



OFFICE OF THE STATE AUDITOR



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PROACTIVE MANAGEMENT OF COSTS AND REVENUE GAINS THROUGH INCREASED ENROLLMENT AND RETENTION ARE NEEDED AT ADAMS STATE UNIVERSITY TO ENSURE FINANCIAL SUSTAINABILITY

DENVER—the Colorado Office of the State Auditor (OSA) has released a performance evaluation of Adams State University which was conducted on behalf of the OSA by the Huron Consulting Group (Huron). The evaluation noted that despite maintaining positive annual operating cash flow margins before factoring in interest and depreciation expenses, capital renewal and replacement needs and debt service requirements present a significant financial burden for the University to carry, burdens which need to be addressed.

Adams State University was established in 1921. Located in Alamosa, Colorado, Adams offers undergraduate liberal arts and sciences, teacher preparation, and business degree programs; a limited number of graduate level programs; and 2-year transfer programs. Adams is also a federally designated Hispanic Serving Institution. Adams enrolled approximately 2,797 undergraduate and graduate students in academic year 2014-2015. Approximately 82% of Adams' undergraduate students and nearly 60% of its graduate students are Colorado residents. Adams employs about 440 faculty and staff.

Huron found that Adams generated between \$0.9 and \$3.6 million per year in operating cash flows before interest and depreciation during

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Fiscal Years 2011 through 2015 while its debt service requirements, net of a federal interest subsidy, total more than \$4 million per year, standing at \$4.6 million in Fiscal Year 2016. This imbalance means that Adams cannot afford any additional large, debt-financed capital investments and needs to increase operating cash flows by about \$3 million above Fiscal Year 2015 levels to improve its financial ratios and help ensure financial sustainability. Ideally, Adams would increase its operating cash flows even more to fully close its annual adjusted operating deficit which was \$8.9 million in Fiscal Year 2015 and \$6.6 million in Fiscal Year 2016.

Between Fiscal Years 2009 and 2015, Adams incurred capital expenditures totaling \$98.7 million, which were funded almost entirely by state capital appropriations and debt proceeds. Huron found that this capital-intensive strategy has resulted in a significant increase in Adams' debt service obligations which were more than 5% of Adams' total adjusted operating expenses for Fiscal Years 2013 through 2015.

With tuition revenue of \$5,636 per student, Adams' tuition rates were some of the highest Huron found in its peer group and concluded that above-market tuition rate hikes might not be a viable solution to the problem. Huron concluded that making structural changes in key areas such as the delivery of student services could help Adams manage its operating costs and improve institutional outcomes. Huron also concluded that Adams could use analysis of instruction costs on a per-program basis to help allocate resources strategically, such as maintaining investments in financially high-performing programs and restructuring or eliminating financially under-performing programs.

The full report is available @ www.colorado.gov/auditor.

Under the direction of the state auditor, the OSA is the state's nonpartisan, independent external auditor with broad authority to audit state agencies, departments, institutions of higher education, and the Judicial and Legislative Branches. The OSA's professional staff serve the people of Colorado by addressing relevant public issues through high-quality, objective audits and reviews that promote accountability and positive change in government. Performance audits address whether programs operate in compliance with laws and regulations and in a manner that accomplishes intended program goals. Financial audits include annual audits of the state's basic financial statements and federal grants on a statewide level. IT audits review procedures and technology to ensure the confidentiality, integrity and availability of the state's critical computer systems and

taxpayer data. The OSA also tracks about 4,000 Colorado local governments for compliance with the Local Government Audit Law.