



October 27, 2017

Dianne E. Ray  
 State Auditor  
 Office of the State Auditor  
 1525 Sherman St., 7<sup>th</sup> Floor  
 Denver, CO 80203

Dear Dianne Ray:

We appreciate the opportunity to provide you with an update as to the financial condition and operations of Adams State University. We continue to strive to make Adams State University financially strong, while also meeting the needs of our historically underserved student population in rural Colorado. Although we still have enrollment and funding challenges, we are keeping our focus on our role and mission and the students we serve.

Results of recruitment and retention initiatives are not immediately realized. However, we are beginning to see some positive preliminary results. Of particular significance is the elimination of the achievement gap between white and Hispanic graduation rates shown below.

Student Type	2009 Cohort			2010 Cohort			2011 Cohort		
	4-Yr Rate	5-Yr Rate	6-Yr Rate	4-Yr Rate	5-Yr Rate	6-Yr Rate	4-Yr Rate	5-Yr Rate	6-Yr Rate
All full-time, first-time	8%	22%	29%	14%	24%	29%	14%	28%	32%
White	9%	25%	32%	16%	26%	32%	15%	28%	32%
Hispanic	10%	19%	25%	11%	20%	24%	18%	33%	39%

We are also doing further work in the development of a contingency plan. The goal of this plan is to thoroughly evaluate all programs and services, where we are allocating our resources, and where resource allocation needs to shift. This will be explained in greater depth under “Analyzing Instructional Costs, Additional Cost Cutting, and Revenue Enhancement Strategies” below.

You have asked for some specific updates regarding aspects of the performance evaluation, and we are grateful that we are able to engage in this discussion with you.

### Operating Cash Flow Margin and Adjusted Operating Margin

While Adams State has made some progress toward our goals in operating cash flow and adjusted operating margins, we do still have additional work to do. It has taken several years to get to this point, and turning the trend around the right way will take time too.

GASB #68 has also had a very significant impact on our financial condition. Requiring the unfunded portion of Colorado's PERA liability to be recorded on our books has added a \$74 million liability to our balance sheet and \$11 million in expense to our income statement in fiscal year 2016-17. We have updated the cash flow margin and adjusted operating margin for fiscal years 2015-16 and 2016-17 (unaudited) to show the margins both with and without the effect of GASB #68.

Updated Ratio Analysis				
Including GASB 68			Excluding GASB 68	
2017	2016		2017	2016
		<b>Adjusted Operating Margin</b>		
35,648,640	36,516,242	Operating revenues and student capital fees, before state support	35,648,640	36,516,242
11,545,522	11,365,338	Add: State ffs revenue and state fiscal stabilization rev	11,545,522	11,365,338
4,633,634	4,636,811	Add: Pell Grant revenue and investment income	4,633,634	4,636,811
<u>51,827,796</u>	<u>52,518,391</u>	Adjusted operating revenue	<u>51,827,796</u>	<u>52,518,391</u>
61,427,345	49,236,995	Operating expenses before depreciation and interest	49,490,925	48,152,640
6,973,003	7,176,994	Add: Depreciation expense	6,973,003	7,176,994
2,581,947	2,933,929	Add: Interest expense, net of federal interest subsidy	2,581,947	2,933,929
<u>70,982,295</u>	<u>59,347,918</u>	Adjusted operating expenses	<u>59,045,875</u>	<u>58,263,563</u>
(19,154,499)	(6,829,527)	Adjusted operating results	(7,218,079)	(5,745,172)
-36.96%	-13.00%	Adjusted operating margin	-13.93%	-10.94%
		<b>Operating cash flow margin</b>		
(19,154,499)	(6,829,527)	Adjusted operating results	(7,218,079)	(5,745,172)
6,973,003	7,176,994	Add: Depreciation expense	6,973,003	7,176,994
2,581,947	2,933,929	Add: Interest expense, net of federal interest subsidy	2,581,947	2,933,929
<u>(9,599,549)</u>	<u>3,281,396</u>	Adjusted operating results, excluding depr and interest	<u>2,336,871</u>	<u>4,365,751</u>
-18.52%	6.25%	Operating Cash Flow Margin	4.51%	8.31%

### Update to Capital Plans

In May 2017, Adams State refinanced some of our outstanding bonds in order to gain a lower debt service requirement for three years. In fiscal years 18-19 and 19-20, more bonds will become callable, giving us some additional flexibility if needed. We are not seeking any new debt-financed capital developments at this time. The capital fee we implemented ten years ago also hit its final increase in fall 2017. We believe this fee remaining flat will help our enrollment and retention (it has been rising for the past ten years).

**Enrollment Initiatives, Pricing Strategies, and FTE**

Adams State is striving to keep college affordable for our students. We are continuing with the four-year guaranteed tuition program that we implemented in the fall of 2016. We also continue to market our full-time tuition window and the cost savings it can provide. Furthermore, no tuition increase was made to FY2017-2018 rates.

Adams State continues to identify and implement recruitment and retention strengthening strategies through its Strategic Enrollment Management Plan. This plan is monitored monthly by our recruitment and retention committee. The most significant strategy has been the implementation of new advising software over the past year, which became live in the fall of 2017. This has greatly automated degree mapping. It allows both students and advisors to better track progress towards degree and map out course requirements, as well as to do “what-if” planning. We are also in the second year of new software to assist students with choosing a major. This has enabled us to better check in with and support students who are undecided or unsure of their major and conditionally admitted students, which are high risk populations.

Adams State is also participating in the US Department of Education Federal Student Aid’s “Project Success” for Minority Serving Institutions. The objectives of the project include increasing retention and graduation rates and decreasing our cohort default rate. This project consists of several initiatives available at no cost to Adams State beginning this fall in exchange for our participation. These initiatives include developmental education curriculum programming in partnership with San Luis Valley high schools, a re-formatted electronic financial aid award letter, the SuperStrong Inventory for career exploration, financial literacy programming, emergency aid funds, and loan default prevention counseling.

Other recruitment and retention initiatives include the re-structuring of our admissions leadership and public relations and marketing. Our admissions leadership has been restructured from an assistant vice-president for student services to a director of admissions. This has given us cost savings, but also allowed for a more focused position for improved effectiveness. Utilizing Foundation funds, we have also created a new position for director of public relations and marketing. These positions will work closely together to develop improved recruitment strategies using our new predictive models for recruitment and retention.

Our current enrollment is updated below (Exhibit 14 in the Huron Report):

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Undergraduate Student FTE	2,202	2,115	2,074	1,994	1,701	1,610
Graduate Student FTE	641	690	737	803	782	909
Total Student FTE Enrollment	2,843	2,805	2,811	2,797	2,483	2,519

**Analyzing Instructional Costs, Additional Cost Cutting, and Revenue Enhancement Strategies**

In response to declining on-campus undergraduate enrollment, in August 2017, our Board of Trustees approved the following: *To authorize the administration of Adams State University to prepare a contingency plan to right-size the campus, in a manner which supports the board’s long-term priorities as embodied in the ASU 2020 Plan, and which is complementary with other parallel strategies to ensure*

*ASU's financial stability which may include a reduction in workforce, and directs the administration to communicate openly and deliberately with ASU faculty, administration and students to minimize concerns to this end.*

The Board also appointed a committee to work with administration to provide guidelines as to how the plan will be created. The committee suggested goal for "financial stability" includes increasing our operating cash flows by \$3 million over the next three years. We will be using "parallel strategies," which means we will be working to find other revenue streams such as expanding our non-credit programming and increasing enrollment and retention to increase our revenue, as well as decreasing our expenses.

Using the book "Prioritizing Programs and Services: Reallocation of Resources Strategic Balance" by Robert C. Dickeson, we worked to identify the criteria that will be used to evaluate programs and make decisions regarding any possible reallocation for both instructional and administrative/athletic programs. The Board approved the criteria in their October board meeting.

For academic departments the following criteria were identified: 1. Impact and overall essentiality of the program; connection to ASU's mission, vision, and strategic plan; 2. Quality of the program outcomes; 3. Demand for the program; 4. Size, scope and productivity of the program; 5. Cost and benefit of the program; 6. Faculty and program strengths and accomplishments; 7. Future potential for the program.

The student services and student affairs departments identified the following criteria: 1. Key objectives and how they are measured; 2. Unmet needs and demands; 3. Services provided and to which customers, internal and external; 4. Opportunities for collaboration and restructuring; 5. Process improvements to streamline operations; 6. Position by position analysis; 7. Opportunities to share skill sets and resources; 8. Opportunities for cross-training; 9. Technological improvements that are cost effective; 10. Exploring outsourcing to improve service and cut costs.

The operational infrastructure areas (accounting, budget, payroll, purchasing, human resources, facilities, information technology, and police) identified the following: 1. Unmet needs and demands; 2. Identification of ways to do our jobs better; 3. Services provided and to which customers, internal and external; 4. Resources needed to improve services; 5. Key objectives and how they are measured; 6. Review and evaluation of yearly performance.

During November and December, we will begin the process of academic, administrative, and athletic program evaluation using the criteria developed and approved in October 2017. The draft plan will be presented to the Board in their February 2018 meeting, with the plan presented for final approval at their April 2018 meeting. The intent is to scrutinize and prioritize all programs on campus.

On the academic side, the effort is being led by the Vice President of Academic Affairs. All direct reports, including both academic departments and academic support departments are engaged in a process with the aim of evaluating not only the total monetary cost of each program, but demand and potential growth, alignment with the Adams State mission and vision, and the strategic plan (ASU 2020). The intent of the project is to use the criteria described above to prioritize programs in an effort to identify where best to spend limited resources.

Student services and operational areas are both working to identify bench-marking data. Next steps also include a thorough identification and review of all programs, activities, and services provided.

Preliminary results already show a trend towards making investments in operational efficiency a top priority.

Several revenue enhancing strategies are also being explored and/or implemented. Examples of these include: exploring options for creating more evening and weekend course opportunities (currently being studied with an anticipated pilot implementation in the fall of 2018), creating a "Listening Courses" program targeting non-degree-seeking students to further fill courses with seat availability, investing in a more targeted correspondence education program with a focus on incarcerated students, and piloting of a co-instruction model for general education mathematics in one course in the fall of 2017, with plans to expand to additional general education courses in the spring and fall of 2018. We have also expanded concurrent enrollment options to provide more opportunities for high school students, which has resulted in growth from 392 concurrent credit hours in fall 2015 to 702 concurrent credit hours in fall 2017.

Another initiative is the establishment of a group of student leaders to work in conjunction with administrative leadership to review the current allocation and use of student activity fees. This group will also be developing procedures to evaluate these fees on a more consistent basis.

We at Adams State are committed to improving our financial health while not losing sight of our role and mission. Our decisions are being made thoughtfully as to avoid as much negative impact on our higher risk populations. As a Hispanic Serving Institution, we are vital to our population and economy here in rural Colorado.

Sincerely,



Dr. Beverlee J. McClure  
President