

STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO



FINANCIAL AND COMPLIANCE AUDITS

Year Ended June 30, 2003



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TABLE OF CONTENTS

Report Summary	2
Recommendation Locator	4
Organization and Function of the University.....	5
FINDINGS AND RECOMMENDATIONS REPORT SECTION	
Auditors' Findings and Recommendations	7
Disposition of Prior Audit Findings	9
FINANCIAL STATEMENTS REPORT SECTION	
Independent Auditors' Report	11
Management Discussion and Analysis.....	12
Financial Statements	
Statement of Net Assets	20
Statement of Revenues, Expenses, and Changes in Net Assets	21
Statement of Cash Flows	22
Notes to Financial Statements	23
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Audit Committee Communications.....	40
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS REPORT SECTION	
Independent Auditors' Report.....	43
Financial Statement:	
Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs	44
Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Assistance Programs	45
Independent Auditors' Report on Internal Controls.....	46
DISTRIBUTION PAGE	48

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY
Year Ended June 30, 2003**

PURPOSE AND SCOPE OF AUDITS

The Office of the State Auditor, State of Colorado, engaged Anderson & Whitney, P.C. to conduct audits of the University of Northern Colorado (the University) for its fiscal year ended June 30, 2003. Anderson & Whitney, P.C. performed these audits 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 2003.

The purpose and scope of these audits were to:

- Express an opinion on the financial statements of the University as of and for the years ended June 30, 2003 and 2002. 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 federal and 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 year ended June 30, 2003.
- Evaluate progress in implementing prior audit findings and recommendations.

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**REPORT SUMMARY — Continued
Year Ended June 30, 2003**

Audit Opinions and Reports

We expressed unqualified opinions on the University's financial statements and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2003.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements. However, we did note certain areas where the University could improve its internal control and other procedures, which are described in the Findings and Recommendations section of this report.

The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2003, Statewide Single Audit Report issued under separate cover.

We also issued certain required communications related to the conduct of an audit including our responsibility under generally accepted auditing standards, significant accounting policies, audit adjustments, and accounting estimates. No delays, disagreements or audit adjustments are reported. There were uncorrected misstatements and misclassifications of \$287,232, from overstatement of deferred revenue liabilities and misclassification of certain revenue accounts.

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

This report contains two recommendations. The recommendations address matters regarding travel authorization and deferred revenue adjustments.

- Improve authorization procedures for out-of-state travel.
- Strengthen review and adjustment of deferred revenue accounts.

A summary of the recommendation is 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, 2002 included two recommendations. These recommendations were implemented.

UNIVERSITY OF NORTHERN COLORADO

RECOMMENDATION LOCATOR

Year Ended June 30, 2003

Record Number	Page Number	Recommendation Summary	Agency Response	Implementation Date
<u>FINANCIAL STATEMENT RECOMMENDATIONS</u>				
1.	7	Improve authorization procedures for out-of-state travel.	Agree	October 2003
2.	8	Strengthen review and adjustment procedures over deferred revenue.	Agree	October 2003

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**ORGANIZATION AND FUNCTION OF THE UNIVERSITY
Year Ended June 30, 2003**

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

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

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

Student enrollment (full-time equivalent) for the past three years of the University was:

	Resident	Nonresident	Total
2003	9,421	1,185	10,606
2002	9,088	1,240	10,328
2001	9,041	1,268	10,309

Full-time employees were:

	Faculty	Staff	Total
2003	439	681	1,120
2002	427	661	1,088
2001	486	688	1,174

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, 2003**

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

IMPROVE TRAVEL AUTHORIZATIONS

State fiscal rules require that travel charged to the State, regardless of the funding source, shall be for the benefit of the State and completed using the most economical means available which will satisfactorily accomplish the State's business. To accomplish this, prior authorization is required for all out-of-state travel.

During our audit, we tested 30 out-of-state travel reimbursements totalling approximately \$36,000 for faculty and staff of the University. We obtained agendas or schedules for the meeting or event related to the travel and determined that the actual travel dates were reasonable. These included both State-funded and federally-funded reimbursements. Total out-of-state travel for faculty and staff in fiscal year 2003 was approximately \$375,000 of State-supported and \$147,000 of federal grant reimbursements.

We noted two areas for improvement as follows:

- ⇒ The University uses a travel request and authorization form to document advance approval. Of the 30 reimbursements tested, three for \$4,750 did not have advance authorization documented on the form, but were approved after the trip.
- ⇒ In our review of the travel authorizations, we noted that the actual dates of the meeting or event were not documented on the form and may not have been available to the individual authorizing the travel. Therefore, it may have been difficult for the approver to evaluate if the length of the travel was appropriate and if the most economical measures were used. We recommend that the actual dates of the meeting or event be documented on the travel authorization form.

Recommendation No. 1

The University of Northern Colorado should strengthen its procedures and documentation of out-of-state travel authorizations by ensuring:

- a. All out-of-state travel is approved in advance.
- b. All travel authorizations include the date of the related meeting or conference.

University of Northern Colorado Response:

Agree. The University will strengthen our travel procedures. (To be implemented, October 2003)

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**AUDITORS' FINDINGS AND RECOMMENDATIONS – Continued
Year Ended June 30, 2003**

ACCUE AND CLASSIFY UNIVERSITY REVENUE COMPLETELY

All University revenue that has been earned should be accrued at year-end and deferred revenue accounts should be adjusted to reflect cash received that is unearned at year-end. We noted two audit differences regarding revenue:

- ⇒ A grant for \$150,000 was received from the Colorado State Historical Society for a central campus project. The funds were received in advance. As of June 30, 2003, because the project was partially completed, the University should have recognized a portion of the grant as revenue. However, because the adjustment was not made, revenue was understated and liabilities overstated by about \$74,000.
- ⇒ Revenue for summer classes is only recognized for the portion of the class which has occurred by June 30. The unearned portion of tuition and fees received for summer classes should be recorded as deferred revenue and the earned portion classified into appropriate revenue accounts at year-end.

In adjusting this account to its actual balance at June 30, a classification error was made in the adjusting journal entry. The journal entry review process did not detect the error. As a result, \$213,000 of tuition revenue was misclassified between on-campus and off-campus programs.

While these differences were immaterial to the financial statements, they indicate a need to strengthen the process to report deferred revenue.

Recommendation No. 2

The University of Northern Colorado should improve its procedures to review and adjust deferred revenue at year-end and completely record and classify all University revenue earned during the year.

University of Northern Colorado Response:

Agree. The University has corrected the first issue pertaining to grant revenue and has improved procedures to prevent recurrence. The University is strengthening the closing process to prevent future misclassification. (To be implemented, October 2003)

**STATE OF COLORADO
UNIVERSITY OF NORTHERN COLORADO**

**DISPOSITION OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2003**

The following is a summary of the prior year audit recommendations and their disposition as of June 30, 2003:

<u>Record No.</u>	<u>Finding</u>	<u>Disposition</u>
1.	Require the use of standard forms for all equipment disposals.	Implemented
2.	Review all auxiliary contracts at year-end to ensure all receivables and revenue are recorded.	Implemented

**INDEPENDENT AUDITORS' REPORTS,
MANAGEMENT DISCUSSION AND ANALYSIS,
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**



Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying statements of net assets of the University of Northern Colorado (the University), a blended component unit of the State of Colorado, as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Northern Colorado at June 30, 2003 and 2002 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis on pages 12 through 19 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 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 grants. 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.

September 26, 2003

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

This document presents the financial operating results of the University of Northern Colorado, a public comprehensive baccalaureate and specialized graduate research university, for the fiscal year ended June 30, 2003 with prior year data for comparative purposes. The activities of the Student Media Corporation and the Alumni Association, blended component units, have also been incorporated. The statements focus on the financial condition and results of operation for the University as whole. In years prior to fiscal 2002 the emphasis had been on accounting for transactions through particular funds.

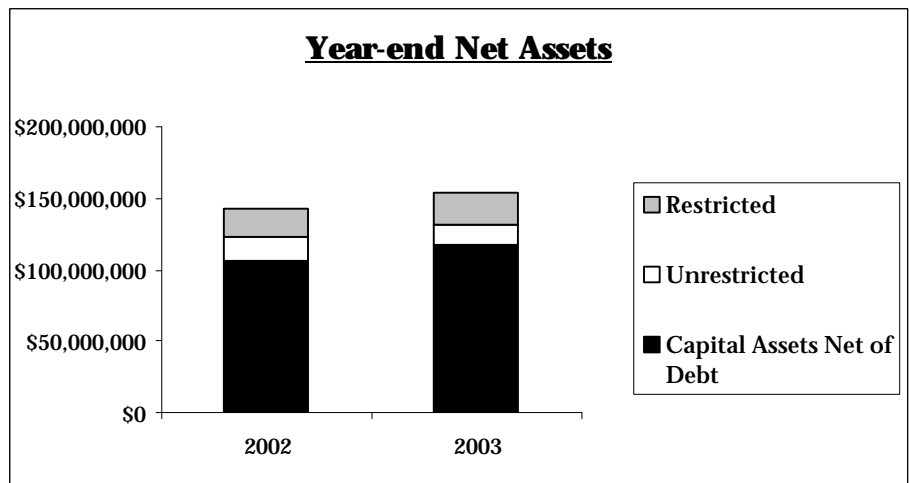
The statements are comprised of: the Statement of Net Assets; the Statement of Revenue, Expenses and Changes in Net Assets; and the Statement of Cash Flows. In addition, the University of Northern Colorado's (UNC's) financial report includes note disclosures and is prefaced by this Management Discussion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

Financial Highlights

The net assets of the University of Northern Colorado increased by \$11.1 million to \$153.7 million during the fiscal year ended June 30, 2003. This is significantly slower growth than \$30.4 million increase in the prior fiscal year and occurred almost exclusively within capital assets (\$10.9 million). Restricted net assets grew by \$2.4 million while unrestricted net assets decreased by \$2.2 million. This decrease can be attributed to declines in state appropriations discussed later.

Selected financial highlights for the fiscal year ending June 30, 2003 include:

- University assets total \$241.7 million with liabilities of \$88.0 million resulting in net assets of \$153.7 million.
- Capital assets of \$165.2 million comprise 68% of University assets.
- Total revenue was \$140.1 million including \$85.9 million of Operating Revenue and \$37.0 million in State Appropriations.
- Operating Expenses total \$126.6 million including \$87.5 million in personnel costs (69%).



MANAGEMENT DISCUSSION AND ANALYSIS

Statement of Net Assets

The Statement of Net Assets is a financial snapshot of the University of Northern Colorado at June 30, 2003. It presents the fiscal resources of the university (assets), the claims against those resources (liabilities) and the residual available for future operations (net assets). Assets and liabilities are classified by liquidity as either current or non-current. Net assets are classified by the ways in which they may be used for future operations.

University of Northern Colorado Condensed Statement of Net Assets At June 30,			
	<u>2003</u>		<u>2002</u>
Assets			
Current Assets	\$ 53,326,416	\$	44,946,536
Capital Assets	165,163,746		148,633,144
Other Non-current Assets	<u>23,210,782</u>		<u>28,271,291</u>
Total Assets	<u>\$ 241,700,944</u>	<u>\$</u>	<u>221,850,971</u>
Liabilities			
Current Liabilities	\$ 22,645,936	\$	14,407,813
Bonds Payable	59,177,098		60,132,780
Other Non-current Liabilities	<u>6,225,216</u>		<u>4,785,806</u>
Total Liabilities	<u>\$ 88,048,250</u>	<u>\$</u>	<u>79,326,399</u>
Net Assets			
Invested in Capital Assets net of Related Debt	\$ 117,868,111	\$	106,985,329
Restricted - Nonexpendable	381,541		381,541
Restricted - Expendable	21,197,432		18,771,956
Unrestricted	<u>14,205,610</u>		<u>16,385,746</u>
Total Net Assets	<u>\$ 153,652,694</u>	<u>\$</u>	<u>142,524,572</u>

Liquid Assets

Unrestricted cash and cash equivalents (\$45.8 million) comprise 18.9% of the University's assets. The current ratio (current assets over current liabilities) is 2.4 compared to 3.1 for fiscal 2002.

Capital Assets

UNC's single largest fiscal resource is its campus facility. Previously reflected at gross historical cost, public university asset values are now adjusted for depreciation. Capital assets net of depreciation. Capital assets net of \$110.9 million depreciation total \$165.2. This is a \$16.6 million increase from fiscal year 2002 and is primarily attributable to the completion of Ross Hall. The total value of buildings, net of depreciation, was \$131.7 million at June 2003 as compared to \$115.0 million at June 2002. Footnote #4 provides additional information about capital assets.

<u>Capital Assets Net of Depreciation</u>			
	<u>June 30, 2003</u>		<u>June 30, 2002</u>
Land and Improvements	\$ 12,554,570	\$	11,672,718
Buildings	131,668,618		114,970,972
Construction In Progress	10,593,558		11,933,113
Library Books	6,983,715		6,645,887
Equipment	2,520,655		2,567,824
Art and Historical Treasures	<u>842,630</u>		<u>842,630</u>
Total Capital Assets	<u>\$ 165,163,746</u>	<u>\$</u>	<u>148,633,144</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Liabilities

The University's commitments of resources include: amounts owed to vendors; leases of equipment; and "deferred revenue", for example, tuition and fee money received by June 30, 2003 but related to instructional services to be provided in fiscal year 2004. Compensated absences or vacation accrued by employees of \$2.8 million is another significant liability. The single largest liability however, is \$60.2 million in outstanding bond principal.

Long-term Debt

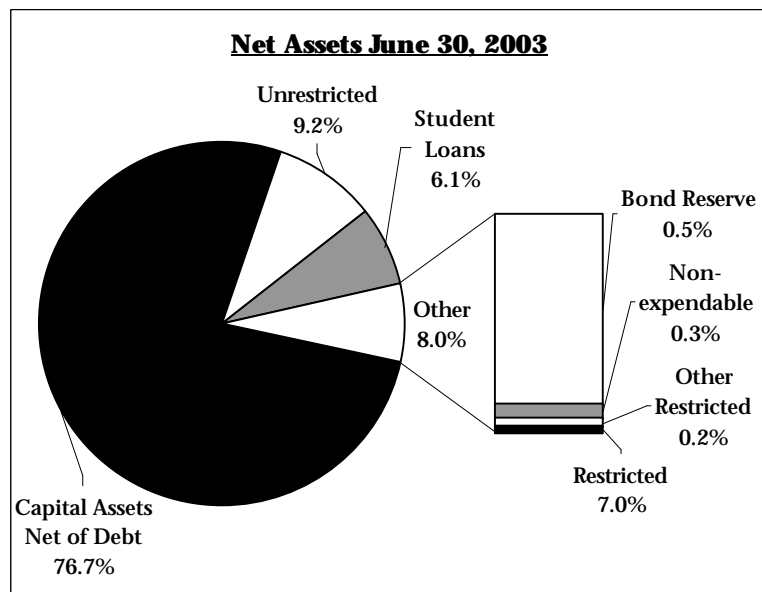
In July 2001 UNC issued bonds totaling \$50,000,000 par. These bonds advance refunded the previously issued 1997 bonds and provided funding for West Campus Dining Improvements, Parking, and additional Auxiliary Facility Improvements. These projects are not yet completed. Ratings by Moody's Investor Service and Standard & Poor's, based on insured bonds, were Aaa and AAA respectively. The underlying ratings were A2 and A. Other outstanding bonds include 1994 issuance and the 1998 issuance, both of which were for Auxiliary projects and the refunding of prior bonds. Bond maturities range from 2003 to 2031. Footnotes #9, 10, and 11 provide additional information about long-term debt.

Net Assets

Net assets are the resources available for future operations, that is, assets reduced by liabilities. The University's largest class of assets is its capital assets, and even after consideration of related debt, Capital Assets Net of Debt comprise 77% of UNC's net assets.

Unrestricted Net Assets include departmental operating funds; inventory; self-funded operation working capital; reserves; and the net assets of the Student Media Corporation and Alumni Association. Unrestricted Net Assets of \$14.2 million equal to 14 percent of fiscal year 2003 educational and general expenditures.

Net Assets		
	June 30, 2003	June 30, 2002
Capital Assets Net of Debt	\$ 117,868,111	\$ 106,985,329
Unrestricted	14,205,610	16,385,746
Auxiliary	10,839,279	8,533,059
Student Loans	9,343,496	9,284,250
Bond Reserve	750,000	750,000
Non-expendable	381,541	381,541
Other Restricted	264,657	204,647
	\$ 153,652,694	\$ 142,524,572



MANAGEMENT DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses and Changes in Net Assets

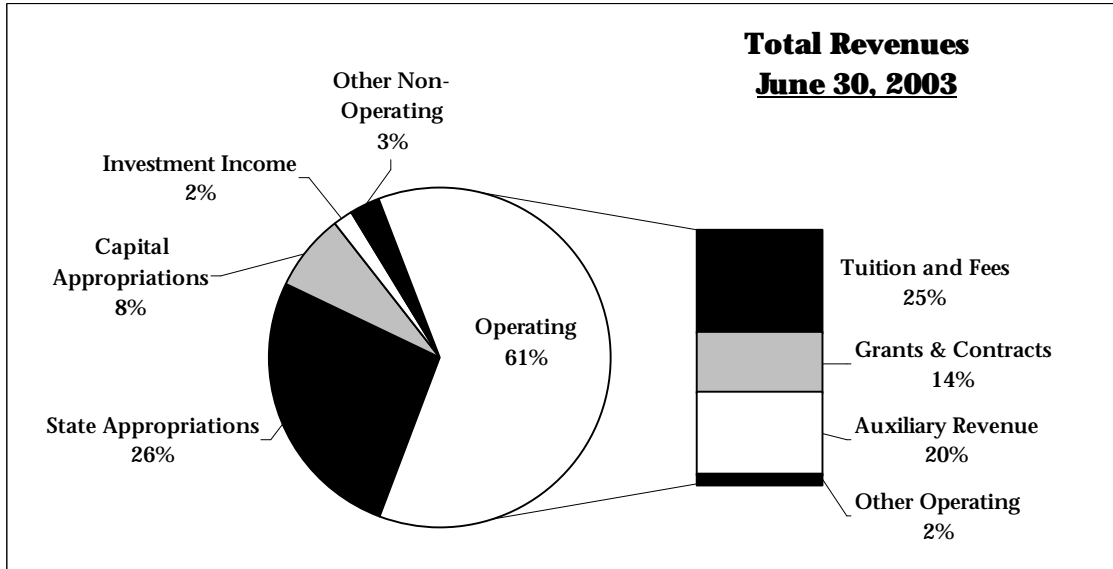
The Statement of Revenues, Expenses and Changes in Net Assets presents the financial activity of the University of Northern Colorado over the fiscal year. The focus is on Operating Revenues and Expenses and it is important to recognize that the new GASB standards require state appropriations to be reported as Non-operating Revenue.

University of Northern Colorado			
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
For the Year Ended June 30,			
	2003		2002
Operating Revenues			
Net Tuition and Fees	\$ 35,066,370	\$	32,159,991
Grants and Contracts	20,055,607		19,037,633
Auxiliary	27,328,805		26,346,214
Other	3,478,598		3,159,159
Total Operating Revenues	\$ 85,929,380	\$	80,702,997
Operating Expenses			
Educational and General	\$ 99,561,609	\$	97,506,861
Auxiliary	17,537,348		17,866,440
Depreciation	9,528,353		8,765,627
Total Operating Expenses	126,627,310		124,138,928
Operating Loss	\$ (40,697,930)	\$	(43,435,931)
Non-operating Revenues			
State Appropriations	\$ 36,974,939	\$	42,352,302
Other	2,102,892		2,731,754
Income Before Other Items	\$ (1,620,099)	\$	1,648,125
Capital Appropriations	10,475,643		27,372,422
Net Other Items	2,272,578		1,336,827
Increase in Net Assets	\$ 11,128,122	\$	30,357,374
Net Assets- Beginning of Year	142,524,572		112,167,198
Net Assets- End of Year	\$ 153,652,694	\$	142,524,572

MANAGEMENT DISCUSSION AND ANALYSIS

Total Revenues

Revenue from all sources totals \$140.1 million with \$85.9 million of that being Operating Revenue and an additional \$37.0 million being UNC's general fund appropriation from the State of Colorado. The original fiscal year 2003 appropriation was \$44.8 million; three separate funding rescissions totaling \$7.8 million resulted in the reduced appropriation of \$37.0 million. In fiscal year 2002 total revenue was \$156.8 million with \$80.7 million operating revenue and a \$42.3 million general fund appropriation. Capital appropriations to UNC in 2003 were \$10.5 million with \$8.2 million for Ross Hall renovation.



Operating Revenues

Operating revenue is derived from Tuition and Fees - \$35,066,370; Auxiliary activity - \$27,328,805; Grants & Contracts - \$20,055,607 and Other - \$3,478,598.

Under the new GASB standards, tuition and fees are now shown net of \$8,307,402 in scholarship allowances. Scholarship allowances are those portions of UNC tuition and fees, which are paid by other revenues, primarily federal and state grants for financial aid but also general institutional scholarships. This is one of the significant changes from prior financial reporting standards, which required presentation of the flow of resources through various funds.

About 57% of the Operating Grants and Contract revenue is federal and state financial aid with an additional 29% coming from federal research, training, etc. grants.

	June 30, 2003	June 30, 2002
Federal Financial Aid	\$ 5,927,105	\$ 5,707,573
State Financial Aid	5,452,469	5,209,099
Federal Grants	5,805,496	4,974,176
State & Local Grants	555,999	864,500
UNC Foundation Grants	1,523,284	2,282,285
Other Grants	791,254	-
	\$ 20,055,607	\$ 19,037,633

MANAGEMENT DISCUSSION AND ANALYSIS

Expenses

Operating Expenses of \$126.6 million comprise the largest part of expenses and other losses, which also includes \$2.3 million in interest related to bond financing and \$18K in loss on disposal of assets. Historically, expenses have been shown by “function” but the standards now permit presentation either by function or natural classification. Public institutions of higher education in Colorado have elected to continue the functional presentation.

<u>Operating Expenses by Function</u>					
	<u>2003</u>			<u>2002</u>	
Instruction	\$ 50,428,209	39.8%	\$ 48,052,554	38.7%	
Research	2,464,018	1.9%	2,207,219	1.8%	
Public Service	1,199,757	1.0%	1,395,721	1.1%	
Academic Support	11,863,137	9.4%	12,090,933	9.7%	
Student Services	14,291,542	11.3%	13,582,705	10.9%	
Institutional Support	7,427,433	5.9%	9,048,830	7.3%	
Operation of Plant	8,945,899	7.1%	8,496,155	6.8%	
Scholarships & Fellowships	2,941,614	2.3%	2,632,744	2.1%	
Auxiliary operating expenditures	17,537,348	13.8%	17,866,440	14.4%	
Depreciation	<u>9,528,353</u>	<u>7.5%</u>	<u>8,765,627</u>	<u>7.2%</u>	
Total Operating Expenses	\$ 126,627,310	100.0%	\$ 124,138,928	100.0%	

From a natural classification perspective, the largest expenditure is for personnel.

<u>Operating Expenses by Natural Class</u>					
	<u>2003</u>			<u>2002</u>	
Personnel Costs	\$ 87,451,648	69.1%	\$ 84,553,805	68.1%	
Cost of Goods Sold	8,337,512	6.6%	7,525,118	6.1%	
Other Operating Expense	21,309,797	16.8%	23,294,378	18.7%	
Depreciation	<u>9,528,353</u>	<u>7.5%</u>	<u>8,765,627</u>	<u>7.1%</u>	
Total Operating Expenses	\$ 126,627,310	100.0%	\$ 124,138,928	100.0%	

Statement of Cash Flows

The Statement of Cash Flows provides information about the cash activity over the past year. A summary is presented here with more detail on the actual statement. Just as the State Appropriation is not part of Operating Revenue on Statement of Revenue, Expenses and Changes in Net Assets, cash flows from the State Appropriation are not considered Operating, but Non-capital Financing.

In fiscal year 2003 UNC implemented a variety of measures including spending restrictions and a hiring freeze to address the economic realities of a recession. This resulted in decreased operating cash outflow as compared to the prior year.

MANAGEMENT DISCUSSION AND ANALYSIS

Noncapital financing is almost entirely from the state's general fund appropriation, which, due to the fiscal 2003 rescissions, was \$5.4 million less than fiscal year 2002. (There are several other minor contributors to noncapital financing cash flows.)

In fiscal year 2002 UNC issued \$50,000,000 in bonds (July 2001) for construction and advance refunding of previously issued bonds. The proceeds for construction were not fully expended in that year resulting in a net cash provision from capital financing. In fiscal year 2003 \$10.5 million capital financing was received from the state while \$26 million was expended for capital improvements from remaining bond proceeds and other cash dedicated to capital use. Thus, in fiscal year 2003 there was a \$15.1 million net use of cash for capital purposes.

University of Northern Colorado Condensed Statement of Cash Flows For the Year Ended June 30,		
	2003	2002
Cash Flows Provided / (Used) by:		
Operating Activities	\$ (21,130,019)	\$ (28,953,657)
Noncapital Financing	37,046,947	42,490,948
Capital and Related Financing	(15,126,009)	11,831,494
Investing	<u>2,728,722</u>	<u>3,194,407</u>
Net Increase in Cash	\$ 3,519,641	\$ 28,563,192
Beginning Cash Balance	<u>56,697,667</u>	<u>28,134,475</u>
Ending Cash Balance	<u>\$ 60,217,308</u>	<u>\$ 56,697,667</u>

Economic Outlook

UNC's financial future depends on many factors. From the resources side student enrollment and support from the State of Colorado are critical. From the expenditure side, the cost of retaining qualified personnel, energy costs and administrative efficiency are important.

The national economic recession and Colorado's state revenue shortfalls have had a significant impact on UNC's finances both in fiscal year 2003 and as we look ahead to the coming years. The fiscal year 2004 general fund appropriation from the state is \$33.6 million, \$3.4 million less than was appropriated in 2003 (net of rescissions) and \$8.8 million less than was appropriated in 2002.

UNC is not anticipating a dramatic positive change in Colorado's resources and therefore does not expect state appropriations to rebound to fiscal year 2002 levels for perhaps as much as a decade. Therefore, UNC is initiating a comprehensive planning process entitled "Charting the Future" <http://www.unco.edu/pres/charting/> with the goal of realigning financial and other resources to ensure that UNC lives up to its promise as a great university.

Student Headcount Enrollment		
Fiscal Year	On-Campus	Percent Change
2003	13,205	0.9%
2002	13,081	0.6%
2001	13,009	

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ANAGEMENT DISCUSSION AND ANALYSIS

One testament to UNC's strength is that student enrollment continues to be strong. Fiscal year 2003 headcount was up 0.9% and preliminary numbers for fall 2003 (fiscal year 2004) indicate that on-campus enrollment continues to rise, even though tuition increased by 10% for fiscal year 2004.

Resident enrollment in particular, as measured by full-time equivalency (FTE) or 30 academic credit hours, is growing. In the past, resident FTE had a direct relationship to the funding received from the State. However, in the current climate of appropriation decreases, the State support in actual dollars per FTE is declining.

Fiscal Year	Resident FTE	Percent Change
2003	9,421	3.7%
2002	9,088	0.5%
2001	9,041	

Although, the financial challenges are very real, UNC believes that it has made adequate short-term adjustments to continue to provide a quality educational experience.

- Tuition rates for 2003-2004 were increased by 10%. UNC's tuition remains competitive in the mid-range for Colorado universities and the increase was well below the national trend.
- Over \$8 million in budgetary reductions were implemented and the 2003-2004 budget is balanced.

For the long-term strength of the university, further realignment of resources will be necessary. The campuswide planning initiative, Charting the Future, will provide UNC the opportunity to make thoughtful decisions as to how to best continue serving students and Colorado citizens.

STATEMENTS OF NET ASSETS

	JUNE 30, 2003	JUNE 30, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 45,777,639	\$ 37,347,768
Student accounts receivable, net	4,483,972	4,166,150
Other accounts receivable, net	530,962	449,297
Student loans receivable, net	1,427,153	1,237,036
Inventories	766,200	1,020,448
Other current assets	<u>340,490</u>	<u>725,837</u>
Total Current Assets	<u>53,326,416</u>	<u>44,946,536</u>
Noncurrent Assets		
Restricted cash	14,439,669	19,349,899
Restricted investments	691,950	690,994
Student loans receivable, net	6,648,104	6,754,102
Other noncurrent assets	1,431,059	1,476,296
Non-depreciable Capital Assets:		
Land	5,798,559	4,848,368
Land improvements	2,603,326	2,488,526
Construction in progress	10,593,558	11,933,113
Art & historical treasures	842,630	842,630
Depreciable Capital Assets:		
Land improvements (Less Accum Depr. of \$3,916,323 and \$3,618,042)	4,152,685	4,335,824
Buildings and improvements (Less Accum Depr. of \$75,604,702 and \$68,760,430)	131,668,618	114,970,972
Leasehold improvements (Less Accum Depr. of \$495,403 and \$495,405)	0	0
Equipment (Less Accum Depr. of \$8,837,054 and \$8,562,693)	2,520,655	2,567,824
Library holdings (Less Accum Depr. of \$22,070,118 and \$21,058,011)	<u>6,983,715</u>	<u>6,645,887</u>
Total Noncurrent Assets	<u>188,374,528</u>	<u>176,904,435</u>
TOTAL ASSETS	<u>241,700,944</u>	<u>221,850,971</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,172,161	2,628,975
Accrued liabilities	10,162,987	2,630,138
Deferred revenue	6,807,457	5,730,232
Capital leases payable, current portion	151,298	92,825
Bonds/notes payable, current portion	1,083,436	1,030,000
Compensated absence liabilities	618,993	651,793
Other long term liabilities, current portion	<u>1,649,604</u>	<u>1,643,850</u>
Total Current Liabilities	<u>22,645,936</u>	<u>14,407,813</u>
Noncurrent liabilities:		
Bonds/notes payable	59,177,098	60,132,780
Capital lease payable	1,490,172	115,901
Other long term liabilities	2,516,351	2,574,174
Compensated absence liabilities	<u>2,218,693</u>	<u>2,095,731</u>
Total Noncurrent Liabilities	<u>65,402,314</u>	<u>64,918,586</u>
TOTAL LIABILITIES	<u>88,048,250</u>	<u>79,326,399</u>
NET ASSETS		
Invested in capital assets, net of debt	117,868,111	106,985,329
Restricted for:		
Nonexpendable purposes		
Scholarships/fellowships	380,141	380,141
Academic support	1,400	1,400
Expendable purposes		
Auxiliary Expenditures	10,839,279	8,533,059
Scholarships/fellowships	203,739	203,480
Loans	9,343,496	9,284,250
Capital projects	750,000	750,000
Other	60,918	1,167
Unrestricted	<u>14,205,610</u>	<u>16,385,746</u>
TOTAL NET ASSETS	<u>\$153,652,694</u>	<u>\$142,524,572</u>

* See accompanying notes to financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	YEARENDED JUNE 30, 2003	YEARENDED JUNE 30, 2002
REVENUES		
Operating revenues:		
Student tuition and fees (including \$3,269,445 and \$3,259,926 of revenues pledged for bonds and net of scholarship allowances of \$8,307,402 and \$8,117,521)	\$ 35,066,370	\$ 32,159,991
Federal grants and contracts (including \$50,536 and \$50,536 of revenues pledged for bonds)	11,732,601	10,681,749
State and local grants and contracts	6,008,468	6,073,599
Nongovernmental grants and contracts	2,314,538	2,282,285
Sales and services of educational activities	2,734,549	2,490,421
Auxiliary operating revenue (including \$25,043,413 and \$24,304,974 of revenues pledged for bonds and net of scholarship allowances of \$1,028,529 and \$1,059,662)	27,328,805	26,346,214
Other operating revenue (including \$418,968 and \$516,426 of revenues pledged for bonds)	744,049	668,738
Total operating revenues	<u>85,929,380</u>	<u>80,702,997</u>
EXPENSES		
Operating expenses:		
Educational and general		
Instruction	50,428,209	48,052,554
Research	2,464,018	2,207,219
Public service	1,199,757	1,395,721
Academic support	11,863,137	12,090,933
Student services	14,291,542	13,582,705
Institutional support	7,427,433	9,048,830
Operation of plant	8,945,899	8,496,155
Scholarships & fellowships	2,941,614	2,632,744
Auxiliary operating expenditures	17,537,348	17,866,440
Depreciation	9,528,353	8,765,627
Total operating expenses	<u>126,627,310</u>	<u>124,138,928</u>
Operating income (loss)	<u>(40,697,930)</u>	<u>(43,435,931)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	36,974,939	42,352,302
Investment income (net of investment expense of \$1,512 and \$6,705)	2,725,415	3,194,407
Interest on capital asset related debt	(2,342,929)	(2,151,900)
Other nonoperating revenues	1,720,406	1,689,247
Net nonoperating revenues	<u>39,077,831</u>	<u>45,084,056</u>
Income before other revenues, (expenses) gains, or (losses)	<u>(1,620,099)</u>	<u>1,648,125</u>
Capital appropriations	10,475,643	27,372,422
Capital grants and gifts	2,290,977	266,565
Loss on disposal of capital assets	(18,399)	(190,004)
Special Item - Sale of KUNC license	0	1,260,266
Increase in net assets	<u>11,128,122</u>	<u>30,357,374</u>
Net Assets		
Net assets - beginning of year	<u>142,524,572</u>	<u>112,167,198</u>
NET ASSETS - END OF YEAR	<u>\$ 153,652,694</u>	<u>\$ 142,524,572</u>

* See accompanying notes to financial statements

S STATEMENTS OF CASH FLOWS

	YEARENDED JUNE 30, 2003	YEARENDED JUNE 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received:		
Tuition and fees	\$ 34,904,103	\$ 32,380,948
Sales of services	31,086,948	33,077,570
Sales of products	0	51,453
Grants and contracts	19,746,844	19,920,124
Student loans collected	2,241,411	2,142,662
Other receipts	2,133,839	1,952,801
Cash Payments:		
Payments to or for employees	(79,913,054)	(84,845,516)
Payments to suppliers	(26,613,950)	(29,684,856)
Scholarships disbursed	(2,742,845)	(2,386,280)
Student loans disbursed	(1,973,314)	(1,562,563)
Net cash provided (used) by operating activities	<u>(21,130,019)</u>	<u>(28,953,657)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations, noncapital	36,974,939	42,352,302
Agency inflows	32,465,493	32,146,825
Agency outflows	(32,393,485)	(31,998,904)
Transfers from (to) other funds	0	(9,275)
Net cash provided (used) by noncapital financing activities	<u>37,046,947</u>	<u>42,490,948</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State appropriations, capital	10,475,644	27,372,422
Capital grants, contracts & gifts	2,290,977	266,565
Proceeds from sale of capital assets	0	1,260,266
Gain (Loss) on disposal of capital assets	(18,399)	(190,004)
Proceeds from capital debt	1,557,418	48,332,604
Acquisition or construction of capital assets	(26,058,954)	(33,193,090)
Principal paid on capital debt	(1,051,645)	(29,930,810)
Interest paid on capital debt	(2,321,050)	(2,086,459)
Net cash provided (used) by capital financing activities	<u>(15,126,009)</u>	<u>11,831,494</u>
CASH FLOWS FROM INVESTING ACTIVITIES :		
Investment earnings	<u>2,728,722</u>	<u>3,194,407</u>
Net cash provided (used) by investing activities	<u>2,728,722</u>	<u>3,194,407</u>
Net Increase (Decrease) in Cash	3,519,641	28,563,192
Beginning cash balance	56,697,667	28,134,475
Ending cash balance	<u>\$ 60,217,308</u>	<u>\$ 56,697,667</u>
Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (40,697,930)	\$ (43,435,931)
Adjustments to reconcile:		
Depreciation expense	9,528,353	8,765,627
Other revenues and additions (external rent)	1,720,406	1,689,247
Decrease (increase) in assets:		
Cash invested with custodian	(956)	(3,740)
Receivables, net	(423,106)	(101,653)
Inventories & prepaids	665,347	(1,032,387)
Increase (decrease) in liabilities:		
Accounts payable	(458,239)	(1,200,254)
Accrued payroll	7,531,838	618,027
Deferred revenues	1,017,428	5,597,711
Other liabilities	(103,322)	78,433
Compensated absences	90,162	71,263
Net cash provided (used) by operating activities	<u>\$ (21,130,019)</u>	<u>\$ (28,953,657)</u>

* See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Northern Colorado is an institution of higher education of the State of Colorado. Thus, for financial reporting purposes, the University of Northern Colorado is included as part of the State of Colorado's primary government. 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 which 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.

As required by generally accepted accounting principles, these financial statements present the University (primary government) and its component units. The component units discussed below are included in the University's reporting entity because of the significance of their operational or financial relationships with the University in accordance with Government Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," which was adopted by the University for fiscal year 1994.

Blended Component Units

Student Media Corporation ("Media Corporation"): The Media Corporation was organized under state law with a primary objective to publish the official school newspaper of the University. The Media Corporation is governed by a Board of Directors comprised of various University administrators, certain student members, and members of the community. The Media Corporation is reported as if it were a part of the University due to the financial dependency of the Media Corporation on the University and because its main objective is to provide the University's official newspaper.

Complete financial statements can be obtained from their administrative office.

Alumni Association of the University of Northern Colorado ("Alumni Association"): The Alumni Association was organized under state law with a purpose of facilitating broad support for the University among alumni. The Alumni Association is governed by a Board of Directors consisting of 23 members of the Association. The Alumni Association is reported as if it were a part of the University due to financial dependency of the Alumni Association on the University.

Complete financial statements can be obtained from their administrative office.

Discretely Presented Component Units

The University has no component units which are required to be presented as discretely presented component units.

Related Organization

The University of Northern Colorado Foundation, Inc.: The University of Northern Colorado Foundation, Inc. (the Foundation) has been excluded from the reporting entity. The Foundation is a separate legal entity which is fully independent from the University, is not financially dependent upon the University, has a separately elected Board of Directors and, as such, has substantial autonomy and separate government entity characteristics. The Foundation has no fiscal accountability to the University.

NOTES TO FINANCIAL STATEMENTS

Basis of Accounting For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB standards conflict with Governmental Accounting Standards Board (GASB) standards. The University has elected not to apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

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 include 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 grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

Noncurrent Cash and Investments: Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or contract capital or other noncurrent assets, are classified as noncurrent assets in the statements of net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for land improvements, 10 years for library books, and 3 to 10 years for equipment.

Deferred Revenues: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absence in the statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensation absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties, including excess pledged revenues for auxiliary project bonds.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff, except excess pledged revenues for auxiliary project bonds.

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

Operating Revenues: Operating revenues generally result from providing goods and services for instruction, public service or related support services to an individual or entity separate from the University.

Nonoperating Revenues: Nonoperating revenues are those revenues that do not meet the definition of operating revenues. Nonoperating revenues include state appropriations for operations, gifts, investment income and insurance reimbursement revenue.

Application of Restricted and Unrestricted Resources: The University's policy is to first apply an expense against restricted resources then towards unrestricted resources, when both restricted and unrestricted resources are available to pay an expense.

State Paydate Change: On March 5, 2003 Governor Owens signed Senate Bill 03-197 that changed the paydate of state employees, including the employees of the university, for the month of June from the last business day of June to the first business day of July. This law also creates an exception to the requirement that the determination of the general fund surplus for the state be based upon the accrual system of accounting for payment of monthly salaries of state employees for June. The university continues to adhere to accepted accounting principles for the accrual of these salary expenses for accounting purposes and reflects the amounts due to employees on the financial statements as of June 30, 2003.

NOTES TO FINANCIAL STATEMENTS

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

At June 30, 2003, the University had \$59,347,092 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

At June 30, 2003, the University had \$32,203 cash on hand and the carrying amount of the University's deposits in banks was \$181,027 and the bank balance was \$1,096,561. Of this bank balance, the entire amount was collateralized by the institution's agent in the institution's name or was covered by collateral held in the pledging institution's trust department in the name of the public deposit pool, as required by the Public Deposit Protection Act. No monies were uninsured or uncollateralized. The statutes of the State of Colorado authorize agencies of the state to invest in certificates of deposit, money market certificates, bonds or other interest-bearing obligations of the United States, state, county and school district bonds, and state, county and municipal warrants.

The Colorado Public Deposit Protection Act requires financial institutions to pledge collateral having a market value of at least 102 percent of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

The University deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The University reports its share of the Treasurer's unrealized gains or losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2003. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment or income related to participation in the pool. The unrealized gains or losses included in "Investment Income" reflect only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

Cash/investments with custodian of \$1,348,937 at June 30, 2003, includes U.S. Treasury securities with a cost basis of \$527,451 and market value of \$549,321. The maturity dates range from September 2, 2003 through May 15, 2007 with a yield from 1.875 percent to 7.125 percent.

3. RECEIVABLES AND PAYABLES

Receivables at June 30, 2003, were as follows:

	Gross Receivables	Allowance for Uncollectible Accounts	Net Receivables
Student Accounts Receivable	\$ 5,606,769	\$ 1,122,797	\$ 4,483,972
Other Receivables	530,962		530,962
Loans Receivable	9,078,232	1,002,975	8,075,257
Total Receivables	\$ 15,215,963	\$ 2,125,772	\$ 13,090,191

Payables at June 30, 2003 were as follows:

	June 30, 2003	June 30, 2002
Accounts Payable, Vendors	\$ 2,068,685	\$ 2,581,426
Salaries and Benefits Payable	9,902,151	2,366,456
Accrued Interest Payable	260,836	263,682
Other Payables	103,476	47,549
Total Payables	\$ 12,335,148	\$ 5,259,113

NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2003.

	Balance June 30, 2002	Additions	Transfers	Deductions	Balance June 30, 2003
Cost of fixed assets					
Land	\$ 4,848,368	\$ 950,191	\$	\$	\$ 5,798,559
Land improvements	7,953,866	17,568	97,573		8,069,007
Non-depreciable land improvements	2,488,526	64,945	49,855		2,603,326
Buildings	89,302,510				89,302,510
Building improvements	94,428,892	3,576,567	19,965,351		117,970,810
Vehicles	591,588	59,464		(39,340)	611,712
Equipment	10,538,929	1,038,678		(831,609)	10,745,998
Library holdings	27,703,898	1,596,716		(246,782)	29,053,832
Non-depreciable art/historical treasures	842,630				842,630
Leasehold improvements	495,403				495,403
Construction in progress	11,933,113	18,773,223	(20,112,779)		10,593,557
Total cost of fixed assets	251,127,723	26,077,352	0	(1,117,731)	276,087,344
Less accumulated depreciation					
Land improvements	3,618,042	298,281			3,916,323
Building and improvements	68,760,430	6,844,272			75,604,702
Vehicles	345,755	87,806		(39,340)	394,221
Equipment	8,216,938	1,039,104		(813,210)	8,442,832
Library holdings	21,058,011	1,258,889		(246,782)	22,070,118
Leasehold improvements	495,403				495,403
Total accumulated depreciation	102,494,579	9,528,352	0	(1,099,332)	110,923,599
Net carrying amount	\$148,633,144	\$ 16,549,000	\$ 0	\$ (18,399)	\$165,163,745

5. PENSION PLANS

Plan Description

A significant portion of the institution'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 Employee's Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

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

NOTES TO FINANCIAL STATEMENTS

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

Funding Policy

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their gross covered wages to an individual account in the plan. During FY02-03, the state contributed 10.04 percent (12.74 percent for state troopers and 11.82 percent for the Judicial Branch) of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Note 6 below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

The annual gross covered wages subject to PERA is the 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. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The institution's contributions to the three programs described above for the fiscal years ending June 30, 2003, 2002 and 2001 were \$3,654,031, \$3,563,991, and \$3,407,464 respectively. These contributions met the contribution requirement for each year.

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

The ORP is a defined contribution plan with three vendors, Travelers/CitiStreet, TIAA-CREF, and VALIC, providing a range of investment accounts for participants. For 2002-2003 the employees contributed 8 percent and the University contributed 11.5 percent. The University's contribution to the ORP for the year ended June 30, 2003 was \$3,034,324. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

6. VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month (6 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded, the maximum one year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 3 percent to 2 percent.

NOTES TO FINANCIAL STATEMENTS

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 a 403b plan. Members who contribute to any of these plans also receive the state match.

7. POSTRETIREMENT HEALTHCARE AND LIFE INSURANCE BENEFITS

Health Care Program: PERACare (formerly known as 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY02-03, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 5.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2002 there were 35,418 participants, including spouses and dependents, from all contributors in the plan.

Life Insurance Program: PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

8. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2003, the University has construction commitments of \$848,671 for campus roof replacement, Ross Hall addition/renovation, Butler-Hancock system replacement, exterior building systems repair, Guggenheim Arts Annex, smart classrooms, and campus water main improvements.

The University began construction of a dining hall and improvements to parking and auxiliary facilities with an estimated cost of \$19,193,891. As of June 30, 2003, the University had outstanding commitments of approximately \$1,818,992. This project is being financed by the proceeds from the 2001 Auxiliary Facilities System Revenue Bonds (Note 10).

Effective August 1, 2001, the Board of Trustees of the University of Northern Colorado entered into an agreement with the University of Northern Colorado Foundation Student Housing LLC I guaranteeing the timely payment of debt service on the Colorado Educational and Cultural Facilities Authority Student Housing Revenue Bonds Series, 2001A and Taxable Series 2001B. The obligation of the University to pay the guaranteed amount shall remain in effect until the first to occur of (a) a date that is 12 months after the last planned unit of the Facilities is completed and approved for occupancy and leasing, (b) the Facilities achieves 95% occupancy (excluding rooms for managers, resident assistants and discounted rooms) and/or (c) the University assumes the obligation for the debt service payments on the Series 2001 Bonds. The University has estimated that the total liability will not exceed \$740,000.

NOTES TO FINANCIAL STATEMENTS

The University receives significant financial assistance from numerous federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the University. However, in the opinion of the administration, any such disallowed claims will not have a material adverse effect on any of the financial statements or on the overall financial position of the University at June 30, 2003.

The University is a defendant in several lawsuits including various claims related to its normal operations. The University believes that final settlement of matters not covered by insurance will not materially affect its financial condition.

Federal law limits the ability of bond issuers to earn arbitrage - investing the bond proceeds at a yield that exceeds the yield on the bonds. Any arbitrage must be rebated to the Internal Revenue Service (IRS) on the fifth anniversary date of the bond. The University realizes the potential of arbitrage rebate on the Auxiliary Facilities System Revenue Refunding and Improvement Bonds, issued July 31, 2001, but has not made a formal calculation to date in order to establish the Rebate Fund required in the bond documents. The University plans to obtain an arbitrage study on the bonds. The study could result in a rebate liability payable to the IRS.

The State of Colorado, including the University, is self-insured in regard to its general and automobile liability exposures. The University also participates in a State commercial insurance policy covering loss or damage to University buildings and contents. In the year ending June 30, 2003, the University paid approximately \$702,933 to participate in these programs. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act.

9. LONG-TERM LIABILITIES

The following presents changes in long-term liabilities for the year ended June 30, 2003.

	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Bonds, notes and capital lease obligations					
Revenue bonds payable	\$ 61,162,780	\$	\$ (929,486)	\$ 60,233,294	\$ 1,075,000
Notes payable		27,239		27,239	8,436
Capital leases payable	208,726	1,530,179	(97,435)	1,641,470	151,298
Total bonds and capital leases	61,371,506	1,557,418	(1,026,921)	61,902,003	1,234,734
Other liabilities					
Other long-term liabilities	4,218,024	232,956	(285,025)	4,165,955	1,649,604
Accrued compensated absences	2,747,524	446,753	(356,591)	2,837,686	618,993
Total other liabilities	6,965,548	679,709	(641,616)	7,003,641	2,268,597
Total Long-Term Liabilities	\$ 68,337,054	\$ 2,237,127	\$ (1,668,537)	\$ 68,905,644	\$ 3,503,331

NOTES TO FINANCIAL STATEMENTS

Amounts shown in "Balance, June 30, 2003" of long-term liabilities include both current and long-term portions.

On August 1, 2001 the University entered into a ground lease agreement with the University of Northern Colorado Foundation Student Housing LLC I for the amount of \$2.655 million over a 46-year period. The University received \$2.155 million which is recorded as other long term liability with the remaining \$500,000 going to the LLC as working capital. The University recognized \$54,263 in rental revenue for fiscal year 2003 and will recognize an equal amount annually for the next 44 years.

Additional information regarding Bonds Payable is included in Note 10, additional information regarding capital lease obligations is included in Note 11, and additional information regarding compensated absences is included in Note 13.

10. BONDS PAYABLE

Bonds payable consisted of the following at June 30:

3.40% - 6.00% Auxiliary Facilities System Revenue Refunding and Improvement Bonds, issued April 1, 1994 in the original amount of \$17,150,000 and mature in varying annual amounts to June 1, 2008

	JUNE 30, 2003	JUNE 30, 2002
Outstanding bond principal	\$ 3,100,000	\$ 3,755,000
Less unamortized discount	(23,198)	(28,997)
Bonds payable less unamortized discount	\$ 3,076,802	\$ 3,726,003

3.50% - 6.00% Auxiliary Facilities System Revenue Refunding Bonds, issued April 1, 1998 in the original amount of \$10,630,000 and mature in varying annual amounts to June 1, 2024

Outstanding bond principal	\$ 10,150,000	\$ 10,210,000
Less unamortized discount	(114,903)	(120,720)
Bonds payable less unamortized discount	10,035,097	10,089,280

3.00% - 5.50% Auxiliary Facilities System Revenue Refunding and Improvement Bonds, issued July 31, 2001 in the original amount of \$50,000,000 and mature in varying annual amounts to June 1, 2031

Outstanding bond principal	\$ 48,990,000	\$ 49,305,000
Less unamortized discount	(352,791)	(365,898)
Less unamortized loss on refunding	(1,515,814)	(1,591,605)
Bonds payable less unamortized discount and loss on refunding	47,121,395	47,347,497
Total Bonds payable less unamortized discount and loss on refunding	\$ 60,233,294	\$ 61,162,780

NOTES TO FINANCIAL STATEMENTS

The annual requirements to amortize these bonds as of June 30, 2003 are as follows:

Year Ending June 30	Principal	Interest	Total
2004	\$ 1,075,000	\$ 3,115,829	\$ 4,190,829
2005	1,125,000	3,065,954	4,190,954
2006	1,180,000	3,012,944	4,192,944
2007	1,240,000	2,954,195	4,194,195
2008	1,300,000	2,891,660	4,191,660
2009-2013	7,465,000	13,501,137	20,966,137
2014-2018	9,495,000	11,472,100	20,967,100
2019-2023	12,255,000	8,703,350	20,958,350
2024-2028	15,685,000	5,284,000	20,969,000
2029-2031	11,420,000	1,160,750	12,580,750
Total	<u>\$ 62,240,000</u>	<u>\$ 55,161,919</u>	<u>\$117,401,919</u>

In August 1986, the Board of Trustees of the University of Northern Colorado in-substance defeased the Colorado State College Housing System Revenue Bonds of 1966 and the University of Northern Colorado Facilities Revenue Bonds, Series 1972 by placing a portion of the proceeds of the Auxiliary System Refunding and Construction Revenue Bonds, Series 1986 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. At June 30, 2003, \$1,575,000 of these outstanding bonds are considered in-substance defeased.

In April 1995, the Board of Trustees of the University of Northern Colorado in-substance defeased the Auxiliary Facilities System Refunding and Construction Revenue Bonds, Series 1986 by placing a portion of the proceeds of the Auxiliary Facilities System Refunding and Improvement Bonds, Series 1994 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. Bonds have been redeemed.

In April 1998, the Board of Trustees of the University of Northern Colorado in-substance defeased a portion of the Auxiliary Facilities System Refunding and Improvement Bonds, Series 1994 by placing a portion of the proceeds of the Auxiliary Facilities System Refunding Revenue Bonds, Series 1998A in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. At June 30, 2003, \$9,300,000 of these outstanding bonds are considered in-substance defeased.

In July 2001, the Board of Trustees of the University of Northern Colorado in-substance defeased the Auxiliary Facilities System Revenue Bonds Series 1997 by placing a portion of the proceeds of the Auxiliary Facilities System Revenue Refunding and Improvement Bonds Series 2001 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability of the in-substance defeased bonds are not included in the University's financial statements. The debt defeased had interest rates ranging from 4.88 to 5.63 percent and a remaining term of 23 years. The new debt interest rate is 3.00 to 5.50 percent and it has a term of 30 years. The University increased its debt service cash flows by \$11,363,892 and reported an economic loss \$460,448. The University recorded an accounting loss of \$1,591,605. At June 30, 2003, \$26,900,000 of these outstanding bonds are considered in-substance defeased.

The bonds are secured by certain student fees and a first lien on the University Auxiliary Facilities System, but not necessarily an exclusive first lien, and a pledge of the net revenues derived from the University Auxiliary Facilities System.

NOTES TO FINANCIAL STATEMENTS

The University is required to maintain compliance with certain provisions and covenants contained in the outstanding bond agreements.

The following is a summary of required reserves:

	Required Reserve	June 30, 2003 Reserve
Renewal and replacement funds	\$ 750,000	\$ 750,000

11. CAPITAL LEASES

The University leases various equipment under agreements that are accounted for as capital leases. Accordingly, the assets and liabilities are recorded at amounts equal to the lesser of the present values of the minimum lease payments or the fair value of the leased property at the beginning of the respective lease terms. Interest expense related to the lease liabilities is recorded to effect a constant rate of interest over the term of the leases.

These agreements provide that any obligations payable after the current fiscal year are contingent upon funds for that purpose being available.

The gross amount of equipment under capital leases at June 30, 2003 and 2002 is \$1,842,078 and \$2,146,384 respectively.

Future minimum lease payments as of June 30, 2003 are as follows:

<u>Year Ending June 30</u>	<u>Total Minimum Lease Payments</u>	<u>Implicit Interest and Executory Costs</u>	<u>Payments on Principal</u>
2004	\$ 218,546	\$ 67,248	\$ 151,298
2005	186,816	70,930	115,886
2006	178,962	64,217	114,745
2007	173,347	58,277	115,070
2008	166,104	52,438	113,666
2009	164,238	46,994	117,244
2010	164,238	41,313	122,925
2011	164,238	35,356	128,882
2012	164,238	29,111	135,127
2013	164,238	22,564	141,674
2014	164,238	15,698	148,540
2015	164,238	8,501	155,737
2016	82,119	1,443	80,676
Total capital lease obligation	<u>\$ 2,155,560</u>	<u>\$ 514,090</u>	<u>\$ 1,641,470</u>

NOTES TO FINANCIAL STATEMENTS

12. OPERATING LEASES

The University leases property and equipment under operating leases expiring in various years through 2008.

Future minimum lease payments under noncancelable operating leases as of June 30, 2003 and 2002 are as follows:

	<u>JUNE 30, 2003</u>	<u>JUNE 30, 2002</u>
2003	\$ -	\$ 85,384
2004	92,577	77,894
2005	78,159	72,233
2006	68,561	63,017
2007	36,260	34,482
2008	445	-
Total minimum lease payments	<u>\$ 276,002</u>	<u>\$ 333,010</u>

Rental expense under these agreements for the years ended June 30, 2003 and 2002 was \$85,384 and \$128,122, respectively. Of this amount, all was paid to the State of Colorado.

13. COMPENSATED ABSENCES

University employees accrue annual and sick leave based on length of service and may accumulate it subject to certain limitations regarding the amount which will be paid upon termination. The estimated liability related to compensated absences for which employees are vested at June 30, 2003 and 2002 is \$2,837,686 and \$2,747,524, respectively. 2003 and 2002 expenses include \$90,162 and \$71,263 for the increase in the estimated compensated absence liability.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2003 the following table represents operating expenses within both natural and functional classifications:

Functional Classifications	Natural Classifications						TOTAL OPERATING EXPENSES
	Employee & Personal Services	Operating and Travel	Cost of Goods Sold	Depreciation	Intergovernmental Distributions	Prizes and Awards	
Instruction	\$ 44,943,696	\$ 5,361,495	\$ 221	\$	\$ 121,913	\$ 884	\$ 50,428,209
Research	1,538,312	760,588			155,161	9,957	2,464,018
Public Service	664,604	409,145	123,744			2,264	1,199,757
Academic Support	9,531,602	2,290,533	(10)		40,062	950	11,863,137
Student Services	9,608,834	4,445,749	227,115			9,844	14,291,542
Institutional Support	7,937,971	(6,026,544)	5,513,829			2,177	7,427,433
O & M of Plant	7,729,667	1,216,133				99	8,945,899
Scholarship/Fellowship		2,941,614					2,941,614
Auxiliaries	7,144,838	7,919,126	2,472,613			771	17,537,348
Depreciation				9,528,353			9,528,353
TOTAL	\$ 89,099,525	\$ 19,317,838	\$ 8,337,512	\$ 9,528,353	\$ 317,136	\$ 26,946	\$ 126,627,310

NOTES TO FINANCIAL STATEMENTS

15. LEGISLATIVE APPROPRIATIONS

Appropriated Funds

The Colorado State Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources.

For the years ended June 30, 2003 and 2002, appropriated expenditures were within the authorized spending authority. The University had a total appropriation of \$77,027,449 and \$80,788,593 respectively. Actual appropriated revenues earned totaled \$69,409,986 and \$79,284,065. Actual appropriated expenditures and transfers totaled \$69,654,320 and \$79,179,942. The net decrease in appropriated fund balance was \$244,334 and \$104,123.

Capital Construction State Appropriations

Capital Construction State Appropriations are recognized only to the extent of current expenditures of \$10,475,643. At June 30, 2003, there were unexpended Capital Construction State Appropriations of \$11,682,561.

Controlled Maintenance Projects

The Colorado Department of Personnel and Administration makes expenditures on behalf of the University for various controlled maintenance projects. There were three completed controlled maintenance projects added to the University for the year ended June 30, 2003. These projects included the repair and replacement of campus building roofs, the replacement of deteriorated stairs/walkways and the ceiling repair of Frasier Hall Theater.

Non-Appropriated Funds

All other revenues and expenditures reported by the University represents non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues and other revenue sources.

Financial Statement Presentation

The accompanying financial statements contain revenues and expenditures from both appropriated and non-appropriated funds.

NOTES TO FINANCIAL STATEMENTS

16. UNIVERSITY OF NORTHERN COLORADO FOUNDATION, INC.

The University of Northern Colorado Foundation, Inc. (the Foundation), a not-for-profit corporation incorporated under Article 40, Title 7, of the Colorado Revised Statutes of 1973, was established in February 1966 to promote the welfare, development, growth and well-being of the University of Northern Colorado and also to permit the Foundation to engage in such activities as may be beyond the scope of the Trustees of the University. The Foundation is, in addition, concerned and involved in the affairs of the community.

The voting members of the Foundation Board of Directors are composed of groups of individuals, none of whom are members of the faculty or staff of the University. New Board members are selected by a vote of the existing Board. Members cannot be reelected to successive terms.

The condensed audited financial statements of the Foundation for the year ended June 30, 2003 are summarized as follows:

Statement of Financial Position		Statement of Activities		
		Unrestricted	Temporarily Restricted	Permanently Restricted
Total Assets	\$82,651,630			
		Total Revenues	<u>\$ 2,506,341</u>	<u>\$(6,446,768)</u>
Total Liabilities	\$ 2,023,700	Total Expenses	<u>\$ 0</u>	<u>\$ 0</u>
Total Net Assets	<u>\$80,627,930</u>			

These financial statements are not combined with the financial statements of the University.

Notes payable to the Foundation were issued in the amount of \$28,146 during February 2003 with an interest rate of 5.25 percent and maturity date of January 15, 2007. The notes payable balance as of June 30, 2003 is \$27,239.

On December 14, 1987, the Board of Trustees for the University of Northern Colorado (the Board) signed a Custodial Agreement with the University of Northern Colorado Foundation, Inc. (the Foundation) to have the Foundation receive, manage and administer gifts and donations on behalf of the Board. During fiscal years 1988 and 1989, the Board transferred the custody of the assets, which met the guidelines of the Custodial Agreement, to the Foundation. The ownership of the assets remains with the Board. All investment regulations applicable to the Board must be followed by the Foundation. The total assets in the custody of the Foundation at June 30, 2003 are \$691,950. During fiscal year 2003, the Board paid an administrative fee of \$6,818 to the Foundation.

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Report on Compliance and on Internal Control Over Financial Reporting Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the financial statements of the University of Northern Colorado, a blended component unit of the State of Colorado as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University of Northern Colorado's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Anderson + Whitney, P. C.

September 26, 2003



Members of the Legislative Audit Committee:

We have audited the financial statements of University of Northern Colorado for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. 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.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. The significant policies used by 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. 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.

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 made. There were uncorrected misstatements and misclassifications of \$287,232 which overstated the deferred revenue liability and misclassified certain revenue accounts, which management determined to be immaterial to the financial statements taken as a whole. In our judgment, the uncorrected misstatement does not indicate a matter which could have a significant effect on the University's financial reporting process.

ACCOUNTING ESTIMATES

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 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.



This information is intended solely for the use of the Legislative Audit Committee and is not intended and should not be used by any others than these specified parties.

Anderson + Whitney, P. C.

September 26, 2003

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS



Independent Auditors' Report

Members of the Legislative Audit Committee:

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, 2003. This financial statement is the responsibility of the University's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, this financial statement was prepared in conformity with the accounting practices prescribed or permitted by the Colorado Commission on Higher Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

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, 2003 on the basis of accounting described in Note 1.

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 Commission on Higher Education and is not intended and should not be used by anyone other than these specified parties.

Anderson & Whitney, P. C.

September 26, 2003

S **TATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF
THE STATE FUNDED STUDENT ASSISTANCE PROGRAMS
YEAR ENDED JUNE 30, 2003**

	CLEAP	SLEAP	Student Grant Program	Colorado Graduate Grant	Work Study Program	Graduate Fellowship Program
Appropriations:						
Original	\$ 112,678	\$ 353,389	\$ 2,167,241	\$	\$ 961,081	\$
Adjustments						
Transfers			(662,000)	120,000		70,000
Total	112,678	353,389	1,505,241	120,000	961,081	70,000
Expenditures	(112,678)	(353,389)	(1,505,241)	(120,000)	(961,081)	(70,000)
Reversions to State General Fund	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying notes to financial statements.

N **OTES TO FINANCIAL STATEMENTS**

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 National Association of College and University Business Officers in the revised publication *Financial Accounting and Reporting Manual for Higher Education*, as supplemented by the American Institute of Certified Public Accountants' industry audit guide *Audits of Colleges and Universities*. Financial Statement presentation and other accounting criteria are included in the *Colorado Handbook for State-Funded Student Assistance Programs*.

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 services are performed. This basis differs from generally accepted accounting principles primarily because appropriations are presented instead of revenue and because assets, liabilities, and fund balance are not included in the financial statement.

Loan Matching	Governor's Opportunity Scholarship	Under Graduate Merit	Athletic Grant Program	Diversity Grants	Part-Time Student Grant	Colorado Nursing Grant	Total State Funded Student Assistance
\$ 5,884 2,018	\$ 1,059,521 (11,286)	\$ 928,965 (275,595)	\$ 205,595	\$ 525,000	\$ 17,000	\$ 9,114	\$ 5,597,873 (9,268)
7,902	1,048,235	653,370	205,595	525,000	17,000	9,114	5,588,605
(7,902)	(1,048,235)	(653,370)	(205,595)	(525,000)	(17,000)	(9,114)	(5,588,605)
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTES TO FINANCIAL STATEMENTS

2. DESCRIPTION OF PROGRAMS

In addition to the student assistance awards made during the period, the University of Northern Colorado obtained authorizations to award federal student financial aid of \$4,691,885 in the Pell Grant Program, \$252,373 in the Supplemental Educational Opportunity Grant Program, \$476,308 in the College Work-Study Program, and \$20,250 in the Robert C. Byrd Scholarship. Federal capital contributions of \$23,709 were received by the Perkins Loan Program.

The Director of Student Financial Resources is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring 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.

3. STUDENT INCENTIVE GRANTS

Student Incentive Grants consist of \$329,931 state funds and \$136,136 of federal funds. The amount shown is the combined total.



Independent Auditors' Report on Internal Controls

Members of the Legislative Audit Committee:

We have audited the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs of the University of Northern Colorado, a component unit of the State of Colorado for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003.

We conducted our 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

In planning and performing our audit of the statement of appropriations, expenditures, and reversions of the State-Funded Student Assistance Programs of the University of Northern Colorado for the year ended June 30, 2003, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

The management of the University of Northern Colorado is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Receipt and Disbursement of Funds
- Eligibility of Recipients and Award Amounts
- Reports to the Colorado Commission on Higher Education

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended 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 Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

Anderson & Whitney, P.C.

September 26, 2003

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