

STATE OF COLORADO

UNIVERSITY OF NORTHERN COLORADO



UNIVERSITY OF
NORTHERN
COLORADO

FINANCIAL AND COMPLIANCE AUDIT
YEARS ENDED JUNE 30, 2018 AND 2017

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UNIVERSITY OF NORTHERN COLORADO

Report Summary

Year Ended June 30, 2018

Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged RubinBrown LLP (RubinBrown) to conduct a financial and compliance audit of the University of Northern Colorado (the University) for the year ended June 30, 2018. RubinBrown performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We conducted the related fieldwork from May 2018 to November 2018.

The purpose and scope of our audit was to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2018. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate the University's compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the University's progress in implementing prior audit findings and recommendations.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the Fiscal Year 2018 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2018.

We issued a report on the University's internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with Government Auditing Standards. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2017 did not include any findings.

UNIVERSITY OF NORTHERN COLORADO

Description of the University

Year Ended June 30, 2018

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 on May 1, 1970, thus making official the University-level work which it has offered since 1929.

The Board of Trustees is the governing body of the University and is comprised of seven members appointed by the Governor, 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 prelaw, pre-medicine, and others. Historically, the principal emphasis has been preparing students for careers in education.

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

	Resident	Non Resident	Total
2018	7,476	1,513	8,989
2017	7,525	1,465	8,990
2016	7,611	1,329	8,940

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

	Full-Time	Part-Time	Total
2018	509	328	837
2017	485	305	790
2016	485	314	799

Message from President Feinstein

Since taking my post as the 13th president of the University of Northern Colorado in July, I've been touring the state, our hometown and our historic campus, meeting the people who together comprise and animate "Bear Country." And there's so much more to see. We have alumni in every state and on nearly every continent. That's quite a community—and it's one that grows bigger as our graduates, faculty and students expand their reach and networks into new industries, fields and regions.

Even as our "country" and influence grows, so do the challenges and opportunities we must naturally confront. We must deliver a world-class education to our students while closely examining and controlling the associated costs. We must produce adaptable learners, culturally-adept critical thinkers, and effective communicators who can thrive and pivot in an ever-changing world, while also giving them the skills and experiences necessary to meet the present needs of regional employers, Weld County and our state. We must improve retention and graduation rates, and do so for all students regardless of their situation, program of study or background. And even while honoring our rich history, we must make a UNC experience ever more valuable and enticing to students and families. The pages that follow illustrate how we've carefully and enthusiastically answered these challenges and opportunities. We will continue to do so.

As I said in my first State of the University address in September, in our work now and in the days ahead we will invoke the motto of the class of 1910: "Rowing Not Drifting." As we set our eyes on ambitious aims, we must work together to achieve them—ever rowing and never drifting.

I'm excited to be here and sharing in the work described in this report. From here in the capital of Bear Country, Greeley, Colorado, thank you for your interest. Go Bears!

Sincerely,

Andy Feinstein

President



Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Northern Colorado for the year ended June 30, 2018, were prepared by management in conformity with generally accepted accounting principles.

The management of the University is responsible for the integrity and objectivity of these financial statements, which are presented on the accrual basis of accounting and, accordingly, include some amounts based upon judgment. Other financial information in the annual financial report is consistent with that in the financial statements. The system of internal accounting controls is designed to assure that the financial reports and the books of accounts properly reflect the transactions of the institution, in accordance with established policies and procedures as implemented by qualified personnel.

The Board of Trustees of the University of Northern Colorado monitors the financial and accounting operations of the institution, including the review and discussion of periodic financial statements, the evaluation and adoption of budgets, and the reporting of independent certified public accountants.



*Michelle F. Quinn
Senior Vice President
for Finance and Administration
and Chief Financial Officer*



*Susan L. Simmers
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Report On The Financial Statements

We have audited the accompanying financial statements of the business-type activities of the University of Northern Colorado (the University) and its discretely presented component unit, collectively as an institution of higher education of the State of Colorado as and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Northern Colorado Foundation, Incorporated (the Foundation) the University's discretely presented component unit, whose statements reflect total assets of \$134,621,051 and \$122,183,217 as of June 30, 2018 and 2017, respectively, and total revenues of \$27,642,517 and \$18,061,105, respectively for the years then ended. Those statements were audited by other auditors whose report has been furnished to us. Our opinion, insofar as it relates to amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2018 and 2017, and the respective changes in financial position, and where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Of Matters

As discussed in Note 1, the financial statements of the University, an institution of higher education in the State of Colorado, are intended to present the financial position, the changes in financial position and cash flows of the business-type activities of only the University. Financial results for the State of Colorado are presented in separate state-wide financial statements prepared by the Office of the State Controller and audited by the Office of the State Auditor. Complete financial information for the State of Colorado is available in these state-wide financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 1, during the current year the University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 39, the Schedules of the University's Proportionate Share of PERA Pension Liability and PERA OPEB Liability, and the Schedule of the University's Contributions to PERA and PERA OPEB on pages 100 and 101 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

RubinBrown LLP

December 7, 2018



Overview

Management's Discussion and Analysis

We are pleased to present this financial discussion and analysis of the University of Northern Colorado (the University or UNC). It is intended to make the University's financial statements easier to understand and to communicate its financial situation in an open and accountable manner. It provides an objective analysis of the University's financial position and results of operations as of and for the fiscal years ended June 30, 2018 and 2017, respectively, with comparative information for the fiscal year 2016. University management is responsible for the completeness and fairness of this discussion and analysis, the financial statements, related footnote disclosures, and schedules of supplementary information.

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

Understanding the Financial Statements

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

- ***Independent Auditors' Report*** presents an unmodified opinion prepared by the University's auditors (an independent certified public accounting firm, RubinBrown LLP) on the fairness, in all material respects, of the University and its discretely presented component unit's respective financial position.
- ***Statement of Net Position*** presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University at a point in time (June 30, 2018 and 2017, respectively). Its purpose is to present a financial snapshot of the University. This statement aids readers in determining the assets available to continue the University's operations; evaluating how much the University owes to vendors, employees, investors, and lending institutions; and understanding the University's net position and its availability for expenditure by the University.
- ***Statement of Revenues, Expenses, and Changes in Net Position*** presents the total revenues earned and expenses incurred by the University for operating, nonoperating, and other related activities during a period of time (the fiscal years ended June 30, 2018 and 2017, respectively). Its purpose is to assess the University's operating results.
- ***Statement of Cash Flows*** presents University cash receipts and payments during a period of time (the fiscal years ended June 30, 2018 and 2017, respectively). Its purpose is to assess the University's ability to generate net cash flows and meet its payment obligations as they come due.
- ***Notes to the Financial Statements*** present additional information to support the financial statements and are commonly referred to as Notes. Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of the financial highlights may be found. University management suggests that the readers of this annual report combine this financial analysis with relevant nonfinancial indicators to assess the overall health of the University. Examples of nonfinancial indicators include trend and quality of applicants, freshman class size, student retention, building condition, and campus safety.

Financial Highlights

In fiscal year 2018, the Government Accounting Standards Board (GASB) required the implementation of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75, or OPEB). This new standard requires a significant change in accounting for the Public Employees' Retirement Association of Colorado (PERA) Health Care Trust Fund (HCTF). PERA is a cost-sharing multiple employer defined benefit pension plan (the Plan) that provides postemployment retirement benefits through the Health Care Trust Fund. Under GASB 75, the University is required to recognize a liability for its proportionate share of the HCTF's underfunded status in the same manner as it is required to recognize the proportionate share of the PERA underfunded net pension liability under *GASB 68: Accounting and Financial Reporting of Pensions* (GASB 68). The University's proportionate share of the HCTF in fiscal year 2018 was \$5.6 million and it was \$239.4 million for the pension plan.

The University paid \$0.3 million in employer contributions to the PERA Health Care Trust Fund. PERA diverts 1.02% of the 10.15% Basic PERA Employer Pension Contribution to fund the Health Care Trust Fund. Although GASB 75 and GASB 68 require that the University of Northern Colorado, and all other state agencies, recognize their proportionate share of the underfunded OPEB and pension liabilities in their financial statements, the University's only cash outflow is the employer contribution, plus the Amortization Equalization Disbursement (AED), and the Supplemental Amortization Equalization Disbursement (SAED).

The information in the Management's Discussion and Analysis has been adapted to point out the effect of GASB 75 and GASB 68 to help users of this document understand the impact of University operations versus the non-cash accounting presentation required by GASB 75 and GASB 68.

In fiscal year 2018, the University reclassified the presentation of the student capital fees from tuition and fees to the nonoperating capital section of the Statement of Revenues, Expenses, and Changes in Net Position. All of the Colorado higher education institutions agreed to treat this as a capital financing activity. The prior year financial statements and tables in the Management Discussion and Analysis have been reclassified for comparative purposes.

The University also recorded a liability for the closure of the Federal Perkins Loan Program of \$4.2 million and this is discussed in more detail later in the Management Discussion and Analysis and in *Note 7: Liabilities and Unearned Revenue*.

Selected financial highlights for the fiscal year ended June 30, 2018, include:

- University assets total \$358.0 million, deferred outflows of resources total \$57.7 million, liabilities total \$440.9 million, and deferred inflows of resources total \$20.5 million resulting in a net position deficit of \$45.7 million. Of the ending net position, \$2.2 million is restricted for purposes for which the donor, grantor, or other external party intended and \$140.2 million is related to investments in capital assets. The remaining deficit of \$188.1 million, which is unrestricted net position, is comprised of a deficit of \$203.8 million from the impact of *GASB 68: Accounting and Financial Reporting for Pensions* and a deficit of \$5.7 million from the implementation of *GASB 75: Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, offset by positive net position of \$21.4 million, which may be used to meet the University's ongoing obligations.
- Net position decreased \$32.3 million on the Statement of Revenues, Expenses, and Changes in Net Position. Of this current year decrease in net position, \$41.9 million was attributable to additional benefit expenses recognized as a result of the change in the net pension liability and related deferred outflows and inflows of resources. Increases of \$9.6 million from normal operations of the institution partially offset the pension related decrease in net position.

- Total operating revenues of \$202.4 million, less total operating expenses of \$274.4 million, resulted in a net operating loss of \$72.0 million. This operating loss was partially offset by net nonoperating revenues of \$6.1 million and other changes of \$33.6 million, resulting in the \$32.3 million decrease in net position. Other changes of \$33.6 million include capital appropriations from the State of Colorado of \$22.2 million, student capital fee revenue of \$7.1 million, capital gifts of \$4.2 million, and a \$0.1 million gain on the disposal of capital assets.

Summary of Changes in Net Position	
as of June 30, 2018	
(in millions)	
Adjustment to beginning net position for GASB 75	\$ (5.7)
Current year GASB 68 impact on net position	(41.9)
Current year impact from University operations	<u>9.6</u>
Total change in net position, including adoption of GASB75	<u>\$ (38.0)</u>
<u>Detail of change in net position:</u>	
Other post employment benefits - implementation of GASB 75	
Prior Period Adjustment to establish beginning other post employment benefits liability (GASB 75)	\$ (5.7)
Decrease in net other post employment benefits liability (GASB 75)	0.1
Net increase in deferred outflows and inflows related to other post employment benefits (GASB 75)	<u>(0.1)</u>
Change in net position from GASB 75	<u>\$ (5.7)</u>
Net pension liability - GASB 68	
Increase in net pension liability (GASB 68)	\$ (8.3)
Net decrease in deferred outflows and inflows related to pension (GASB 68)	<u>(33.6)</u>
Change in net position from GASB 68	<u>\$ (41.9)</u>
Change in net position from University operations	
Decrease in cash used to cover operating deficits and capital construction	\$ (13.4)
Decrease in restricted investments for drawdown of energy performance lease funds	(1.0)
Decrease in restricted cash for drawdown of Campus Commons bond funds	(7.0)
Decrease in accounts receivable primarily from collecting state Campus Commons funds	(1.7)
Net decrease in student accounts receivable, loans, inventory, other assets and accrued liabilities	(1.2)
Increase in capital assets net of depreciation (primarily Campus Commons construction in progress)	28.9
Net decrease in compensated absences and other liabilities	0.1
Decrease in accounts payable and unearned revenues (pay date shift)	4.0
Decrease in bonds and capital leases payable	5.4
Increase in Perkins Loan Program liquidation liability	(4.2)
Net decrease in deferred outflows and inflows related to bond refundings	<u>(0.3)</u>
Change in net position from University Operations	<u>\$ 9.6</u>

Statement of Net Position

The Statement of Net Position is a financial snapshot of the University as of June 30, 2018. It presents the fiscal resources of the University (assets), the consumption of net position that applies to future periods (deferred outflows of resources), the claims against those resources (liabilities), the acquisition of net position that applies to future periods (deferred inflows of resources), and the residual available for future operations (net position). Assets and liabilities are classified by liquidity as either current or noncurrent. Net Position is classified into three categories: net investment in capital assets, restricted, and unrestricted. The Statement of Net Position presents information on all of the University's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; with the difference between the financial statement elements reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the strength of the financial position of the University.

Condensed Statements of Net Position
as of June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 51,248,015	\$ 67,449,556	\$ 60,636,382
Capital assets	280,451,539	251,529,733	244,140,042
Other noncurrent assets	26,276,940	34,418,140	15,389,920
Total assets	<u>357,976,494</u>	<u>353,397,429</u>	<u>320,166,344</u>
Deferred outflows of resources			
Deferred amounts on debt refundings	2,608,080	2,831,843	3,055,605
Deferred amount on pensions (GASB 68)	54,929,065	72,284,159	15,347,693
Deferred amount on OPEB ¹ (GASB 75)	201,050	-	-
Total deferred outflows of resources	<u>57,738,195</u>	<u>75,116,002</u>	<u>18,403,298</u>
Liabilities			
Current liabilities	30,368,869	34,186,542	31,207,571
Bonds payable, noncurrent	149,468,992	154,506,463	131,754,086
Net pension liability (GASB 68)	239,421,801	231,167,892	134,262,416
OPEB ¹ liability (GASB 75)	5,574,596	-	-
Perkins liquidation liability	3,773,935	-	-
Other noncurrent liabilities	12,321,194	12,461,208	13,077,018
Total liabilities	<u>440,929,387</u>	<u>432,322,105</u>	<u>310,301,091</u>
Deferred inflows of resources			
Deferred amounts on debt refundings	822,333	859,854	897,375
Deferred amount on pensions (GASB 68)	19,289,079	3,038,983	5,308,778
Deferred amount on OPEB ¹ (GASB 75)	342,378	-	-
Deferred amount on other	37,526	-	-
Total deferred inflows of resources	<u>20,491,316</u>	<u>3,898,837</u>	<u>6,206,153</u>
Net Position			
Net investment in capital assets	140,162,416	113,419,470	104,481,541
Restricted - nonexpendable	307,555	307,555	307,555
Restricted - expendable	1,934,130	7,358,871	8,453,136
Unrestricted (GASB 68)	(203,781,815)	(161,922,716)	(124,223,501)
Unrestricted (GASB 75)	(5,715,924)	-	-
Unrestricted	21,387,624	33,129,309	33,043,667
Total net position	<u>\$ (45,706,014)</u>	<u>\$ (7,707,511)</u>	<u>\$ 22,062,398</u>

¹ OPEB - Other post employment benefits

Assets

Current Assets

Current assets decreased \$16.2 million for fiscal year 2018, increased \$6.8 million for fiscal year 2017, and decreased \$11.1 for fiscal year 2016. In fiscal year 2018, the decrease in current assets was primarily due to the decrease in cash of \$13.4 million, and a net decrease of \$2.8 million from student accounts receivable, other receivables, and loans.

The decrease in cash of \$13.4 million was the result of the following: \$4.1 million of proceeds from operating budget activities of the University, \$0.3 million of proceeds from the sale of Foundation Hall, and \$1.9 million collected from the State of Colorado on accounts receivable for FY17 Campus Commons capital expenditures. These increases in cash were offset by the following expenditures: \$4.6 million in University-funded capital projects, \$3.8 million of donations included in operating budget activities expended on the Campus Commons, \$4.2 million expended on University strategic investments, and \$6.4 million expended in FY18 rather than FY19 for the one-time shift in the final year-end pay date from July 1 to June 30. In 2003, the State of Colorado changed the final year-end pay date from June 30 to July 1. In fiscal year 2018, the Office of the State Controller determined that it was not required for institutions of higher education to shift the pay date; therefore, all of the State's public universities changed the final pay date of the fiscal year back to June 30. There were other cash decreases of \$0.7 million..

Unrestricted cash and cash equivalents and capital assets are the largest portions of the University's total assets. On June 30, 2018, 2017, and 2016, cash and cash equivalents were \$39.8, \$53.2, and \$46.1 million which comprised 11.1%, 15.1%, and 14.4%, of the University's total assets, respectively. The majority of the cash is held in the State Treasury and includes operating, restricted, agency, and other cash funds. Unrestricted cash and cash equivalents decreased \$13.4 million in fiscal year 2018, increased \$7.1 million in fiscal year 2017, and decreased \$14.9 in fiscal year 2016. In all three fiscal years, management utilized reserves to cover deficits from operating activities and to invest in capital projects, which included addressing deferred maintenance. In fiscal year 2017, the University had an influx of \$6.6 million in cash from the sale of University Apartments.

On the Unrestricted Cash and Cash Equivalents table on the following page, the Capital Projects cash balance as of June 30, 2018, 2017, and 2016, includes only the remaining cash expenditures expected to complete the projects approved from the prior fiscal years. On July 1, 2018, \$5.8 million was transferred from reserves to capital projects to fund the fiscal year 2019 capital budget. On July 1, 2017, \$7.4 million was transferred to fund the fiscal year 2018 capital budget and on July 1, 2016, \$5.8 million was transferred from reserves to fund the fiscal year 2017 capital budget.

On June 30, 2016, the capital project cash was in deficit because the University expended \$4.0 million on the energy performance lease and did not draw down cash from the escrow fund until fiscal year 2017 in accordance with the contract. Operating cash was artificially low on June 30, 2016, because the State of Colorado did not remit the final Fee-For-Service contract payment of \$4.1 million until July 2016. This annual payment is normally received prior to fiscal year-end.

Strategic investments have been a combination of new cash invested and prior year cash balances committed to funding multi-year activities identified in UNC's nine core strategic plans. In fiscal years 2018, 2017, and 2016, the University added \$3.7, \$3.2, and \$1.8 million, respectively, to strategic investments, funded from a combination of operating cash and reserves. Strategic investment cash has historically been transferred to the appropriate funds at the beginning of each fiscal year, as necessary, to meet the budgeted requirements of that fiscal year.

During the past two fiscal years, cash designated for restricted funds has been decreasing because the Department of Education required universities to calculate and remit the excess cash for the Federal Perkins Loan Program, which sunset on September 30, 2017. UNC remitted \$0.7 million in fiscal year 2018, \$1.2 million in fiscal year 2017, and \$1.5 million in fiscal year 2016.

The University also holds \$0.8 million in restricted cash for bond covenants as a noncurrent asset in reserves, and currently has \$20.3 million of restricted cash from the proceeds of the Campus Commons bond issue.

The following table indicates the expected uses of unrestricted cash and cash equivalents:

Unrestricted Cash and Cash Equivalents			
as of June 30,			
	2018	2017	2016
Operating			
On-campus education and general	\$ 6,952,278	\$ 18,499,091	\$ 23,169,985
Housing, dining, parking, University Center	651,541	413,699	690,551
Extended Studies and other	878,571	613,297	632,467
Designated for restricted funds	188,151	547,513	1,075,681
Strategic investments	1,871,424	1,876,229	1,069,277
Capital projects	4,415,679	4,698,472	(1,558,286)
Reserves	24,823,961	26,568,494	21,043,795
Total unrestricted cash and cash equivalents	\$ 39,781,605	\$ 53,216,795	\$ 46,123,470



Student accounts receivable is the second largest current asset and is presented net of allowance for doubtful accounts. Net student accounts receivable as of June 30, 2018, 2017, and 2016, was \$5.8, \$6.9, and \$6.2 million, respectively. The net student accounts receivable decreased \$1.1 million or 16.1% from fiscal year 2017 to 2018 and increased \$0.7 million or 10.3% from fiscal year 2016 to 2017. These changes in accounts receivable reflect the application of the allowance policy, which is a graduated increase in the allowance for uncollectible accounts based on the age of the outstanding account balance. Student share of undergraduate resident tuition increased 6.8% in fiscal year 2018, 8.4% in fiscal year 2017 and 5.8% in fiscal year 2016. The student share is the total tuition less the College Opportunity Fund stipend. UNC has seen an increase in the number of students utilizing the Bear Pay monthly payment plan, which has changed the timing on collection of accounts receivable.

Other receivables consist primarily of amounts due to the University from reimbursable grants and contracts. The majority of these are federal, state, or UNC Foundation agreements that have a very high probability of collection. The University spends the money first and then bills the sponsoring agency for reimbursement. Other receivables were \$3.6 million in fiscal year 2018, \$5.3 million in fiscal year 2017, and \$6.2 million in fiscal year 2016.

In fiscal year 2017, the University ended the year with \$1.9 million in accounts receivable from the State of Colorado for the Campus Commons capital appropriation, which was collected in July 2017 and is the primary reason for the decrease in other receivables from fiscal year 2017 to fiscal year 2018.

Inventories, loans to students, and other assets make up the remainder of current assets and they have been essentially even at \$2.1 million from fiscal years 2016 to 2018.

Capital Assets

Capital assets are defined as any asset used in operations with an initial useful life extending beyond one year. The University's single largest fiscal resource is its campus facilities. As of June 30, 2018, capital assets of \$588.1 million, net of \$307.6 million accumulated depreciation, totaled \$280.5 million. This is a \$29.0 million increase from fiscal year 2017, when capital assets of \$542.7 million, net of \$291.2 million accumulated depreciation, totaled \$251.5 million. Capital assets of \$521.5 million, net of \$277.4 million accumulated depreciation, totaled \$244.1 million as of June 30, 2016. The capital asset increase of \$29.0 million from fiscal year 2017 to 2018 is primarily due to the Campus Commons construction in progress.

In fiscal year 2018, \$8.0 million of capital projects were completed and \$2.2 million of library materials were capitalized. The capitalized projects consisted of \$6.8 million for building and improvements, \$0.8 million for equipment and vehicles, and \$0.4 million for software. The building improvements included the roof replacements on Harrison Hall, the University Center, and Parsons Hall; the University Center ballroom and fireside lounge renovations; carpet replacement in Lawrenson Hall; and the Michener transformer replacement. The equipment included laboratory research equipment for Biological Sciences and high density video equipment for Athletics. Software included a new capital lease with Cisco.

The University ended fiscal year 2018 with \$71.2 million in construction in progress. The larger projects in progress at year end, that will be completed and capitalized in fiscal year 2019, include energy performance upgrades across campus, fire sprinkler system upgrades, updates to the central campus residence halls and the Campus Commons building.

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

Capital Assets Net of Accumulated Depreciation						
as of June 30,						
	2018		2017		2016	
Land and improvements	\$ 21,560,033	7.7%	\$ 22,567,948	9.0%	\$ 23,388,336	9.6%
Buildings and improvements	169,423,537	60.4%	175,124,238	69.6%	186,670,199	76.5%
Construction in progress	71,183,158	25.4%	35,022,119	13.9%	14,209,319	5.8%
Library books	9,441,729	3.4%	8,996,302	3.6%	8,600,536	3.5%
Equipment	7,068,398	2.5%	8,044,442	3.2%	9,546,164	3.9%
Art and historical treasures	1,774,684	0.6%	1,774,684	0.7%	1,725,488	0.7%
Total capital assets net of accumulated depreciation	<u>\$ 280,451,539</u>	<u>100.0%</u>	<u>\$ 251,529,733</u>	<u>100.0%</u>	<u>\$ 244,140,042</u>	<u>100.0%</u>

Other Noncurrent Assets

Other noncurrent assets consist of loans to students, restricted cash and cash equivalents, and investments. Restricted cash and cash equivalents consists of a reserve required by bond covenants of \$0.8 million and \$20.3 million of proceeds from the Campus Commons bond issue. The remaining \$0.6 million are gifts directly donated to the University of Northern Colorado in the past, and cannot be legally transferred to the UNC Foundation. The value of this donation portfolio changes minimally each year based on the market gains or losses on the investments. In fiscal year 2016, the University invested the proceeds that were held in escrow for the \$8.9 million energy performance contract capital lease. The remaining funds were drawn down from the escrow fund in fiscal year 2018.

Loans to students are included in other noncurrent assets. These are primarily Federal Perkins loans that are managed under the appropriate federal guidelines through a third party loan processor. Loans to students, net of allowance for doubtful accounts, that are due after June 30, totaled \$4.6, \$4.7, and \$5.2 million at June 30, 2018, 2017, and 2016, respectively.

Liabilities

Non-Debt Related Liabilities

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

The net pension liability of \$239.4 million represents the University's proportionate share of the PERA State Division Trust Fund net pension liability. The liability increased \$8.3 million, \$96.9 million and \$9.9 million in fiscal years 2018, 2017 and 2016, respectively. The University is required by GASB 68 to recognize its proportionate share of the net pension liability and its related deferred outflows and inflows of resources, but UNC is only statutorily obligated to pay the employer contribution, plus the AED and SAED. Detailed information on the changes in the Plan are included in *Note 10: Defined Benefit Pension Plan*.

The net OPEB liability of \$5.6 million represents the University's proportionate share of the PERA Health Care Trust Fund. The University implemented *GASB 75: Accounting and Financial Reporting for Postemployment Benefits other than Pensions* in fiscal year 2018. Under GASB 75, the University is required to recognize its proportionate share of the net OPEB liability and its related deferred outflows and inflows of resources. PERA diverts 1.02% of the 10.15% basic employer contribution to fund the HCTF. Detailed information on other postemployment benefits are included in *Note 13: Other Postemployment Benefits*.

The Perkins liquidation liability of \$4.2 million was recorded in fiscal year 2018 and it is based on the University's estimate of the return of the Federal portion of original funding for the Perkins loan program to the United States Department of Education. The U.S. Department of Education's portion of outstanding accounts receivable is 89.8% and the UNC portion is 10.2%. More information on the closure of the Perkins loan program is included in *Note 7: Liabilities and Unearned Revenues*.

Accounts payable and accrued liabilities decreased \$4.0 million in fiscal year 2018. The largest portion of this liability in prior years has been the payroll earned in June, which was payable to employees on July 1; therefore, it was an accrued liability at fiscal year-end. In fiscal year 2018, all higher education institutions in the State of Colorado shifted the pay date back to June 30, as recommended by the Office of the State Controller. This eliminated \$6.4 million of payroll liability; however, there are still liabilities for deferred pay and benefits payable at fiscal year-end. The payroll liability was \$6.8 million as of June 30, 2018, \$13.3 million as of June 30, 2017, and \$12.8 million as of June 30, 2016. Accounts payable increased \$1.1 million from fiscal year 2017 to fiscal year 2018 for invoices related to capital construction projects.

Current unearned revenue of \$8.4 million includes tuition and fees and certain auxiliary revenues received by June 30, 2018, which are for services to be provided in fiscal year 2019. It also includes revenues received from grant and contract sponsors and the UNC Foundation that have not yet been earned. These amounts will be recognized as revenue in future periods after all conditions have been satisfied. Unearned revenue fluctuations each year are attributable to summer tuition and other activities.

Compensated absences are an estimate of the amounts payable to employees in the future for their vested rights under the various leave and retirement programs. This estimate is based on personnel policies that define vacation and sick leave to which the employees may be entitled (see *Note 1: Nature of Operations and Summary of Significant Accounting Policies*). The noncurrent liability for compensated absences was \$4.8, \$4.7, and \$4.5 million as of June 30, 2018, 2017, and 2016, respectively.

University Debt

The largest liability for the University is outstanding bonds payable. The University has five fixed rate bond issues and one variable rate bond issue outstanding for a total principal of \$144.6 million. The carrying value of these bonds includes \$9.4 million in premiums that will be amortized over the remaining life of the bonds; consequently, the combined current and noncurrent liability on the Statement of Net Position is \$154.0 million.

New Debt and Refinancing of Debt

On November 9, 2016, University of Northern Colorado Board of Trustees issued \$23.5 million in fixed rate Institutional Enterprise Revenue Bonds, Series 2016A, at a \$4.1 million premium for total proceeds of \$27.6 million. The coupon rates of the bonds range from 3% - 5% with maturities of principal starting in 2020 and ending in 2046. Of the proceeds, \$27.4 million is for the construction of the Campus Commons, while the remaining \$0.2 million represents the cost of issuance.

On June 30, 2017, the University entered into an agreement with Wells Fargo Bank, N.A., to continue holding 100% of the Series 2011B Bonds for another term of 18 months, ending December 31, 2018. The agreement states that the bonds have to be redeemed in full on the first anniversary of the purchase date, which is December 31, 2019. The agreement was for the \$18.0 million of principal that remained outstanding on June 30, 2017. The schedule of principal maturities remained the same and will continue through June 1, 2036. These bonds were refinanced along with the Series 2008 bonds into two fixed rate issues in July 2018. More information is available in *Note 20: Subsequent Events*.

In fiscal year 2016, the University entered into an \$8.9 million energy performance contract with McKinstry Essention, LLC. The projects under this contract were financed with a capital lease through Banc of America Public Capital Corporation in the amount of \$8.9 million for a term of 15 years with annual payments of \$0.7 million. The payback in utility savings is expected to be realized over 14 years. The funds were held in escrow with BOKF, N.A. and invested in the Cavanal Hill U.S. Treasury Fund. The escrow fund was drawn down as the individual projects within the larger contract were completed and closed as of June 30, 2018.

Debt-Related Deferred Outflows and Inflows of Resources

In fiscal year 2014, *GASB 65: Reporting Items Previously Recorded as Assets and Liabilities* was implemented, and the deferred amounts resulting from refunding of bonds payable were reclassified into two new financial statement elements: deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent the future consumption of net position and deferred inflows of resources represent the acquisition of net position that applies to future periods. The University has \$2.6 million of deferred outflows of resources and \$0.8 million of deferred inflows of resources from the refunding activities of bonds payable.

The deferred amounts resulting from refunding bonds payable originate from the difference in the carrying value of the bonds (principal plus unamortized discount or premium) and the amount it costs to retire or refinance the bonds. A book loss on refunding is classified as a deferred outflow of resources and a book gain is classified as a deferred inflow of resources. As each is amortized, the expense or reduction of expense is recognized over the same time period that the University is realizing the economic gain from reduced interest expense related to the refunding transactions. Details of the deferred amounts on debt refundings are included in *Note 14: Deferred Outflows and Inflows of Resources*.

Bond Ratings

On May 31, 2018, Moody's Investors Service assigned the University an "A3" underlying with a stable outlook on the outstanding Series 2011A, Series 2014A, Series 2015A, Series 2016A, and Series 2018 bonds, and assigned an "Aa2" enhanced rating with a stable outlook to the University's outstanding fixed-rate bonds and for the Series 2018B bonds. (The Series 2008 and 2011B bonds were refinanced into the 2018A and 2018B issues. Further information is available in *Note 20: Subsequent Events*.)

The downgrade to "A3" cited the University's cash flow and debt service coverage, and declining liquidity which is constraining the University's ability to restore reserves. The enhanced rating outlook, based on the University's participation in the Colorado Higher Education Revenue Bond Intercept Program, remains at "Aa2" with a stable outlook, which is based on the State of Colorado's current "Aa1" rating and outlook. When a university qualifies to issue bonds under the state intercept program, the bonds are additionally secured by the State with a provision that the State Treasurer will pay the principal and interest on the revenue bonds if the institution of higher education is unable to make the payment on the due date.

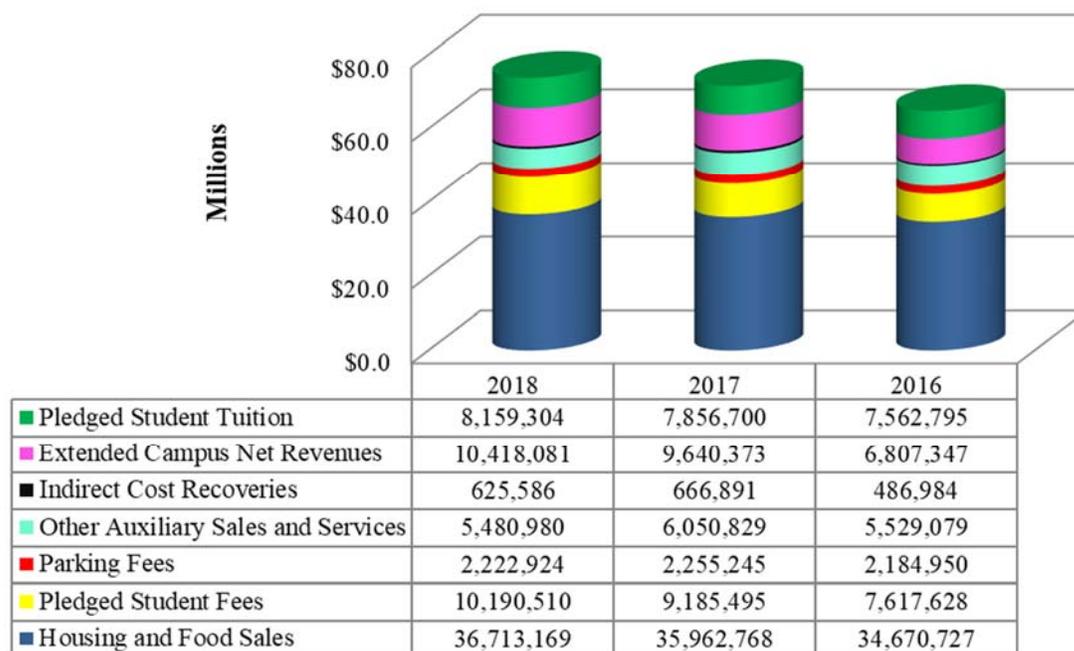
On April 20, 2018, Standard and Poor's assigned the University an underlying rating of "A-" with a stable outlook and an enhanced rating of "AA-" with a negative outlook, citing operating deficits, declining liquidity, and weak fundraising history relative to the University's peers. This is offset by the positives of FTE enrollment increases, experienced and stable management, and a manageable debt burden. The long-term rating of "AA-/Negative" is based on the University's participation in the Colorado Higher Education Revenue Bond Intercept Program. Standard and Poor's has assigned these ratings to the Series 2011A and 2014A fixed-rate bonds.

A summary of University debt and the related deferred outflows and inflows of resources is presented in the following table:

Summary of Debt Outstanding and Debt-Related Deferred Outflows and Inflows of Resources			
as of June 30,			
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue bonds	\$ 153,988,992	\$ 158,841,463	\$ 135,929,086
Deferred outflows of resources	(2,608,080)	(2,831,843)	(3,055,605)
Deferred inflows of resources	822,333	859,854	897,375
Capital lease obligations	7,975,983	8,554,668	10,210,194
Total	<u>160,179,228</u>	<u>165,424,142</u>	<u>143,981,050</u>
Less current portion of debt	(5,115,508)	(5,235,828)	(5,830,526)
Total long-term debt and deferred outflows and inflows of resources	<u>\$ 155,063,720</u>	<u>\$ 160,188,314</u>	<u>\$ 138,150,524</u>

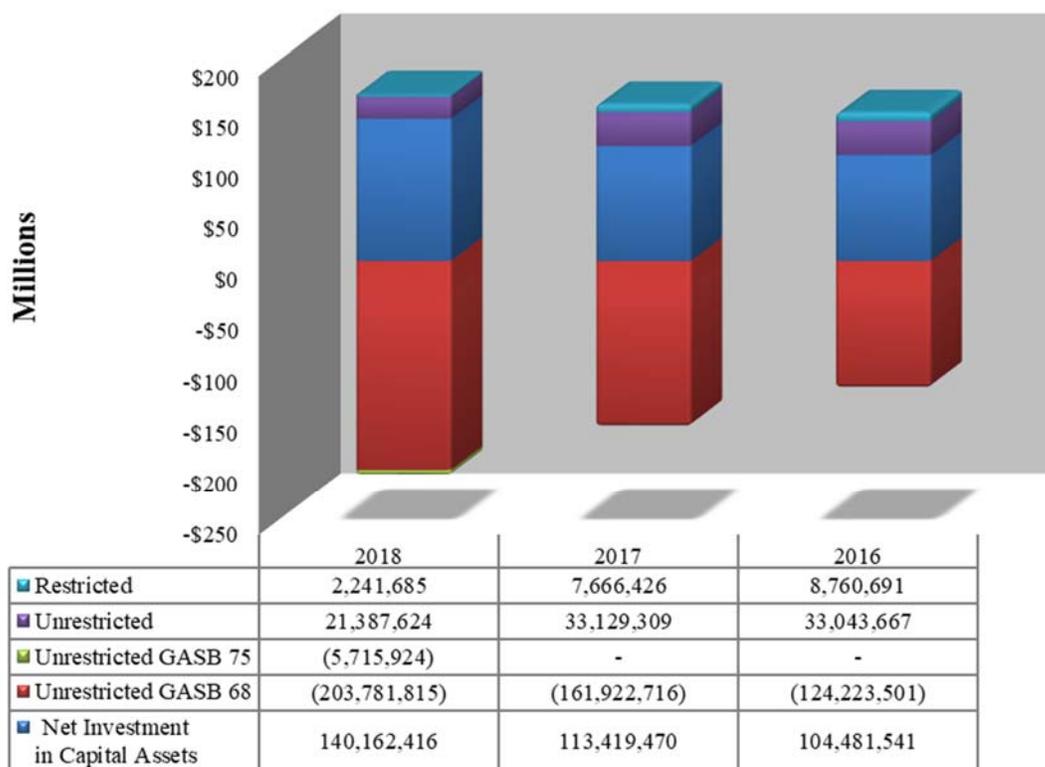
The debt service payments on the revenue bonds are made from pledged revenues comprised of auxiliary housing, food service, parking and other sales, plus identified pledged student fees, Extended Campus net revenues, and a portion of student tuition revenues. A more detailed schedule, including debt coverage ratios, is included in *Note 8: Bonds and Capital Leases Payable*.

Pledged Revenues for Bonds Payable



The pledged revenues, net of expenses of \$31.5 million, and bond coverage ratios are included in *Note 8: Bonds and Capital Leases Payable*.

Year End Net Position



Net Position

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

Net Investment In Capital Assets

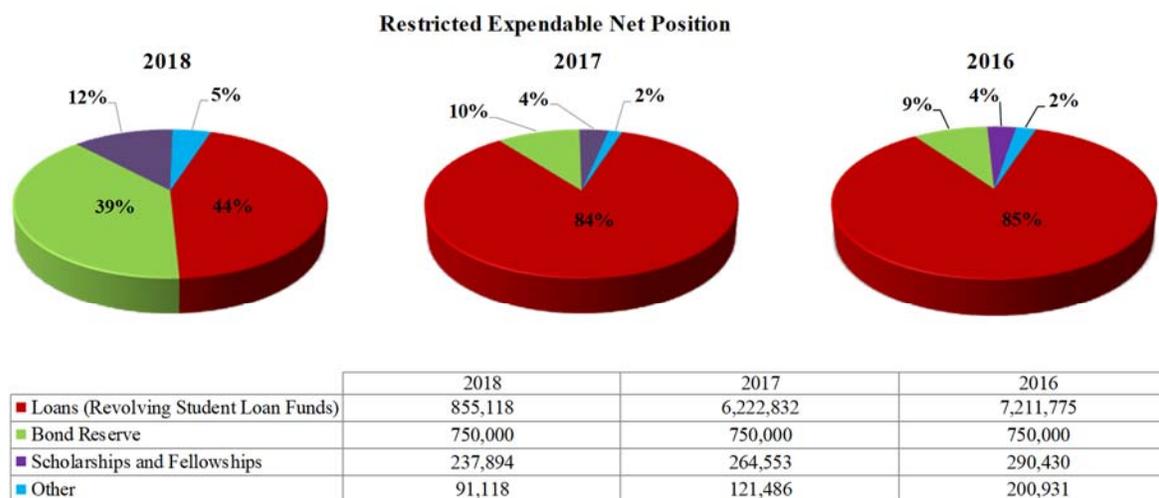
Net investment in capital assets is the gross cost of assets less accumulated depreciation and outstanding debt service related to the acquisition of the assets. It represents the University's investment in campus facilities and equipment necessary to fulfill academic, student housing and food service, athletics, and other purposes related to the mission of the institution. This is the University's largest class of net position, which comprises \$140.2, \$113.4, and \$104.5 million of the University's net position for fiscal years 2018, 2017, and 2016, respectively. In the past three years, the University management has allocated a significant portion of unrestricted cash reserves to capital projects, primarily to address deferred maintenance on campus. The University capitalized \$10.2, \$5.1, and \$9.7 million of new assets in fiscal years 2018, 2017, and 2016, respectively, and ended fiscal year 2018 with \$71.2 million in construction in progress. In fiscal year 2016, depreciation expense was greater than capital additions; therefore, the dollar value of net investment in capital assets did not change substantially from the prior year. However, in fiscal years 2017 and 2018, construction in progress on the Campus Commons is the primary reason capital additions are exceeding depreciation and the net investment in capital assets increased.

Restricted Nonexpendable

The University's restricted nonexpendable net position is comprised of endowment funds for which the donor has required that the original principal is set aside for perpetual investment. The University's restricted nonexpendable net position has remained at \$0.3 million for the last three fiscal years and includes only those endowment funds that cannot be legally transferred to the University of Northern Colorado Foundation, Incorporated. The majority of the endowment assets benefiting the University are held by the Foundation, which is a discretely presented component unit in the financial statements.

Restricted Expendable

The University's restricted expendable net position is comprised of resources that may be fully expended, but only for specific purposes identified by the donor or entity originally providing the funds. The majority of the restricted expendable net position category consisted of revolving Federal Perkins loan funds and restricted bond reserves until fiscal year 2018. In fiscal year 2018, the University recorded a \$4.2 million liability for the return of program loan funds to the United States Department of Education, which decreased net position in restricted expendable loans. The University portion of the program funding is now recorded as unrestricted net position. The remaining balance of restricted expendable loans is from the federal nursing loan program. A very small portion of the net position identified as restricted expendable is generated from investment earnings on the restricted nonexpendable endowment net position described above. Allowable expenditures for these funds are scholarships and other academic support expenditures.



The University's restricted expendable net position as of June 30, 2018, 2017, and 2016, was \$1.9, \$7.4, and \$8.5 million, respectively.

Unrestricted

Unrestricted net position is usually available to be used for any lawful purpose under the full discretion of management. However, the University may place some limitations on future use by designating unrestricted net position for certain purposes during the annual budget process. Unrestricted net position of \$21.4 million includes operating funds and reserves. The deficit in unrestricted net position of \$188.1 million includes the PERA net pension liability and OPEB liabilities and their related deferred outflows and inflows of resources, which amounted to \$209.5 million as of June 30, 2018.

In fiscal year 2018, the University implemented *GASB 75: Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The University recognizes its proportionate share of the underfunded other postemployment benefits liability of the PERA Health Care Trust Fund (HCTF) and its related deferred outflows and inflows of resources. The HCTF net OPEB liability was \$1.3 billion on both December 31, 2017 and December 31, 2016. The \$5.7 million liability representing the University's proportionate share was established with an adjustment to the beginning net position. Since the total HCTF net OPEB liability remained at \$1.3 billion, there was minimal impact to the current year unrestricted net position.

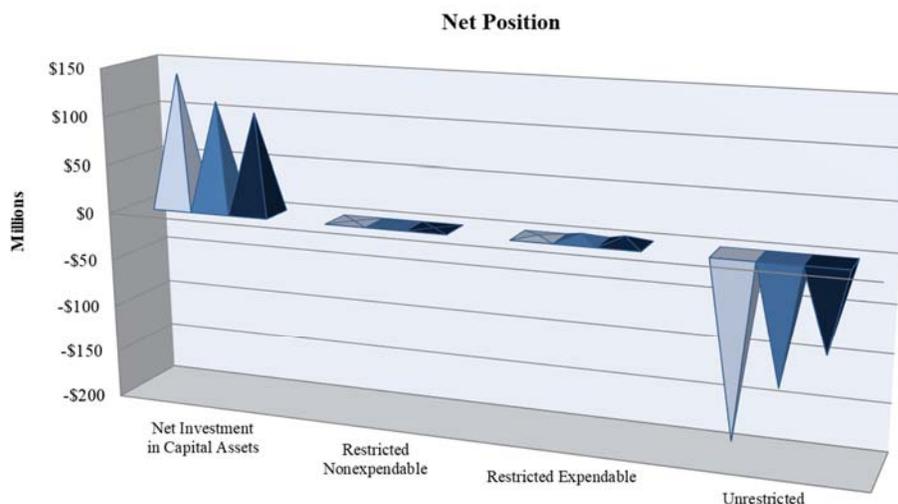
In the pension plan 2016 calendar year (which is reflected in UNC's fiscal year 2017), PERA made significant changes in actuarial assumptions and estimates in the retirement plan resulting in a large change in the liability and related deferred outflows and inflows of resources. The change in the discount rate used to calculate the collective net pension liability from 7.5% to 5.26% was the largest single factor causing the net pension liability for the State Division Trust Fund to increase from \$10.5 billion as of December 31, 2015 to \$18.4 billion as of December 31, 2016. It is \$20.0 billion as of December 31, 2017. The deferred outflows and inflows of resources from the changes in fiscal year 2017 are amortized over the service life of 2.77 years; therefore, this expense will have a significant impact on net position in fiscal years 2018 and 2019. The change in the Summary of Changes in Unrestricted Net Position table demonstrates the impact of these changes on the University's proportionate share of the PERA defined benefit pension plan. Detailed information on the other changes in the Plan are outlined in *Note 10: Defined Benefit Pension Plan*.

The \$11.7 million decrease in unrestricted net position is primarily from the University's use of \$13.4 million of unrestricted cash and cash equivalents.

The following table outlines the change in unrestricted net position:

Summary of Changes in Unrestricted Net Position	
as of June 30, 2018	
(in millions)	
Adjustment to beginning net position for GASB 75	\$ (5.7)
Current year impact of GASB 68	(41.9)
Current year impact from University operations	(11.7)
Total change in unrestricted net position	<u>\$ (59.3)</u>
<u>¹Detail of GASB 68 impact to Statement of Net Position</u>	
Deferred outflows of resources	\$ (17.4)
Net pension liability	(8.3)
Deferred inflows of resources	(16.2)
GASB 68 impact on change in net position	<u>\$ (41.9)</u>

The following graph depicts a three-year history of net position by category:



	Net Investment in Capital Assets	Restricted Nonexpendable	Restricted Expendable	Unrestricted
June 30, 2018	140,162,416	307,555	1,934,130	(188,110,115)
June 30, 2017	113,419,470	307,555	7,358,871	(128,793,407)
June 30, 2016	104,481,541	307,555	8,453,136	(91,179,834)

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the financial activity of the University over the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. A key component of this statement is the differentiation between operating and nonoperating activities. The tables and charts related to the Statement of Revenue, Expenses, and Changes in Net Position that follow have been adjusted, for comparative purposes, to include the impact of *GASB 68: Accounting and Financial Reporting of Pensions*, which was implemented in fiscal year 2015. The tables also reflect the impact of *GASB 75: Accounting and Financial Reporting for Postemployment Benefits other than Pensions* which was implemented in fiscal year 2018.

Operating revenues are earned by providing goods and services to the various customers of the University. Operating expenses are paid to acquire or produce goods and services necessary to carry out the mission of the University. They are directly related to generating operating revenues.

Nonoperating revenues include investment income, state appropriations, Pell Grant revenue, capital grants and gifts, and gains or losses on the disposal of capital assets. These revenues are not earned from the sale of goods and services and are considered nonoperating. Nonoperating expenses include the repayment of prior federal capital contributions for the Federal Perkins Loan program, bond issue costs, and closing cost on the sale of property when applicable. In fiscal year 2018, all of the public higher education institutions in Colorado began presenting revenue from student capital fees in Nonoperating revenues as a capital financing activity rather than part of tuition and fees. The fiscal year 2017 Statement of Revenues, Expenses, and Changes in Net Position has been reclassified for comparative purposes along with all relevant charts and graphs in the Management Discussion and Analysis.

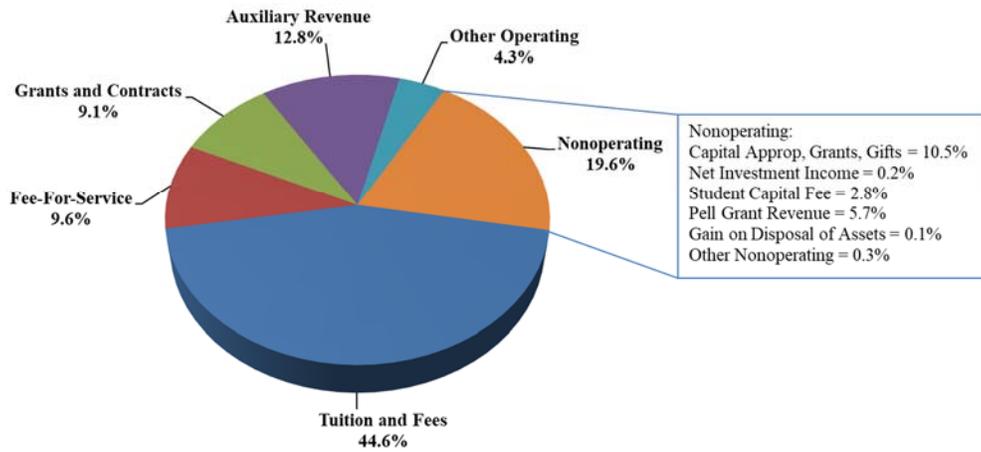
Condensed Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30,

	<u>2018</u>	<u>2017, as reclassified</u>	<u>2016, as reclassified</u>
Operating revenues			
Net tuition and fees	\$ 112,140,222	\$ 107,439,706	\$ 101,471,305
Fee-For-Service	24,101,529	24,298,624	26,017,614
Grants and contracts	22,996,279	22,368,236	21,082,569
Auxiliary	32,253,460	32,507,550	32,178,117
Other	10,885,885	10,581,679	9,899,094
Total operating revenues	<u>202,377,375</u>	<u>197,195,795</u>	<u>190,648,699</u>
Operating expenses			
Education and general	189,318,715	179,340,496	167,557,545
Operating expenses (GASB 68)	41,859,099	37,699,214	3,726,471
Operating expenses (GASB 75)	36,136	-	-
Auxiliary	25,958,045	26,685,703	26,132,382
Depreciation	17,226,655	17,396,751	17,454,932
Total operating expenses	<u>274,398,650</u>	<u>261,122,164</u>	<u>214,871,330</u>
Operating loss	<u>(72,021,275)</u>	<u>(63,926,369)</u>	<u>(24,222,631)</u>
Nonoperating revenues (expenses)			
Federal grants and contracts	14,365,442	12,430,273	12,071,525
Perkins return of Federal loan contributions	(4,899,338)	(1,172,253)	(1,513,636)
Other nonoperating revenue	1,307,993	1,821,126	1,317,910
Other nonoperating expense	(1,224)	(727,758)	-
Nonoperating capital interest expense	(4,679,924)	(5,618,012)	(5,121,899)
Net nonoperating revenue (expense)	<u>6,092,949</u>	<u>6,733,376</u>	<u>6,753,900</u>
Gain (Loss) before other items	<u>(65,928,326)</u>	<u>(57,192,993)</u>	<u>(17,468,731)</u>
Capital appropriations	22,227,857	15,242,549	2,380,995
Capital grants and gifts	4,217,216	269,694	1,105,316
Student capital fee revenue	7,127,013	5,926,231	4,409,355
Gain on disposal of assets	37,525	5,996,298	-
Loss on disposal of assets	-	(11,688)	(4,629)
Total other changes	<u>33,609,611</u>	<u>27,423,084</u>	<u>7,891,037</u>
Increase (decrease) in Net Position	<u>(32,318,715)</u>	<u>(29,769,909)</u>	<u>(9,577,694)</u>
Net Position - beginning of year	<u>(7,707,511)</u>	<u>22,062,398</u>	<u>31,640,092</u>
GASB 75 adjustment to Net Position	<u>(5,679,788)</u>	<u>-</u>	<u>-</u>
Net Position - end of year	<u>\$ (45,706,014)</u>	<u>\$ (7,707,511)</u>	<u>\$ 22,062,398</u>

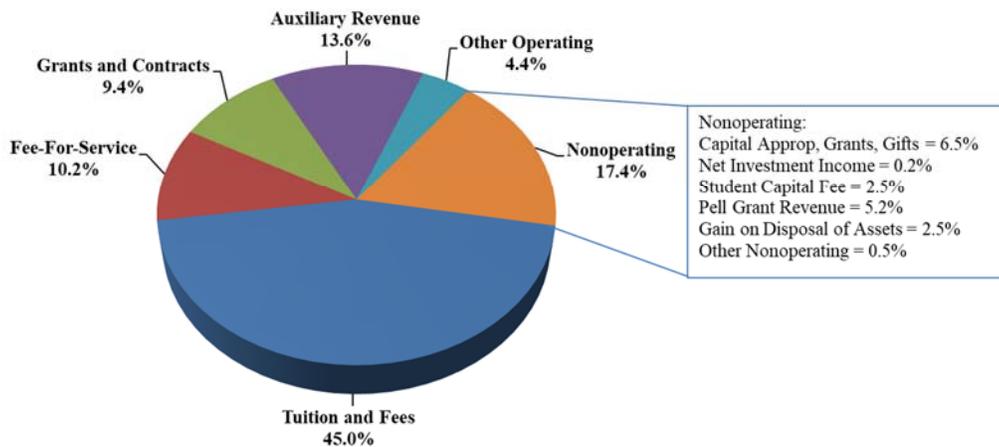
Total Revenues

Total University revenues of \$251.7, \$238.9, and \$211.9 million, in fiscal years 2018, 2017, and 2016, respectively, consist of operating revenue, federal grants and contracts (Pell), other nonoperating revenue, capital appropriations and contributions, capital grants and gifts, student capital fee revenue and the gain on the disposal of assets. Total revenues increased \$12.8 million or 5.4% between fiscal years 2017 and 2018 and increased \$27.0 million or 12.7% between fiscal years 2016 and 2017, respectively.

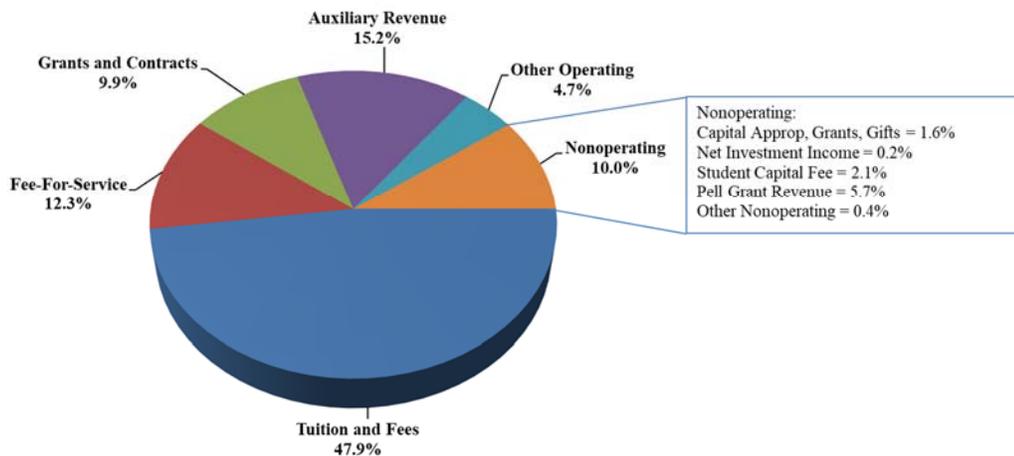
Total Revenue 2018



Total Revenue 2017



Total Revenue 2016



Operating Revenues

Operating revenue for fiscal years 2018, 2017, and 2016, of \$202.4, \$197.2, and \$190.6 million, respectively, is derived from tuition and fees, auxiliary activity, grants and contracts, the State Fee-For-Service contract, and other operating revenues. The proportion of operating revenue to total revenue for fiscal years 2018, 2017, and 2016, has been 80.4%, 82.5%, and 90.0%, respectively.

In fiscal year 2018, the public universities in Colorado began recognizing student capital fee revenue in nonoperating revenues and treating it as a capital financing activity for financial statement purposes. The Condensed Statement of Revenues, Expenses, and Changes in Net Position in the Management Discussion and Analysis has been reclassified for fiscal years 2017 and 2016. The Statement of Revenues, Expenses, and Changes in Net Position in the Financial Statements has also been reclassified for fiscal year 2017 for comparative purposes.

Tuition and fee revenue increased \$4.7 million between fiscal years 2017 and 2018 and increased \$6.0 million between fiscal years 2016 and 2017. These increases in revenue have come as a combination of tuition increases and enrollment growth. Some of this revenue is offset by increases in scholarships that flow through the scholarship allowance calculation.

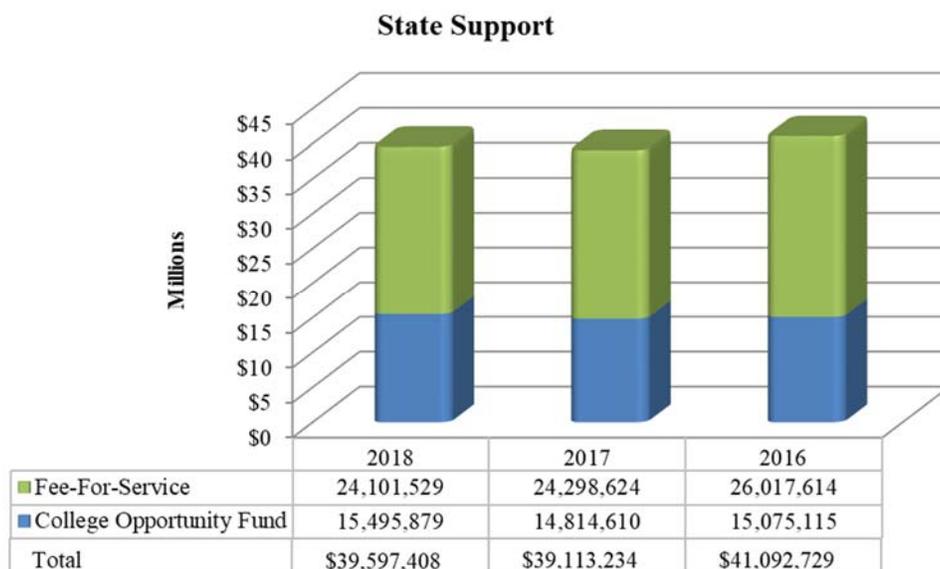
The FTE enrollment and credit hours referenced in this paragraph are based on the calculations UNC uses for bond compliance. Undergraduate full-time equivalent headcount (FTE) is calculated using full-time headcount plus part-time credit hours divided by 12. Graduate FTE is calculated using full-time headcount plus part-time credit hours divided by 9. Annual credit hours are based on fall, interim, spring, and summer terms in that order. Undergraduate resident tuition increased 6.8%, 8.4%, and 5.8%, in fiscal years 2018, 2017, and 2016, respectively. Undergraduate non-resident tuition increased 2.5%, 3.0%, and 2.2%, in fiscal years 2018, 2017, and 2016, respectively. Graduate tuition is tiered by program of study. Graduate tuition increased in a range from 2.1% to 5.0% in fiscal year 2018, 1.7% to 8.3% in fiscal year 2017, and from 1.0% to 5.0% in fiscal year 2016 depending on program of study. UNC's fall final undergraduate FTE enrollment has turned to an upward trend with increases of 0.5% in fall 2017, after a 3.4% increase in fall of 2016 bouncing back from a 1.2% decline in fall 2015. The fall final graduate FTE enrollment is also on an upward trend with an increases of 8.2%, 10.6%, and 7.6%, in fall 2018, 2017, and 2016, respectively.

Tuition and fee revenue is shown net of \$31.2, \$27.3 and \$23.4 million in scholarship allowances for fiscal years 2018, 2017, and 2016, respectively. Auxiliary revenue for fiscal years 2018, 2017, and 2016 is net of \$8.3, \$7.5, and \$6.6 million in scholarship allowances, respectively. Scholarship allowances are those portions of the University's tuition and fees which are paid by other revenues, primarily federal and state grants for financial aid, and also general institutional scholarships. Approximately 72% of total financial aid is reclassified as a reduction to tuition and fees and auxiliary revenue because it is recognized in other revenue categories. The scholarship allowance calculation includes all scholarships, institution, state, and federal funds. The most significant increase has been in the UNC institutional scholarships, which were \$31.5, \$24.7, and \$19.9 million in fiscal years 2018, 2017, and 2016, respectively.

During fiscal years 2018, 2017, and 2016, the Colorado Department of Higher Education (CDHE) provided the University \$39.6, \$39.1, and \$41.1 million, respectively, in College Opportunity Fund (COF) and Fee-For-Service (FFS) contract revenue. COF is included in tuition revenue and FFS has a separate line on the financial statements. COF and FFS are both classified as operating revenue.

- The College Opportunity Fund provides a stipend to qualified undergraduate students. The students use the stipend to pay for a portion of their tuition. The COF stipend provided to students was \$77 per credit hour in fiscal year 2018 and \$75 per credit hour in years 2017 and 2016. In fiscal years 2018, 2017, and 2016, the University applied \$15.5, \$14.8, and \$15.1 million of COF stipends against student tuition bills, respectively. This amount is included in tuition revenues on the Statement of Revenues, Expenditures, and Changes in Net Position.
- State FFS contract revenue helps to support graduate and specialized undergraduate education services. These funds are in addition to tuition paid by students. During fiscal years 2018, 2017, and 2016, the Colorado Department of Higher Education provided the University \$24.1, \$24.3, and \$26.0 million of contract revenue, respectively.

The total amount of COF and FFS support has decreased \$1.5 million since fiscal year 2016.



Room and Board revenue increased \$1.1 million between fiscal years 2017 and 2018, and increased \$1.5 million between fiscal years 2016 and 2017 due to a 2% rate increase each year and increases in housing occupancy. In fiscal year 2018, occupancy increased from 91.7% to 92.9% and in fiscal year 2017, occupancy increased from 86.2% to 91.7%. Other auxiliary revenues, which includes catering, conferences, parking permits, retail sales and recreation center memberships, declined \$0.6 million in fiscal year 2018 and \$0.3 million in fiscal year 2017. The increase in auxiliary scholarship allowance (due to increases in financial aid awarded to students) of \$0.8 million in fiscal year 2018 and \$0.9 million in 2017 offset the majority of the revenue increases; therefore, auxiliary revenue net of scholarship allowance increased \$0.3 million and decreased \$0.3 million in fiscal years 2018 and 2017, respectively.

Auxiliary revenue is a major source of support for the University's debt service payments. A schedule of net pledged revenues and bond coverage ratios for debt service is included in *Note 8: Bonds and Capital Leases Payable*.

Other operating revenues include the operating agreement between UNC and the Foundation, athletic camp fees, athletic game guarantees, accounts receivable service charges, and various other charges for services. In fiscal year 2018, the revenue was \$10.9 million and the increase from fiscal year 2017 was primarily from athletics game guarantees.

In fiscal year 2017, this revenue increased to \$10.6 million from \$9.9 million in fiscal year 2016 because of a large game guarantee in athletics, a change in the timing of recognizing NCAA revenue, and a large increase in collection fees from UNC's third-party loan processor. Generally, the largest single source of revenue in this classification is the unrestricted support of University scholarships from the UNC Foundation, which has been \$1.6, \$1.4, and \$1.8 million in fiscal years 2018, 2017, and 2016, respectively.

Grants and Contracts Revenue

On June 30, 2018, 2017, and 2016, grants and contracts revenue comprised \$37.4, \$34.8, and \$33.2 million or 14.9%, 14.6%, and 15.6%, of the University's total revenues, respectively. Grants and contracts revenue is presented in the table below in two categories: restricted and financial aid. The restricted sources are from sponsored programs and UNC Foundation support. Financial aid is received by the University from federal, state, foundation, and other private sponsors. The financial aid reported as revenue is based on generally accepted accounting principles for proper financial statement recognition and is not a comprehensive measure of all financial aid available to students. It does not include amounts received by students from third parties, institutional support, or loans.

Grants and Contracts Revenue			
For the Years Ended June 30,			
	2018	2017	2016
Federal grants	\$ 5,205,654	\$ 5,615,442	\$ 5,551,132
State and local grants	929,131	361,020	317,503
UNC Foundation grants and gifts	4,129,627	3,590,625	3,232,609
Other private grants	360,254	184,818	115,970
Total restricted grants and contracts	<u>10,624,666</u>	<u>9,751,905</u>	<u>9,217,214</u>
Federal financial aid	898,393	845,962	724,816
Federal Pell financial aid	14,365,442	12,430,273	12,071,525
State and non-gov't financial aid	7,062,458	7,526,981	6,970,679
UNC Foundation named and endowed	3,771,153	3,634,571	3,403,829
UNC Foundation scholarships	639,609	608,817	766,031
Total financial aid	<u>26,737,055</u>	<u>25,046,604</u>	<u>23,936,880</u>
Total grants and contract revenue	<u>\$ 37,361,721</u>	<u>\$ 34,798,509</u>	<u>\$ 33,154,094</u>

Restricted Grants and Contracts

In fiscal year 2018, federal funding for restricted grants and contracts made up \$5.2 million, or 49.0%, of the total restricted grants and contracts revenue. Federal funding decreased \$0.4 million, or 7.3%, from fiscal year 2017 to fiscal year 2018. This decrease is primarily attributed to the expiration of certain multi-year awards from the U.S. Department of Education (DOED), National Science Foundation (NSF), National Institutes of Health (NIH), and U.S. Library of Congress (LOC). UNC's expiring awards from DOED included the Mid-America Regional Interpreter Education (MARIE) grant (\$0.1 million decrease), Mathematics and Science Teaching for English Learners (MAST-EL) grant (\$0.2 million decrease), and Students in Foster Care (\$0.1 million decrease). Also ending is UNC's award from NIH, for the study of deer mice as a tool in disease research, resulting in a decrease of \$0.1 million. UNC's Colorado Science, Technology, Engineering, and Math (STEM) grant from NSF also ended, resulting in a decrease of \$0.1 million. Additionally, UNC's ten-year award from the Library of Congress also ended during fiscal year 2018 (\$0.1 million decrease). The decreases in federal funding were partially offset by two new five-year awards from DOED for the McNair Scholars and Upward Bound programs that began in fiscal year 2018.

In fiscal year 2018, federal revenue came from the U.S. Department of Education (\$2.6 million), the Department of Health and Human Services (\$0.7 million), the National Science Foundation (\$0.6 million), other federal sources (\$0.3 million), and federal sub-recipient awards from other institutions (\$1.0 million).

In fiscal year 2018, state funding for restricted grants and contracts made up \$0.8 million, or 7.9%, of the total restricted grants and contracts revenue. State funding increased \$0.6 million from fiscal year 2017 to fiscal year 2018.

The increase is primarily attributed to new and continuing awards from the Colorado Department of Higher Education (CDHE). The CDHE has awarded UNC the "Supporting Rural Educator Recruitment and Retention" (\$0.3 million) grant. Through an additional collaboration with CDHE, UNC increased activity on the project "UNC Center for Rural Education" (\$0.3 million). The Colorado Department of Human Services (CDHS) also awarded UNC the "Colorado 2GEN (Two Generation) Child Support Evaluation" grant (\$0.1 million).

Local governmental and private funding in restricted grants and contracts was \$0.5 million, or 4.3%, of the total restricted grants and contracts revenue in fiscal year 2018. Local and private grants do not provide a significant source of restricted grants and contracts revenue.

UNC Foundation funds are generally donated for program support and scholarships. Grants and program support are included in the top portion of the Grants and Contracts Revenue table and were \$4.1, \$3.6, and \$3.2 million in fiscal years 2018, 2017, and 2016, respectively. UNC recognizes revenue and expense as the University utilizes the donor funds. The Foundation recognizes revenue when the funds are donated. Fiscal year 2018 UNC Foundation grants and gifts is a combination of \$0.8 million of specific project grants and \$3.3 million in gifts and endowment payouts utilized for program support in athletics and in the colleges within the University.

Financial Aid

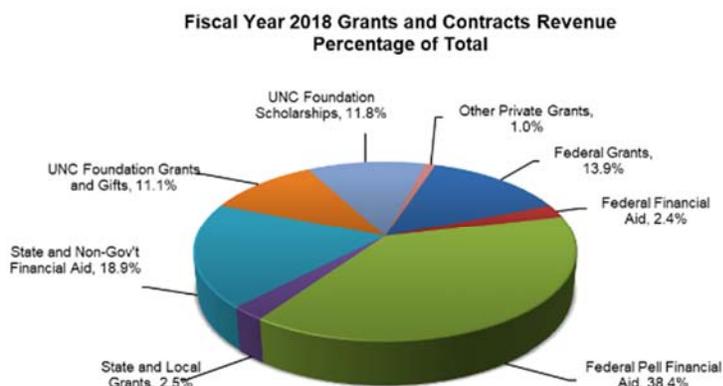
Total financial aid was 71.6%, 72.0%, and 72.2%, of total grants and contracts revenue in fiscal years 2018, 2017, and 2016, respectively. Federal Pell Grant financial aid is considered nonoperating revenue, but is included in this analysis of all grants and contracts revenue.

The Federal Pell Grant Program is awarded to eligible students based on financial need. All students who are eligible for the Pell Grant are awarded the money; therefore, the University is not limited to a certain amount of Pell Grant awards in an academic or fiscal year. The variance in Pell Grant revenue from academic year to academic year is based on changes in the eligibility of our students and federal legislation. The Department of Education changed legislation to begin awarding summer Pell late in the summer of 2017. The University reviewed student's records and retroactively awarded Pell to eligible students from the start of summer term 2017. The summer Pell revenue of approximately \$0.3 million was recognized in fiscal year 2018. Pell awards were \$14.4, \$12.4, and \$12.1 million in fiscal years 2018, 2017, and 2016, respectively.

State financial aid has grown from \$6.9 million in fiscal year 2016 to \$7.1 million in fiscal year 2018. These annual amounts are based on state appropriations and the allocation models used to distribute resources among the Colorado colleges and universities.

The UNC Foundation Named and Endowed Scholarships are from donations given by specific individuals or organizations for a specific type of scholarships, such as baseball or tennis in athletics, or a program like the Cumbres Learning Community, Early Childhood Education, Music, Chemistry, or Math. Some scholarships are from annual donations and others are funded with the payout from an endowment.

The UNC Foundation Scholarships line item in the Grants and Contract Revenue chart represents annual donations that are primarily for athletic scholarships.



Operating Expenses

For fiscal year 2018, total expenses of \$284.0 million included operating expenses of \$274.4 million and interest expenses and other losses of \$9.6 million. Operating expenses increased 5.1% in fiscal year 2018, 21.5% in fiscal year 2017, and 1.7% in fiscal year 2016. The change from fiscal year 2017 to 2018 was \$13.3 million and the change from fiscal year 2016 to 2017 was \$46.2 million.

Natural Classification

	2018		2017		2016	
Personnel costs	\$ 151,897,630	55.3%	\$146,460,017	56.2%	\$137,992,460	64.3%
Personnel costs (GASB 68)	41,859,099	15.3%	37,699,214	14.4%	3,726,471	1.7%
Personnel costs (GASB 75)	36,136	0.0%	-	0.0%	-	0.0%
Cost of goods sold	4,643,599	1.7%	4,886,868	1.9%	4,817,360	2.2%
Other current expenses	58,735,531	21.4%	54,679,314	20.9%	50,880,107	23.7%
Depreciation	17,226,655	6.3%	17,396,751	6.6%	17,454,932	8.1%
Total Operating expenses	<u>\$ 274,398,650</u>	<u>100.0%</u>	<u>\$261,122,164</u>	<u>100.0%</u>	<u>\$214,871,330</u>	<u>100.0%</u>

Natural classification is a method of grouping expenses according to the type of costs that are incurred. The classifications tell what was purchased rather than why an expense was incurred. Personnel costs are the University's largest expense increased \$5.4 million from fiscal year 2017 to 2018 and \$8.5 million from fiscal year 2016 to 2017.

The largest portion of the cost of goods sold expense in the University is in auxiliary services. Total cost of goods sold decreased \$0.2 million from fiscal year 2017 to 2018 and increased \$0.1 million from fiscal year 2016 to 2017. The changes in cost of goods sold are related to housing occupancy, meal plans sold, and the cost fluctuations from vendors who sell goods to the University. Other current expenditures represent all other operating expense, which includes supplies, purchased services, utilities, and travel. It increased \$4.1 million, or 7.4%, from fiscal year 2017 to 2018 and \$3.8 million, or 7.5%, from fiscal year 2016 to 2017.

Depreciation has remained relatively flat over the three year period.

	Wages and Benefits		2017 to 2018 Change	
	For the Years Ended June 30,			
	2018	2017	\$ Chg	% Chg
Faculty	\$ 48,335,056	\$ 46,185,324	\$ 2,149,732	4.7%
Administrative	32,150,200	31,140,083	1,010,117	3.2%
Graduate and Teaching Assistants	12,756,222	11,898,910	857,312	7.2%
Classified	18,881,645	19,209,302	(327,657)	-1.7%
Student	7,131,576	6,758,569	373,007	5.5%
Other	977,867	905,622	72,245	8.0%
Subtotal wages	<u>120,232,566</u>	<u>116,097,810</u>	<u>4,134,756</u>	<u>3.6%</u>
Fringe benefits	31,665,064	30,362,207	1,302,857	4.3%
Fringe benefits (GASB 68)	41,859,099	37,699,214	4,159,885	11.0%
Fringe benefits (GASB 75)	36,136	-	36,136	-
Total wages and benefits	<u>\$ 193,792,865</u>	<u>\$ 184,159,231</u>	<u>\$ 9,633,634</u>	<u>5.2%</u>

In fiscal year 2018, salaries were increased with an overall 2.0% salary pool for faculty and exempt and 2.5% for state classified positions. The pool included a 1.0% maintenance of effort increase for faculty and a 1.25% maintenance of effort increase for exempt staff. Classified staff received a maintenance of effort increase of 1.75% in addition to performance-based increases ranging from 0.35% to 1.15% as approved by the State of Colorado. The remainder of the 2.0% faculty and exempt pool was utilized for faculty promotions and parity adjustments, and exempt increases to the minimum of their grade from the new human resources exempt compensation model.

In fiscal year 2017, salaries were increased with an overall 3.0% salary pool. The pool included a 2.75% maintenance of effort increase for faculty and a 2.0% maintenance of effort increase for exempt staff. Classified staff received a non-base building increases of 2.0% consistent with what UNC has done when the State of Colorado has not approved a classified increase. The remainder of the 3.0% pool was utilized for faculty promotions, exempt increases to the minimum of their grade from the new human resources exempt compensation model, and classified increases to the minimum pay level of the employee's grade.

In fiscal year 2016, salaries were increased with an overall 3.0% salary pool. The pool included 1.5% to address faculty parity and merit, 2.0% to address exempt staff parity and merit, a 1.5% maintenance of effort increase for faculty, and a 1.0% maintenance of effort increase for exempt staff. Classified staff increases ranged from 1.0% to 2.0% as directed by the State of Colorado.

In addition to salary increases, each year the University assesses human resource allocations and makes targeted investments in positions consistent with the University-wide staffing plan. The annual staffing plan is a position-by-position assessment of the most effective way to accomplish University priorities. Vacant positions may be restructured or eliminated.

Included in the graduate and teaching assistant costs are tuition and fee waivers for graduate students and room and board waivers for resident assistants who live in the residence halls. These amounts increase annually with graduate tuition and fee increases and room and board rate increases. In fiscal years 2018 and 2017, UNC increased the number of graduate assistantships offered to graduate students.

The increase in fringe benefits each year is primarily due to the changes in contribution rates to the Public Employees Retirement Association (PERA) retirement plan as well as retirement contributions to both PERA and the Optional Retirement Plan (ORP) on higher salary levels.

The statutory employer contribution was 10.15% for fiscal years 2018, 2017, and 2016 and is expected to increase to 10.4% in July 2019. The Amortization Equalization Disbursement (AED) and the Supplemental Amortization Equalization Disbursement (SAED) percentages are at the maximum of 5.0% for both categories. Fiscal year 2018 was the first year AED and SAED were at 5.0% for the full year.

The change in the net pension liability resulted in an additional \$41.9, \$37.7, and \$3.7 million of non-cash accounting-only benefit expense in fiscal years 2018, 2017, and 2016, respectively. Pursuant to generally accepted accounting principles, the University recognizes a proportionate share of the State Division Trust Fund PERA net pension liability with related deferred outflows and inflows of resources. The expense impact of these changes to the Statement of Net Position is recognized in benefits expense.

In calendar year 2016, the underlying actuarial assumptions and estimates of the PERA defined benefit pension plan were changed significantly, including the rate of investment return and the discount rate used with the cash flow modeling. The reduction in the discount rate from 7.50% to 5.26% was the single largest factor that increased the net pension liability from \$10.5 billion to \$18.4 billion as of December 31, 2016. UNC's proportionate share of this liability increased \$96.9 million in fiscal year 2017 and another \$8.3 million in fiscal year 2018. The State Division Trust Fund PERA net pension liability as of December 31, 2017 is \$20.0 billion and UNC's proportionate share is \$239.4 million as of June 30, 2018.

The amortization of this large change in actuarial assumptions and estimates must be expensed over 2.77 years; therefore, UNC had a total of \$49.1 and \$37.7 million in non-cash pension expense in fiscal years 2018 and 2017, respectively. The amortizations of these changes from fiscal year 2017 will likely create large amounts of pension expense in fiscal year 2019 as well. More information related to PERA is in *Note 10: Defined Benefit Pension Plan* and *Note 11: Other PERA Retirement Plans*.

Functional Classification

Functional classification is a method of grouping expenses according to the purpose for which the costs are incurred. The classifications tell why an expense was incurred rather than what was purchased.

Operating Expenses by Functional Classification						
For the Years Ended June 30,						
	2018		2017		2016	
Instruction	\$ 95,536,017	34.8%	\$ 90,159,624	34.5%	\$ 79,311,964	36.9%
Research	4,488,972	1.6%	4,056,537	1.5%	3,218,884	1.5%
Public service	2,003,994	0.7%	1,858,284	0.7%	1,861,304	0.9%
Academic support	26,058,018	9.5%	25,484,300	9.8%	20,548,582	9.6%
Student services	33,574,940	12.2%	32,845,380	12.6%	28,059,534	13.1%
Institutional support	26,912,753	9.8%	25,314,968	9.7%	15,117,300	7.0%
Operation of plant	21,061,371	7.7%	20,100,905	7.7%	10,430,629	4.8%
Scholarships and fellowships	17,499,491	6.4%	13,540,083	5.2%	12,385,714	5.8%
Auxiliary operating expenditures	30,036,439	11.0%	30,365,332	11.6%	26,482,487	12.3%
Depreciation	17,226,655	6.3%	17,396,751	6.7%	17,454,932	8.1%
Total operating expenses	<u>\$ 274,398,650</u>	<u>100.0%</u>	<u>\$261,122,164</u>	<u>100.0%</u>	<u>\$214,871,330</u>	<u>100.0%</u>

There were increases in most of the functional categories, but the impact of GASB 68 and GASB 75 has distorted the University's Operating Expenses by Functional Classification, so the following table is presented with the impact of GASB 68 and GASB 75 removed, so the true changes in expense can be examined:

Operating Expenses by Functional Classification						
(without GASB 68 and GASB 75)						
For the Years Ended June 30,						
	2018		2017		2016	
Instruction	\$ 84,704,710	36.5%	\$ 80,605,146	36.1%	\$ 78,217,972	37.0%
Research	4,266,844	1.8%	3,865,729	1.7%	3,203,497	1.5%
Public service	1,784,262	0.8%	1,660,219	0.7%	1,842,194	0.9%
Academic support	20,455,370	8.8%	20,346,245	9.1%	20,010,610	9.5%
Student services	30,314,050	13.0%	29,878,978	13.4%	27,755,844	13.1%
Institutional support	18,624,700	8.0%	17,823,040	8.0%	14,447,727	6.8%
Operation of plant	11,669,288	5.0%	11,621,056	5.2%	9,693,987	4.6%
Scholarships and fellowships	17,499,491	7.5%	13,540,083	6.1%	12,385,714	5.9%
Auxiliary operating expenditures	25,958,045	11.2%	26,685,703	11.9%	26,132,382	12.4%
Depreciation	17,226,655	7.4%	17,396,751	7.8%	17,454,932	8.3%
Total operating expenses	<u>\$232,503,415</u>	<u>100.0%</u>	<u>\$223,422,950</u>	<u>100.0%</u>	<u>\$211,144,859</u>	<u>100.0%</u>

GASB 68 Functional Expense			
for the Years Ended June 30,			
	2018	2017	2016
Instruction	\$ 10,819,119	\$ 9,554,478	\$ 1,093,992
Research	221,864	190,808	15,387
Public service	219,573	198,065	19,110
Academic support	5,598,829	5,138,055	537,972
Student services	3,258,378	2,966,402	303,690
Institutional support	8,281,618	7,491,928	669,573
Operation of plant	9,384,704	8,479,849	736,642
Auxiliary operating expenditures	4,075,014	3,679,629	350,105
Total non-cash GASB 68 expense	<u>\$ 41,859,099</u>	<u>\$ 37,699,214</u>	<u>\$ 3,726,471</u>

GASB 75 Functional Expense	
for the Year Ended June 30,	
	2018
Instruction	\$ 12,188
Research	264
Public service	159
Academic support	3,819
Student services	2,512
Institutional support	6,435
Operation of plant	7,379
Auxiliary operating expenditures	3,380
Total non-cash GASB 75 expense	<u>\$ 36,136</u>

When looking at expenditures without the impact of GASB 68 and GASB 75, operating expenditures increased \$9.1 million dollars from fiscal year 2017 to fiscal year 2018. The increases were \$4.1 million dollars in wages, \$1.3 million in employee benefits, and \$4.0 million in scholarships, offset by a \$0.1 million decrease in other operating expenditures and a \$0.2 million decrease in depreciation. The wages and benefits increase spanned across all functional categories but was primarily \$2.1 million of faculty salaries in instruction because faculty received 1.0% maintenance of effort increases and a number of faculty positions, which were vacant in fiscal year 2017, were filled in 2018 in all five colleges. Exempt employees received a 1.25% maintenance of effort increase. The single largest increased functional area was academic support where we added some positions for the new student customer service center to be located in the Campus Commons. Also, the increases in exempt salaries in instruction, the operation of plant, and auxiliaries were partially due to the 1.25% increase in pay, but the University also filled positions that were vacant during the previous fiscal year. UNC increased the number of graduate assistantships in fiscal year 2018 by \$0.9 million, and those positions were primarily in instruction and student services. In fiscal year 2018, the AED and SAED contribution rates for PERA were at their maximum rate of 5.0% for the first full fiscal year, contributing to the increase in employee benefits expense, which is also recognized in all the functional categories in a proportional relationship to salaries.

In fiscal year 2018, scholarships increased \$4.0 million dollars. The University enrollment committee has been working with a consultant, Ruffalo Noel Levitz, for several years on a cohort-based scholarship model that distributes financial aid to students throughout all four years of their education, rather than focusing on the freshman year. The University has also expanded some merit scholarships to all four years of the student's education. The need-based financial aid model is based on a matrix of academic preparedness and financial need. The University of Northern Colorado serves a large first-generation student population with high financial need and the institution continues to refine its scholarship modeling to make education accessible and affordable to all of its students.

In fiscal year 2017, UNC management conducted a review of its functional accounting which resulted in some reclassifications of expenditures between instruction, academic support, student services, institutional support, and operation of maintenance and plant. The majority of these changes were in Extended Campus where some expenditures historically charged to instruction or general academic support were changed to student services, institutional support, and the operation of plant. A change was also made to the functional allocation of the employee and dependent tuition waivers, which shifted costs from the other functional areas to institutional support. These changes better reflect the function of these activities in agreement with the definitions outlined in the National Association for College and University Business Officers' Financial Reporting and Accounting Manual.

A matrix in *Note 15: Operating Expenses by Function Compared with Operating Expenses by Natural Classification* demonstrates how much expense by natural classification is included in each functional classification and includes the impact of GASB 68 and GASB 75.

Nonoperating Revenues and Expenses

The nonoperating financial statement line item titled "Federal grants and contracts revenue" is Pell grant revenue, which is the largest portion of nonoperating revenue. Pell increased \$1.9 million in 2018 from 2017 primarily from the increase in the maximum Pell award from \$5,815 to \$5,920, the changed legislation awarding summer Pell, and more eligible students at UNC in fiscal year 2018.

The amount of Pell Grant revenue is based on student need and several other factors set by the federal government. The University Office of Financial Aid works with all eligible students to help them determine if they qualify for this aid. The Department of Education changed legislation to begin awarding Pell for the summer term in late 2017. The financial aid office retroactively awarded approximately \$0.3 million for summer of 2017, which was recognized in revenue in fiscal year 2018.

The University's other nonoperating revenues are made up of investment income and activities that are not earned from the sale of goods and services, such as broadband lease revenue, purchasing card rebate revenue, and utility rebate revenue from the use of the west campus generator. The expenses in this category include the costs of issuing bonds, the refunds of the Federal Capital Contributions required by the Federal Perkins Loan program, and closing costs on the sale of properties.

In nonoperating expenses in fiscal year 2018, the University returned \$0.7 million of Federal Capital Contributions to the Federal Perkins Loan Program in accordance with the annual excess liquid capital calculation due each year. In addition, \$1.2 and \$1.5 million was returned in fiscal years 2017 and 2016, respectively. In fiscal year 2018, UNC also recorded \$4.2 million in expense and a corresponding liability as a future estimate of the return of the remainder of resources originally received from the United States Department of Education to fund the Perkins Loan Program.

In fiscal year 2018, interest expense on capital-related debt decreased \$0.9 million because UNC capitalized interest of the Campus Commons bonds during the construction phase of the building. Bond interest payments increased \$0.4 million, but it was offset by \$1.3 million of capitalized interest.

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

Other Changes

In fiscal year 2018, the University received a total of \$22.2 million in state capital appropriations. This included \$20.8 million for the Campus Commons and \$1.4 million for fire sprinkler upgrades. The University utilized \$4.2 million in donations for capital items including \$3.8 million in donations for the Campus Commons and \$0.4 million for athletics video equipment, library materials, and research equipment.

Other changes in fiscal year 2018 include the sale and leaseback of Foundation Hall. The sales price was \$0.3 million and the book value was \$0.2 million resulting in a gain of \$0.1 million. Foundation Hall was leased back for the period December 20, 2017, to December 31, 2018, for \$50,000. The gain on the sale must be realized over the period of the lease term; therefore, half of the gain was recognized in fiscal year 2018 and the other half will be recognized in fiscal year 2019.

In fiscal year 2017, the University received a total of \$15.2 million in state capital appropriations. This included \$12.1 million for the Campus Commons, \$0.3 million for fire sprinkler upgrades, \$0.4 million for roof replacements, and \$2.4 million for wireless network upgrades. The University utilized \$0.2 million in donations for the Campus Commons and received two collections of albums and diaries for the historical archives.

Other changes in fiscal year 2017 include the gain on the sale of University Apartments. The sale price was \$7.1 million and the book value was \$1.1 million for a gain of \$6.0 million. The transaction included \$0.5 million in closing costs which were recognized as a nonoperating expense.

In fiscal year 2016, the University received \$2.4 million in state capital appropriations for the Campus Commons design, fire sprinkler upgrades, and roof replacements. The University received \$1.1 million in capital grants and gifts for the construction of the Campus Commons, renovations to Gray Hall and a scoreboard for Jackson Field. The total Campus Commons appropriation is \$38.0 million. Construction began in the fall of 2016. The revenue is recognized in the Statement of Revenues, Expenses, and Changes in Net Position as expenditures are incurred rather than when a project is appropriated.

Note 16: Legislative Appropriations provides detailed information on capital appropriations from the State of Colorado.

Economic Outlook

The University's financial (or economic) position is impacted primarily by enrollment, but it is also affected by funding from the state legislature. The combination of tuition, fees, and auxiliary revenue generated from students is 63.7% of the University's operating revenue. The College Opportunity Fund plus the Fee-For-Service contract comprised 19.6% of the University's operating revenues in fiscal year 2018. The University received an increase of \$0.5 million for these state-funded revenues in fiscal year 2018.

The economic outlook from Legislative Council is optimistic. They expect the U.S. and Colorado economies to flourish in the near term citing strong labor markets, improving housing markets, and robust consumer activity. The upswing in energy prices has reignited Colorado's oil and gas industry and has been a boon to the northern region. A portion of the current economic strength is attributable to the Tax Cuts and Jobs Act, which is accelerating short-term growth; however, the Legislative Council economists warn that this may be borrowing against future investment and they expect the economic expansion to taper off through 2020. The Federal Reserve has begun to raise interest rates to curtail inflationary pressures. As interest rates rise, households are expected to increase savings and spend less, which will reduce growth capacity. Increases in interest rates and labor shortages are cyclical events that are expected to emerge over 2019 and 2020.

The University's management will continue to monitor the developments with the Legislative Council forecasts and the Governor's budget proposals for any potential impacts on higher education funding. University management continues to move forward to achieve long-term fiscal sustainability assuming limited state support.

Student Headcount Enrollment				
Fall Final (for Fiscal Year)	Under- Graduate	Graduate	Total	Percent Change
Fall 17 (FY18)	10,092	3,307	13,399	2.4%
Fall 16 (FY17)	10,011	3,076	13,087	7.1%
Fall 15 (FY16)	9,430	2,786	12,216	1.4%
Fall 14 (FY15)	9,469	2,581	12,050	-5.2%
Fall 13 (FY14)	9,947	2,763	12,710	-2.8%

The outlook for fall 2018 is that overall student headcount enrollment will be slightly less than fall 2017 with a decline of 0.8%. At fall 2018 census, the University enrollment was 106 students less than census the previous year. The University is experiencing growth in Extended Campus undergraduate and graduate enrollment which is offsetting the declines in main campus enrollment. Extended Campus offers a variety of undergraduate and graduate degree, certificate, and licensure programs through three sites in Loveland, Denver, Colorado Springs and through UNC Online. Although the University enrollment for new first time students is less than fall 2017, the number of continuing students has increased. The fall to fall persistence of all degree seeking undergraduates from fall 2017 to fall 2018 is 83.2%, which is an improvement of 1.0%.

On July 9, 2018, Andrew Feinstein became UNC's 13th president and brought with him a career-long devotion to teaching and learning, research and scholarship, and student success. President Feinstein joined UNC from San Jose State University, where he served as Provost and Senior Vice President for Academic Affairs.

"I am humbled, honored, and very excited by the opportunity to serve as the next president. I look forward to building on the outstanding reputation of UNC and to leading the campus through the completion of a comprehensive campaign that will provide resources for future generations of UNC Bears. Especially meaningful for me is that I will continue serving a public institution of higher education that recognizes and supports the potential of each student, including many who are first in their families to attend college."

At his State of the University address in September 2018, President Feinstein spoke of the Greeley Normal School's Class of 1910 gift to the University. They had their motto "Rowing, Not Drifting", inscribed on the Horace Mann Gate at the entrance of campus.

He used this motto to help define his vision for honoring and advancing the University's reputation as a respected national leader in educational innovation through increased collaboration and transparency.

As with many campus leaders across the nation, he understands the need to address the issue of student retention and graduation rates. He is dedicated to implementing proven approaches that will help UNC better retain students and make it easier for all students to graduate in less time. In addition, Feinstein is pressing the campus community to be an ever more welcoming and inclusive campus for all students; to narrow, and eventually eliminate, achievement gaps for traditionally underrepresented students; and to become a Hispanic Serving Institution.

Feinstein is steadfast in his belief that as our University moves forward, we must be active in meaningful community engagement. His vision is to focus on the success of every single student, creating lifelong learners who will enter the community as adaptable and culturally adept critical thinkers, as well as effective communicators. These alumni will be "loud and proud" when they tell their UNC story.

In closing, Feinstein said: *"I want us to be rowers, not drifters. I want us to row, together, with purpose – as faculty and staff, as students and community members, as alumni and friends of the University. I want us to seize opportunities and anticipate the rapids."*

MANAGEMENT'S DISCUSSION AND ANALYSIS

For additional information regarding this report please contact:

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FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2018

	University of Northern Colorado	University of Northern Colorado Foundation, Incorporated
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 39,781,605	\$ 2,083,310
Student accounts receivable, net	5,752,210	-
Pledges receivable, net, current portion	-	1,385,161
Other receivables, net	3,571,571	95,136
Investments, current portion	-	2,000,000
Inventories	1,025,428	-
Loans to students, net, current portion	371,065	-
Other assets	746,136	104,961
Total Current Assets	<u>51,248,015</u>	<u>5,668,568</u>
Noncurrent Assets		
Restricted cash and cash equivalents	21,092,553	-
Restricted investments	551,030	-
Pledges receivable, net, noncurrent portion	-	2,234,403
Loans to students, net, noncurrent portion	4,633,357	-
Investments, noncurrent portion	-	125,844,131
Capital assets, net	280,451,539	873,949
Total Noncurrent Assets	<u>306,728,479</u>	<u>128,952,483</u>
TOTAL ASSETS	<u>357,976,494</u>	<u>134,621,051</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	2,608,080	-
Deferred amount on pensions	54,929,065	-
Deferred amount on other post-employment benefits	201,050	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>57,738,195</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	14,547,066	915,890
Unearned revenue	8,431,282	-
Bonds payable, current portion	4,520,000	-
Capital leases payable, current portion	595,508	-
Funds held for the University of Northern Colorado	-	549,879
Perkins liquidation liability, current portion	399,551	-
Other current liabilities	1,875,462	-
Total Current Liabilities	<u>30,368,869</u>	<u>1,465,769</u>
Noncurrent Liabilities		
Unearned revenue	60,000	-
Bonds payable, noncurrent portion	149,468,992	-
Capital leases payable, noncurrent portion	7,380,475	-
Other noncurrent liabilities	64,802	-
Net pension liabilities	239,421,801	-
Net other postemployment benefits liabilities	5,574,596	-
Perkins liquidation liability, noncurrent portion	3,773,935	-
Annuity obligations	-	160,797
Compensated absence liabilities	4,815,917	-
Total Noncurrent Liabilities	<u>410,560,518</u>	<u>160,797</u>
TOTAL LIABILITIES	<u>440,929,387</u>	<u>1,626,566</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on debt refundings	822,333	-
Deferred amount on pensions	19,289,079	-
Deferred amount on other postemployment benefits	342,378	-
Deferred amount on other	37,526	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>20,491,316</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	140,162,416	873,949
Restricted for:		
Nonexpendable		
Scholarships and fellowships	306,155	49,205,954
Academic support	1,400	-
Other	-	40,058,472
Expendable		
Scholarships and fellowships	237,894	4,997,264
Loans	855,118	-
Bond reserve	750,000	-
Other	91,118	26,672,668
Unrestricted	(188,110,115)	11,186,178
TOTAL NET POSITION	<u>\$ (45,706,014)</u>	<u>\$ 132,994,485</u>

See notes to the financial statements

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2017

	University of Northern Colorado	University of Northern Colorado Foundation, Incorporated
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 53,216,795	\$ 4,107,862
Student accounts receivable, net	6,853,821	-
Pledges receivable, net, current portion	-	1,425,223
Other receivables, net	5,271,393	129,343
Investments, current portion	-	2,000,000
Inventories	901,693	-
Loans to students, net, current portion	409,365	-
Other assets	796,489	67,167
Total Current Assets	<u>67,449,556</u>	<u>7,729,595</u>
Noncurrent Assets		
Restricted cash and cash equivalents	28,115,315	-
Restricted investments	1,559,893	-
Pledges receivable, net, noncurrent portion	-	3,549,625
Loans to students, net, noncurrent portion	4,742,932	-
Investments, noncurrent portion	-	110,002,852
Capital assets, net	251,529,733	901,145
Total Noncurrent Assets	<u>285,947,873</u>	<u>114,453,622</u>
TOTAL ASSETS	<u>353,397,429</u>	<u>122,183,217</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refundings	2,831,843	-
Deferred amount on pensions	72,284,159	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>75,116,002</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	18,524,969	816,363
Unearned revenue	8,511,547	-
Bonds payable, current portion	4,335,000	-
Capital leases payable, current portion	900,828	-
Funds held for the University of Northern Colorado	-	576,377
Other current liabilities	1,914,198	-
Total Current Liabilities	<u>34,186,542</u>	<u>1,392,740</u>
Noncurrent Liabilities		
Unearned revenue	90,000	-
Bonds payable, noncurrent portion	154,506,463	-
Capital leases payable, noncurrent portion	7,653,840	-
Other noncurrent liabilities	64,802	-
Net pension liabilities	231,167,892	-
Annuity obligations	-	125,165
Compensated absence liabilities	4,652,566	-
Total Noncurrent Liabilities	<u>398,135,563</u>	<u>125,165</u>
TOTAL LIABILITIES	<u>432,322,105</u>	<u>1,517,905</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amount on debt refundings	859,854	-
Deferred amount on pensions	3,038,983	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,898,837</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	113,419,470	901,145
Restricted for:		
Nonexpendable		
Scholarships and fellowships	306,155	45,895,901
Academic support	1,400	-
Other	-	38,782,406
Expendable		
Scholarships and fellowships	264,553	4,917,710
Loans	6,222,832	-
Bond reserve	750,000	-
Other	121,486	19,793,504
Unrestricted	<u>(128,793,407)</u>	<u>10,374,646</u>
TOTAL NET POSITION	<u>\$ (7,707,511)</u>	<u>\$ 120,665,312</u>

See notes to the financial statements

FINANCIAL STATEMENTS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2018

	University of Northern Colorado	University of Northern Colorado Foundation, Incorporated
Operating Revenues		
Student tuition and fees, net	\$ 112,140,222	\$ -
Contributions	-	8,591,913
Contributed services and donations of property	-	9,374,935
Federal grants and contracts	6,104,048	-
State and local grants and contracts	7,991,588	-
State Fee-For-Service contract	24,101,529	-
Nongovernmental grants and contracts	8,900,643	-
Sales and services of educational activities	385,959	-
Auxiliary operating revenue	32,253,460	-
Interest and dividends	-	2,087,877
Net realized and unrealized gain (loss)	-	7,401,954
Other operating revenue	10,499,926	185,838
Total Operating Revenues	<u>202,377,375</u>	<u>27,642,517</u>
Operating Expenses		
Educational and general		
Instruction	95,536,017	-
Research	4,488,972	-
Public service	2,003,994	-
Academic support	26,058,018	-
Student services	33,574,940	-
Institutional support	26,912,753	-
Operation of plant	21,061,371	-
Scholarships and fellowships	17,499,491	-
Program	-	14,463,357
Management and general	-	806,279
Fundraising	-	-
Pledges receivable write off	-	43,708
Auxiliary operating expenditures	30,036,439	-
Depreciation	17,226,655	-
Total Operating Expenses	<u>274,398,650</u>	<u>15,313,344</u>
Operating Income (Loss)	<u>(72,021,275)</u>	<u>12,329,173</u>
Nonoperating Revenues (Expenses)		
Investment income, net of investment expense	498,878	-
Interest on capital asset related debt	(4,679,924)	-
Federal grants and contracts revenue	14,365,442	-
Perkins return of federal loan program contributions (expense)	(4,899,338)	-
Other nonoperating revenue (expense)	807,891	-
Net Nonoperating Revenues (Expenses)	<u>6,092,949</u>	<u>-</u>
Income (Loss) Before Other Revenues (Expenses) or Gains (Losses)	<u>(65,928,326)</u>	<u>12,329,173</u>
Capital appropriations	22,227,857	-
Capital grants and gifts	4,217,216	-
Student capital fee revenue	7,127,013	-
Gain (Loss) on disposal of capital assets	37,525	-
Total Other Changes	<u>33,609,611</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(32,318,715)</u>	<u>12,329,173</u>
Net Position		
Beginning of year, as previously reported	(7,707,511)	120,665,312
Prior period adjustment from change in accounting principle	(5,679,788)	-
Net Position, beginning of year, as restated	<u>(13,387,299)</u>	<u>120,665,312</u>
Net Position, End of Year	<u>\$ (45,706,014)</u>	<u>\$ 132,994,485</u>

See notes to the financial statements

FINANCIAL STATEMENTS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017, AS RECLASSIFIED

	University of Northern Colorado	University of Northern Colorado Foundation, Incorporated
Operating Revenues		
Student tuition and fees, net	\$ 107,439,706	\$ -
Contributions	-	5,736,387
Contributed services	-	75,521
Federal grants and contracts	6,461,404	-
State and local grants and contracts	7,888,001	-
State Fee-For-Service contract	24,298,624	-
Nongovernmental grants and contracts	8,018,831	-
Sales and services of educational activities	364,316	-
Auxiliary operating revenue	32,507,550	-
Interest and dividends	-	1,954,570
Net realized and unrealized gain (loss)	-	9,891,331
Other operating revenue	10,217,363	403,296
Total Operating Revenues	<u>197,195,795</u>	<u>18,061,105</u>
Operating Expenses		
Educational and general		
Instruction	90,159,624	-
Research	4,056,537	-
Public service	1,858,284	-
Academic support	25,484,300	-
Student services	32,845,380	-
Institutional support	25,314,968	-
Operation of plant	20,100,905	-
Scholarships and fellowships	13,540,083	-
Program	-	9,664,369
Management and general	-	777,725
Fundraising	-	56,134
Pledges receivable write off	-	290,452
Auxiliary operating expenditures	30,365,332	-
Depreciation	17,396,751	-
Total Operating Expenses	<u>261,122,164</u>	<u>10,788,680</u>
Operating Income (Loss)	<u>(63,926,369)</u>	<u>7,272,425</u>
Nonoperating Revenues (Expenses)		
Investment income, net of investment expense	476,990	-
Interest on capital asset related debt	(5,618,012)	-
Federal grants and contracts revenue	12,430,273	-
Perkins return of federal loan program contributions (expense)	(1,172,253)	-
Other nonoperating revenue (expense)	616,378	-
Net Nonoperating Revenues (Expenses)	<u>6,733,376</u>	<u>-</u>
Income (Loss) Before Other Revenues (Expenses) or Gains (Losses)	<u>(57,192,993)</u>	<u>7,272,425</u>
Capital appropriations	15,242,549	-
Capital grants and gifts	269,694	-
Student capital fee revenue	5,926,231	-
Gain (Loss) on disposal of capital assets	5,984,610	-
Total Other Changes	<u>27,423,084</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(29,769,909)</u>	<u>7,272,425</u>
Net Position, Beginning of Year	<u>22,062,398</u>	<u>113,392,887</u>
Net Position, End of Year	<u>\$ (7,707,511)</u>	<u>\$ 120,665,312</u>

See notes to the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017, as reclassified</u>
Operating Activities		
<u>Cash Received</u>		
Tuition and fees	\$ 113,212,470	\$ 107,028,065
State Fee-For-Service contract	24,101,529	28,393,986
Sales and services of educational activities	41,958	108,664
Sales and services of auxiliary activities	32,305,562	32,473,061
Grants and contracts	6,556,716	6,185,212
Federal financial aid	682,317	682,180
State financial aid	7,062,458	7,526,981
UNC Foundation grants	799,206	690,154
UNC Foundation gifts	3,330,421	2,900,471
UNC Foundation scholarships	4,410,762	4,243,388
Other receipts	10,812,252	10,601,132
Student loans collected	1,038,392	898,156
<u>Cash Payments</u>		
Payments to or for employees	(155,459,915)	(144,800,363)
Payments to suppliers	(46,336,756)	(45,253,699)
Scholarships disbursed	(17,499,491)	(13,540,083)
Student loans disbursed	(926,450)	(556,363)
Net cash provided (used) by operating activities	<u>(15,868,569)</u>	<u>(2,419,058)</u>
Noncapital Financing Activities		
Federal Pell grant nonoperating funds	14,365,442	12,430,273
Other nonoperating revenues (expenses) - rental, lease, other	82,027	152,651
Agency inflows - campus organizations and scholarships	10,845,852	10,524,583
Agency outflows - campus organizations and scholarships	(10,834,114)	(10,505,015)
Agency inflows - student loans	81,378,097	79,578,238
Agency outflows - student loans	(81,378,097)	(79,578,238)
Net cash provided (used) by noncapital financing activities	<u>14,459,207</u>	<u>12,602,492</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(44,402,202)	(25,575,180)
Net proceeds from disposal of capital assets	248,776	6,585,067
Proceeds from state capital appropriations	24,157,525	13,312,880
Proceeds from UNC Foundation for capital gifts	4,217,216	220,498
Proceeds from Student Capital Fee	7,127,013	5,926,231
Proceeds from 2016 bonds issued	-	27,558,906
Proceeds from energy performance capital lease	-	-
Bond refinancing costs paid	-	(193,592)
Principal paid on bonds payable	(4,335,000)	(4,175,000)
Principal paid on capital leases	(976,179)	(1,655,526)
Interest paid on capital debt	(6,593,481)	(6,097,337)
Net cash provided (used) by capital and related financing activities	<u>(20,556,332)</u>	<u>15,906,947</u>
Investing Activities		
Investment and utilization of proceeds in escrow for energy performance capital lease	1,008,864	7,891,269
Investment earnings (loss)	498,878	476,990
Net cash provided (used) by investing activities	<u>1,507,742</u>	<u>8,368,259</u>
Increase (Decrease) in Cash and Cash Equivalents	(20,457,952)	34,458,640
Cash and Cash Equivalents, Beginning of Year	81,332,110	46,873,470
Cash and Cash Equivalents, End of Year	\$ 60,874,158	\$ 81,332,110

See notes to the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2018</u>	<u>2017, as reclassified</u>
Reconciliation of Net Operating Income(Loss) to Net Cash Provided		
(Used) by Operating Activities		
Operating income (loss)	\$ (72,021,275)	\$ (63,926,369)
Depreciation expense	17,226,655	17,396,751
Changes in the net pension liability and related deferred outflows and inflows	41,895,236	37,699,214
Student loan cancellations	63,312	64,230
Changes in operating assets and liabilities		
Student accounts receivable, net	1,101,610	(684,146)
Other receivables, net	(154,994)	2,814,108
Inventories	84,563	333,672
Loans to students, net	(123,734)	94,838
Other current assets	50,353	(20,099)
Accounts payable	(198,690)	589,486
Accrued payroll	(3,720,316)	1,724,502
Unearned revenues	(80,265)	1,183,858
Other current liabilities	(196,533)	97,921
Accrued compensated absences	205,509	212,976
Net cash provided (used) by operating activities	<u>\$ (15,868,569)</u>	<u>\$ (2,419,058)</u>
Reconciliation of Cash and Cash Equivalents to the		
Statement of Net Position		
Cash and cash equivalents	\$ 39,781,605	\$ 53,216,795
Restricted cash and cash equivalents	21,092,553	28,115,315
Total cash and cash equivalents	<u>\$ 60,874,158</u>	<u>\$ 81,332,110</u>

See notes to the financial statements

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

Nature of Operations and Governance

The University of Northern Colorado (the University or UNC) is a public institution of higher education offering a broad general curriculum, along with preparation for selected professions within the fields of business, education, health services, and music. UNC also offers programs for pre-professions such as pre-law, pre-medicine, and others. The University is an institution of the State of Colorado with operations funded largely through student tuition, fees, and the State of Colorado College Opportunity Fund. As an institution of the State of Colorado, the University's operations and activities are funded in part through Fee-For-Service contracts with the State.

The University also engages in research, offers student financial aid, and provides other services which are funded through grants and contracts, including grants from the University of Northern Colorado Foundation, Incorporated.

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

Reporting Entity and Component Units

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

The financial statements present the University (the primary government) and its discretely presented component unit in accordance with generally accepted accounting principles in the United States of America. The component unit is included in the University's reporting entity because of the significance of its operational and financial relationships with the University, in accordance with Statement No. 61 of the Governmental Accounting Standards Board (GASB), The Financial Reporting Entity. Financial statements of the discretely presented component unit can be obtained from its administrative office. The University has the University of Northern Colorado Foundation, Incorporated (the Foundation) as a discretely presented component unit.

The University of Northern Colorado Foundation, Incorporated

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

Recently Issued Accounting Pronouncements for the University of Northern Colorado Foundation, Incorporated

In August 2016, the FASB issued ASU No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendment applies to all not-for-profit entities. The amendment reduces the classes of net assets to net assets with donor restrictions and net assets without donor restrictions; removed the reconciliation of cash flows to the indirect method if using the direct method; requires the reporting of investment returns, net of expenses, with no disclosure of netted expenses required; requires the use, in the absence of explicit donor stipulations, of the placed-in-service approach for reporting expirations of restrictions on cash or other asset donations; and requires disclosure of expenses by both their natural and functional classification on the face of the statement of activities, as a separate statement, or in the notes to the financial statements. In addition, the amendment provides enhanced disclosures on amounts and purposes of board designations and appropriations, composition of net assets with donor restrictions, discussion of liquidity for the year following year-end, discussion of liquidity of financial assets at year-end, methodology used to allocate costs between program and support functions, and underwater endowment funds. The amendment is effective for all fiscal years beginning after December 15, 2017 (fiscal 2019 for the Foundation). Entities should apply the amendment in this update retrospectively to all periods presented. The Foundation is currently evaluating the impact of the pending adoption of this new standard on its financial statements.

Basis of Accounting and Presentation

The basic financial statements of the University have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues from exchange transactions are recognized when earned and expenses from exchange transactions are recorded when an obligation is incurred. All significant intra-agency transactions are eliminated. The University prepares its financial statements as a business-type activity in conformity with all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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

Reclassification

In fiscal year 2018, the University reclassified the presentation of student capital fees from tuition and fees to the nonoperating section of the Statement of Revenues, Expenses, and Changes in Net Position. The prior year financial statements have been reclassified for comparative purposes.

Change in Accounting Principle

In fiscal year 2018, the Government Accounting Standards Board (GASB) required the implementation of *Statement No. 75, Accounting and Financial Reporting for Postemployment benefits other than Pensions* (GASB 75, or OPEB). This new standard requires a significant change in accounting for the Public Employees' Retirement Association of Colorado (PERA) Health Care Trust Fund (HCTF). PERA is a cost-sharing multiple employer defined benefit pension plan (the Plan) that provides postemployment retirement benefits through the Health Care Trust Fund. Under GASB 75, the University is required to recognize a liability for its proportionate share of the HCTF's underfunded status in the same manner as it is required to recognize the proportionate share of the PERA underfunded net pension liability under *GASB 68: Accounting and Financial Reporting of Pension*.

The University has reported the cumulative effect of the adoption of this new accounting principle as a \$5.7 million reduction of previously reported Net Position on the Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2018.

Unrestricted Cash and Cash Equivalents

For purposes of reporting cash flows, the University defines cash and cash equivalents as cash on hand, demand deposit accounts with financial institutions, pooled cash with the State Treasury, and all highly liquid investments with original maturities of three months or less. As of June 30, 2018, cash equivalents consisted primarily of funds invested through the State Treasury cash management program.

Restricted Cash and Cash Equivalents

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. For the University, restricted cash and cash equivalents include amounts restricted by bond covenants, as well as unspent bond proceeds from the issuance of bonds that are to fund future costs of construction.

Investments and Investment Income

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

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

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

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also 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 grants and contracts. Accounts receivable is recorded net of estimated uncollectible amounts.

Inventories

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

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was \$2,201,157 and \$2,482,651 as of June 30, 2018, and 2017, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. The University’s capitalization policy includes items with a value of \$10,000 or more and an estimated useful life greater than one year.

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

Total interest is presented in the following table:

University Interest Capitalized and Expensed	2018	2017
Interest expense capitalized	(1,569,398)	(277,456)
Interest costs incurred for bonds and capital leases	6,249,322	5,895,468
Total interest expense	<u>\$ 4,679,924</u>	<u>\$ 5,618,012</u>

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

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

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

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position contains a separate section for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows and inflows of resources, represent the consumption and acquisition of net position that applies to future periods; therefore, they are not recognized as an outflow or inflow of resources (expense/or deduction to expense) until that time.

Capital Leases Payable

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

Unearned Revenue

The University prorates the summer session revenues on a 50% split between two fiscal years. Tuition, fees and certain auxiliary revenues received before June 30, but determined by this proration to be earned in the following year, are recorded as unearned revenue. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

Classification of Revenues

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

Operating Revenues

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

Nonoperating Revenues

Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income, and other revenue sources that are defined as nonoperating revenues by *GASB 9: Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and *GASB 34: Basic Financial Statements and Management's Discussion and Analysis*.

Pell grants of \$14,365,442 and \$12,430,273 on June 30, 2018, and 2017, respectively, are recorded as nonoperating revenue as defined by the 2007 amendment of the GASB Comprehensive Implementation Guide regarding the nonoperating presentation of Pell grants (Question 7.72.10).

Tax-Exempt Status and Income Taxes

As a Colorado state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, any income unrelated to the exempt purpose of the University is subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code.

The University had no income tax liability related to income generated from activities unrelated to the University's exempt purposes as of June 30, 2018. The liability as of June 30, 2017, was \$9,178. These activities include the taxable portion of sponsorship agreements that are considered advertising by the Internal Revenue Service tax code definitions. It also includes taxable income related to the rental of campus facilities for weddings, conferences, and other activities unrelated to the mission of the institution.

Use of Estimates

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

Compensated Absence Liabilities

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

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

Scholarship Discounts and Allowances

Student tuition, fee revenues, and certain other revenues from students are reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental financial aid programs, are recorded as either operating or nonoperating revenues in the University’s financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded scholarship allowances. The scholarship allowances on tuition and fees and housing were approximately \$39.5 and \$34.8 million for the fiscal years ended June 30, 2018, and 2017, respectively.

Bad Debt Allowance

Bad debt is recorded as a contra-revenue. It is estimated using information about the age of the accounts receivable balance and historical collection rates.

Note 2: Cash and Cash Equivalents

Unrestricted Cash and Cash Equivalents

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

Unrestricted Cash and Cash Equivalents	2018	2017
Cash on hand	\$ 51,600	\$ 53,419
Cash with U.S. financial institutions	4,763,010	18,868,712
Cash with Colorado State Treasury	35,641,041	34,322,029
Unrealized gain (loss) - cash with State Treasury	<u>(674,046)</u>	<u>(27,365)</u>
Total unrestricted cash and cash equivalents	<u>\$ 39,781,605</u>	<u>\$ 53,216,795</u>

Restricted Cash and Cash Equivalents

The University holds restricted cash of \$0.8 million with the State Treasury to meet required bond covenants related to the auxiliary revenue refunding and improvement bonds. The remaining \$20.3 million held by the State Treasury is the unexpended proceeds from the Campus Commons bond issue.

State Treasury Pool

The University deposits the majority of its cash with the Colorado State Treasury as required by Colorado Revised Statutes (C.R.S.). The State Treasury pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Money deposited in the State Treasury is invested until the cash is needed. As of June 30, 2018, the University had total cash on deposit with the State Treasury of \$56.7 million (\$35.6 million unrestricted and \$21.1 million restricted), which represented approximately 0.74% of the total \$7,635.8 million fair value of deposits in the State Treasury Pool (Pool).

On the basis of the University's participation in the Pool, the University reports an increase or decrease in cash for its share of the Treasury's unrealized gains and losses on the Pool's underlying investments. The State Treasury does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on investments of the State Treasury pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2018.

Custodial Credit Risk – Cash and Cash Equivalents

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

As of June 30, 2018, all of the cash and cash equivalents held by the State Treasury and U.S. financial institutions were therefore not subject to custodial credit risk. The State Treasury Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2018.

Interest Rate Risk

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of the investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the pool.

The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings.

Credit Quality Risk

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations from the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government.

Note 3: Investments

University of Northern Colorado

The University's investments on June 30, 2018, include certain endowments held at the Foundation which are restricted by the donors. In fiscal year 2016, the \$8.9 million of proceeds from the energy performance capital lease was invested with the escrow agent, BOKF, N.A. in the Cavanal Hill U.S. Treasury Fund, which is a money market portfolio of U.S. Government Obligations. These investments were subject to Colorado Revised Statutes Title 15, Article 1, Part 11 "Uniform Prudent Management of Institutional Funds Act" or UPMIFA.

Fair value of investments held on June 30 are detailed in the table below:

Investment Types	2018	2017	Maturity
Fixed Income U.S. Government Obligations	\$ 401,460	\$ 414,913	1-5 years
Fixed Income U.S. Government Obligations	100,568	126,045	Less than 1 year
Money Market Funds - Capital lease escrow	-	985,012	N/A
Money Market Funds	49,002	33,923	N/A
Total University restricted investments	<u>\$ 551,030</u>	<u>\$ 1,559,893</u>	

Fair Value Measurements

GASB 72: Fair Value Measurement and Application, sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's data.

When available, quoted prices are used to determine fair value by the University. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The University Level 1 investments primarily consist of investments in mutual funds and cash equivalents, which are classified as Level 1. The University's fixed income obligations are classified as Level 2.

The University investment custodians generally use a multi-dimensional relational model when determining the value of fixed-income securities (Level 2). Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads, and benchmark securities, among others.

Custodial Credit Risk – Investments

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

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

Interest Rate Risk – Investments

Interest rate risk is the risk that changes if the market rate of interest will adversely affect the value of an investment. Interest rate risk applies only to debt investments. Interest rate risk can be controlled by managing the duration to effective maturity and/or the weighted-average maturity of the investments.

The duration method uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The weighted-average maturity method measures the time to maturity in years weighted to reflect the dollar size of the individual investments within an investment type.

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

Credit Quality Risk

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

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

Maturities and credit ratings for the University's investments held as of June 30 are detailed below:

Maturities and Credit Ratings by Investment Type	2018			
	Fair Value	Duration to Maturity	Weighted - Average	S&P Credit Rating
U.S. Government Obligations	\$ 502,028	2.30 yrs	2.41 yrs	AA+
Money Market Funds	49,002	N/A	N/A	N/A
Total University investments as of June 30	<u>\$ 551,030</u>			

Maturities and Credit Ratings	2017			
	Fair Value	Duration to	Weighted -	S&P Credit
U.S. Government Obligations	\$ 540,958	2.40 yrs	2.52 yrs	AA+
Money Market Funds - Capital lease escrow	985,012	N/A	N/A	N/A
Money Market Funds	33,923	N/A	N/A	N/A
Total University investments as of June 30	<u>\$ 1,559,893</u>			

University of Northern Colorado Foundation

Fair Value of Financial Instruments

The carrying amount reported on the Foundation's Statement of Financial Position for cash and cash equivalents, accounts payable and accrued expenses, and certain other liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The following methods and assumptions were used by the Foundation in estimating the fair value of its other financial instruments:

Pledges – The fair value of pledges is determined by discounting multi-year pledges to net present value using a discount rate commensurate with the payment terms of the pledge. The Foundation also takes into consideration past collection experience and other relevant factors.

Beneficial interest in long-term trusts held by others – The fair value of the beneficial interest in long-term trusts held by others is determined by the fair value of the underlying investments held by the third-party trustees, less the net present value of future cash outflows to lifetime recipients.

Life insurance policies – The fair value of life insurance policies is based upon the estimated cash surrender value of the underlying insurance policy.

Obligations under gift annuity agreements – The fair value of obligations under gift annuity agreements is based upon the payments to be made over the estimated remaining lives of the income beneficiaries and is discounted to present value using discount rates ranging from 2.4% to 5.8%.

Assets held for others – The fair value of assets held for others is determined by the fair value of the underlying investments held by the Foundation, which are securities valued as described on the next page.

Investments – The Foundation values its investments at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy prioritizes observable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted in active markets but are corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest level priority to Level 3 inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2, and 3) are intended to reflect the observability of inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The following is a description of the valuation methodologies used for assets measured at fair value:

Equity securities and mutual funds (cash, equities, fixed income, commodities) – Valued at the closing price as reported on the active market on which the individual securities or funds are traded.

Fixed income (bond funds or individual bonds) – Valued based on yields currently available on comparable securities of the issuer or other issuers with similar credit ratings.

Student-managed funds – These funds are managed by students through a class offered at the University. It comprises equity securities, mutual funds, and individual bonds, which are valued as described above.

Beneficial interest in long-term trusts held by others – Valued based on the underlying investments held by the trusts, less the net present value of future cash outflows to lifetime recipients.

Alternative Investments: low correlated hedge, real estate, illiquid credit, and private equity – Valued at net asset value (NAV) of the limited partnership investments as provided by the investment manager. The definition of NAV includes an ownership interest in partners' capital to which a proportionate share of the investment's net assets is attributed. The NAV is used as a practical expedient to estimate fair value.

There were no changes to the valuation techniques used during the period.

The UNC Foundation's investments held as of June 30 are detailed below:

University of Northern Colorado Foundation Summary of Investments as of June 30,		
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 4,141,838	\$ 390,986
Equities	52,241,087	47,995,736
Fixed income	15,441,557	19,619,610
Alternative investments	24,070,050	21,849,037
Other	22,589,599	22,147,483
Total Foundation investments	<u>\$ 118,484,131</u>	<u>\$ 112,002,852</u>

The UNC Foundation's investments by level as of June 30 are detailed below:

University of Northern Colorado Foundation Investments by Level as of June 30, 2018				
<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Cash equivalent mutual funds	\$ 4,141,838	\$ -	\$ -	\$ 4,141,838
Equities				
Large cap	21,167,660	-	-	21,167,660
International	15,711,065	-	-	15,711,065
Small/mid cap	9,846,028	-	-	9,846,028
Emerging markets	5,516,334	-	-	5,516,334
Fixed income				
Floating rate corp loans	6,015,244	-	-	6,015,244
Domestic	8,856,439	-	-	8,856,439
High yield	-	18,844	-	18,844
Opportunistic	-	551,030	-	551,030
Student-managed funds	-	2,646,488	-	2,646,488
Stock/bond mixed mutual funds	980,365	-	-	980,365
Alternative investments				
Master limited partnerships	7,284,634	-	-	7,284,634
Real estate	2,547,332	-	-	2,547,332
Total Investments	<u>82,066,939</u>	<u>3,216,362</u>	<u>-</u>	<u>85,283,301</u>
Beneficial interest in long-term trusts held by others	-	-	8,130,780	8,130,780
Alternative investments measured at NAV	-	-	-	24,070,050
Total	<u>\$ 82,066,939</u>	<u>\$ 3,216,362</u>	<u>\$ 8,130,780</u>	<u>\$ 117,484,131</u>

In addition to the investments valued at fair value on a recurring basis, the University of Northern Colorado Foundation, Incorporated, holds another limited partnership investment valued on a non-recurring basis at a value of \$1,000,000 as of June 30, 2018. This investment cannot be redeemed by the Foundation. The value of the investment in this category is based on the initial partnership contribution.

University of Northern Colorado Foundation				
Investments by Level				
as of June 30, 2017				
Description	Level 1	Level 2	Level 3	Total
Investments				
Cash equivalent mutual funds	\$ 390,986	\$ -	\$ -	\$ 390,986
Equities				
Large cap	20,400,840	-	-	20,400,840
International	12,996,075	-	-	12,996,075
Small/mid cap	9,011,113	-	-	9,011,113
Emerging markets	5,587,708	-	-	5,587,708
Fixed income				
Floating rate corp loans	8,343,340	-	-	8,343,340
Domestic	7,670,285	-	-	7,670,285
High yield	-	3,031,104	-	3,031,104
Opportunistic	-	574,881	-	574,881
Student-managed funds	-	2,555,542	-	2,555,542
Stock/bond mixed mutual funds	971,189	-	-	971,189
Alternative investments				
Limited partnerships	5,395,964	-	-	5,395,964
Commodities	3,732,740	-	-	3,732,740
Other equities	1,001,165	-	-	1,001,165
Total Investments	<u>75,501,405</u>	<u>6,161,527</u>	<u>-</u>	<u>81,662,932</u>
Beneficial interest in long-term trusts held by others	-	-	7,490,883	7,490,883
Alternative investments measured at NAV	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,849,037</u>
Total	<u>\$ 75,501,405</u>	<u>\$ 6,161,527</u>	<u>\$ 7,490,883</u>	<u>\$ 111,002,852</u>

In addition to the investments valued at fair value on a recurring basis, the University of Northern Colorado Foundation, Incorporated, holds another limited partnership investment valued on a non-recurring basis at a value of \$1,000,000 as of June 30, 2017. This investment cannot be redeemed by the Foundation. The value of the investment in this category is based on the initial partnership contribution.

Net investment earnings consist of the following for the years ended June 30,

University of Northern Colorado Foundation		
Investment Earnings		
as of June 30,		
	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 2,087,877	\$ 1,954,570
Realized and unrealized gains (losses) on investments, net of taxes	7,103,378	9,534,760
Less investment management fees	<u>(337,685)</u>	<u>(323,338)</u>
	<u>\$ 8,853,570</u>	<u>\$11,165,992</u>

The following are reconciliations of the beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ending June 30, 2018 and 2017:

University of Northern Colorado Foundation		
Level 3 Investment Changes		
as of June 30,		
Beneficial Interest in Long-Term Trusts Held by Others		
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 7,490,883	\$ 6,796,726
Net investment income (loss)	<u>639,897</u>	<u>694,157</u>
	<u>\$ 8,130,780</u>	<u>\$ 7,490,883</u>

The following tables include information on investments in certain entities that calculate net asset value:

University of Northern Colorado Foundation				
Investments in Certain Entities that Calculate Net Asset Value				
as of June 30, 2018				
<u>Fund Description</u>	<u>Fair Value</u>	<u>Unfunded</u>	<u>Redemption Frequency</u>	<u>Redemption</u>
Low correlated hedge	\$ 6,119,913	\$ -	Monthly, quarterly, semi-annually*	60-100 days
Low correlated hedge	10,442,913	-	Quarterly, semi-annually*	95 days, annual one-year lock up
Illiquid credit	1,998,781	1,252,668	Upon fund termination	N/A
Private equity	3,477,013	736,346	Upon fund termination	N/A
Real estate	<u>2,031,430</u>	<u>1,604,334</u>	Upon fund termination	N/A
Total	<u>\$24,070,050</u>	<u>\$ 3,593,348</u>		
*Subject to restrictions				

University of Northern Colorado Foundation				
Investments in Certain Entities that Calculate Net Asset Value				
as of June 30, 2017				
<u>Fund Description</u>	<u>Fair Value</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Low correlated hedge	\$ 5,662,335	\$ -	Monthly, quarterly, semi-annually*	60-100 days
Low correlated hedge	9,790,649	-	Quarterly, semi-annually*	95 days, annual one-year lock up
Private equity	2,194,558	1,268,068	Upon fund termination	N/A
Private equity	1,323,406	736,347	Upon fund termination	N/A
Real estate	<u>2,878,089</u>	<u>1,898,078</u>	Upon fund termination	N/A
Total	<u>\$21,849,037</u>	<u>\$ 3,902,493</u>		
*Subject to restrictions				

Note 4: Accounts, Contributions, and Loans Receivable

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

<u>Accounts, Contributions, and Loans Receivable</u>	<u>2018</u>	<u>2017</u>
Student accounts receivable - current	\$ 17,551,268	\$ 17,434,642
Allowance for doubtful accounts	(11,799,058)	(10,580,821)
Subtotal student accounts receivable - net	<u>5,752,210</u>	<u>6,853,821</u>
Student loans receivable - current	1,942,177	2,291,690
Allowance for doubtful accounts	(1,571,112)	(1,882,325)
Subtotal student loans receivable - net	<u>371,065</u>	<u>409,365</u>
Student loans receivable - noncurrent	5,263,402	5,343,258
Allowance for doubtful accounts	(630,045)	(600,326)
Subtotal noncurrent student loans receivable - net	<u>4,633,357</u>	<u>4,742,932</u>
Other receivables - current		
Sponsored programs - federal grants receivable	333,354	574,657
Sponsored programs - nonfederal grants receivable	60,106	18,729
Student loans program - federal loans receivable	167,172	167,172
Accounts receivable related party - the Foundation	917,688	815,527
Accounts receivable - State of Colorado	-	1,929,669
Other accounts receivable	2,093,251	1,765,639
Subtotal other receivables - current	<u>3,571,571</u>	<u>5,271,393</u>
Total University accounts, loans & other receivables	<u>\$ 14,328,203</u>	<u>\$ 17,277,511</u>

Related Party Receivable

Gifts and grants receivable from the Foundation to the University were \$0.9 million as of June 30, 2018, and \$0.8 million as of June 30, 2017.

Foundation Contributions and Pledges Receivable

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

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the net present value of estimated future cash flows. The discounted rate used in this calculation is the five-year U.S. Treasury Constant Maturities rate as of June 30 of the fiscal year in which the commitment was made. An allowance for uncollectible contributions is established by Foundation management based on management's analysis of specific pledge receivables.

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

Note 5: Other Assets

Inventories and other current and noncurrent assets are shown as of June 30:

Other Assets	2018	2017
The University		
Inventories for supply use	\$ 878,273	\$ 759,767
Inventories for resale	147,155	141,926
Total inventories	1,025,428	901,693
Prepaid expenses	746,136	796,489
Total other current assets	746,136	796,489
The Foundation		
Prepaid expenses and other current assets	\$ 104,961	\$ 67,167

Note 6: Capital Assets

On December 19, 2017, the University entered into a sale-leaseback transaction on Foundation Hall. The sales price, net of concessions, was \$250,000 and the property had a book value of \$174,949, resulting in a gain on the sale of \$75,051. The transaction included closing costs of \$1,224, netting the University \$248,776 in cash at closing. Foundation Hall was leased back from December 20, 2017 to December 20, 2018 for \$50,000; therefore, the gain on the sale must be recognized over the term of the lease, with half, \$37,525 in fiscal year 2018 and the rest in fiscal year 2019.

On February 15, 2017, the University sold University Apartments, a 98 unit student housing complex. The sales price was \$7,100,000 and the property had a book value of \$1,103,702 resulting in a gain on the sale of \$5,996,298. The sales transaction included closing costs of \$514,933, netting the University \$6,585,067 in cash.

NOTES TO THE FINANCIAL STATEMENTS

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

Capital Assets and Accumulated Depreciation	Beginning Balance	2018			Ending Balance
		Additions	Disposals	Transfers	
Capital Assets					
Land	\$ 10,270,198	\$ -	\$ (39,120)	\$ -	\$ 10,231,078
Land improvements	21,946,348	-	-	-	21,946,348
Non-depreciable land improvements	4,264,026	-	-	-	4,264,026
Buildings and improvements	393,300,491	-	(678,121)	6,799,093	399,421,463
Equipment and vehicles	25,655,416	744,041	(45,000)	36,492	26,390,949
Software	2,966,374	397,495	-	-	3,363,869
Library materials	46,481,650	2,185,251	(243,577)	-	48,423,324
Non-depreciable art/historical	1,774,684	-	-	-	1,774,684
Leasehold improvements	1,059,732	-	-	-	1,059,732
Construction in progress	35,022,119	42,972,703	23,921	(6,835,585)	71,183,158
Total capital assets	<u>542,741,038</u>	<u>46,299,490</u>	<u>(981,897)</u>	<u>-</u>	<u>588,058,631</u>
Less accumulated depreciation					
Land improvements	14,017,245	912,363	-	-	14,929,608
Buildings and improvements	218,176,253	12,363,964	(542,291)	-	229,997,926
Equipment and vehicles	17,612,973	2,085,824	(45,000)	-	19,653,797
Software	2,964,375	68,248	-	-	3,032,623
Library materials	37,485,348	1,739,824	(243,577)	-	38,981,595
Leasehold improvements	955,111	56,432	-	-	1,011,543
Total accumulated depreciation	<u>291,211,305</u>	<u>17,226,655</u>	<u>(830,868)</u>	<u>-</u>	<u>307,607,092</u>
Net capital assets	<u>\$ 251,529,733</u>	<u>\$ 29,072,835</u>	<u>\$ (151,029)</u>	<u>\$ -</u>	<u>\$ 280,451,539</u>

Capital Assets and Accumulated Depreciation	Beginning Balance	2017			Ending Balance
		Additions	Disposals	Transfers	
Capital Assets					
Land	\$ 10,270,198	\$ -	\$ -	\$ -	\$ 10,270,198
Land improvements	22,009,755	-	(252,904)	189,497	21,946,348
Non-depreciable land improvements	4,264,026	-	-	-	4,264,026
Buildings and improvements	395,134,891	6,600	(3,938,105)	2,097,105	393,300,491
Equipment and vehicles	25,030,632	637,768	(12,984)	-	25,655,416
Software	2,972,869	-	(6,495)	-	2,966,374
Library materials	44,851,834	2,108,865	(479,049)	-	46,481,650
Non-depreciable art/historical	1,725,488	49,196	-	-	1,774,684
Leasehold improvements	1,059,732	-	-	-	1,059,732
Construction in progress	14,209,318	23,099,403	-	(2,286,602)	35,022,119
Total capital assets	<u>521,528,743</u>	<u>25,901,832</u>	<u>(4,689,537)</u>	<u>-</u>	<u>542,741,038</u>
Less accumulated depreciation					
Land improvements	13,316,697	855,086	(154,538)	-	14,017,245
Buildings and improvements	208,464,692	12,638,705	(2,927,144)	-	218,176,253
Equipment and vehicles	15,496,310	2,124,453	(7,790)	-	17,612,973
Software	2,961,026	4,648	(1,299)	-	2,964,375
Library materials	36,251,298	1,713,099	(479,049)	-	37,485,348
Leasehold improvements	898,678	56,433	-	-	955,111
Total accumulated depreciation	<u>277,388,701</u>	<u>17,392,424</u>	<u>(3,569,820)</u>	<u>-</u>	<u>291,211,305</u>
Net capital assets	<u>\$ 244,140,042</u>	<u>\$ 8,509,408</u>	<u>\$ (1,119,717)</u>	<u>\$ -</u>	<u>\$ 251,529,733</u>

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

Foundation Capital Assets	2018	2017
Capital assets		
Buildings and improvements	\$ 1,288,888	\$ 1,279,878
Equipment and vehicles	84,658	93,647
Total capital assets	<u>1,373,546</u>	<u>1,373,525</u>
Less accumulated depreciation	<u>(499,597)</u>	<u>(472,380)</u>
Net investment in capital assets	<u>\$ 873,949</u>	<u>\$ 901,145</u>

Note 7: Liabilities and Unearned Revenue

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

The University Liabilities and Unearned Revenue	2018	2017
Accounts payable and accrued liabilities		
Accounts payable	\$ 4,866,586	\$ 3,789,463
Accrued salaries and benefits	6,836,741	13,251,384
Accrued interest expense	486,178	499,107
Retainage payable and other liabilities	2,357,561	985,015
Total accounts payable and accrued liabilities	<u>14,547,066</u>	<u>18,524,969</u>
Current unearned revenue		
Summer tuition and other activities	7,320,068	7,676,870
Restricted grants and contracts	854,477	385,056
Auxiliary and housing	239,137	430,735
Broadband lease	17,600	18,886
Total current unearned revenue	<u>8,431,282</u>	<u>8,511,547</u>
Other current liabilities		
Deposits held	1,056,304	1,168,421
Insurance liability	77,554	134,584
Deposits held in custody for agency funds	288,014	199,760
Compensated absences liability	453,590	411,433
Perkins liquidation liability	399,551	-
Subtotal other current liabilities	<u>2,275,013</u>	<u>1,914,198</u>
Other noncurrent liabilities		
Unearned revenue	60,000	90,000
Long-term deposit liabilities held	64,802	64,802
Compensated absences liability	4,815,917	4,652,566
Net pension liability	239,421,801	231,167,892
Other postemployment benefits liability	5,574,596	-
Perkins liquidation liability	3,773,935	-
Subtotal other noncurrent liabilities	<u>253,711,051</u>	<u>235,975,260</u>
Bonds, capital leases and notes payable		
Current bonds and capital leases	5,115,508	5,235,828
Noncurrent bonds and capital leases	156,849,467	162,160,303
Total bonds, capital leases and notes payable	<u>161,964,975</u>	<u>167,396,131</u>
Total liabilities and unearned revenue	<u>\$ 440,929,387</u>	<u>\$ 432,322,105</u>

Effective October 1, 2017, the United States Department of Education (DOED) did not renew the Federal Perkins Loan Program. As a result, after a brief transition period, no new loans can be disbursed to students. The current guidance provided by the DOED stipulates that as cash is collected by the University from loans disbursed prior to October 1, 2017, such funds are to be remitted back to DOED on a proportional basis (the Perkins program was originally funded by DOED with a small percentage matched by the University). Given this recent guidance, the University has determined that it is probable that DOED, as the provider of the original resource, will require the University to return all of the resources originally received under this program. At the time of the receipt of the resources, the University recorded nonexchange revenues, and thereby, the balance of the resources provided by DOED resided in the University's net position.

Pursuant to the guidance provided by GASB 33: *Accounting and Financial Reporting of Nonexchange Transactions*, and based on the University's estimate that the return of these resources is probable, an expense and corresponding liability of \$4,173,486 has been recorded in the fiscal year ended June 30, 2018, on the University's financial statements. The expense on the Statement of Revenues, Expenses, and Changes in Net Position also includes \$725,852 for the return of excess capital paid in fiscal year 2018.

The University recorded a net OPEB liability of \$5,574,596 with the implementation of GASB 75: *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* in fiscal year 2018. More information is available in *Note 13: Other Postemployment Benefits*.

The Foundation – Liabilities and Unearned Revenue

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

<u>The Foundation Liabilities and Unearned Revenue</u>	<u>2018</u>	<u>2017</u>
Accounts payable and accrued liabilities	\$ 915,890	\$ 816,363
Funds held for the University	549,879	576,377
Annuity obligations	160,797	125,165
Total liabilities and unearned revenue	<u>\$ 1,626,566</u>	<u>\$ 1,517,905</u>

Charitable Gift Annuity Obligations

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

<u>Charitable Gift and Annuity Contracts</u>	<u>2018</u>	<u>2017</u>
Assets held under gift contracts	\$ 254,174	\$ 179,263
Less associated liabilities	(160,797)	(125,165)
Present value of assets held under contracts	<u>\$ 93,377</u>	<u>\$ 54,098</u>

Note 8: Bonds and Capital Leases Payable

Bonds and Capital Leases Payable

The following table provides a summary of bonds and capital leases payable as of June 30:

Bonds and Capital Leases Payable Summary	Interest Rates	Final Maturity	Balance 2018	Balance 2017
Fixed rate bonds	2.0% - 5.0%	2046	\$ 127,215,000	\$ 130,865,000
Fixed rate - unamortized premiums			9,413,992	9,931,463
Total fixed rate bonds			<u>136,628,992</u>	<u>140,796,463</u>
Variable rate bonds	1.435% ¹ -2.669% ²	2036	17,360,000	18,045,000
Capital leases payable	2.69%-3.93%	2031	7,975,983	8,554,668
Total bonds and capital leases payable			<u>\$ 161,964,975</u>	<u>\$ 167,396,131</u>

¹ as of 6/30/2017
² as of 6/30/2018

The interest rate on the Series 2011B variable rate demand bonds is calculated monthly based on 70% of the one month London Interbank Offered Rate (LIBOR) that is published two business days prior to the reset date plus a spread factor of 0.90. The interest rate on the Series 2011B as of June 30, 2018, was 2.669%. The 2011B bond issue documents utilize a projected annual interest rate of 3.5%.

Changes in Bonds and Capital Leases Payable

The table below presents the summary of changes in bonds and capital leases payable for the fiscal year ended June 30:

Changes in Bonds and Capital Leases Payable	2018			Ending Balance	Current Portion
	Beginning Balance	Additions	Deductions		
Bonds payable	\$ 148,910,000	\$ -	\$ 4,335,000	\$ 144,575,000	\$ 4,520,000
Plus unamortized premiums	9,931,463	-	517,471	9,413,992	-
Total revenue bonds payable	158,841,463	-	4,852,471	153,988,992	4,520,000
Capital leases payable	8,554,668	397,494	976,179	7,975,983	595,508
Total bonds and capital leases payable	<u>\$ 167,396,131</u>	<u>\$ 397,494</u>	<u>\$ 5,828,650</u>	<u>\$ 161,964,975</u>	<u>\$ 5,115,508</u>

Changes in Bonds and Capital Leases Payable	2017			Ending Balance	Current Portion
	Beginning Balance	Additions	Deductions		
Bonds payable	\$ 129,615,000	\$ 23,470,000	\$ 4,175,000	\$ 148,910,000	\$ 4,335,000
Plus unamortized premiums	6,314,086	4,088,906	471,529	9,931,463	-
Total revenue bonds payable	135,929,086	27,558,906	4,646,529	158,841,463	4,335,000
Capital leases payable	10,210,194	-	1,655,526	8,554,668	900,828
Total bonds and capital leases payable	<u>\$ 146,139,280</u>	<u>\$ 27,558,906</u>	<u>\$ 6,302,055</u>	<u>\$ 167,396,131</u>	<u>\$ 5,235,828</u>

Revenue and Refunding Bonds

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2018, are detailed in the table "Revenue Bond Detail". The fixed rate revenue bonds interest is payable semi-annually and principal payments are paid annually (Series 2008, 2011A, 2014A, 2015A, and 2016A). The variable rate demand bond interest is paid monthly and the principal is remitted annually (Series 2011B). The bonds are not secured by any encumbrance, mortgage, or other pledge of property, except pledged revenues.

Bond provisions require the University to maintain compliance with certain rate covenants related to the bonds. The Master Enterprise Bond Resolution authorizing the issuance of Institutional Enterprise Revenue Bonds, and adopted by the University's Board of Trustees, specifies debt service coverage requirements. The debt service coverage provisions require net pledged revenues to be equal to the combined principal and interest payments of the revenue bonds due during any subsequent fiscal year for the life of the associated revenue bonds. These debt service requirements are detailed in the table "Total Debt Service Requirements" in this footnote.

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

The 2008 Bonds payable are secured by a first lien, but not necessarily an exclusive first lien, derived from 10% of gross general fund tuition revenues, net student fee revenues, and net auxiliary facility system revenues.

The 2011A, 2011B, 2014A, 2015A, and 2016A bonds are also secured by a pledge of the revenues derived from net Extended Campus revenues and gross facility and administrative indirect cost recoveries. The University has pledged these revenues through 2046 to repay \$144,575,000 in outstanding revenue bonds plus interest. As of June 30, total pledged revenue and the associated debt service coverage are summarized in the table below:

Net Pledged Revenue Available for Revenue Bond Debt Service	2018	2017
Gross auxiliary facility and student fee revenues	\$ 54,607,583	\$ 53,454,337
Less auxiliary facility and student fee operating expenses	31,468,933	32,560,916
Net auxiliary and student fee facility revenue	23,138,650	20,893,421
Other pledged tuition and revenue		
10% of tuition revenue	8,159,304	7,856,700
Indirect cost recoveries	625,586	666,891
Extended campus net revenue	10,418,081	9,640,373
Subtotal other pledged tuition and revenue	19,202,971	18,163,964
Total Net Pledged Revenue	\$ 42,341,621	\$ 39,057,385
Net prior bonds debt service (2008 bonds)	641,306	638,744
Series 2011A, 2011B, 2014A, 2015A and 2016A	10,314,556	9,818,593
Total Net Debt Service	\$ 10,955,862	\$ 10,457,337
Prior debt service coverage (2008 bonds)	48.8x	45.01x
2011A, 2011B, 2014A, 2015A and 2016A bond debt service coverage	4.04x	3.91x
Total net debt service as a percentage of gross auxiliary facilities and student fee revenues	20.1%	19.6%
Total net debt service as a percentage of total net pledged revenues	25.9%	26.8%

Revenue Bond Activity

On November 9, 2016, University of Northern Colorado Board of Trustees issued \$23,470,000 in fixed rate Institutional Enterprise Revenue Bonds, Series 2016A, at a \$4,088,906 premium for total proceeds of \$27,558,906. The coupon rates of the bonds range from 3% - 5% with maturities of principal starting in 2020 and ending in 2046. The proceeds of \$27,365,314 are for the construction of the Campus Commons, while the remaining \$193,592 represents the cost of issuance.

On May 31, 2018, Moody's Investors Service assigned the University an "A3" underlying with a stable outlook on the outstanding Series 2011A, Series 2014A, Series 2015A, Series 2016A, and Series 2018 bonds, and assigned an "Aa2" enhanced rating with a stable outlook to the University's outstanding fixed-rate bonds and for the Series 2018B bonds (see *Footnote 20: Subsequent Events* for more information about the Series 2018 bond issues.

The downgrade to "A3" cited the University's cash flow and debt service coverage, and declining liquidity which is constraining the University's ability to restore reserves. The enhanced rating outlook, based on the University's participation in the Colorado Higher Education Revenue Bond Intercept Program, remains at "Aa2" with a stable outlook, which is based on the State of Colorado's current "Aa1" rating and outlook. When a University qualifies to issue bonds under the state intercept program, the bonds are additionally secured by the State with a provision that the State Treasurer will pay the principal and interest on the revenue bonds if the institution of higher education is unable to make the payment on the due date.

On April 20, 2018, Standard and Poor's assigned the University an underlying rating of "A-" with a stable outlook and an enhanced rating of "AA-" with a negative outlook, citing operating deficits, declining liquidity, and weak fundraising history relative to the University's peers. This is offset by the positives of FTE enrollment increases, experienced and stable management, and a manageable debt burden. The long-term rating of "AA-/Negative" is based on the University's participation in the Colorado Higher Education Revenue Bond Intercept Program. Standard and Poor's has assigned these ratings to the Series 2011A and 2014A fixed-rate bonds.

On July 1, 2011, the University issued at par \$21,130,000 Series 2011B Variable Rate Demand Institutional Enterprise Revenue Refunding Bonds for the purpose of currently refunding \$22,975,000 of the outstanding Series 2001A Colorado Educational and Cultural Facilities Authority, Student Housing LLC I, Revenue Bonds (Arlington Park). Principal maturities began June 1, 2013, and continue through June 1, 2036.

On June 30, 2017, the University entered into an agreement with Wells Fargo Bank, N.A., to continue holding 100% of the Series 2011B Bonds for another term of 18 months, ending December 31, 2018. The agreement states that the bonds have to be redeemed in full on the first anniversary of the purchase date, which is December 31, 2019. The agreement was for the \$18,045,000 of principal that remained outstanding as of June 30, 2017. The schedule of principal maturities remained the same and will continue through June 1, 2036. The Series 2011B and 2008 bonds were refinanced on July 18, 2018, to two fixed rate issues. More information is included in *Note 20: Subsequent Events*.

The interest rate on the Series 2011B variable rate demand bonds is calculated monthly based on 70% of the one month London Interbank Offered Rate (LIBOR) that is published two business days prior to the reset date plus a spread factor of 0.90. This spread factor is subject to the maintenance of the current ratings assigned by Moody's and Standard & Poor's to the long-term, unenhanced Parity Bonds of the Board. In the event of a change in this credit rating, the applicable spread shall increase by the table set forth in the Article I Section 1.01(c)(a) of the First Supplement and Amendment to the Second Supplemental Resolution.

NOTES TO THE FINANCIAL STATEMENTS

The interest rate on the Series 2011B as of June 30, 2018, was 2.669% and 1.435%, as of June 30, 2017. The 2011B bond issue documents utilize a projected annual interest rate of 3.5%.

Revenue Bond Detail	Original Issuance	Outstanding Balance 2018	Outstanding Balance 2017
<u>Fixed Rate Revenue Bonds</u>			
Series 2008 3.25%-5.00%, Auxiliary Revenue Refunding Bonds, issued May 22, 2008, in the original amount of \$9,145,000, and maturing in varying amounts through June 1, 2024.	\$ 9,145,000	\$ 3,330,000	\$ 3,815,000
Series 2011A 2.00%-5.00% Auxiliary Facilities System Revenue Refunding Bonds issued July 1, 2011, in the original amount of \$41,690,000 and maturing in varying amounts through June 1, 2031.	41,690,000	32,145,000	33,630,000
Series 2014A 2.00%-5.00% Institutional Enterprise Revenue Refunding Bonds, issued April 2, 2014, in the original amount of \$52,465,000 and maturing in varying amounts through June 1, 2035. Proceeds from the sale of these bonds were used to advance refund a portion of the Auxiliary Facilities System Revenue Refunding and Improvement Bonds, Series 2005.	52,465,000	46,760,000	48,440,000
Series 2015A 4.00%-5.00% Institutional Enterprise Revenue Refunding Bonds, issued June 3, 2015, in the original amount of \$21,510,000 and maturing in varying amounts from June 1, 2036 to June 1, 2040. Proceeds from the sale of these bonds were used to refund the unrefunded portion of the Auxiliary Facilities System Revenue Refunding and Improvement Bonds, Series 2005.	21,510,000	21,510,000	21,510,000
Series 2016A 3.00%-5.00% Institutional Enterprise Revenue Refunding Bonds, issued November 9, 2016, in the original amount of \$23,470,000 and maturing in varying amounts from June 1, 2020 to June 1, 2046. Proceeds from the sale of these bonds are being used to fund the construction of Campus Commons building.	23,470,000	23,470,000	23,470,000
Total Fixed Rate Revenue Bonds	148,280,000	127,215,000	130,865,000
Add unamortized premium		9,413,992	9,931,463
Total Outstanding Fixed Rate Revenue Bonds Payable	<u>\$148,280,000</u>	<u>\$ 136,628,992</u>	<u>\$140,796,463</u>
<u>Variable Rate Revenue Bonds</u>			
Series 2011B Variable Rate Demand Institutional Enterprise Revenue Refunding Bonds. Issued July 1, 2011, in the original amount of \$21,130,000 and maturing June 1, 2036. These bonds are held by Wells Fargo Bank, NA and are payable upon demand after December 31, 2019. These bonds refunded all of the outstanding Colorado Educational and Cultural Facilities Authority, Student Housing LLC Revenue Bonds (Arlington Park).	\$ 21,130,000	\$ 17,360,000	\$ 18,045,000
Total Outstanding Variable Rate Revenue Bonds	21,130,000	17,360,000	18,045,000
Total bonds before premium, discount and deferred amounts	169,410,000	144,575,000	148,910,000
Add total unamortized premium		9,413,992	9,931,463
Total Outstanding Revenue Bonds Payable	<u>\$169,410,000</u>	<u>\$ 153,988,992</u>	<u>\$158,841,463</u>

Debt Service Requirements on Revenue Bonds

The future minimum revenue bonds debt service requirements as of June 30 are reported in the tables below:

Fixed Rate Bonds Debt Service Requirements			
Year Ending June 30	Principal	Interest	Total
2019	3,810,000	5,834,138	9,644,138
2020	4,425,000	5,670,988	10,095,988
2021	4,580,000	5,510,188	10,090,188
2022	4,800,000	5,296,088	10,096,088
2023	5,020,000	5,070,831	10,090,831
2024-2028	29,005,000	21,483,594	50,488,594
2029-2033	29,975,000	14,011,031	43,986,031
2034-2038	26,135,000	7,920,225	34,055,225
2039-2043	15,115,000	2,597,300	17,712,300
2044-2046	4,350,000	442,000	4,792,000
Total	\$ 127,215,000	\$ 73,836,383	\$ 201,051,383

Variable Rate Bonds Debt Service Requirements			
Year Ending June 30	Principal	Interest	Total
2019	710,000	463,344	1,173,344
2020	735,000	444,393	1,179,393
2021	760,000	424,776	1,184,776
2022	785,000	404,491	1,189,491
2023	815,000	383,540	1,198,540
2024-2028	4,510,000	1,576,596	6,086,596
2029-2033	5,360,000	930,691	6,290,691
2034-2036	3,685,000	198,976	3,883,976
Total	\$17,360,000	\$4,826,807	\$ 22,186,807

The University calculates the interest for the 2011B variable rate bonds using a rate of 2.669% in effect on June 30, 2018, the financial statement date. The stated interest rate is 3.5%.

Total Debt Service Requirements			
Year Ending June 30	Principal	Interest	Total
2019	4,520,000	6,297,482	10,817,482
2020	5,160,000	6,115,381	11,275,381
2021	5,340,000	5,934,964	11,274,964
2022	5,585,000	5,700,579	11,285,579
2023	5,835,000	5,454,371	11,289,371
2024-2028	33,515,000	23,060,190	56,575,190
2029-2033	35,335,000	14,941,722	50,276,722
2034-2038	29,820,000	8,119,201	37,939,201
2039-2043	15,115,000	2,597,300	17,712,300
2044-2046	4,350,000	442,000	4,792,000
Total	\$ 144,575,000	\$ 78,663,190	223,238,190

Capital Lease Obligations

Assets under capital leases at June 30, 2018, include equipment totaling \$7,975,983. These agreements provide that any obligations payable after the current fiscal year are contingent upon funds for that purpose being available.

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

Capital Lease Minimum Payments

<u>Fiscal Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 595,508	\$ 208,160	\$ 803,668
2020	611,691	191,977	803,668
2021	628,315	175,353	803,668
2022	645,390	158,278	803,668
2023	576,929	140,739	717,668
2024-2028	3,129,062	459,278	3,588,340
2029-2031	1,789,088	64,887	1,853,975
<u>Total</u>	<u>\$7,975,983</u>	<u>\$1,398,672</u>	<u>\$ 9,374,655</u>

Note 9: Operating Leases

The University leases property and equipment under operating leases expiring in various years through 2028. Rental expense under these agreements for the year ended June 30, 2018, was \$1,719,855. The University's future minimum lease payments under non-cancelable operating leases as of June 30 are detailed below:

<u>Fiscal Years Ending June 30,</u>	<u>Lease Payments</u>
2019	\$ 1,681,880
2020	713,469
2021	143,133
2022	118,897
2023	105,303
2024-2028	262,620
<u>Total</u>	<u>\$ 3,025,302</u>

Note 10: Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions

University of Northern Colorado participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SDTF for financial reporting purposes be measured using the Plan provision in effect as of the SDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled Changes between the measurement date of the net pension liability and June 30, 2018.

General Information about the Pension Plan

Plan description

Eligible employees of the University of Northern Colorado are provided with pensions through the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2017

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases, the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers, waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained, and the benefit structure under which contributions were made.

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure, who began eligible employment before January 1, 2007, receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure, who began eligible employment after January 1, 2007, receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions as of June 30, 2018

Eligible employees and the University of Northern Colorado are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees, with the exception of State Troopers, are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

	As of June 30, 2018
Employer Contribution Rate ¹	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S., Section 24-51-208(1)(f) ¹	-1.02%
Amount Apportioned to the SDTF	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S., Section 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	5.00%
Total Employer Contribution Rate to the SDTF¹	19.13%

¹ Rates are expressed as a percentage of salary as defined in C.R.S., § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University of Northern Colorado is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the University of Northern Colorado were \$6,654,918 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

On June 30, 2018, the University of Northern Colorado reported a liability of \$239,421,801 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The University of Northern Colorado's proportion of the net pension liability was based on its contributions to the SDTF for the calendar year 2017 relative to the total contributions of participating employers to the SDTF.

At December 31, 2017, the University of Northern Colorado proportion was 1.20 percent, which was a decrease of 0.060 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the University of Northern Colorado recognized pension expense of \$48,515,741 (\$6.6 million of payroll contributions and \$41.9 million of amortizations and accruals related to net pension liability). On June 30, 2018, the University of Northern Colorado reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,763,873	\$ -
Changes of assumptions or other inputs	42,843,172	-
Net difference between projected and actual earnings on pension plan investments	5,018,516	13,707,244
Change in Proportionate Share	-	5,553,086
Difference in Total Employer Contribution and Proportionate Share Contribution	-	28,749
Contributions subsequent to the measurement date	3,303,504	-
Total	\$ 54,929,065	\$ 19,289,079

The amount of \$3,303,504 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2019	\$ 34,042,606
2020	5,066,394
2021	(3,345,707)
2022	(3,426,811)
2023	-
Thereafter	-

Actuarial assumptions

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial Cost Method	Entry Age
Price Inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50-9.17%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	5.26%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%
PERA benefit structure hired after 12/31/06; (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016 Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25 percent.

Discount rate

The discount rate used to measure the total pension liability was 4.72 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50 percent.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the Plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The Annual Increase Reserve (AIR) balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the Plan’s fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the Plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SDTF’s fiduciary net position was projected to be depleted in 2038 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent higher compared to the current measurement date.

Sensitivity of the University of Northern Colorado’s proportionate share of the net pension liability to changes in the discount rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.72 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.72 percent) or 1-percentage-point higher (5.72 percent) than the current rate:

	1% Decrease (3.72%)	Current Discount Rate (4.72%)	1% Increase (5.72%)
Proportionate share of the net pension liability	297,857,912	239,421,801	191,449,334

Pension plan fiduciary net position

Detailed information about the SDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan

The University of Northern Colorado did not report payables to the SDTF as of June 30, 2018.

Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019, and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

On June 30, 2018, the University of Northern Colorado reported a liability of \$239,421,801 for its proportionate share of the net pension liability which was measured using the Plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the University of Northern Colorado's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience, and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	113,532,167

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$106,840,418 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

Note 11: Other PERA Retirement Plans

Defined Contribution Retirement Plan (DC Plan)

Plan Description

Employees of the State of Colorado that were hired on or after January 1, 2006, and employees of certain community colleges that were hired on or after January 1, 2008, which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). SB 18-200 expands eligibility to participate in the PERA DC Plan to new employees hired on or after January 1, 2019, who are classified college and university employees in the State Division.

The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions to the PERA Board of Trustees. The DC Plan is also included in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable salary on behalf of these employees. Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

	As of June 30, 2018
Amortization Equalization Disbursement (AED) as specified in C.R.S., § 24-51-411 ¹	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., § 24-51-411 ¹	5.00%
Total Employer Contribution Rate for AED and SAED¹	10.00%

¹ Rates are expressed as a percentage of salary as defined in C.R.S., § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense. Participating employees in the PERA DC Plan contributed \$11,411,000 and the State of Colorado recognized pension contributions of \$14,309,000 for the PERA DC Plan.

Voluntary Investment Program (401(k) Defined Contribution Plan)

Plan Description

Employees of the University of Northern Colorado that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report which includes additional information on the Voluntary Investment Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions.

457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. On July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the Plan participants. In calendar year 2017, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,500. Participants who are age 50 and older, and contributing the maximum amount allowable were allowed to make an additional \$6,000 contribution in 2017. Special 457(b) catch-up contributions allow a participant for three years prior to the normal retirement age to contribute the lesser of (1) Twice the annual limit (\$37,000 in 2015, 2016, and 2017), or (2) The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contributions). Contributions and earnings are tax deferred. On December 31, 2017, the Plan had 18,211 participants.

Note 12: University Retirement Plans

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

The ORP is a defined contribution plan with three vendors: MetLife, TIAA-CREF, and VALIC. These vendors provide a range of investment accounts for participants. For fiscal year 2018, the employee contributed 8 percent and the University contributed 11.5 percent. The University's contributions to the ORP were \$7,143,495 in fiscal year 2018 and \$6,721,859 in fiscal year 2017. All contributions are immediately invested in the employee's account. Normal retirement age for the ORP is 65. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

The University provides a 403(b) deferred compensation plan to the University President and the Vice President for Finance and Administration, Chief Financial Officer. The Board of Trustees approved a contribution of \$54,500 for fiscal year 2018 for the President. The Chief Financial Officer was paid a one-time deferred compensation payment of \$24,000 in fiscal year 2017.

Note 13: Other Postemployment Benefits (OPEB)

OPEB

The University of Northern Colorado participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

Eligible employees of the University of Northern Colorado are provided with OPEB through the HCTF, a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA Benefit Structure

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions

Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the University of Northern Colorado is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the University were \$351,740 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

On June 30, 2018, the University of Northern Colorado reported a liability of \$5,574,596 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The University of Northern Colorado's proportion of the net OPEB liability was based on the University of Northern Colorado's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

As of December 31, 2017, the University of Northern Colorado's proportion was 0.43 percent, which was a decrease of 0.02 percent from its proportion measured as of December 31, 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2018, the University of Northern Colorado recognized OPEB expense of \$387,876. On June 30, 2018, the University of Northern Colorado reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 26,365	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	93,263
Change in Proportionate Share	-	247,808
Difference in Total Employer Contribution and Proportionate Share Contribution	-	1,307
Contributions subsequent to the measurement date	174,685	-
Total	\$ 201,050	\$ 342,378

\$174,685 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	
2019	\$ (67,078)
2020	(67,078)
2021	(67,078)
2022	(67,078)
2023	(43,762)
Thereafter	(3,939)

Actuarial assumptions

The total OPEB liability in the December 31, 2016, actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial Cost Method	Entry Age
Price Inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.5% in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	5.00%
Medicare Part A premiums	3% for 2017, gradually rising to 4.25% in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00%
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage was revised to reflect more closely actual experience.

- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent adoption of the long-term expected rate of return by the PERA Board, the target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Sensitivity of the University of Northern Colorado’s proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$5,421,217	\$5,574,596	\$5,759,331

Discount rate

The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the Plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF’s fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

Sensitivity of the University of Northern Colorado’s proportionate share of the net OPEB liability to changes in the discount rate.

The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	6,267,598	5,574,596	4,983,099

OPEB plan fiduciary net position.

Detailed information about the HCTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Note 14: Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position contains separate sections for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements represent the consumption or availability of net position that applies to future periods; therefore, it will not be recognized as an outflow or inflow until that time. Deferred outflows, when amortized over the allowable period, increase expense while deferred inflows decrease expense.

Deferred inflows and outflows result from deferred amounts on refunding bonds and transactions related to the University of Northern Colorado share of the Colorado Public Employees’ Retirement Association (PERA) net pension liability. Additional information on the University’s debt portfolio can be found in *Note 8: Bonds and Capital Leases Payable*. Additional information related to the PERA pension plan and related net pension liability can be found in *Note 10: Defined Benefit Pension Plan*.

The deferred amounts from refunding bond issues result from the difference in the carrying value of the refunded debt and its reacquisition price. These amounts are deferred and amortized over the life of the refunding debt. The following schedules outline the deferred outflows and deferred inflows of resources related to University of Northern Colorado’s debt refunding activity:

2018							
Deferred Amounts on Debt Refundings							
Issue	Year of Maturity	Description	Original Deferred Amount on Refunding	Original Amortization Period in Years	Remaining Amortization Period in Years	Deferred Amount Remaining at June 30	Current Fiscal Year Amortization Expense
Deferred outflows of resources							
Series 2008	2024	Refunding of Series 1998	\$ 213,110	16	6	\$ 79,500	\$ 13,250
Series 2011A	2031	Refunding Series 1997 and 2001	1,795,766	20	13	966,631	118,448
Series 2011B	2036	Refunding of Arlington Park bonds	1,303,400	25	18	923,241	54,308
Series 2014A	2035	Advance refunding of a portion of Series 2005	799,172	21	17	638,708	37,756
Total deferred outflows of resources			<u>\$ 4,111,448</u>			<u>\$ 2,608,080</u>	<u>\$ 223,762</u>
Deferred inflows of resources							
Series 2015A	2040	Refunding of the remaining balance of Series 2005	(938,023)	25	22	(822,333)	(37,521)
Total deferred inflows of resources			<u>\$ (938,023)</u>			<u>\$ (822,333)</u>	<u>\$ (37,521)</u>
Total expense on Statement of Revenues, Expenses and Changes in Net Position							<u>\$ 186,241</u>

2017							
Deferred Amounts on Debt Refundings							
Issue	Year of Maturity	Description	Original Deferred Amount on Refunding	Original Amortization Period in Years	Remaining Amortization Period in Years	Deferred Amount Remaining at June 30	Current Fiscal Year Amortization Expense
Deferred outflows of resources							
Series 2008	2024	Refunding of Series 1998	\$ 213,110	16	7	\$ 92,750	\$ 13,250
Series 2011A	2031	Refunding Series 1997 and 2001	1,795,766	20	14	1,085,079	118,447
Series 2011B	2036	Refunding of Arlington Park bonds	1,303,400	25	19	977,550	54,308
Series 2014A	2035	Advance refunding of a portion of Series 2005	799,172	21	18	676,464	37,757
Total deferred outflows of resources			<u>\$ 4,111,448</u>			<u>\$ 2,831,843</u>	<u>\$ 223,762</u>
Deferred inflows of resources							
Series 2015A	2040	Refunding of the remaining balance of Series 2005	(938,023)	25	23	(859,854)	(37,521)
Total deferred inflows of resources			<u>\$ (938,023)</u>			<u>\$ (859,854)</u>	<u>\$ (37,521)</u>
Total expense on Statement of Revenues, Expenses and Changes in Net Position							<u>\$ 186,241</u>

The deferred outflows and deferred inflows of resources that are related to the PERA net pension liabilities and the net OPEB liabilities result from circumstances that affect the net pension liability such as:

- Changes in benefit terms
- Changes in economics and demographic assumptions
- Differences between economic and demographic assumptions and actual experience
- Differences between expected and actual investment returns

Deferred outflows and deferred inflows of resources can also result from changes in University of Northern Colorado's proportionate share of the net pension and OPEB liabilities, which is based on University of Northern Colorado's contributions as a percentage of total employer contributions during the measurement period of the Plan.

Deferred inflows of resources or deferred outflows of resources are amortized to expense over a five-year period or the average remaining service period of plan members, which changes annually. The PERA and OPEB net pension liabilities have a measurement date of December 31 annually. Each year the contributions that University of Northern Colorado makes after the Plan measurement date from January 1 to June 30 will be recorded as a deferred outflow of resources and will be recognized as a reduction of the net pension and OPEB liabilities in the following fiscal year. The following is a summary of the deferred outflows and deferred inflows of resources related to University of Northern Colorado's proportionate share of the PERA net pension and net OPEB liabilities:

2018				
Deferred Amounts Related to Net Pension Liability				
Description	Amortization Period	Cumulative Deferred Amount	Deferred Amount Remaining at June 30	Current Fiscal Year Amortization Expense
Deferred outflows of resources				
Pension investment results	Five years	\$ 13,928,306	\$ 5,018,516	\$ 2,785,661
Pension experience results	Service life	10,233,877	3,763,873	3,529,618
Pension changes in assumptions	Service life	119,391,755	42,843,172	43,319,253
Pension contributions after measurement date*	See footnote	-	3,303,504	-
Total deferred outflows of resources		<u>\$ 143,553,938</u>	<u>\$ 54,929,065</u>	<u>\$ 49,634,532</u>
Deferred inflows of resources				
Pension investment results	Five years	\$ (17,134,055)	(13,707,244)	(3,426,811)
Pension experience results	Service life	(14,132)	-	-
Pension changes in assumptions	Service life	(2,457,743)	-	(720,822)
Pension changes in proportionate share	Service life	(16,644,108)	(5,553,086)	(4,836,375)
Pension employer contribution difference	Service life	(117,685)	(28,749)	(31,306)
Total deferred inflows of resources		<u>\$ (36,367,723)</u>	<u>\$ (19,289,079)</u>	<u>\$ (9,015,314)</u>
Total expense on Statement of Revenues, Expenses and Changes in Net Position				<u>\$ 40,619,218</u>

*Deferred outflows of resources originating from pension contributions made after the measurement date (January 1, 2018 to June 30, 2018) will be recognized as a reduction to net pension liability in the following year. Each year the contributions from January 1 to June 30 will be recorded as a deferred outflow of resources.

2017				
Deferred Amounts Related to Net Pension Liability				
Description	Amortization Period	Cumulative Deferred Amount	Deferred Amount Remaining at June 30	Current Fiscal Year Amortization Expense
Deferred outflows of resources				
Pension investment results	Five years	\$ 13,928,306	\$ 7,804,178	\$ 2,785,661
Pension experience results	Service life	5,249,634	2,309,248	1,872,034
Pension changes in assumptions	Service life	92,039,937	58,810,606	33,226,331
Pension contributions after measurement date*	See footnote	-	3,360,127	-
Total deferred outflows of resources		<u>\$ 111,217,877</u>	<u>\$ 72,284,159</u>	<u>\$ 37,884,026</u>
Deferred inflows of resources				
Pension experience results	Service life	\$ (14,132)	-	\$ (4,297)
Pension changes in assumptions	Service life	(2,457,743)	(720,822)	(868,460)
Pension changes in proportionate share	Service life	(8,544,843)	(2,290,197)	(2,836,752)
Pension employer contribution difference	Service life	(85,595)	(27,964)	(57,631)
Total deferred inflows of resources		<u>\$ (11,102,313)</u>	<u>\$ (3,038,983)</u>	<u>\$ (3,767,140)</u>
Total expense on Statement of Revenues, Expenses and Changes in Net Position				<u>\$ 34,116,886</u>

*Deferred outflows of resources originating from pension contributions made after the measurement date (January 1, 2017 to June 30, 2017) will be recognized as a reduction to net pension liability in the following year. Each year the contributions from January 1 to June 30 will be recorded as a deferred outflow of resources.

2018				
Deferred Amounts Related to OPEB				
Description	Amortization Period	Cumulative Deferred Amount	Deferred Amount Remaining at June 30	Current Fiscal Year Amortization Expense
Deferred outflows of resources				
OPEB experience results	Service life	31,545	26,365	5,180
OPEB contributions after measurement date*	See footnote	-	174,685	-
Total deferred outflows of resources		<u>\$ 31,545</u>	<u>\$ 201,050</u>	<u>\$ 5,180</u>
Deferred inflows of resources				
OPEB investment results	Five years	\$ (116,579)	(93,263)	(23,316)
OPEB changes in proportionate share	Service life	(296,493)	(247,808)	(48,685)
OPEB employer contribution difference	Service life	(1,564)	(1,307)	(257)
Total deferred inflows of resources		<u>\$ (414,636)</u>	<u>\$ (342,378)</u>	<u>\$ (72,258)</u>
Total expense on Statement of Revenues, Expenses and Changes in Net Position				<u>\$ (67,078)</u>

*Deferred outflows of resources originating from OPEB made after the measurement date (January 1, 2018 to June 30, 2018) will be recognized as a reduction to OPEB liability in the following year. Each year the contributions from January 1 to June 30 will be recorded as a deferred outflow of resources.

Note 15: Operating Expenses by Function Compared with Operating Expenses by Natural Classification

For the Year Ended June 30, 2018								
	Wages and Benefits	Cost of Sales	Other Current Expenses	Scholarships and Fellowships	Utilities	Travel	Depreciation	Total
Instruction	\$ 88,925,417	\$ 4,876	\$ 5,050,550	\$ -	\$ -	\$1,555,174	\$ -	\$ 95,536,017
Research	2,889,221	-	1,203,316	-	-	396,435	-	4,488,972
Public Service	1,364,794	107,960	498,054	-	321	32,865	-	2,003,994
Academic Support	20,160,908	7,068	5,716,866	-	40	173,136	-	26,058,018
Student Services	22,378,226	106,381	8,128,649	-	238,090	2,723,594	-	33,574,940
Institutional Support	20,564,484	411,371	5,701,831	-	-	235,067	-	26,912,753
Operation of Plant	16,354,147	-	2,247,179	-	2,454,446	5,599	-	21,061,371
Scholarships	-	-	-	17,499,491	-	-	-	17,499,491
Auxiliary	21,155,668	4,005,943	2,546,592	-	2,309,148	19,088	-	30,036,439
Depreciation	-	-	-	-	-	-	17,226,655	17,226,655
Total Operating Expenses	<u>\$193,792,865</u>	<u>\$ 4,643,599</u>	<u>\$ 31,093,037</u>	<u>\$17,499,491</u>	<u>\$5,002,045</u>	<u>\$5,140,958</u>	<u>\$17,226,655</u>	<u>\$274,398,650</u>

For the Year Ended June 30, 2017								
	Wages and Benefits	Cost of Sales	Other Current Expenses	Scholarships and Fellowships	Utilities	Travel	Depreciation	Total
Instruction	\$ 83,858,595	\$ 29,194	\$ 4,582,811	\$ -	\$ -	\$1,689,024	\$ -	\$ 90,159,624
Research	2,772,363	-	925,662	-	-	358,512	-	4,056,537
Public Service	1,192,807	113,769	519,464	-	1,959	30,285	-	1,858,284
Academic Support	18,995,791	17,536	6,236,320	-	69	234,584	-	25,484,300
Student Services	21,975,941	132,411	7,696,360	-	269,165	2,771,503	-	32,845,380
Institutional Support	20,048,907	(127,236)	5,092,307	-	-	300,990	-	25,314,968
Operation of Plant	15,363,023	665	2,154,398	-	2,570,898	11,921	-	20,100,905
Scholarships	-	-	-	13,540,083	-	-	-	13,540,083
Auxiliary	19,951,804	4,720,529	2,971,358	-	2,689,623	32,018	-	30,365,332
Depreciation	-	-	-	-	-	-	17,396,751	17,396,751
Total Operating Expenses	<u>\$184,159,231</u>	<u>\$ 4,886,868</u>	<u>\$ 30,178,680</u>	<u>\$13,540,083</u>	<u>\$5,531,714</u>	<u>\$5,428,837</u>	<u>\$17,396,751</u>	<u>\$261,122,164</u>

Summary of Wages and Benefits

	Wages and Benefits			
	For the Year Ended June 30,			
	2018	2017	2017 to 2018 Change	
			\$ Chg	% Chg
Faculty	\$ 48,335,056	\$ 46,185,324	\$ 2,149,732	4.7%
Administrative	32,150,200	31,140,083	1,010,117	3.2%
Graduate and Teaching Assistants	12,756,222	11,898,910	857,312	7.2%
Classified	18,881,645	19,209,302	(327,657)	-1.7%
Student	7,131,576	6,758,569	373,007	5.5%
Other	977,867	905,622	72,245	8.0%
Subtotal wages	<u>120,232,566</u>	<u>116,097,810</u>	<u>4,134,756</u>	<u>3.6%</u>
Fringe benefits	31,665,064	30,362,207	1,302,857	4.3%
Fringe benefits (GASB 68)	41,859,099	37,699,214	4,159,885	11.0%
Fringe benefits (GASB 75)	36,136	-	36,136	-
Total wages and benefits	<u>\$ 193,792,865</u>	<u>\$ 184,159,231</u>	<u>\$ 9,633,634</u>	<u>5.2%</u>

Note 16: Legislative Appropriations

Appropriated Funds

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill. For the year ended June 30, 2018, the University had a total appropriation of \$39,597,408 and appropriated expenditures were within the authorized spending authority.

The University’s appropriated funds consisted of \$15,495,879 received from students who qualified for stipends from the College Opportunity Fund and \$24,101,529 as Fee-For-Service contract revenue. All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues, and other revenue sources.

State Capital Appropriations

Capital appropriations from the state generally fall into three categories; capital construction, cash-funded appropriated projects, and controlled maintenance. The revenue is recognized in the Statement of Revenues, Expenses, and Changes in Net Position to the extent of expenditures in the current year. UNC recognized \$22,227,857 and \$15,242,549 in capital appropriations revenue in fiscal years 2018 and 2017, respectively.

The following table outlines the projects that are currently appropriated for the University of Northern Colorado, the cumulative amount expended on those projects through June 30, 2018, and the unexpended balance:

		State Capital Appropriations		
		Total	Expended	Balance Remaining
Project	Category	Appropriation	as of 6/30/2018	as of 6/30/2018
Campus Commons	State Appropriation	\$ 38,000,000	\$ 20,800,000	\$ 17,200,000
Campus Commons	State Appropriation	35,533,668	15,057,840	20,475,828
Subtotal Campus Commons		73,533,668	35,857,840	37,675,828
Campus wireless	State Appropriation	2,412,750	-	2,412,750
Butler-Hancock poo	State Appropriation	937,268	-	937,268
Frasier tunnel piping	State Appropriation	339,146	-	339,146
Fire sprinkler-Frasier	State Appropriation	1,611,931	21,587	1,590,344
Fire sprinkler upgrad	State Appropriation	3,198,128	751,403	2,446,725
Fire sprinkler-McKe	State Appropriation	996,364	654,867	341,497
Total		\$ 83,029,255	\$ 37,285,697	\$ 45,743,558
Summary by Category:				
State Appropriation		\$ 40,412,750	\$ 20,800,000	\$ 19,612,750
State Appropriation		35,533,668	15,057,840	20,475,828
State Appropriation		7,082,837	1,427,857	5,654,980
		\$ 83,029,255	\$ 37,285,697	\$ 45,743,558

The Campus Commons broke ground ceremoniously in October 2016, and construction began in November 2016. The building is expected to be completed in spring 2019.

Note 17: Commitments and Contingencies

Government Grants

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

Collateral for State Treasury Certificates of Participation

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

In November 2017, UNC's Board of Trustees approved collateralization of the Jackson Soccer Team building (Current Replacement Value is \$2.8 million) for financing UNC's Senate Bill 17-267 Controlled Maintenance projects. The State Treasury is issuing Certificates of Participation under the Senate bill in late September 2018. UNC has three capital projects approved for \$2.1 million.

Note 18: Risk Management

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

- General liability covered by Philadelphia for an aggregate of \$3,000,000 and per occurrence of \$1,000,000 with no deductible.
- Professional liability covered by Philadelphia for \$3,000,000 with a \$25,000 deductible.

- Automobile liability covered by Philadelphia for \$1,000,000 with no deductible.
- Errors and omissions covered by RSUI Group, Inc. for \$3,000,000 with a \$25,000 deductible.
- Employment practices liability covered by RSUI Group, Inc. for \$3,000,000 with a \$50,000 deductible.
- Workers compensation covered by Pinnacol Assurance for \$500,000/\$500,000/\$500,000 with a \$1,000 deductible.
- Umbrella liability covered by Philadelphia for \$2,000,000 with a self-insured retention of \$10,000.
- Fidelity (employee dishonesty) covered by Travelers for \$3,000,000 with a \$25,000 deductible.
- Other property covered by Midwestern Higher Education Compact for \$500,000,000 with a \$50,000 deductible.

The University became fully insured through several insurance companies in 2006 and is covered by insurance for everything above its reserve and deductible. The coverage in fiscal year 2018 is consistent with previous years and there have been no significant reductions in coverage. There have been no settlements exceeding coverage. The University uses a fringe benefit and risk management fund to pay expenses related to workers compensation and other liability insurance. The University's liability on June 30, 2018, was \$77,554 which represents deductibles based on an analysis of claims.

Note 19: Other Disclosures

Multi-Year Employment Contracts

During 2018, the University had four multi-year employment contracts for athletic coaches. The intent of the multi-year terms (four years) is to allow the coaches sufficient time to recruit and build successful athletic teams. These contracts are subject to termination for just cause and funds availability.

Note 20: Subsequent Events

On July 18, 2018, University of Northern Colorado Board of Trustees issued Institutional Enterprise Revenue Refunding Bonds, Series 2018A for \$7,110,000 par at a premium of \$121,900 and Series 2018B for \$12,020,000 par at a premium of \$1,653,221 for total proceeds of \$20,905,121. Bond proceeds of \$20,712,818 were used to refund the Auxiliary Facilities System Revenue Refunding Bonds, Series 2008, with an outstanding principal balance of \$3,330,000 as of June 30, 2018, and the Variable Rate Demand Institutional Enterprise Revenue Refunding Bonds, Series 2011B, with an outstanding principal balance of \$17,360,000 as of June 30, 2018. The underwriter's discount and cost of issuance for both issues totaled \$192,303. The Series 2018A bonds are not guaranteed by the State Intercept program, have coupon rates of 3.6% to 5.0% and are set to mature on June 1, 2041. The Series 2018B bonds are guaranteed by the State Intercept program, have coupon rates of 4.0% to 5.0%, and are set to mature on June 1, 2036. The bonds were rated prior to the end of the fiscal year; therefore, information about the bond ratings is included in *Note 8: Bonds and Capital Leases Payable*.

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SUPPLEMENTARY INFORMATION

University of Northern Colorado Schedule of Required Supplementary Information June 30, 2018					
Schedule of University's Proportionate Share of PERA Pension Liability*					
Measurement Date*	Proportion of Collective Net Pension Liability (A)	Proportionate Share of Collective Net Pension Liability (B)	Covered Payroll (C)	Proportionate Share (B/C)	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
December 31, 2014	1.32%	\$ 124,356,394	\$ 35,490,833	350.39%	59.84%
December 31, 2015	1.27%	\$ 134,262,416	\$ 35,609,043	377.05%	56.11%
December 31, 2016	1.26%	\$ 231,167,892	\$ 36,078,990	640.73%	42.59%
December 31, 2017	1.20%	\$ 239,421,801	\$ 35,339,262	677.50%	43.20%

Schedule of University's Contributions to PERA Pension*

As of June 30*	Statutorily Required Contributions	Contributions in Relation to Statutorily Required Contributions	Contribution Excess/ (Deficiency)	Covered Payroll	Contributions Recognized as a Percentage of Covered Payroll
2015	\$ 6,451,658	\$ 5,990,532	\$ -	\$35,762,254	16.75%
2016	\$ 6,691,529	\$ 6,286,794	\$ -	\$ 35,566,846	17.68%
2017	\$ 7,047,703	\$ 6,692,426	\$ -	\$ 36,058,201	18.56%
2018	\$ 7,006,658	\$ 6,654,918	\$ -	\$ 35,065,038	18.98%

*GASB Statement No. 68 was implemented during fiscal year 2015. As information becomes available, each subsequent year will be added until a full 10-year trend is compiled.

University of Northern Colorado
 Schedule of Required Supplementary Information
 June 30, 2018

Schedule of University's Proportionate Share of PERA OPEB Liability*

Measurement Date*	Proportion of Collective Net OPEB Liability (A)	Proportionate Share of Collective Net OPEB Liability (B)	Covered Payroll (C)	Proportionate Share (B/C)	Plan's Fiduciary Net Position as a Percentage of Total OPEB Liability
December 31, 2016	0.45%	\$ 5,857,937	\$ 35,675,310	16.42%	16.84%
December 31, 2017	0.43%	\$ 5,574,596	\$ 34,823,924	16.01%	17.53%

Schedule of University's Contributions to PERA OPEB*

As of June 30*	Statutorily Required Contributions	Contributions in Relation to Statutorily Required Contributions	Contribution Excess/ (Deficiency)	Covered Payroll	Contributions Recognized as a Percentage of Covered Payroll
2018	\$ 351,740	\$ 351,740	\$ -	\$ 34,484,267	1.02%

*GASB Statement No. 75 was implemented during fiscal year 2017. As information becomes available, each subsequent year will be added until a full 10-year trend is compiled.



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AS OF JUNE 30, 2018**

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AS OF JUNE 30, 2018**

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**Independent Auditors' Report On
Internal Control Over Financial
Reporting And On Compliance And Other
Matters Based On An Audit Of Financial
Statements Performed In Accordance
With *Government Auditing Standards***

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the University of Northern Colorado (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 7, 2018. Our report includes a reference to other auditors who audited the financial statements of the University of Northern Colorado Foundation (the Foundation) as described in our report on the University's financial statements. The financial statements of the Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance And Other Matters

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

Purpose Of This Report

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

RubinBrown LLP

December 7, 2018

Members of the Legislative Audit Committee
University of Northern Colorado
Greeley, Colorado

We have audited the financial statements of the business-type activities and the aggregate discretely presented component unit of the University of Northern Colorado (the University), an institution of higher education in the State of Colorado, as of and for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in the engagement letter dated May 30, 2018 and in our meeting with University Management and the Office of the State Auditor on May 17, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

During our audit, we did not identify any control deficiencies that are required to be reported to management or those charged with governance.

Qualitative Aspects Of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note 1 to the financial statements.

The University has not adopted any significant new accounting policies in the current year. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 University's financial statements were:

- Management's estimate of the allowance for uncollectible student accounts receivable is based on a review of the aged student accounts receivable and a historical collection percentage of such amounts. We evaluated the key factors and assumptions used to develop management's estimate of the allowance for uncollectible student accounts receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the useful lives of property and equipment is based on the historic economic lives of similar assets. We evaluated the key factors and assumptions used to develop management's estimate of the useful lives of property and equipment in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimates of the net pension liability related to its pension plan and the net liability related to other post-employment benefits are based on actuarial assumptions and other inputs as described in Notes 10 and 13 to the financial statements. We evaluated the key factors and assumptions used to develop the net pension liability and other post-employment benefits liability in determining that they are reasonable in relation to the financial statements taken as a whole.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

- Investments in Note 3 to the financial statements
- Bonds, Capital Leases and Notes Payable in Note 8 to the financial statements
- Defined Benefit Pension Plan in Note 10 to the financial statements

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected And Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified one misstatement during our audit procedures related to the capitalization of construction period interest, which resulted in an overstatement of interest expense and an understatement of construction in progress of approximately \$671,000 as of and for the year ended June 30, 2017. Management has corrected this prior-year misstatement in the current year by capitalizing the aforementioned amount, resulting in an overstatement of \$671,000 in the current-year change in net position. Management has determined that this amount is not material to the users of the financial statements and has accounted for this amount as a prior-period adjustment. There were no corrected or other uncorrected misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We encountered no such disagreements during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2018.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the University's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings Or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the University's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Audits Of Group Financial Statements

We noted no matters related to the group audit that we consider to be significant to the responsibilities of those charged with the governance of the group.

Quality Of Component Auditor's Work

There were no instances in which our evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work.

Other Matters

With respect to the required supplementary information (the RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We applied certain limited procedures to management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, schedule of the University contributions to the pension, the University's proportionate share of the PERA OPEB liability, and the schedule of the University's contributions to PERA OPEB which are RSI that supplements the basic financial statements. Our procedures included inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction On Use

This information is intended solely for the use the members of the Legislative Audit Committee, Office of the State Auditor, Board of Trustees of the University and management of the University, and is not intended to be, and should not be, used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, this report is a public document.

Very truly yours,

RubinBrown LLP

December 7, 2018