, 2011.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

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, therefore, are considered nonoperating.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

| Condensed Statement of Revenues, Expenses, and Changes in Net Position | | | |
|---|------------------------------|------------------------------|------------------------------|
| For the Year Ended June 30, | | | |
| | 2013 | 2012 | 2011 |
| Operating Revenues | | | |
| Net Tuition and Fees | \$ 103,803,210 | \$ 100,834,940 | \$ 92,698,542 |
| Fee-for-Service | 17,915,857 | 18,116,714 | 23,809,625 |
| Grants and Contracts | 17,222,531 | 17,343,578 | 17,999,479 |
| Auxiliary | 33,642,896 | 34,698,245 | 33,135,666 |
| Other | 9,803,557 | 9,384,852 | 9,229,875 |
| Total Operating Revenues | <u>182,388,051</u> | <u>180,378,329</u> | <u>176,873,187</u> |
| Operating Expenses | | | |
| Education and General | 151,404,933 | 142,880,121 | 138,889,319 |
| Auxiliary | 26,761,610 | 26,361,509 | 26,235,666 |
| Depreciation | 16,279,574 | 16,041,668 | 16,085,532 |
| Total Operating Expenses | <u>194,446,117</u> | <u>185,283,298</u> | <u>181,210,517</u> |
| Operating Loss | (12,058,066) | (4,904,969) | (4,337,330) |
| Nonoperating Revenues & Expenses | | | |
| Federal Grant and Contracts - Pell | 13,638,482 | 12,990,167 | 13,285,570 |
| Other Nonoperating Revenue | 276,643 | 1,564,580 | 3,071,605 |
| Other Nonoperating Expenses | (6,010,802) | (6,264,975) | (7,851,762) |
| Gain (Loss) before Other Items | (4,153,743) | 3,384,803 | 4,168,083 |
| Capital Appropriations and Contributor | 207,288 | 5,630 | 2,125,498 |
| Capital Grants and Gifts | - | 2,053,248 | - |
| Loss on Disposal of Assets | (6,322) | (12,389) | (7,517) |
| Increase (Decrease) in Net Position | (3,952,777) | 5,431,292 | 6,286,064 |
| Net Position- Beginning of Year | <u>177,601,617</u> | <u>172,170,325</u> | <u>165,884,261</u> |
| Net Position- End of Year | <u><u>\$ 173,648,840</u></u> | <u><u>\$ 177,601,617</u></u> | <u><u>\$ 172,170,325</u></u> |

Total Revenues

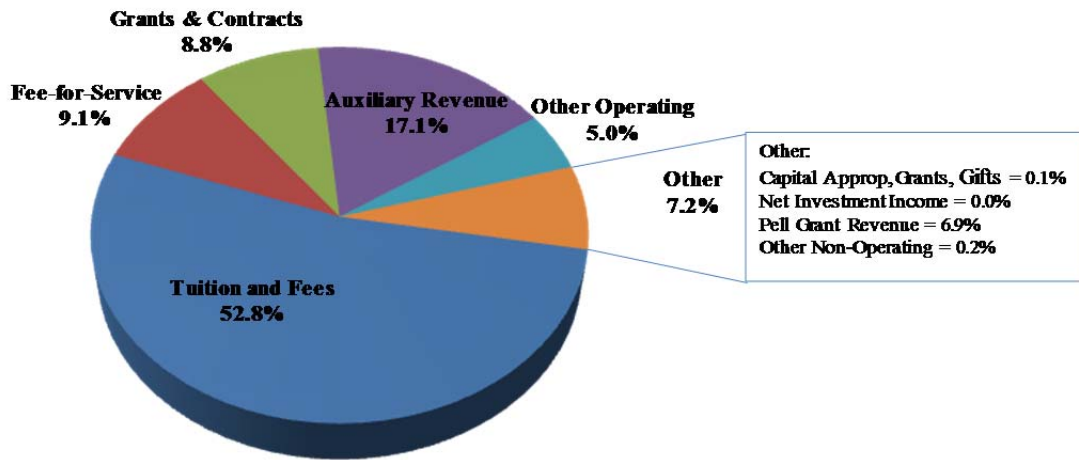
Total University revenues of \$196.5, \$197.0, and \$195.4 million in fiscal years 2013, 2012, and 2011, respectively, consist of operating revenue, Pell grants, other nonoperating revenue, capital appropriations and contributions, and capital grants and gifts. Total revenues decreased \$0.5 million, or -.24%, between fiscal years 2012 and 2013 and increased \$1.6 million, or 0.8%, between fiscal years 2011 and 2012.

UNIVERSITY OF NORTHERN COLORADO

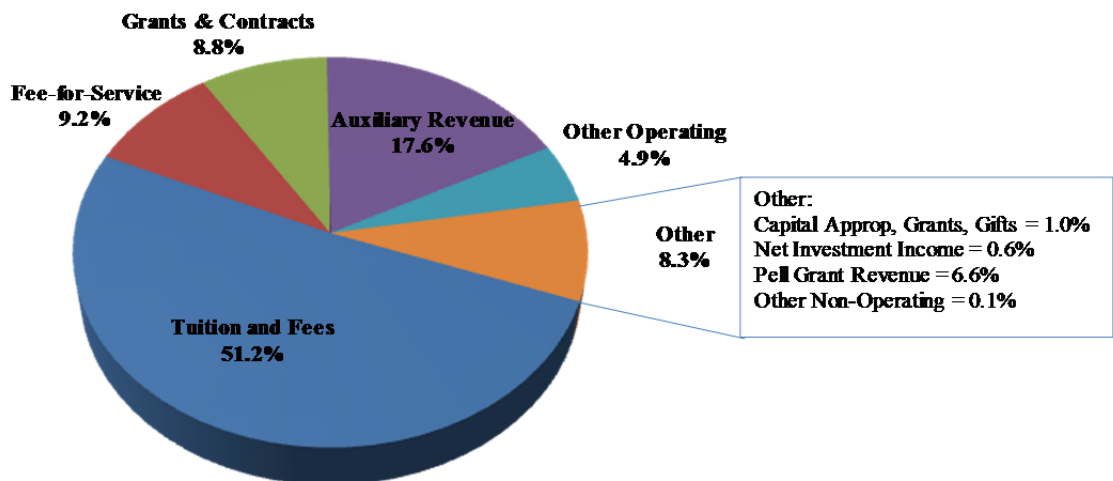
MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Total Revenue 2013



Total Revenue 2012



UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Operating Revenues

Operating revenue for fiscal years 2013, 2012, and 2011 of \$182.4, \$180.4, and \$178.0 million, respectively, is derived from tuition and fees, auxiliary activity, grants and contracts, state fee-for-service, and other operating revenues. The proportion of this category of revenue to total revenue has remained very close over the past two fiscal years.

Tuition and fee revenues increased \$3.0 million between fiscal year 2012 and 2013 as a result of tuition increases. Tuition and fees, the University's largest source of revenue, is shown net of \$17.9, \$16.0, and \$16.0 million in scholarship allowances for fiscal years 2013, 2012, and 2011, respectively. Auxiliary revenue for fiscal years 2013, 2012, and 2011 is net of \$5.2, \$4.8, and \$5.0 million in scholarship allowances, respectively. Scholarship allowances are those portions of the University's tuition and fees which are paid by other revenues, primarily federal and state grants for financial aid, and also general institutional scholarships.

During fiscal years 2013, 2012, and 2011, the Colorado Department of Higher Education (CDHE) provided the University \$32.3, \$32.8, and \$40.6 million, respectively, in College Opportunity Fund (COF), Fee-for-Service (FFS), and in fiscal year 2011, State Fiscal Stabilization Funds (SFSF). COF is included in tuition revenue and FFS has its own line on the financial statements. COF and FFS are both classified as operating revenue. The SFSF is classified as nonoperating revenue. SFSF revenues have not been received by the University since fiscal year 2011.

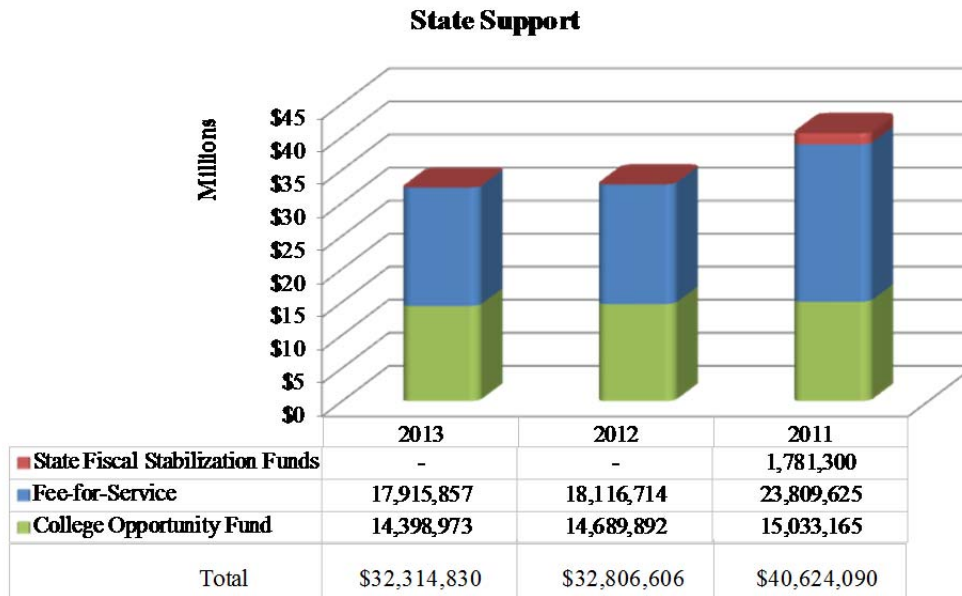
- The College Opportunity Fund provides a stipend to qualified undergraduate students. The students use the stipend to pay a portion of their tuition. The COF stipend provided to students was constant at \$62 per credit hour for fiscal years 2013, 2012, and 2011. In fiscal years 2013, 2012, and 2011, the University applied \$14.4, \$14.7, and \$15.0 million of COF stipends against student tuition bills, respectively. This amount is included in tuition revenues.
- State FFS contract revenue helps support graduate and specialized undergraduate education services. These funds are in addition to tuition paid by students. During fiscal years 2013, 2012, and 2011 CDHE provided the University \$17.9, \$18.1, and \$23.8 million, respectively.
- State Fiscal Stabilization Funds, provided through the American Recovery and Reinvestment Act (ARRA), were granted to the Office of the Governor for use in fiscal years 2009 through 2011. The University received \$1.8 million in fiscal year 2011. These funds are classified as nonoperating revenue but are included in this section to demonstrate the total University support from the state of Colorado.

The total amount of COF, FFS, and SFSF support has decreased \$8.3 million since fiscal year 2011.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)



Auxiliary revenues decreased \$1.1 million between 2012 and 2013 and increased \$1.3 million between 2011 and 2012. Increases in housing and food service contract rates and higher student housing occupancy were the primary sources of the increase in fiscal year 2012. However, a drop in occupancy from 91.8% in fiscal year 2012 to 86.2% in fiscal year 2013 created the revenue decrease in fiscal year 2013. Auxiliary revenue is a major source of support for the University's debt service payments. A detailed schedule of actual and estimated revenues and expenses for debt service is included in the Other Budget, Financial, and Enrollment Data section of the annual financial report.

Other operating revenues include the memorandum of understanding support agreement from the Foundation, athletic camp fees, accounts receivable service charges, Bear Logic computer sales, and various other charges for services. This revenue has remained consistent at \$9.5 to \$9.8 million over the three-year period. The increase in fiscal 2013 is additional rebate revenue from the electrical company under a contract that utilizes the west campus generator during peak times to reduce UNC's load.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Grants and Contracts Revenue

At June 30, 2013, 2012, and 2011, Grants and Contracts Revenue comprise \$30.8, \$30.3, and \$31.3 million or 15.7%, 15.4%, and 16% of the University's total revenues, respectively. Grants and Contracts Revenue is categorized as restricted grants and contracts, which is made up of sponsored programs and UNC Foundation support, and certain financial aid that is received by the University from federal, state, and other sponsors in the form of grants to students. The financial aid reported as revenue is based on generally accepted accounting principles for proper financial statement recognition and is not a comprehensive measure of financial aid awards. It does not include amounts received from third parties, institutional support, loans or other support provided to students.

| Grants and Contracts Revenue | | | |
|---------------------------------------|----------------------|----------------------|----------------------|
| For the Year Ended June 30, | | | |
| | 2013 | 2012 | 2011 |
| Federal Grants | \$ 7,768,098 | \$ 7,619,971 | \$ 7,648,178 |
| State and Local Grants | 138,429 | 94,691 | 66,917 |
| UNC Foundation | 4,114,515 | 3,968,965 | 3,858,954 |
| Other Private Grants | 219,429 | 211,850 | 170,683 |
| Total Restricted Grants and Contracts | <u>12,240,471</u> | <u>11,895,477</u> | <u>11,744,732</u> |
| Federal Financial Aid | 630,551 | 765,919 | 1,082,902 |
| Federal Pell Financial Aid | 13,638,482 | 12,990,167 | 13,285,570 |
| State and Non-Gov't Financial Aid | 4,331,509 | 4,024,405 | 4,543,445 |
| UNC Foundation | 20,000 | 657,778 | 628,401 |
| Total Financial Aid | <u>18,620,542</u> | <u>18,438,269</u> | <u>19,540,318</u> |
| Total Grants and Contract Revenue | <u>\$ 30,861,013</u> | <u>\$ 30,333,746</u> | <u>\$ 31,285,050</u> |

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Restricted Grants and Contracts

For fiscal year 2013, total restricted grants and contracts revenue in the amount of \$12.3 million comprised 39.7% of the total grants and contracts revenue. The primary sources of funding for restricted grants and contracts are from the federal government and the UNC Foundation.

In fiscal year 2013, federal funding for restricted grants and contracts makes up \$7.8 million, or 25.2%, of the total restricted grants and contracts revenue. Federal funding increased \$0.1 million, or 1.9%, from fiscal year 2012 to fiscal year 2013. Federal revenue comes from the U.S. Department of Education (\$3.3 million), the National Science Foundation (\$2.4 million), the U.S. Department of Health and Human Services (\$0.5 million), and other federal sources (\$1.6 million).

UNC Foundation funds are generally donated for grants, program support and scholarships. Grants and program support are included in the top portion of the Grants and Contracts Revenue table and as shown, have grown from \$3.9 million to \$4.1 million over the past two fiscal years as a result of management's strategic focus on long-term fundraising and effective utilization of resources contributed by donors to the University.

State, local, and private funding in restricted grants and contracts was \$0.4 million, or 2.9%, of the total restricted grants and contracts revenue in fiscal year 2013 and increased \$51,317, or 16.7%, from fiscal year 2012 to fiscal year 2013. State, local and private grants do not provide a significant source of restricted grants and contracts revenue.

Financial Aid

For fiscal year 2013, total financial aid is 60.3% of the total grants and contracts revenue, or 16.1% when excluding federal Pell grants of \$13.6 million. Federal Pell grant financial aid is considered nonoperating revenue, but is included in this analysis of all grants and contracts revenue.

The Federal Pell grant program is awarded to eligible students based on financial need, but other criteria are considered. All students who are eligible for the Pell grant are awarded the money. The University is not limited to a certain amount of Pell grant awards in an academic or fiscal year. The variance in Pell grant revenue from academic year to academic year is based on changes in the eligibility of our students and federal legislation (the federal government cut Pell funding for the summer semester 2012). Pell awards were \$13.6, \$13.0, and \$13.3 million in fiscal years 2013, 2012, and 2011 respectively.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

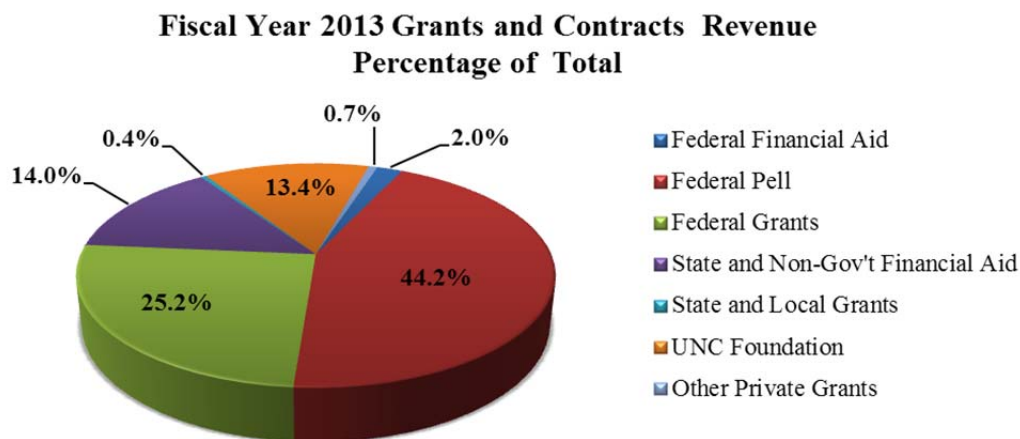
June 30, 2013 and 2012 (Unaudited)

The UNC Foundation financial aid in the Grants and Contract Revenue chart represents annual donations that are intended for athletic scholarships. During the fiscal year 2013 financial planning process, University management made a decision to invest the donations, allowable by donor agreement, at the Foundation for fiscal year 2013 and fund athletic scholarships out of institutional resources. This is why the table reflects a decline from \$0.7 million in fiscal year 2012 to \$20,000 in fiscal year 2013. The University plans to raise scholarship funds in one year and utilize those donations for awards to students in the following year; therefore the UNC Foundation financial aid will be approximately \$0.6 million again in fiscal year 2014.

The other significant changes in grants and contracts revenue include the changes in federal and state funding for financial aid. Federal non-Pell financial aid has declined since fiscal year 2011 because the Colorado Commission on Higher Education did not award the Special Leveraging Educational Assistance Partnership (SLEAP) or Colorado Leveraging Educational Assistance Partnership (CLEAP) grants in fiscal year 2012 or 2013. These grants, although issued by Colorado, contained a federal component, and their elimination by the federal government reduced financial aid by \$0.3 million since fiscal year 2011.

In addition to those two grants, the Federal Academic Competitive Grant and National Science and Math Access to Retain Talent (SMART) were eliminated in federal budget cuts and UNC's last year of funding was fiscal year 2011. This reduced financial aid by another \$0.3 million.

State financial aid has fluctuated from \$4.5 million in fiscal year 2011 to \$4.0 million in fiscal year 2012, and it increased 7.6% to \$4.3 million in fiscal year 2013. These annual amounts are based on state appropriations and the allocation models used to distribute resources within the state university system.



UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Operating Expenses

For fiscal year 2013, total expenses of \$200.5 million included operating expenses of \$194.4 million and interest expenses and other losses of \$6.1 million. Operating expenses increased from fiscal year 2012 by \$9.2 million, or 5.0%.

Natural Classification

| Operating Expenses by Natural Classification For the Year Ended June 30, | | | | | | |
|---|----------------------|---------------|-----------------------|---------------|-----------------------|---------------|
| | 2013 | | 2012 | | 2011 | |
| Personnel Costs | \$122,543,976 | 63.0% | \$ 114,704,535 | 61.9% | \$ 112,894,916 | 62.3% |
| Cost of Goods Sold | 5,210,668 | 2.7% | 5,467,052 | 3.0% | 4,905,775 | 2.7% |
| Other Current Expenses | 50,411,899 | 25.9% | 49,070,043 | 26.5% | 47,324,294 | 26.1% |
| Depreciation | 16,279,574 | 8.4% | 16,041,668 | 8.6% | 16,085,532 | 8.8% |
| Total Operating Expenses | <u>\$194,446,117</u> | <u>100.0%</u> | <u>\$ 185,283,298</u> | <u>100.0%</u> | <u>\$ 181,210,517</u> | <u>100.0%</u> |

Natural classification is a method of grouping expenses according to the type of costs that are incurred. The classifications tell what was purchased rather than why an expense was incurred. Personnel costs are the University's largest expense and increased \$7.8 million.

The largest portion of cost of goods sold expense in the University is in auxiliary services. It decreased \$0.2 million in relation to the \$1.0 million decline in auxiliary revenue. Other current expenditures represent all other operating expense, which includes supplies, purchased services, utilities, and travel. It increased \$1.4 million, or 2.7%, from fiscal year 2012 to 2013, and \$1.7 million, or 3.7%, from fiscal year 2011 to 2012.

Depreciation increased \$0.2 million, or 1.5%, in the past year as a result of capitalizing more depreciable assets.

| Wages and Benefits For the Year Ended June 30, | | | | |
|---|-----------------------|-----------------------|---------------------|-------------|
| | 2013 | 2012 | Change | % Chg |
| Faculty | \$ 39,996,664 | \$ 37,362,634 | \$ 2,634,030 | 7.0% |
| Administrative | 23,342,016 | 21,368,197 | 1,973,819 | 9.2% |
| Graduate and Teaching Assistants | 9,387,362 | 8,798,099 | 589,263 | 6.7% |
| Classified | 18,882,299 | 18,649,236 | 233,063 | 1.2% |
| Student | 5,971,453 | 6,062,553 | (91,100) | -1.5% |
| Other | 1,250,975 | 1,448,886 | (197,911) | -13.7% |
| Fringe Benefits | 23,713,207 | 21,014,930 | 2,698,277 | 12.8% |
| Total Wages and Benefits | <u>\$ 122,543,976</u> | <u>\$ 114,704,535</u> | <u>\$ 7,839,441</u> | <u>6.8%</u> |

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

The University did not award salary increases to employees for fiscal years 2010, 2011 and 2012, and refrained from hiring personnel, other than critical positions, during a portion of that three-year time period. The increases in personnel costs in those years were primarily from graduate tuition waivers and employee benefits.

In fiscal year 2013 the University gave base building increases to faculty and exempt employees and a non-base building performance incentive payment for classified personnel and began to recruit positions that had been previously placed on hold. University of Northern Colorado is embarking on a five-year compensation plan to move the average salaries to 90% of the average salaries of institutions identified as UNC's peer group. In fiscal 2013, management planned a 3% one-time performance incentive payment for classified staff who met performance expectations, a 3% maintenance-of-effort increase for faculty and administrative employees who met performance expectations, and a 2% pool of funds for faculty and administrative personnel to address parity and equity. In addition, graduate stipends were also increased 3%, and adjunct faculty contracts were increased 2%.

Included in the graduate and teaching costs are tuition waivers for graduate students and room and board waivers for resident assistants in the residence halls. These amounts increase annually with graduate tuition and room and board rate increases.

The increase in fringe benefits is primarily due to the changes in contributions to the Public Employees' Retirement Association (PERA) retirement plan, as well as retirement contributions to both PERA and Optional Retirement Plans on higher salary levels. In fiscal year 2013 the university resumed contribution of the full 10.15% of the employer portion of the PERA retirement plan. In fiscal years 2011 and 2012 the state legislature passed a bill to shift 2.5% of the employer basic PERA contribution to the employee, reducing the university's contribution to 7.65%. This provision expired on July 1, 2012. The AED and SAED percentages have increased from 2.2% and 1.5% in fiscal 2011 to 3.4% and 3.0%, respectively, by the end of fiscal 2013. More information related to PERA is in Note 10: Defined Benefit Pension Plan and Note 11: Other PERA Retirement Plans.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

Functional Classification

| Operating Expenses by Functional Classification | | | | | | |
|---|----------------------|---------------|----------------------|---------------|----------------------|---------------|
| For the Year Ended June 30, | | | | | | |
| | 2013 | | 2012 | | 2011 | |
| Instruction | \$ 72,014,268 | 37.0% | \$ 67,604,674 | 36.5% | \$ 64,539,577 | 35.6% |
| Research | 2,623,764 | 1.3% | 2,490,339 | 1.3% | 2,999,559 | 1.7% |
| Public Service | 1,987,222 | 1.0% | 2,117,438 | 1.1% | 2,017,375 | 1.1% |
| Academic Support | 20,133,142 | 10.4% | 18,572,469 | 10.0% | 19,379,617 | 10.7% |
| Student Services | 22,584,357 | 11.6% | 22,037,795 | 11.9% | 21,516,197 | 11.9% |
| Institutional Support | 10,441,919 | 5.4% | 8,470,634 | 4.6% | 8,202,970 | 4.5% |
| Operation of Plant | 9,916,575 | 5.1% | 9,286,508 | 5.0% | 8,514,133 | 4.7% |
| Scholarships and Fellowships | 11,703,686 | 6.0% | 12,300,264 | 6.6% | 11,719,891 | 6.5% |
| Auxiliary Operating Expenditures | 26,761,610 | 13.8% | 26,361,509 | 14.2% | 26,235,666 | 14.6% |
| Depreciation | 16,279,574 | 8.4% | 16,041,668 | 8.7% | 16,085,532 | 8.9% |
| Total Operating Expenses | <u>\$194,446,117</u> | <u>100.0%</u> | <u>\$185,283,298</u> | <u>100.0%</u> | <u>\$181,210,517</u> | <u>100.0%</u> |

Functional classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased. There were increases in most of the functional categories. The most significant increases were in instruction, academic support, and institutional support. Of the \$9.2 million increase in total operating expenses, \$7.8 million is attributable to increases in wages and benefits, which are reflected throughout all of the functional categories. The remaining \$1.4 million increase is a combination of a cost of goods sold decrease of \$0.2 million, other current expenses increase of \$1.4 million and an increase of depreciation expense of \$0.2 million, which are also distributed throughout the functional classifications.

A matrix in Note 14, which compares natural and functional expense classifications, provides more information on operating expenses.

Nonoperating Revenues and Expenses

The nonoperating financial statement line item titled “Federal grant and contract revenue – Pell” is the largest portion of nonoperating revenue. The University received \$0.6 million more in fiscal year 2013 than in fiscal year 2012. The amount of Pell revenue is based on student need and several other factors set by the federal government. The University financial aid office works with all eligible students to help them determine if they qualify for this aid.

The University’s other nonoperating revenues are made up of investment income and activities that are not earned from the sale of goods and services. In fiscal year 2013 investment loss of \$81,481 is primarily from a \$1.1 million decrease in the fair market value of our share of the investments held by the State Treasurer for University operations. In fiscal year 2011 the State Fiscal Stabilization Funds provided through the American Recovery and Reinvestment Act of 2009 ended and there were no funds reported for this in fiscal years 2013 or 2012.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

In fiscal year 2011 the University refinanced bonds at more favorable interest rates than the prior issues, and has since realized significant decreases in interest expense on capital debt. Cash payments for interest on capital debt, which includes bonds and a small amount for capital lease interest payments, were \$7.8 million in fiscal year 2011, and they were reduced to \$7.0 million in fiscal year 2012. In fiscal year 2013, because of low interest rates on the Series 2011B variable rate revenue bonds, cash payments for interest were \$6.1 million.

The interest on capital related debt in the Statement of Revenues, Expenses and Changes in Net Position is slightly different than what is reflected on the Statement of Cash Flows. The Statement of Cash Flows represents the cash payments, and the Statement of Revenues, Expenses and Changes in Net Position includes both the cash payments and the non-cash amortization transactions related to the bond refunding.

Other Changes

There were no significant items in other changes in fiscal 2013. In fiscal year 2012 the University received a capital gift of \$2.1 million from the UNC Foundation, which was used for refunding of the 2001A auxiliary revenue bonds. In fiscal year 2011 the university had capital appropriations and contributions (mostly from the state certificates of participation) of \$2.1 million.

Economic Outlook

The University's financial (or economic) position is impacted by legislation and funding from the state legislature. The September 2013 Legislative Council revenue estimates were positive. State general fund revenue is forecasted to be 6.5% higher in 2013-14 than in 2012-13, and they are anticipating 6.8% growth in fiscal year 2014-15 and 5.3% in fiscal year 2015-16. Legislative Council is forecasting a budget surplus for the current year; however with historical flooding in Colorado in September 2013, it is unlikely that any budget surpluses will be allocated to higher education. Positive forecasts and budget surpluses provide a more optimistic outlook for the near term cuts in higher education funding. The University was allocated a \$1.3 million increase in state support for fiscal year 2013-14. University management still anticipates modest changes in state support in the near term.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

As the national economy continues toward a slow recovery, the University continues to examine its tuition pricing and discounting policies. As a result, the University has increased the institutional financial aid budget to fill the gaps in declining federal and state financial aid and to continue to support students experiencing economic challenges. Since fiscal year 2008-09, the University increased internally funded scholarships from \$10.3 million to forecasted expenditures of \$19.9 million for fiscal year 2013-14. These investments in our students have increased the institutional discounting rate from 17.3% to 25%. The discount rate is calculated using student share of graduate and undergraduate tuition (not including accounting related adjustments for scholarship allowance or summer proration) divided by the institutionally funded scholarships and graduate tuition waivers. The institutional funded scholarships are primarily from tuition and other operating revenues and are not funded through other outside sources or our foundation. Pricing, discounting and finding the optimal enrollment for the institution will be a continued focus as we move into a future of uncertainty in higher education funding.

Following is a table of estimated tuition discounting rates:

| Tuition Discounting | |
|----------------------------|-------------------------|
| Fiscal Year | Discount Percent |
| 2014 | 25.0% |
| 2013 | 23.9% |
| 2012 | 22.2% |
| 2011 | 22.4% |
| 2010 | 24.7% |

The University experienced enrollment growth in fall 2009 and fall 2010 but it has remained constant in fall 2011 and fall 2012. Undergraduate enrollment is expected to decline for fall 2013 based on census information. The University's strategic enrollment strategy is focused on targeting the optimal size enrollment for the institution so we can continue to deliver a transformational education to our students in a fiscally sustainable manner.

UNIVERSITY OF NORTHERN COLORADO

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2013 and 2012 (Unaudited)

| Student Enrollment* | | | | |
|---|---------------------------|-----------------|--------------|---------------------------|
| Fall Final (for Fiscal Year) | Under Graduate | Graduate | Total | Percent Change |
| Fall 12 (FY13) | 10,318 | 2,752 | 13,070 | 0.25% |
| Fall 11 (FY12) | 10,414 | 2,624 | 13,038 | 0.06% |
| Fall 10 (FY11) | 10,464 | 2,566 | 13,030 | 2.51% |
| Fall 09 (FY10) | 10,290 | 2,421 | 12,711 | 1.70% |
| Fall 08 (FY09) | 10,109 | 2,389 | 12,498 | -1.61% |

* Student headcount

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

For additional information regarding this report please contact:

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FINANCIAL STATEMENTS

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF NET POSITION

June 30, 2013

| | University of Northern Colorado | University of Northern Colorado Foundation, Inc. |
|--|------------------------------------|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 79,890,709 | \$ 1,436,723 |
| Restricted cash and cash equivalents with trustee | 494,825 | — |
| Student accounts receivable, net of allowance of \$6,530,925 | 7,212,570 | — |
| Pledges receivable, net | — | 2,396,341 |
| Other receivables | 2,699,623 | 193,728 |
| Investments | — | 28,126,713 |
| Inventories | 1,118,782 | — |
| Loans to students, net | 410,966 | — |
| Other assets | 622,491 | 190,250 |
| Total Current Assets | 92,449,966 | 32,343,755 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 750,000 | — |
| Restricted investments | 641,628 | — |
| Pledges receivable, net | — | 3,451,918 |
| Loans to students, net | 6,433,679 | — |
| Other noncurrent assets | 1,421,329 | — |
| Investments permanently restricted for endowment | — | 70,733,014 |
| Capital assets, net | 251,524,258 | 1,044,054 |
| Total Noncurrent Assets | 260,770,894 | 75,228,986 |
| TOTAL ASSETS | 353,220,860 | 107,572,741 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 15,123,425 | 1,231,018 |
| Deferred revenue | 7,808,363 | — |
| Bonds/notes payable, current portion | 3,615,000 | — |
| Capital leases payable, current portion | 1,329,286 | — |
| Funds held for the University of Northern Colorado | — | 667,737 |
| Other current liabilities | 1,563,240 | — |
| Total Current Liabilities | 29,439,314 | 1,898,755 |
| Noncurrent Liabilities | | |
| Bonds/notes payable | 141,552,896 | — |
| Capital leases payable | 4,351,411 | — |
| Other long-term liabilities | 142,000 | — |
| Annuity obligations | — | 150,762 |
| Compensated absence liabilities | 4,086,399 | — |
| Total Noncurrent Liabilities | 150,132,706 | 150,762 |
| TOTAL LIABILITIES | 179,572,020 | 2,049,517 |
| NET POSITION | | |
| Net Investment in capital assets | 102,661,696 | 1,044,054 |
| Restricted for: | | |
| Nonexpendable | | |
| Scholarships and fellowships | 306,155 | 36,536,362 |
| Academic support | 1,400 | — |
| Other | — | 34,196,652 |
| Expendable | | |
| Auxiliary expenditures | 11,358,524 | — |
| Scholarships and fellowships | 332,611 | 5,060,353 |
| Loans | 8,295,465 | — |
| Bond reserve | 750,000 | — |
| Other | 157,491 | 15,949,350 |
| Unrestricted | 49,785,498 | 12,736,453 |
| TOTAL NET POSITION | \$ 173,648,840 | \$ 105,523,224 |

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF NET POSITION

June 30, 2012

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

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2013

| | University of Northern Colorado | University of Northern Colorado Foundation, Inc. |
|---|------------------------------------|---|
| Operating Revenues | | |
| Student tuition and fees, net | \$ 103,803,210 | \$ — |
| Contributions | — | 12,237,663 |
| Contributed services | — | 131,250 |
| Federal grants and contracts | 8,398,649 | — |
| State and local grants and contracts | 4,469,938 | — |
| State fee-for-service | 17,915,857 | — |
| Nongovernmental grants and contracts | 4,353,944 | — |
| Sales and services of educational activities | 384,826 | — |
| Auxiliary operating revenue | 33,642,896 | — |
| Interest and dividends | — | 2,351,007 |
| Net realized and unrealized gains | — | 6,251,757 |
| Other operating revenue | 9,418,731 | 688,100 |
| Total Operating Revenues | <u>182,388,051</u> | <u>21,659,777</u> |
| Operating Expenses | | |
| Educational and general | | |
| Instruction | 72,014,268 | — |
| Research | 2,623,764 | — |
| Public service | 1,987,222 | — |
| Academic support | 20,133,142 | — |
| Student services | 22,584,357 | — |
| Institutional support | 10,441,919 | — |
| Operation of plant | 9,916,575 | — |
| Scholarships and fellowships | 11,703,686 | — |
| Program | — | 6,964,885 |
| Management and general | — | 855,859 |
| Fundraising | — | 1,570,546 |
| Pledged receivable write off | — | 23,375 |
| Auxiliary operating expenditures | 26,761,610 | — |
| Depreciation and amortization | 16,279,574 | — |
| Total Operating Expenses | <u>194,446,117</u> | <u>9,416,665</u> |
| Operating Income (Loss) | <u>(12,058,066)</u> | <u>12,243,112</u> |
| Nonoperating Revenues (Expenses) | | |
| Investment income, net of investment expense | (81,481) | — |
| State fiscal stabilization fund | — | — |
| Interest on capital asset related debt | (6,010,802) | — |
| Federal grants and contracts revenue | 13,638,482 | — |
| Other nonoperating revenue | 358,124 | — |
| Net Nonoperating Revenues (Expenses) | <u>7,904,323</u> | <u>—</u> |
| Income (Loss) Before Other Revenues (Expenses), Gains (Losses) | (4,153,743) | 12,243,112 |
| Capital appropriations | 207,288 | — |
| Capital contribution - certificates of participation | — | — |
| Capital grants and gifts | — | — |
| Loss on disposal of capital assets | (6,322) | — |
| Total Other Changes | <u>200,966</u> | <u>—</u> |
| Increase (Decrease) in Net Position | (3,952,777) | 12,243,112 |
| Net Position, Beginning of Year | <u>177,601,617</u> | <u>93,280,112</u> |
| Net Position, End of Year | <u>\$ 173,648,840</u> | <u>\$ 105,523,224</u> |

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ending June 30, 2012

| | University of Northern Colorado | University of Northern Colorado Foundation, Inc. |
|---|------------------------------------|---|
| Operating Revenues | | |
| Student tuition and fees, net | \$ 100,834,940 | \$ — |
| Contributions | — | 4,819,769 |
| Contributed services | — | 46,484 |
| Federal grants and contracts | 8,385,890 | — |
| State and local grants and contracts | 4,119,096 | — |
| State fee-for-service | 18,116,714 | — |
| Nongovernmental grants and contracts | 4,838,592 | — |
| Sales and services of educational activities | 412,884 | — |
| Auxiliary operating revenue | 34,698,245 | — |
| Interest and dividends | — | 2,425,120 |
| Net realized and unrealized loss | — | (1,226,077) |
| Other operating revenue | 8,971,968 | 597,128 |
| Total Operating Revenues | 180,378,329 | 6,662,424 |
| Operating Expenses | | |
| Educational and general | | |
| Instruction | 67,604,674 | — |
| Research | 2,490,339 | — |
| Public service | 2,117,438 | — |
| Academic support | 18,572,469 | — |
| Student services | 22,037,795 | — |
| Institutional support | 8,470,634 | — |
| Operation of plant | 9,286,508 | — |
| Scholarships and fellowships | 12,300,264 | — |
| Program | — | 9,357,324 |
| Management and general | — | 884,006 |
| Fundraising | — | 1,558,018 |
| Pledged receivable write off | — | 129,525 |
| Auxiliary operating expenditures | 26,361,509 | — |
| Depreciation and amortization | 16,041,668 | — |
| Total Operating Expenses | 185,283,298 | 11,928,873 |
| Operating Income (Loss) | (4,904,969) | (5,266,449) |
| Nonoperating Revenues (Expenses) | | |
| Investment income, net of investment expense | 1,282,577 | — |
| State fiscal stabilization fund | — | — |
| Interest on capital asset related debt | (6,264,975) | — |
| Federal grants and contracts revenue | 12,990,167 | — |
| Other nonoperating revenue | 282,003 | — |
| Net Nonoperating Revenues (Expenses) | 8,289,772 | — |
| Income (Loss) Before Other Revenues (Expenses), Gains (Losses) | 3,384,803 | (5,266,499) |
| Capital appropriations | 5,630 | — |
| Capital contribution - certificates of participation | — | — |
| Capital grants and gifts | 2,053,248 | — |
| Loss on disposal of capital assets | (12,389) | — |
| Total Other Changes | 2,046,489 | — |
| Increase (Decrease) in Net Position | 5,431,292 | (5,266,499) |
| Net Position, Beginning of Year | 172,170,325 | 98,546,561 |
| Net Position, End of Year | \$ 177,601,617 | \$ 93,280,112 |

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF CASH FLOWS

Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Operating Activities | | |
| Cash received | | |
| Tuition and fees | \$ 96,645,670 | \$ 101,588,535 |
| Colorado State Fee-for-Service | 17,915,857 | 18,116,714 |
| Sales and services of educational activities | 362,541 | 489,623 |
| Sales and services of auxiliary activities | 33,855,148 | 34,250,325 |
| Grants and contracts | 8,659,029 | 7,606,588 |
| Federal financial aid | 612,206 | 747,984 |
| State financial aid | 4,331,509 | 4,024,405 |
| UNC Foundation grants | 447,290 | 1,008,287 |
| UNC Foundation gifts | 3,687,225 | 3,618,456 |
| Other receipts | 15,548,989 | 9,090,724 |
| Student loans collected | 1,129,418 | 1,209,454 |
| Cash payments | | |
| Payments to/for employees | (122,463,568) | (113,541,999) |
| Payments to suppliers | (43,362,969) | (40,838,820) |
| Scholarships disbursed | (11,703,686) | (12,300,264) |
| Student loans disbursed | (957,364) | (797,753) |
| Net cash provided by operating activities | <u>4,707,295</u> | <u>14,272,259</u> |
| Noncapital Financing Activities | | |
| State fiscal stabilization nonoperating funds | - | - |
| Federal grant and contract – Pell | 13,638,482 | 12,990,167 |
| Other nonoperating revenues-rental, lease, other | 421,773 | 2,398,900 |
| Agency inflows – campus organizations and scholarships | 12,826,579 | 12,200,233 |
| Agency outflows – campus organizations and scholarships | (13,392,800) | (12,000,203) |
| Agency loan inflows – student loans | 80,341,495 | 84,280,831 |
| Agency loan outflows – student loans | (80,341,495) | (84,280,831) |
| Net cash provided by noncapital financing activities | <u>13,494,034</u> | <u>15,589,097</u> |
| Capital and Related Financing Activities | | |
| Acquisition and construction of capital assets | (12,065,443) | (6,866,042) |
| Proceeds from restricted note payable | 1,819,650 | 3,185,911 |
| Proceeds from 2011A refinancing bonds issued | 0 | 44,701,186 |
| Proceeds from 2011B refinancing bonds issued | 0 | 21,130,000 |
| Bond refinancing costs paid | 0 | (282,951) |
| Principal refinanced 2001 UNC bonds | 0 | (46,040,000) |
| Principal refinanced 2001A Student Housing LLC bonds | 0 | (22,975,000) |
| Principal paid on bonds payable | (3,520,000) | (3,010,000) |
| Principal paid on capital leases | (1,280,893) | (459,247) |
| Interest paid on capital debt | (6,124,736) | (7,024,935) |
| Net cash used by capital and related financing activities | <u>(21,171,421)</u> | <u>(17,641,078)</u> |
| Investing Activities | | |
| Investment earnings | (53,763) | 1,292,937 |
| Net cash provided by investing activities | <u>(53,763)</u> | <u>1,292,937</u> |
| Increase (Decrease) in Cash and Cash Equivalents | (3,023,855) | 13,513,215 |
| Cash and Cash Equivalents, Beginning of Year | <u>84,159,389</u> | <u>70,646,174</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 81,135,534</u> | <u>\$ 84,159,389</u> |

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

STATEMENT OF CASH FLOWS - Continued

Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Reconciliation of Net Operating Revenues (Expenses) to | | |
| Net Cash Provided by Operating Activities | | |
| Operating income (loss) | \$ (12,058,066) | \$ (4,904,969) |
| Depreciation and amortization expense | 16,279,574 | 16,041,668 |
| Student loan cancellations | 113,070 | 114,044 |
| Changes in operating assets and liabilities | | |
| Student accounts receivable, net | (622,465) | (836,116) |
| Other receivables, net | 194,946 | (314,878) |
| Loans to students, net | 225,862 | 361,358 |
| Inventories | 68,870 | (11,151) |
| Other current assets | (109,457) | 265,885 |
| Accounts payable | 572,243 | 846,312 |
| Accrued payroll | (180,569) | 1,209,433 |
| Deferred revenues | (40,002) | 1,315,487 |
| Other liabilities | (22,209) | 181,839 |
| Accrued compensated absences | 285,498 | 3,347 |
| Net cash provided by operating activities | <u>\$ 4,707,295</u> | <u>\$ 14,272,259</u> |
| Reconciliation of Cash and Cash Equivalents to the | | |
| Statement of Net Position | | |
| Cash and cash equivalents | \$ 79,890,709 | \$ 80,180,581 |
| Restricted cash with trustee | 494,825 | 3,228,808 |
| Restricted cash and cash equivalents | 750,000 | 750,000 |
| Total cash and cash equivalents | <u>\$ 81,135,534</u> | <u>\$ 84,159,389</u> |
| Supplemental Cash Flows Information | | |
| Capital assets financed by state capital contribution | \$ 207,288 | \$ 5,630 |
| Loss on disposal of assets | \$ 6,322 | \$ 389 |

See notes to the financial statements

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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. 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.

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.

Reporting Entity and Component Units

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

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The University of Northern Colorado Foundation, Incorporated

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

Restatement

The fiscal year 2011 Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, Statement of Cash Flows, and associated notes to the financial statements have been restated to reflect the July 1, 2011, University purchase and dissolution of the University of Northern Colorado Foundation Student Housing LLC I in accordance with the Governmental Accounting Standards Board Statement 62 paragraphs 71 and 86. This had the effect of reducing the University's previously reported net position by \$4,000,053. Although the financial statement presentation includes the fiscal 2013 and 2012 Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, comparative information for fiscal year 2011 is included in the Management Discussion and Analysis.

The fiscal year 2012 Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows and associated notes to the financial statement have been restated to reflect compliance with GASB 34, *Basic Financial Statements and Management's Discussion and Analysis*, footnote 41, which states that proprietary fund revenues should be reported net of discounts and allowances. University of Northern Colorado and all other Colorado higher education institutions implemented compliance with this in fiscal year 2013 by reclassifying bad debt expense to contra-revenue. Fiscal year 2012 has been restated accordingly for comparative purposes.

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).

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The Foundation reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting for these differences.

Unrestricted Cash and Cash Equivalents

For purposes of reporting cash flows, the University defines cash and cash equivalents as cash on hand, demand deposit accounts with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with original maturities of three months or less. As of June 30, 2013, and 2012, cash equivalents consisted primarily of funds invested through the State Treasurer's cash management program.

Restricted Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents with Trustee

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

Investments and Investment Income

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

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.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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 \$2,209,918 and \$2,251,803 at June 30, 2013, and 2012, respectively.

Capital Assets

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

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

| University Interest Capitalized and Expensed | 2013 | 2012 |
|---|---------------------|---------------------|
| Total interest expense incurred on borrowings for projects | \$ - | \$ - |
| Interest expense capitalized related to self-funded projects | 48,244 | 47,565 |
| Interest expense capitalized related to state certificates of participation | - | - |
| Interest income from investment of bond proceeds for projects | - | - |
| Net interest cost capitalized | <u>\$ 48,244</u> | <u>\$ 47,565</u> |
| Interest capitalized | \$ 48,244 | \$ 47,565 |
| Interest charged to expense | <u>6,015,775</u> | <u>6,281,196</u> |
| Total interest incurred | <u>\$ 6,064,019</u> | <u>\$ 6,328,761</u> |

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

Assets under capital leases are recorded at the present value of the future minimum lease payments and 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.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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

Capital Lease Liabilities

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

Deferred Revenues

The University prorates the summer session revenues on a fifty percent split between two fiscal years. Tuition, fees and certain auxiliary revenues received before June 30, but determined by this proration to be earned in the following year, are recorded as deferred revenues. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Classification of Revenues

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

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

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of non-exchange 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 \$13,638,482 and \$12,990,167 at June 30, 2013, and 2012, 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.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The University had no income tax liability related to income generated from activities unrelated to the University's exempt purposes as of June 30, 2013, or 2012.

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 position during the reporting period. Actual results could differ from those estimates. Significant estimates have been made regarding compensated absences expenses, scholarship allowances and accounts receivable bad debt allowances as described below.

Compensated Absences Accrued Liability

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Vacation and sick leave benefits taken as paid time off are recognized as an expense when the time off occurs. Accrued compensated absences liabilities are recognized based upon estimated cash payments due to employees upon termination or retirement. The limitations on such payments are defined by the rules associated with the personnel systems of the University. Employees accrue and vest in vacation and sick leave earnings based on their hire date and length of service. Vacation accruals are paid in full upon separation; whereas, only a portion of sick leave is paid upon specific types of separation, such as retirement.

Compensated absences liabilities are computed using the regular pay and termination pay rates in effect at the financial statement date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Scholarship Discounts and Allowances

Student tuition, fee revenues, and certain other revenues from students are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Position. 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 \$23.0 million and \$20.7 million for the years ended June 30, 2013, and 2012, respectively.

Bad Debt Allowance

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 2: Cash and Cash Equivalents

Unrestricted Cash and Cash Equivalents

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

| Unrestricted Cash and Cash Equivalents | 2013 | 2012 |
|--|----------------------|----------------------|
| Cash on hand | \$ 45,445 | \$ 48,095 |
| Cash with U.S. financial institutions | 803,212 | 851,819 |
| Cash with Colorado State Treasurer | 78,910,716 | 78,193,013 |
| Unrealized gain (loss) – cash with State Treasurer | 131,336 | 1,087,654 |
| Total unrestricted cash and cash equivalents | <u>\$ 79,890,709</u> | <u>\$ 80,180,581</u> |

The University deposits its unrestricted cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2013, the University had cash on deposit with the State Treasurer of \$78.9 million, which represented approximately 1.09 percent of the total \$7,262.8 million fair value of deposits in the State Treasurer's Pool (Pool).

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

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2013, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Restricted Cash and Cash Equivalents

The University holds restricted cash of \$750,000 with the state treasury to meet required bond covenants related to the auxiliary revenue refunding and improvement bonds.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Cash and Cash Equivalents

Custodial credit risk for cash and cash equivalents exists when, in the event of the failure of a depository financial institution, the University may be unable to recover deposits or recover collateral securities that are in the possession of an outside party. Under GASB 40, *Deposit and Investment Risk Disclosures*, deposits are exposed to custodial credit risk if the deposits are not covered by depository insurance and the deposits are (a) uncollateralized or (b) collateralized, with securities held by the pledging financial institution or the pledging financial institution's trust department or agent, but not in the depositor-government's name. To manage custodial credit risk, unrestricted cash and cash equivalents with the state treasury and U.S. financial institutions are made in accordance with University policy and state law, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name. As of June 30, 2013, and 2012, all of the cash and cash equivalents held by the State Treasurer and U.S. financial institutions are therefore not subject to custodial credit risk. The treasurer's pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2013. Additional information on investments of the state treasurer's pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2013.

Restricted Cash and Cash Equivalents with Trustee

At June 30, 2013, the University holds \$494,825 of current restricted cash with a trustee, Sovereign Bank. These funds are in a short term escrow account to pay for capital equipment that is being financed. The funds held in trust at Sovereign Bank on June 30, 2013, are uninsured and uncollateralized.

Note 3: Investments

The University's investments on June 30, 2013, are certain endowments held at the Foundation and are restricted by the donors. These investments are subject to Colorado Revised Statutes Title 15, Article 1, Part 11 "Uniform Prudent Management of Institutional Funds" or UPMIFA.

Fair value of investments held at June 30, 2013, and 2012, are detailed in the following table:

| Investment Types | 2013 | 2012 | Maturity |
|--|-------------------|-------------------|------------------|
| Fixed Income U.S. Government Obligations | \$ 536,714 | \$ 579,370 | 1-5 years |
| Fixed Income U.S. Government Obligations | 50,678 | 76,869 | Less than 1 year |
| Money Market Funds | 54,236 | 13,109 | Less than 1 year |
| Total University Restricted Investments | <u>\$ 641,628</u> | <u>\$ 669,348</u> | |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Therefore, exposure arises if the securities are uninsured, are not registered in the University's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent, but not in the University's name. The University does not have a formal investment policy regarding custodial credit risk.

The balances of the University's investments are endowment funds managed by the Foundation according to the custodial agreement between the University and the Foundation approved on December 14, 1988. These securities are held in the Foundation's name as agent of the University and are not subject to custodial credit risk.

Interest Rate Risk – Investments

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

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

Credit Quality Risk

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

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Maturities and credit ratings for the University's investments held at June 30, 2013, and 2012, are detailed below:

| 2013 | | | | |
|---|-------------------|---------------------------------|---|------------------------------------|
| Maturities and Credit Ratings by Investment Type | Fair Value | Duration to Maturity | Weighted- Average Maturity | S & P Credit Rating |
| The University | | | | |
| U.S. Government Obligations | \$ 587,392 | 2.47 yrs | 2.61 yrs | AA+ |
| Money Market Funds | <u>54,236</u> | N/A | N/A | N/A |
| Total Investments as of June 30 | <u>\$ 641,628</u> | | | |

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

The UNC Foundation's investments held at June 30, 2013, and 2012, are detailed below:

| Investment Types | 2013 | 2012 |
|------------------------------|----------------------|----------------------|
| The Foundation | | |
| Cash and cash equivalents | \$ 2,150,177 | \$ 1,665,592 |
| Equities | 41,276,793 | 35,039,921 |
| Fixed income | 22,869,354 | 29,184,079 |
| Alternative investments | 13,574,314 | 8,389,762 |
| Other | <u>18,989,089</u> | <u>16,191,355</u> |
| Total Foundation Investments | <u>\$ 98,859,727</u> | <u>\$ 90,470,709</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 4: Accounts, Contributions and Loans Receivable

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

| Accounts, Contributions and Loans Receivable | 2013 | 2012 |
|--|----------------------|----------------------|
| Student accounts receivable – current | \$ 13,743,495 | \$ 11,679,004 |
| Allowance for doubtful accounts | <u>(6,530,925)</u> | <u>(5,301,770)</u> |
| Subtotal student accounts receivable – net | <u>7,212,570</u> | <u>6,377,234</u> |
| Student loans receivable – current | 1,721,749 | 1,807,972 |
| Allowance for doubtful accounts | <u>(1,310,783)</u> | <u>(1,396,734)</u> |
| Subtotal current student loans receivable – net | <u>410,966</u> | <u>411,238</u> |
| Student loans receivable – noncurrent | 7,332,814 | 7,627,407 |
| Allowance for doubtful accounts | <u>(899,135)</u> | <u>(855,069)</u> |
| Subtotal noncurrent student loans receivable – net | <u>6,433,679</u> | <u>6,772,338</u> |
| Other receivables – current | | |
| Sponsored programs – federal grants receivable | 853,245 | 996,266 |
| Sponsored programs – nonfederal grants receivable | 21,539 | 40,238 |
| Student loans program – federal loans receivable | 167,172 | 167,172 |
| Accounts receivable related party – the Foundation | 941,309 | 1,235,396 |
| Other accounts receivable | <u>716,358</u> | <u>403,535</u> |
| Subtotal other receivables – current | <u>2,699,623</u> | <u>2,842,607</u> |
| Total University accounts, loans & other receivables | <u>\$ 16,756,838</u> | <u>\$ 16,403,417</u> |

Related Party Receivable

Gifts and grants receivable from the Foundation to the University were approximately \$941,309 and \$1,235,396 as of June 30, 2013, and 2012, respectively.

Foundation Contributions and Pledges Receivable

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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

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

Note 5: Other Assets

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

| Other Assets | 2013 | 2012 |
|---|---------------------|---------------------|
| The University | | |
| Inventories for supply use | \$ 866,647 | \$ 938,031 |
| Inventories for resale | 252,135 | 249,620 |
| Total inventories | <u>\$ 1,118,782</u> | <u>\$ 1,187,651</u> |
| Prepaid expenses | \$ 550,842 | \$ 341,384 |
| Current portion bond issuance costs | 71,649 | 71,649 |
| Total other current assets | <u>\$ 622,491</u> | <u>\$ 413,033</u> |
| Athletics conference surety deposit | \$ - | \$ 100,000 |
| Noncurrent portion bond issuance costs | 1,421,329 | 1,492,978 |
| Total other noncurrent assets | <u>\$ 1,421,329</u> | <u>\$ 1,592,978</u> |
| The Foundation | | |
| Prepaid expenses and other current assets | <u>\$ 190,250</u> | <u>\$ 109,437</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 6: Capital Assets

The following is a summary of University capital asset activity as of June 30:

| 2013 | | | | | |
|--|-----------------------|-----------------------|--------------------|-------------|-----------------------|
| Capital Assets and Accumulated Depreciation | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Capital assets | | | | | |
| Land | \$ 10,270,198 | \$ - | \$ - | \$ - | \$ 10,270,198 |
| Land improvements | 20,577,273 | - | - | 349,724 | 20,926,997 |
| Non-depreciable land improvements | 4,264,026 | - | - | - | 4,264,026 |
| Buildings and improvements | 371,951,523 | - | - | 1,577,131 | 373,528,654 |
| Equipment and vehicles | 16,230,316 | 3,220,401 | (628,859) | 84,118 | 18,905,976 |
| Software | 2,990,525 | 28,043 | - | - | 3,018,568 |
| Library materials | 41,039,884 | 1,489,931 | (1,876,056) | - | 40,653,759 |
| Non-depreciable art/historical | 1,550,345 | - | - | - | 1,550,345 |
| Leasehold improvements | 1,059,732 | - | - | - | 1,059,732 |
| Construction in progress | 1,948,028 | 7,538,356 | - | (2,010,973) | 7,475,411 |
| Total capital assets | 471,881,850 | 12,276,731 | (2,504,915) | - | 481,653,666 |
| Less accumulated depreciation | | | | | |
| Land improvements | 9,781,014 | 857,782 | - | - | 10,638,796 |
| Buildings and improvements | 159,025,388 | 12,153,088 | - | - | 171,178,476 |
| Equipment and vehicles | 10,909,387 | 1,479,088 | (614,482) | - | 11,773,993 |
| Software | 2,787,942 | 111,157 | - | - | 2,899,099 |
| Library materials | 33,163,695 | 1,622,026 | (1,876,056) | - | 32,909,665 |
| Leasehold improvements | 672,946 | 56,433 | - | - | 729,379 |
| Total accumulated depreciation | 216,340,372 | 16,279,574 | (2,490,538) | - | 230,129,408 |
| Net capital assets | \$ 255,541,478 | \$ (4,002,843) | \$ (14,377) | \$ - | \$ 251,524,258 |

| 2012 | | | | | |
|--|-----------------------|-----------------------|--------------------|-------------|-----------------------|
| Capital Assets and Accumulated Depreciation | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Capital assets | | | | | |
| Land | \$ 10,270,198 | \$ - | \$ - | \$ - | \$ 10,270,198 |
| Land improvements | 20,545,438 | - | - | 31,835 | 20,577,273 |
| Non-depreciable land improvements | 4,264,026 | - | - | - | 4,264,026 |
| Buildings and improvements | 365,465,640 | 2,375,392 | - | 4,110,491 | 371,951,523 |
| Equipment and vehicles | 15,183,499 | 1,405,595 | (358,778) | - | 16,230,316 |
| Software | 2,840,604 | 149,921 | - | - | 2,990,525 |
| Library materials | 40,722,586 | 1,325,337 | (1,008,039) | - | 41,039,884 |
| Non-depreciable art/historical | 1,550,345 | - | - | - | 1,550,345 |
| Leasehold improvements | 1,059,732 | - | - | - | 1,059,732 |
| Construction in progress | 4,470,547 | 1,619,807 | - | (4,142,326) | 1,948,028 |
| Total capital assets | 466,372,615 | 6,876,052 | (1,366,817) | - | 471,881,850 |
| Less accumulated depreciation | | | | | |
| Land improvements | 8,932,771 | 848,243 | - | - | 9,781,014 |
| Buildings and improvements | 147,066,163 | 11,959,225 | - | - | 159,025,388 |
| Equipment and vehicles | 9,855,326 | 1,395,450 | (341,389) | - | 10,909,387 |
| Software | 2,643,375 | 144,567 | - | - | 2,787,942 |
| Library materials | 32,533,984 | 1,637,750 | (1,008,039) | - | 33,163,695 |
| Leasehold improvements | 616,513 | 56,433 | - | - | 672,946 |
| Total accumulated depreciation | 201,648,132 | 16,041,668 | (1,349,428) | - | 216,340,372 |
| Net capital assets | \$ 264,724,483 | \$ (9,165,616) | \$ (17,389) | \$ - | \$ 255,541,478 |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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

| Foundation Capital Assets | 2013 | 2012 |
|----------------------------------|---------------------|---------------------|
| Capital assets | | |
| Buildings and improvements | \$ 1,226,998 | \$ 1,228,500 |
| Equipment and vehicles | 240,157 | 219,739 |
| Total capital assets | <u>1,467,155</u> | <u>1,448,239</u> |
| Less accumulated depreciation | <u>(423,101)</u> | <u>(376,648)</u> |
| Net capital assets | <u>\$ 1,044,054</u> | <u>\$ 1,071,591</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 7: Liabilities and Deferred Revenues

The following is a summary of liabilities as of June 30:

| The University Liabilities and Deferred Revenues | 2013 | 2012 |
|---|-----------------------|-----------------------|
| Accounts payable and accrued liabilities | | |
| Accounts payable | \$ 2,911,388 | \$ 2,219,104 |
| Accrued salaries and benefits | 11,438,382 | 11,868,977 |
| Accrued interest expense | 483,785 | 490,806 |
| Other accrued liabilities | 289,870 | 160,763 |
| Total accounts payable and accrued liabilities | <u>15,123,425</u> | <u>14,739,650</u> |
| Current deferred revenue | | |
| Unearned revenue – summer tuition and other activities | 7,049,818 | 7,192,698 |
| Unearned revenue – restricted grants and contracts | 185,375 | 84,744 |
| Unearned revenue – foundation contract | - | 520,923 |
| Current portion unearned auxiliary and housing | 565,170 | 50,000 |
| Current portion unearned broadband lease | 8,000 | 8,000 |
| Total current deferred revenue | <u>7,808,363</u> | <u>7,856,365</u> |
| Other current liabilities | | |
| Deposits held | 720,300 | 737,063 |
| Current insurance liability | 102,324 | 56,654 |
| Deposits held in custody for agency funds | 356,823 | 659,232 |
| Current portion of compensated absences liability | 383,793 | 393,534 |
| Subtotal other current liabilities | <u>1,563,240</u> | <u>1,846,483</u> |
| Other noncurrent liabilities | | |
| Long-term deposit liabilities held | 30,000 | 30,000 |
| Long-term unearned revenue broadband lease | 12,000 | 12,000 |
| Long-term unearned revenue auxiliary and housing | 100,000 | 150,000 |
| Noncurrent compensated absences liability | 4,086,399 | 3,791,161 |
| Subtotal other noncurrent long-term liabilities | <u>4,228,399</u> | <u>3,983,161</u> |
| Bonds, capital leases and notes payable | | |
| Current notes payable | - | 3,185,910 |
| Current bonds and capital leases | 4,944,286 | 3,960,548 |
| Noncurrent bonds, capital leases | 145,904,307 | 146,793,560 |
| Total bonds, capital leases and notes payable | <u>150,848,593</u> | <u>153,940,018</u> |
| Total liabilities – the University | <u>\$ 179,572,020</u> | <u>\$ 182,365,677</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The Foundation – Liabilities and Deferred Revenues

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

| The Foundation Liabilities and Deferred Revenues | 2013 | 2012 |
|---|--------------------|--------------------|
| Accounts payable and accrued liabilities | \$1,231,018 | \$1,282,436 |
| Deferred revenue | - | - |
| Funds held for the University | 667,737 | 674,576 |
| Long-term debt | - | - |
| Annuity obligations | <u>150,762</u> | <u>169,504</u> |
| Total Liabilities | <u>\$2,049,517</u> | <u>\$2,126,516</u> |

Charitable Gift Annuity Obligations

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

| Charitable Gift and Annuity Contracts | 2013 | 2012 |
|--|------------------|-------------------|
| Assets held under gift annuity contracts | \$ 220,509 | \$ 279,775 |
| Less associated liabilities | <u>(150,762)</u> | <u>(169,504)</u> |
| Present value of assets held under contract | <u>\$ 69,747</u> | <u>\$ 110,271</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 8: Bonds, Capital Leases and Notes Payable

Bonds, Capital Leases and Notes Payable

The following table provides a summary of Bonds, Capital Leases and Notes Payable liabilities as of June 30:

| Bonds, Capital Leases and Notes Payable Summary | Interest Rates | Final Maturity | Balance 2013 | Balance 2012 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Fixed Rate - Auxiliary Revenue Bonds | 2.00%-5.375% | 2040 | \$ 125,807,679 | \$ 128,913,900 |
| Variable Rate - Institutional Enterprise Revenue Bonds (2011B) | 0.836% | 2036 | 19,360,217 | 19,880,908 |
| Capital Leases Payable | 1.49%-6.02% | 2017 | 5,680,697 | 1,959,300 |
| Note Payable | 1.49% | 2012 | - | 3,185,910 |
| Total Bonds, Capital Leases and Notes Payable | | | \$ 150,848,593 | \$ 153,940,018 |

The interest rate on the Series 2011B variable rate demand bonds is calculated monthly based on 70% of the one month London Interbank Offered Rate (LIBOR) that is published two business days prior to the reset date plus a spread factor of 0.70. The interest rate on the Series 2011B as of June 30, 2013, was 0.836%. The 2011B bond issue documents utilize a projected annual interest rate of 3.5%.

Changes in Bonds, Capital Leases and Notes Payable

The tables below present the summary of changes in bonds, notes and capital leases payable for the years ended June 30, 2013, and 2012.

| 2013 | | | | | | |
|---|--------------------------|---------------------|---------------------|-----------------------|------------------------|--|
| Changes in Bonds, Capital Leases and Notes Payable | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion | |
| Bonds Payable | \$ 145,560,000 | \$ - | \$ 3,520,000 | \$ 142,040,000 | \$ 3,615,000 | |
| Plus unamortized premiums | 6,320,218 | - | 292,918 | 6,027,300 | - | |
| Less unamortized discounts | - | - | - | - | - | |
| Less unamortized deferred amount | 3,085,410 | - | 186,006 | 2,899,404 | - | |
| Total revenue bonds payable | 148,794,808 | - | 3,626,912 | 145,167,896 | 3,615,000 | |
| Capital leases payable | 1,959,300 | 5,002,290 | 1,280,893 | 5,680,697 | 1,329,286 | |
| Notes payable | 3,185,910 | - | 3,185,910 | - | - | |
| Total Bonds, Capital Leases and Notes Payable | \$ 153,940,018 | \$ 5,002,290 | \$ 8,093,715 | \$ 150,848,593 | \$ 4,944,286 | |

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Revenue and Refunding Bonds

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2013, and 2012, is detailed in the table “Revenue Bond Detail”. The University’s fixed rate revenue bonds are payable semi-annually (Series 2005, 2008, 2011A). The University’s variable rate demand bonds are payable annually (Series 2011B). The bonds are not secured by any encumbrance mortgage, or other pledge of property, except pledged revenues.

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

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The 2005 and 2008 Bonds payable are secured by a first lien, but not necessarily an exclusive first lien, derived from 10 percent of gross general fund tuition revenues, net student fee revenues, and net auxiliary facility system revenues. The 2011A and 2011B bonds are also secured by a pledge of the revenues derived from net extended studies revenues and gross facility and administrative indirect cost recoveries. The University has pledged these revenues through 2040 to repay \$142,040,000 in auxiliary revenue bonds. As of June 30, 2013, and 2012, total pledged revenue and the associated debt service coverage are summarized in the table below:

| Net Pledged Revenue Available for Revenue Bond Debt Service | 2013 | 2012 |
|---|-----------------------------|-----------------------------|
| Gross auxiliary facility and student fee revenues | \$ 47,989,215 | \$ 48,253,059 |
| Less auxiliary facility and student fee operating expenses | <u>30,745,424</u> | <u>29,984,891</u> |
| Net auxiliary and student fee facility revenue | 17,243,791 | 18,268,168 |
| Other pledged tuition and revenue | | |
| 10% of tuition revenue | 7,758,977 | 7,589,979 |
| Indirect cost recoveries | 706,451 | 752,411 |
| Extended campus net revenue | <u>4,767,862</u> | <u>4,345,651</u> |
| Subtotal other pledged tuition and revenue | <u>13,233,290</u> | <u>12,688,041</u> |
| Total Net Pledged Revenue | \$ <u>30,477,081</u> | \$ <u>30,956,209</u> |
| Net prior bonds debt service (2001, 2005, 2008 bonds) | 5,750,756 | 5,742,631 |
| 2011A and B bond debt service | <u>4,398,469</u> | <u>3,764,822</u> |
| Total Net Debt Service | \$ <u>10,149,225</u> | \$ <u>9,507,453</u> |
| Prior debt service coverage (2001, 2005, 2008 bonds) | 4.35 x | 4.50 x |
| 2011A and B bond debt service coverage | 5.62 x | 6.70 x |
| Total net debt service as a percentage of gross auxiliary facilities and student fee revenues | 21.1% | 19.7% |
| Total net debt service as a percentage of total net pledged revenues | 33.3% | 30.7% |

Refunding Revenue Bond Activity

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

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

| Revenue Bond Detail | Original Issuance | Outstanding Balance 2013 | Outstanding Balance 2012 |
|---|-------------------|--------------------------|--------------------------|
| <u>Fixed Rate Revenue Bonds</u> | | | |
| Series 2001 | | | |
| 3.0%-5.5%, Auxiliary Revenue Refunding and Improvement bonds, issued July 31, 2001, in the original amount of \$50,000,000, and maturing in varying amounts through June 1, 2031. These bonds were refunded on July 1, 2011. | \$50,000,000 | \$ - | \$ - |
| Series 2001A | | | |
| 3.375% to 5.375% Colorado Educational and Cultural Facilities Authority, Student Housing Revenue Bonds (Arlington Park LLC Student Housing Facility Bonds), Series LLC 2001A. Issued August 15, 2001 in the original amount of \$24,145,000 and maturing in varying amounts through July 1, 2037. These bonds were current refunded with a redemption date of August 1, 2011 by the Series 2011B Variable rate demand institutional enterprise revenue bonds issued July 1, 2011. | 24,145,000 | - | - |
| Series 2005 | | | |
| 3.25%-5.00%, Auxiliary Revenue Refunding and Improvement bonds, issued July 28, 2005, in the original amount of \$85,000,000, and maturing in varying amounts through June 1, 2040. | 85,000,000 | 76,950,000 | 78,310,000 |
| Series 2008 | | | |
| 3.25%-5.00%, Auxiliary Revenue Refunding bonds, issued May 22, 2008, in the original amount of \$9,145,000, and maturing in varying amounts through June 1, 2024. | 9,145,000 | 5,485,000 | 5,815,000 |
| Series 2011A | | | |
| 2.00%-5.00% Auxiliary Facilities System Revenue Refunding Bonds. Issued July 1, 2011 in the original amount of \$41,690,000 and maturing in varying amounts through June 1, 2031. | 41,690,000 | 39,050,000 | 40,305,000 |
| Total Fixed Rate Revenue Bonds | 209,980,000 | 121,485,000 | 124,430,000 |
| Add unamortized premium | | 6,027,299 | 6,320,218 |
| Less unamortized discount | | - | - |
| Less deferred amount on refunding | | 1,704,620 | 1,836,318 |
| Total Outstanding Fixed Rate Revenue Bonds Payable | \$ - | \$125,807,679 | \$128,913,900 |
| <u>Variable Rate Revenue Bonds</u> | | | |
| Series 2011B | | | |
| Variable rate demand institutional enterprise revenue refunding bonds. Issued July 1, 2011 in the original amount of \$21,130,000 and maturing June 1, 2036. These bonds are held by Wells Fargo NA and the demand begins July 1, 2014. These bonds refunded all of the outstanding Colorado Educational and Cultural Facilities Authority, Student Housing LLC Revenue Bonds (Arlington Park) | \$21,130,000 | \$20,555,000 | \$21,130,000 |
| Add unamortized premium | | - | - |
| Less unamortized discount | | - | - |
| Less deferred amount on refunding | | 1,194,783 | 1,249,092 |
| Total Outstanding Variable Rate Revenue Bonds | \$ - | \$19,360,217 | \$19,880,908 |
| Total bonds before premium, discount and deferred amounts | \$231,110,000 | \$142,040,000 | \$145,560,000 |
| Add total unamortized premium | | 6,027,299 | 6,320,218 |
| Less unamortized discount | | - | - |
| Less deferred amount on refunding | | 2,899,403 | 3,085,410 |
| Total Outstanding Revenue Bonds Payable | \$ - | \$145,167,896 | \$148,794,808 |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Debt Service Requirements on Revenue Bonds

The future minimum revenue bonds debt service requirements as of June 30, 2013, are reported in the “Combined Fixed and Variable Rate Bond Debt Service Requirements Table” below:

| Fixed Rate Bonds Debt Service Requirements | | |
|---|-----------------------|----------------------|
| Year Ending June 30 | Principal | Interest |
| 2014 | \$ 3,020,000 | \$ 5,805,425 |
| 2015 | 3,240,000 | 5,672,225 |
| 2016 | 3,345,000 | 5,570,487 |
| 2017 | 3,495,000 | 5,424,213 |
| 2018 | 3,645,000 | 5,270,575 |
| 2019-2023 | 20,820,000 | 23,756,769 |
| 2024-2028 | 26,350,000 | 18,240,219 |
| 2029-2033 | 26,765,000 | 11,328,156 |
| 2034-2038 | 21,640,000 | 5,461,000 |
| 2039-2041 | 9,165,000 | 693,000 |
| Total | \$ 121,485,000 | \$ 87,222,069 |

| Variable Rate Bonds Debt Service Requirements | | |
|--|----------------------|---------------------|
| Year Ending June 30 | Principal | Interest |
| 2014 | \$ 595,000 | \$ 171,840 |
| 2015 | 615,000 | 166,866 |
| 2016 | 640,000 | 161,724 |
| 2017 | 660,000 | 156,374 |
| 2018 | 685,000 | 150,856 |
| 2019-2023 | 3,805,000 | 664,202 |
| 2024-2028 | 4,510,000 | 493,825 |
| 2029-2033 | 5,360,000 | 291,513 |
| 2034-2038 | 3,685,000 | 62,324 |
| 2039-2041 | - | - |
| Total | \$ 20,555,000 | \$ 2,319,524 |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The University calculates the interest for the 2011B variable rate bonds using a rate of 0.836 percent in effect on June 30, 2013, the financial statement date. The stated interest rate is 3.5 percent.

| Combined Fixed and Variable Rate Bond Debt Service Requirements | | | |
|--|-----------------------|----------------------|-----------------------|
| Year Ending June 30 | Principal | Interest | Total |
| 2014 | \$ 3,615,000 | \$ 5,977,265 | \$ 9,592,265 |
| 2015 | 3,855,000 | 5,839,091 | 9,694,091 |
| 2016 | 3,985,000 | 5,732,212 | 9,717,212 |
| 2017 | 4,155,000 | 5,580,586 | 9,735,586 |
| 2018 | 4,330,000 | 5,421,431 | 9,751,431 |
| 2019-2023 | 24,625,000 | 24,420,971 | 49,045,971 |
| 2024-2028 | 30,860,000 | 18,734,044 | 49,594,044 |
| 2029-2033 | 32,125,000 | 11,619,669 | 43,744,669 |
| 2034-2038 | 25,325,000 | 5,523,324 | 30,848,324 |
| 2039-2040 | 9,165,000 | 693,000 | 9,858,000 |
| Total | \$ 142,040,000 | \$ 89,541,593 | \$ 231,581,593 |

Capital Lease Obligations

Assets under capital leases at June 30, 2013, and 2012, include equipment totaling \$7,269,099 and \$8,424,956, 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, 2013, are detailed below:

Capital Lease Minimum Payments

| Fiscal Years Ending June 30, | Lease Payments |
|---|-----------------------|
| 2014 | \$ 1,412,257 |
| 2015 | 1,408,118 |
| 2016 | 1,336,818 |
| 2017 | 1,180,322 |
| 2018 | 547,358 |
| 2019-2023 | - |
| Total minimum lease payments | 5,884,873 |
| Less amount representing interest | (204,176) |
| Amount representing principal for future minimum lease payments | \$ <u>5,680,697</u> |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 9: Operating Leases

The University leases property and equipment under operating leases expiring in various years through 2021. Rental expense under these agreements for the years ended June 30, 2013, and 2012, was \$862,266 and \$835,845, respectively. The University's future minimum lease payments under non-cancelable operating leases as of June 30, 2013, are detailed below:

| Fiscal Years Ending June 30, | Lease Payments |
|-------------------------------------|-----------------------|
| 2014 | \$ 931,245 |
| 2015 | 821,756 |
| 2016 | 315,674 |
| 2017 | 312,771 |
| 2018 | 312,070 |
| 2019-2023 | <u>477,476</u> |
| | <u>\$ 3,170,992</u> |

Note 10: Defined Benefit Pension Plan

Plan Description

A significant number of the University's employees participate in a defined benefit pension plan. The plan'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 PERA Board of Trustees.

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 <http://www.copera.org>.

Non-higher education employees hired by the State after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005, and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- Hired between January 1, 2007, and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007, and December 31, 2010.
- Hired between January 1, 2011, and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007, and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011, and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

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

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

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.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5 percent for members in the State and Judicial Divisions to replace the 2.5 percent reduction in employer contributions effective for fiscal years 2011 and 2012 expired.

- From July 1, 2012, to December 31, 2012, the State contributed 15.65 percent (The State contributed 18.35 percent for state troopers and 17.36 percent for the Judicial Branch) of the employee's salary.
- From January 1, 2013, through June 30, 2013, the State contributed 16.55 percent (The State contributed 19.25 percent for state troopers and 17.36 percent for the Judicial Branch). During all of fiscal year 2013, 1.02 percent 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, 2012, the division of PERA in which the State participates has a funded ratio of 59.2 percent and a 53 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 60.2 percent.

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

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

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

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

The University's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, 2013, 2012, and 2011 were \$5,542,755, \$4,402,762, and \$4,233,731, respectively. These contributions met the contribution requirement for each year.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which takes effect in fiscal year 2015 and revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits.

The University provides certain employees with pension benefits through the State's multiple-employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

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

Note 11: Other PERA Retirement Plans

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. The temporary contribution rate increase to 10.5 percent (12.5 percent for State Troopers) effective in fiscal years 2011 and 2012 expired on July 1, 2012. At December 31, 2012, the plan had 4,362 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2012, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$17,000. The reduction for the 8 percent PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5 percent effective in fiscal years 2011 and 2012. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2012, for total contributions of \$22,500. Contributions and earnings are tax deferred. At December 31, 2012, the plan had 17,469 participants.

Voluntary Tax-Deferred Retirement Plans

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 12: University Retirement Plans

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

The ORP is a defined contribution plan with three vendors: Citistreet, TIAA-CREF, and VALIC. These vendors provide a range of investment accounts for participants. For fiscal years 2013 and 2012, the employee contributed 8 percent and the University contributed 11.5 percent. The University's contribution to the ORP for the years ending June 30, 2013, 2012, and 2011 was \$5,377,642 and \$4,974,845, and \$4,909,503 of salary, respectively. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is 65. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

The University provides a 403(b) deferred compensation plan to the University President. The Board of Trustees approved a contribution of \$46,000 for fiscal year 2012 and \$54,500 in fiscal year 2013. The contribution to be paid in fiscal year 2014 is expected to be \$54,500.

Note 13: Post-Retirement Healthcare and Life Insurance Benefits

Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit and is subject to reduction by 5 percent for each year less than 20 years.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 10, Defined Benefit Pension Plan, Funding Policy. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The University contributed \$351,143, \$354,062, and \$366,326 as required by statute in fiscal years 2013, 2012, and 2011, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2012, there were 51,666 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2012, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.43 billion, a funded ratio of 16.5 percent, and a 66-year amortization period.

Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool which allows for post-employment health coverage until the retiree is eligible for Medicare. CHEIBA Trust members include: Adams State University, Auraria Higher Education Center, Colorado School of Mines, Colorado State University – Pueblo, Colorado State University System and Colorado State University - Global Campus, Fort Lewis College, Metropolitan State University of Denver, University of Northern Colorado, and Western State Colorado University.

As of June 30, 2013, there were 17 participants utilizing post-retirement coverage from the trust membership, of which seven are from the University.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States using the accrual basis of accounting, following governmental accounting standards for a business type activity. The financial statements can be obtained by contacting the University's human resource services department at 970-351-2718. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of CHEIBA's investments is based on quoted market prices from national securities exchanges.

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

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

For the Year Ended June 30, 2013

| | Wages and Benefits | Cost of Sales | Other Current Expenses | Scholarships | Utilities | Travel | Depreciation | Total |
|-----------------------|--------------------|---------------|------------------------|---------------|--------------|--------------|--------------|---------------|
| Instruction | \$ 64,778,739 | \$ 116,604 | \$ 5,975,091 | \$ - | \$ - | \$1,143,834 | \$ - | \$72,014,268 |
| Research | 1,455,350 | 444 | 654,772 | - | - | 513,198 | - | 2,623,764 |
| Public Service | 1,192,338 | 245,584 | 492,394 | - | - | 56,906 | - | 1,987,222 |
| Academic Support | 13,566,770 | 65,560 | 6,317,173 | - | - | 183,639 | - | 20,133,142 |
| Student Services | 14,525,698 | 207,725 | 5,457,095 | - | 275,167 | 2,118,672 | - | 22,584,357 |
| Institutional Support | 6,076,146 | 181,944 | 4,064,728 | - | - | 119,101 | - | 10,441,919 |
| Operation of Plant | 5,855,465 | - | 1,277,468 | - | 2,780,431 | 3,211 | - | 9,916,575 |
| Scholarships | - | - | - | 11,703,686 | - | - | - | 11,703,686 |
| Auxiliary | 15,093,470 | 4,392,807 | 4,455,619 | - | 2,796,834 | 22,880 | - | 26,761,610 |
| Depreciation | - | - | - | - | - | - | 16,279,574 | 16,279,574 |
| Total Expenses | \$122,543,976 | \$ 5,210,668 | \$ 28,694,340 | \$ 11,703,686 | \$ 5,852,432 | \$ 4,161,441 | \$16,279,574 | \$194,446,117 |

For the Year Ended June 30, 2012

| | Wages and Benefits | Cost of Sales | Other Current Expenses | Scholarships | Utilities | Travel | Depreciation | Total |
|-----------------------|--------------------|---------------|------------------------|--------------|-------------|-------------|--------------|---------------|
| Instruction | \$60,589,858 | \$126,617 | \$5,683,504 | \$ - | \$ - | \$1,204,695 | \$ - | \$67,604,674 |
| Research | 1,366,598 | 658 | 625,631 | - | - | 497,452 | - | 2,490,339 |
| Public Service | 1,102,149 | 401,774 | 577,352 | - | - | 36,163 | - | 2,117,438 |
| Academic Support | 12,458,062 | 93,797 | 5,821,191 | - | - | 199,419 | - | 18,572,469 |
| Student Services | 13,862,288 | 190,473 | 5,775,248 | - | 276,024 | 1,933,762 | - | 22,037,795 |
| Institutional Support | 5,615,578 | 202,943 | 2,545,439 | - | 646 | 106,028 | - | 8,470,634 |
| Operation of Plant | 5,387,884 | - | 1,017,176 | - | 2,880,756 | 692 | - | 9,286,508 |
| Scholarships | - | - | - | 12,300,264 | - | - | - | 12,300,264 |
| Auxiliary | 14,322,118 | 4,450,790 | 4,889,471 | - | 2,679,746 | 19,384 | - | 26,361,509 |
| Depreciation | - | - | - | - | - | - | 16,041,668 | 16,041,668 |
| Total Expenses | \$114,704,535 | \$5,467,052 | \$26,935,012 | \$12,300,264 | \$5,837,172 | \$3,997,595 | \$16,041,668 | \$185,283,298 |

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Summary of Wages and Benefits

| Wages and Benefits | 2013 | | 2012 | |
|----------------------------------|----------------------|---------------|-----------------------|---------------|
| Faculty | \$ 39,996,664 | 32.6% | \$ 37,362,634 | 32.6% |
| Administrative | 23,342,016 | 19.0% | 21,368,197 | 18.5% |
| Graduate and Teaching Assistants | 9,387,362 | 7.7% | 8,798,099 | 7.7% |
| Classified | 18,882,299 | 15.4% | 18,649,236 | 16.3% |
| Student | 5,971,453 | 4.9% | 6,062,553 | 5.3% |
| Other | 1,250,975 | 1.0% | 1,448,886 | 1.3% |
| Fringe Benefits | 23,713,207 | 19.4% | 21,014,930 | 18.3% |
| Total Wages and Benefits | <u>\$122,543,976</u> | <u>100.0%</u> | <u>\$ 114,704,535</u> | <u>100.0%</u> |

Note 15: Legislative Appropriations

Appropriated Funds

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

For the years ended June 30, 2013, and 2012, appropriated expenditures were within the authorized spending authority. For the years ended June 30, 2013, and 2012, the University had a total appropriation of \$32,314,830 and \$32,806,606, respectively.

For years ended June 30, 2013, and 2012, the University's appropriated funds consisted of \$14,398,973 and \$14,689,892, respectively, received from students who qualified for stipends from the College Opportunity Fund and \$17,915,857 and \$18,116,714, respectively, as Fee-for-Service contract revenue. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues, and other revenue sources.

Capital Construction State Appropriations

Capital construction state appropriations are recognized only to the extent of current expenditures of \$207,288. At June 30, 2013, there were unexpended capital construction state appropriations of \$1,701,412. State appropriations for capital construction include University cash funded projects and controlled maintenance.

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

University Cash Funded Appropriated Projects

During the 2009 regular session of the Colorado General Assembly, Senate Bill 09-290 was passed. This bill changed the statutes that affected higher education capital construction. It provided greater flexibility and changed the way higher education capital construction is approved and recorded for state budgeting. During the transition in implementing this bill, it was determined that projects previously appropriated under the prior statutory rules would continue to follow those rules and would continue to be recorded on the state's budget as appropriated cash projects. There were no university cash-funded projects in fiscal year 2013.

Controlled Maintenance

The University incurs approved expenditures for various controlled maintenance projects. At June 30, 2013, the University has one project, a chiller replacement, which is classified as controlled maintenance. As of June 30, 2013, there are current expenditures of \$207,288 and unexpended appropriation of \$1,701,412 for this project.

Note 16: Commitments and Contingencies

Government Grants

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

Collateral for State Treasury Certificates of Participation

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

UNIVERSITY OF NORTHERN COLORADO

NOTES TO FINANCIAL STATEMENTS

Note 17: Risk Management

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

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

The University became fully insured through several insurance companies in 2006 and is covered by insurance for everything above its reserve and deductible. The coverage in fiscal year 2013 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, 2013 and 2012, was \$101,317 and \$56,653, respectively.

Note 18: Other Disclosures

Multi-Year Employment Contracts

During 2013, the University maintained four multi-year employment contracts for coaches. The intent of the multi-year terms (four years) is to allow the coaches sufficient time to recruit and build successful athletic teams. These contracts are subject to termination for just cause and fund availability.



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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Northern Colorado, an institution of higher education of the State of Colorado as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the UNC Foundation, Inc. as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 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. However, material weakness may exist that have not been identified.

Compliance and Other Matters

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the Auditors' Findings and Recommendations as Recommendation No 2.

University's Response to Findings

The University of Northern Colorado's response to the finding identified in our audit is described in the Auditors' Findings and Recommendations. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson & Whitney, P.C.

November 15, 2013



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, 2013, and have issued our report thereon dated November 15, 2013. 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. The results of our auditing procedures over compliance are included in the Auditors' Findings and Recommendations section.

Qualitative Aspects of Accounting Practices

Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used by the University of Northern Colorado are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except that Governmental Accounting Standards Board Statement No. 63 was adopted regarding the reporting of net position (previously net assets). We noted no transactions entered into by the institution during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

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

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

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. This includes investments (Note 3), liabilities (Note 7), and debt (Note 8).

Audit Adjustments

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

Management Representations

We have received certain representations from management that are included in the management representation letter dated November 15, 2013.

Disagreements with Management

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

Consultations with Other Accountants

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

Major Issues Discussed with Management Prior to Retention

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

Difficulties Encountered in Performing the Audit

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

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

Anderson & Whitney, P.C.

November 15, 2013

**UNIVERSITY OF NORTHERN COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
INTRODUCTION
Year Ended June 30, 2013**

The University of Northern Colorado (the University) is governed by the University of Northern Colorado Board of Trustees. The University is a state-supported institution of higher education.

Our financial and compliance audit of the various state-funded student financial assistance programs at the University for the year ended June 30, 2013 was directed toward the objectives and criteria set forth in the 2012-2013 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado Funded Student Aid issued by the Department of Higher Education and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the Board of Trustees of the University of Northern Colorado. The State-Funded Student Financial Assistance Programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2013.

State-Funded Student Financial Assistance Programs

The University's various state-funded student financial assistance programs include the following:

- Colorado Need-Based Grants
- Colorado Work-Study

The total state-funded student financial assistance programs expenditures made by the University were approximately \$4.3 million during the year ended June 30, 2013.

Purpose and Scope of Audit

Our audit of the state-funded student assistance programs was performed in accordance with the financial compliance elements of "Standards for Audits of Governmental Organizations, Programs, Activities, and Functions" issued by the Comptroller General of the United States, as revised through 2004. The purpose of the audit was to formulate an opinion on the statement of student aid programs appropriations, expenditures, transfers, and reversions for the fiscal year ended June 30, 2013 and to determine if these programs were administered in accordance with applicable laws, regulations, terms of agreements, and CDHE directives which were set forth in the handbook.

Our audit included:

- Expressing an opinion on the statement of student aid program appropriations, expenditures, transfers, and reversions.
- Evaluation of the policies, procedures, and practices used to administer these programs.
- Determination of compliance with applicable sections of the CDHE guidelines, 2013 version.



Independent Auditors' Report

Members of the Legislative Audit Committee:

Report on the Financial Statement

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs of the University of Northern Colorado, an institution of higher education of the State of Colorado, for the year ended June 30, 2013 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the financial reporting provisions of the Colorado Department of Higher Education. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly in all material respects, the appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs of the University of Northern Colorado for the year ended June 30, 2013 in accordance with the financial reporting provisions of the Colorado Department of Higher Education described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. As described in Note 1 to the financial statement, the financial statement is prepared by the University on the basis of the financial reporting provisions of the Colorado Department of Higher Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State of Colorado. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and management of the University of Northern Colorado, and for filing with the Colorado Department of Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

Anderson & Whitney, P.C.

November 15, 2013

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO
STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS**

Year Ended June 30, 2013

| | CLEAP | SLEAP | Colorado Need-based Grants | Colorado Work-Study | Governor's Opportunity Scholarship | Total Financial Aid |
|-------------------------------------|----------|----------|----------------------------------|------------------------|--|---------------------------|
| Appropriations: | | | | | | |
| Original Official Allocation | \$ - | \$ - | \$ 3,343,592 | \$ 933,218 | \$ - | \$ 4,276,810 |
| Additional Allocation | - | - | 54,699 | - | - | 54,699 |
| Total Appropriations | - | - | 3,398,291 | 933,218 | - | 4,331,509 |
| Total Expenditures | - | - | 3,398,291 | 933,218 | - | 4,331,509 |
| Reversions to State General Fund | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to financial statement.

UNIVERSITY OF NORTHERN COLORADO

Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions of the State Funded Student Assistance Programs

Year Ended June 30, 2013

Note 1 – Summary of Significant Accounting Policies:

The University of Northern Colorado's accounting system is structured and administered in accordance with the accounting principles promulgated by the Government Accounting Standards Board.

All student aid is expended on a cash basis except for the College Work-Study Program (CWS). The CWS is on the accrual basis in that the expense is recognized when the service is performed. This basis differs from accounting principles generally accepted in the United States primarily because appropriations are presented instead of revenue and because assets, liabilities, and net assets are not included in the financial statement.

Note 2 – Description of Programs:

For the year ended June 30, 2013, the University of Northern Colorado obtained authorization to award federal student financial aid of \$13,635,205 in the Pell Grant Program, \$233,291 in the Supplemental Educational Opportunity Grant Program, and \$366,114 in the College Work-Study Program. Federal capital contributions of \$-0- were received by the Perkins Loan Program.

The Office of Financial Aid is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as insuring compliance with regulations governing the participation of the University in federal and state financial aid programs. The University Controller is responsible for the program's financial management, general ledger accounting, payments, and collections.

Note 3 – Colorado Leveraging Educational Assistance Partnership and Supplemental Colorado Leveraging Educational Assistance Partnership:

For the year ended June 30, 2013, the Colorado Leveraging Educational Assistance Partnership (CLEAP) and Supplemental Colorado Leveraging Educational Assistance Partnership (SLEAP) grants were not available or awarded.

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