Memo

To: Board of Trustees
From: Michelle Quinn, Treasurer
Date: 11/04/20
Subject: November Finance & Audit Committee Overview

At the Finance & Audit Committee meeting, we will be reviewing a) the FY20 year-end financial statements and debt report and b) the FY21 first quarter interim results/annual forecast. Neither our final FY20 financial results nor our current FY21 financial realities make for simple financial reporting. It certainly makes me think of the VUCA acronym: volatile, uncertain, complex, and ambiguous. The three major anchors outlined below will be helpful to have in mind as you preview the materials:

1. Budget Process and Financial Task Force Work
   In FY19, FY20, and FY21, UNC has identified and implemented significant budgetary and operational changes that have resulted in meaningful, permanent, year-over-year expense reductions.

2. Coronavirus Pandemic Financial Effects
   While the coronavirus clearly has widespread and complex effects on our students, our operations, and our finances, I will highlight just four items:

   - First, the pandemic has stressed our students economically. Because of this, we did not increase tuition in FY21, and we have been closely monitoring students' payment activities for their Fall bills. For FY20, our year-end student accounts receivable increased $1.4 million (22%) from FY19. However, as of September 30th (Q1), FY21 collections and accounts receivable balances appear to have normalized as a percent of tuition, fee, and room & board revenues.

   - Second, in May (FY20) we received $24.9 million in federal CARES Coronavirus Relief Funds (CRF) which are providing partial relief from the 58% reduction in state funding in FY21. The lump-sum payment of CRF funding created a significant timing increase in both FY20 year-end cash and FY21 Q1 cash. For FY20, the increased cash balance positively affects most of our Moody's ratios and our Composite Financial Index (CFI).

   - Third, both FY20 and FY21 tuition and fee and auxiliary revenues have been significantly reduced.
     - For FY20, the effect on tuition and fees appears to have been minimal, but auxiliary revenue losses are about $7 million, with $3.8 million covered by CARES Higher Education Emergency Relief Funds (HEERF). Auxiliary losses are largely, but not entirely, in housing and dining.

- For FY21, undergraduate net tuition and fee revenue and room and board revenue are tracking close to the revised budget. However, the revised budget included declines of $7 million (net tuition and fees) and $7.1 million (room & board) relative to the Pre-COVID budget. A wide variety of other revenue streams (parking, conferences, athletic activities, PVA tickets, audiology clinic activity, etc.) are also down, for a total decline of about $5 million.

- Finally, in addition to the permanent expense reductions we have implemented through our annual budgeting and Financial Task Force work, temporary cost savings are also being realized because of the pandemic. In both FY20 and FY21 we have temporary savings from furloughs, reduced campus activity, elimination of travel, and careful financial management across campus to defer or reduce as many purchases as possible.

3. Colorado PERA Defined Benefit Retirement Plan
Since FY17, the financial condition of Colorado's defined benefit retirement plan (PERA) has driven significant swings in UNC's fringe benefit expenses and statement of net position (balance sheet). Fortunately, with the passage of SB 18-200, the state committed to fully funding the pension plan over 30 years. For both FY19 and FY20, this positively affected UNC's financial statements, reducing the cumulative liability[1] and incrementally reducing reported fringe benefit expenses.

PERA Defined Benefit Retirement Plan Effects to UNC Financial Statements (in millions)				
	FY17	FY18	FY19	FY20
Net liability[1] to UNC's statement of net position	($161.9)	($203.8)	($184.0)	($145.6)
Current year incremental increase/ (decrease) to UNC's fringe benefit expenses	$37.7	$41.9	($19.8)	($38.4)

Notably, these effects are excluded from both Moody's ratio calculations and the Composite Financial Index (CFI) reported to the Higher Learning Commission and the Colorado Joint Budget Committee.

I plan to spend about 40 minutes covering the materials—allowing 20 minutes for discussion—and will focus on how the three anchors described above play out in the FY20 financial statements, FY20 annual debt report, and FY21 Q1 financial report. The FY20 Composite Financial Index (CFI), appended to the financial statements, and the Moody's ratios included in the FY20 annual debt report are noticeably improved from prior years. The work we have done in the last several years has strengthened our financial position, which is particularly important in supporting the strategic planning work to be discussed in the Board Meeting.

[1] Technically includes deferred outflows of resources, liability, and deferred inflows of resources