

ADAMS STATE UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2014 and 2013



Wall,
Smith,
Bateman Inc.
Certified Public Accountants

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**ADAMS STATE UNIVERSITY
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

Authority, Purpose and Scope

The audit of Adams State University was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state agencies and educational institutions. The 2014 audit was conducted under contract with Wall, Smith, Bateman Inc. The audit was conducted in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards* issued by the Comptroller General of the United States. Audit work was performed during June through November 2014.

The purposes and scope of the audit were to:

- § Perform a financial and compliance audit of Adams State University for the year ended June 30, 2014, and to express an opinion on the financial statements. This included a review of internal controls as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- § Evaluate the University's compliance with appropriate state and federal laws and regulations, and bond covenants that could have a material effect on the University's financial statements.
- § Report on the University's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- § Express an opinion on the State Appropriations Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2014.
- § Evaluate progress in implementing prior year audit recommendations.

The Schedule of Expenditures of Federal Awards for Adams State University and applicable audit opinions are included in the June 30, 2014 Statewide Single Audit Report issued by the Office of the State Auditor under a separate cover.

Audit Results

Wall, Smith, Bateman Inc. expressed an unmodified opinion on the financial statements for the years ending June 30, 2014 and 2013. Wall, Smith, Bateman Inc. also expressed an unmodified opinion on the Statements of Appropriations Expenditures, Transfers and Reversions of State Funded Student Financial Assistance Programs for the fiscal year ended June 30, 2014.

Required Auditor Communications to the Legislative Audit Committee

The auditor is required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Legislative Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items that there were no significant difficulties encountered in performing the audit.

Summary of Findings and Recommendations

There were no reported findings or recommendations resulting from the audit work completed for fiscal year ended June 30, 2014.

Summary of Progress in Implementing Prior Audit Findings

There were no reported prior audit findings to be implemented.

Description of Adams State University

The Board of Trustees of Adams State University is the governing board for Adams State University. The Board of Trustees has oversight and responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The Board consists of nine members appointed by the Governor to serve four-year terms. Additionally, an elected member of the faculty of the University serves for a two-year term and elected member of the student body of the University serves for a one-year term. The President of Adams State University is responsible for providing leadership for the University and administering the policies and procedures of the Board of Trustees. The Board conducts its business at regular monthly meetings, all of which are open to the public.

Adams State University is a liberal arts university with graduate programs in Teacher Education, Business, Counseling, and Art. Section 23-51-101, C.R.S., provides that Adams State University shall be a general baccalaureate institution with moderately selective admission standards. Adams State University is a regional educational provider approved to offer limited professional programs, Hispanic programs, undergraduate education degrees, masters' level programs, PH.D. level programs, and two-year transfer programs with a community college role and mission, except for vocational education programs.

Full-time equivalent (FTE) student, faculty, and staff reported by the University for the last three fiscal years were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Resident Students	1,975.9	1,905.7	1,832.6
Nonresident Students	483.6	539.2	296.8
Total Students	<u>2,459.5</u>	<u>2,444.9</u>	<u>2,129.4</u>
Faculty FTEs	185.8	181.1	181.6
Staff FTEs	126.3	133.6	135.5
Total Staff and Faculty FTEs	<u>312.1</u>	<u>314.7</u>	<u>317.2</u>

FINDINGS AND RECOMMENDATIONS SECTION

**ADAMS STATE UNIVERSITY
AUDITORS' FINDINGS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2014**

Adams State University had no findings or recommendations in the current year.

**ADAMS STATE UNIVERSITY
DISPOSITION OF PRIOR YEAR AUDIT RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2014**

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2013, did not include any recommendations or findings.

FINANCIAL STATEMENTS SECTION



Wall,
Smith,
Bateman Inc.

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Adams State University (the University), an Institution of Higher Education, State of Colorado, the Adams State University Foundation, a discretely presented component unit, discussed in Note 1 of the financial statements, which represents 100 percent of the total assets, total revenues, and total net position of the aggregate discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, 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 opinions on these financial statements based on our audit. 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.

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the major fund, and the discretely presented component unit of Adams State University, an Institution of Higher Education, State of Colorado, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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Emphasis of Matter

As discussed in Note 1 – Summary of Significant Accounting Policies, the financial statements of Adams State University are intended to present the net position and changes in net position for only that portion of the financial reporting entity, State of Colorado, that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of the State of Colorado as of June 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 8-14 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, who 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 information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Adams State University's basic financial statements. The Schedule of Pledged Revenues and Expenses for Series 2009A, 2009B, 2009C and 2012 Auxiliary Facilities Revenue Bonds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Pledged Revenues and Expenses for Series 2009A, 2009B, 2009C and 2012 Auxiliary Facilities Revenue Bonds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Pledged Revenues and Expenses for Series 2009A, 2009B, 2009C and 2012 Auxiliary Facilities Revenue Bonds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, 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 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 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.



Wall, Smith, Bateman Inc.
November 10, 2014

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report presents a discussion and analysis of the financial performance of Adams State University (the University), formerly known as Adams State College, for the fiscal year ended June 30, 2014, with selected comparative information for the years ended June 30, 2013 and June 30, 2012. On May 19, 2012, Governor Hickenlooper signed House Bill 12-1080, changing the name of Adams State College to Adams State University, effective August 7, 2012. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes for the reporting entity of the University that includes Adams State University and the Adams State University Foundation, a discretely presented component unit. (See Note 1 for additional information on the reporting entity.)

FINANCIAL HIGHLIGHTS

Year ended June 30, 2014

The University's total net position increased by \$3.7 million during fiscal year 2014 compared to a \$5.0 million decrease in net position during fiscal year 2013. The increase is primarily a result of increases in State appropriations, capital of \$7.4 million, tuition and fees of \$1.6 million and fee for service contracts of \$0.6 million, net of an increase in \$1.3 million in operating expenses.

The University had a ratio of current assets to current liabilities of 2.3 and 2.6 for fiscal years 2014 and 2013, respectively. This current ratio demonstrates the liquidity of University assets and the relative availability of working capital to fund current operations. The decrease in the current ratio from fiscal year 2013 to fiscal year 2014 is primarily a result of the spending of bond proceeds used for capital construction projects in fiscal year 2014.

An operating deficit of \$10.5 million is the result of the University's dependence on Federal Pell Grants, gifts and donations and other non-operating revenue, which under the guidelines established by Governmental Accounting Standards Board (GASB) Statements 34 and 35 is shown as non-operating revenues. The University received no state operating appropriations, but received \$8.9 million in fee for service contract revenue from the Colorado Department of Higher Education and \$2.6 million in College Opportunity Fund stipends from College Assist during fiscal year 2014.

Year Ended June 30, 2013

The University's total net position decreased by \$5.0 million during fiscal year 2013 compared to a \$3.8 million decrease in net position during fiscal year 2012. The decrease is primarily a result of increases in interest on capital debt of \$1.8 million and total operating expenses of \$0.9 million and a decrease of \$0.9 million in Federal Pell Grants, net of increases in tuition and fees of \$1.4 million from fiscal year 2013 to 2012.

The University had a ratio of current assets to current liabilities of 2.6 and 3.5 for fiscal years 2013 and 2012, respectively. This current ratio demonstrates the liquidity of University assets and the relative availability of working capital to fund current operations. The decrease in the current ratio from fiscal year 2012 to fiscal year 2013 is primarily a result of the spending of bond proceeds used for capital construction projects in fiscal year 2013.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

An operating deficit of \$11.5 million is the result of the University's dependence on Federal Pell Grants, gifts and donations and other non-operating revenue, which under the guidelines established by Governmental Accounting Standards Board (GASB) Statements 34 and 35 is shown as non-operating revenues. The University received no state operating appropriations, but received \$8.4 million in fee for service contract revenue from the Colorado Department of Higher Education and \$2.7 million in College Opportunity Fund stipends from College Assist during fiscal year 2013.

STATEMENT OF NET POSITION

The Statement of Net Position includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Over time, increases and decreases in net position (the difference between assets and liabilities) is one indicator of the University's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

A summarized comparison of the University's assets, liabilities and net position at June 30 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
		(in thousands)	
Assets			
Current Assets	\$ 20,879	\$ 24,018	\$ 33,325
Noncurrent Assets	<u>118,282</u>	<u>113,180</u>	<u>110,815</u>
Total Assets	139,161	137,198	144,140
Deferred Outflows of Resources	<u>651</u>	<u>792</u>	<u>-</u>
Liabilities			
Current Liabilities	8,891	9,379	9,597
Noncurrent Liabilities	<u>71,757</u>	<u>73,144</u>	<u>73,427</u>
Total Liabilities	80,648	82,523	83,024
Net Position			
Net Investment in Capital Assets	47,583	44,406	47,301
Restricted	4,231	4,996	4,834
Unrestricted	<u>7,351</u>	<u>6,066</u>	<u>8,982</u>
Total Net Position	<u>\$ 59,165</u>	<u>\$ 55,468</u>	61,117
GASB 65 Restatement			<u>(690)</u>
Restated Total Net Position			<u>\$ 60,427</u>

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

At June 30, 2014 the University's total assets were \$139.2 million. The largest asset category is the \$118.3 million in capital assets, net of accumulated depreciation of \$66.9 million. These assets include land, buildings, equipment, library holdings, and construction in progress. Construction in progress increased by a net amount of \$2.7 million in fiscal year 2014. The Richardson Hall Renovation Project increased construction in progress by \$6.5 million in fiscal year 2014. The High Altitude Complex, the Coronado Hall Renovation and Replace Indoor & Outdoor Track projects were completed in fiscal year 2014 and transferred out of construction in progress in the amounts of \$4.0 million, \$3.0 million, and \$1.1 million, respectively. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In fiscal year 2014, the University's current assets of \$20.9 million were sufficient to cover current liabilities of \$8.9 million (producing a current ratio of 2.3). Cash and cash equivalents (bank deposits, certificates of deposits, and pooled cash with the State Treasurer) comprised over \$17.8 million in assets per the Statement of Net Position.

Bonds payable of \$69.2 million represent over 86% of the University's total liabilities of \$80.6 million. The current portion of the bonds payable liability is \$1.4 million.

The University's financial position improved during the fiscal year as evidenced by the increase of \$3.7 million in net position (see the Statement of Revenues, Expenses and Changes in Net Position) to \$59.2 million. Net Position is composed of \$47.6 million net investment in capital assets, \$4.2 million externally restricted for specific purposes, and \$7.4 million unrestricted and available for any lawful purpose of the University.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses and Changes in Net Position present the result of operations during the year. Activities are reported as either operating or non-operating. Operating revenues and expenses generally result from providing goods and services for instruction, research, public service, and related support services to an individual or entity separate from the University. Non-operating revenues and expenses are those other than operating and include, but are not limited to: State appropriations, investment income, interest expense on capital debt, gain/loss on disposal of assets, State capital construction and controlled maintenance appropriations, transfers, Federal Pell grants, and other non-operating revenue.

Tuition and fee revenues accounted for \$18.5 million of the \$41.1 million in operating revenues for fiscal year 2014. The tuition and fee amount is net of scholarship allowances of \$11.9 million. Scholarship allowances are defined as the financial aid awarded to students by the University that is used to pay University charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense. The tuition rate for resident undergraduate full-time tuition increased by 20.8% from fiscal year 2013 to 2014, causing an increase in gross tuition revenue.

Operating expenses totaled \$51.6 million. Of that total, \$17.8 million was for instruction, \$2.3 million for academic support, \$3.4 million for student services, \$3.4 million for institutional support, \$3.1 million for operation of plant and \$12.7 million for auxiliary enterprises.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

A summarized comparison of the University's revenues, expenses and changes in net position at June 30 follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
		(in thousands)	
Operating Revenues			
Tuition and Fees, net	\$ 18,463	\$ 16,902	\$ 15,524
Grants and Contracts	13,965	13,555	13,017
Auxiliary Enterprises	7,507	7,371	7,638
Other	1,166	974	790
Total Operating Revenues	<u>41,101</u>	<u>38,802</u>	<u>36,969</u>
Operating Expenses	<u>51,604</u>	<u>50,306</u>	<u>49,456</u>
Net Operating Income (Loss)	(10,503)	(11,504)	(12,487)
Nonoperating Revenue (Expense)			
Federal Pell Grants	5,127	5,284	6,215
Gifts and Donations	1,996	2,014	1,888
Interest Income	158	(98)	127
Other Nonoperating	(2,956)	(2,732)	(966)
Net Nonoperating Revenue (Expense)	<u>4,325</u>	<u>4,468</u>	<u>7,264</u>
Income (Loss) Before Other Revenue, Expenses, Gains, or Losses	(6,178)	(7,036)	(5,223)
Student Capital Fees	2,187	1,825	1,483
State Appropriations, Capital	7,759	321	17
Other	(71)	(69)	(76)
Increase (Decrease) in Net Position	3,697	(4,959)	(3,799)
Net Position			
Net Position-Beginning of Year	55,468	60,427	64,916
Restatement, GASB 65	-	-	(690)
Net Position-End of Year	<u>\$ 59,165</u>	<u>\$ 55,468</u>	<u>\$ 60,427</u>

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

CAPITAL ASSETS

At June 30, 2014, the University had approximately \$117.5 million invested in capital assets, net of accumulated depreciation of \$66.9 million. Depreciation charges were \$6.7 million for the current year compared to \$6.4 million in 2013 and \$5.6 million in 2012. Details of these assets for the three years are shown below.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 445,249	\$ 445,249	\$ 445,249
Land Improvements	8,028,317	7,348,525	7,844,059
Buildings	99,446,630	97,890,139	93,266,546
Construction in Progress	6,943,428	4,193,822	5,468,850
Equipment	1,955,073	1,934,537	1,583,781
Library Materials	662,485	732,983	776,090
Art and Historic Treasures	<u>260,488</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 117,741,670</u>	<u>\$ 112,545,255</u>	<u>\$ 109,384,575</u>

Major capital additions completed in 2014 and the source of resources that funded their acquisition included:

High Altitude Complex, Bond Funds	\$ 3,954,259
Coronado Hall Renovation , Bond Funds	2,972,554
Replace Indoor & Outdoor Track, State Funds	1,140,052
	<u>\$ 8,066,865</u>

DEBT

On March 12, 2009, the University issued Auxiliary Facilities Revenue Improvement Bonds Series 2009A in the amount of \$19.8 million for the purpose of funding various campus improvement projects, including the acquisition, construction, improvement and equipping of a new residence and recreational facility. These bonds will be paid off using proceeds from a student capital fee approved by University students in 2008.

On December 15, 2009, the University issued Auxiliary Facilities Revenue Bonds Series 2009B in the amount of \$12,760,000 for the purpose of refunding \$9,380,000 of Series 2004A Enterprise Revenue Bonds and to obtain additional funds in the amount of \$2,621,740 for improvement projects. Proceeds in the amount of \$10,407,501 were placed into an irrevocable escrow account and invested in non-callable direct obligations of the United States of America. Principal and interest on the government obligations will be used, together with any cash balance in the escrow account, to pay the regularly scheduled principal and interest on the refunded bonds through May 15, 2014 and to redeem on such date the refunded bonds maturing on and after May 15, 2015. As a result, the Series 2004A Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Position.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

On December 15, 2009, the University also issued Taxable Auxiliary Facilities Revenue Bonds Series 2009C in the amount of \$27,615,000 for the purpose of obtaining funds for various campus improvement projects, including the remodeling of various academic buildings. The Series 2009C Bonds are designated as “Build America Bonds” and the University will receive a cash subsidy payment equal to 35% of the interest payable on these bonds.

On May 1, 2012, the University issued Institutional Enterprise Revenue Bonds, Series 2012 in the amount of \$12,975,000 for the purpose of obtaining funds for certain capital improvements to the campus. These bonds will be paid off using proceeds from a student capital fee approved by University students in 2008.

At June 30, 2014, the University had approximately \$71.9 million in debt outstanding compared to \$73.1 million at June 30, 2013 and \$73.4 million at June 30, 2012. The table below summarizes these amounts by type of debt.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
2009A Series Revenue Improvement Bonds	\$ 18,926,396	\$ 19,338,796	\$19,751,197
2009B Series Auxiliary Facilities Revenue Bonds	11,069,470	11,508,822	10,994,988
2009C Series Taxable Auxiliary Facilities Revenue Bonds	27,092,112	27,072,715	27,053,319
2012 Series Institutional Enterprise Revenue Bonds	13,500,307	13,519,182	13,538,055
Capital Lease	1,289,512	1,665,808	2,029,168
Notes Payable	32,894	36,262	38,980
	<u>\$71,910,691</u>	<u>\$73,141,585</u>	<u>\$73,405,707</u>
Total			

ECONOMIC OUTLOOK

The economic position of the University is closely tied to that of the State. For fiscal years 2014, 2013, and 2012, the University received no operating State appropriations.

In 2004, Governor Owens signed Senate Bill 04-189, which created the Colorado Opportunity Fund. This legislation created a first -in-the-nation funding mechanism for higher education. The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. In addition, the bill provides higher education institutions the opportunity to become enterprise under TABOR. Because funding is provided to students through the stipends and to the institutions through fee-for-service arrangements, the bill allows all qualifying public institutions to be designated as “enterprises” if approved by the Legislative Audit Committee. The Legislative Audit Committee approved the designation of the University as an enterprise for fiscal year 2006 and on an annual basis, the University has met the requirements to be considered an enterprise for fiscal years 2006 through 2014, with the exception of 2009 and 2014. The University must meet the requirements of a TABOR enterprise on an annual basis.

The purpose of S.B. 04-189, or the College Opportunity Fund bill, is to bring awareness to students that funding from the State of Colorado does help cover their educational expenses. The trust fund’s monies are administered by the Colorado Student Loan Program dba College Assist. The student can direct their stipend funding to a particular institution by applying for the program and registering at the institution of their choice.

The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. For fiscal years 2015, 2014 and 2013 the yearly stipend was \$2,250, \$1,920 and \$1,860 respectively, for a full-time public higher education student taking 30 credit hours of classes.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2014 AND 2013**

The University has budgeted for \$2.7 million in College Opportunity Fund stipends for fiscal year 2015. The University received \$2.6 million, \$2.7 million and \$2.8 million in stipends in fiscal years 2014, 2013 and 2012 respectively. In fiscal year 2015, \$8.9 million will be billed through a fee for service contract with the Colorado Department of Higher Education (CDHE). The University received \$8.9 million, \$8.4 million and \$8.4 million in fee for service revenue in fiscal years 2014, 2013 and 2012 respectively. The bill institutes fee-for-service contract arrangements between each institution and the CDHE to provide graduate education, rural education, and basic education services to the State. These fee-for-service contracts must be negotiated annually with the CDHE.

The University raised the tuition and fees starting the fall semester 2014 and estimates the change to increase tuition and fee revenue by \$1.1 million for the fiscal year ending 2015. This tuition increase along with an 11% increase in state operating funds combined with the additional \$12 to \$14 million in state capital appropriations that will be received with the completion of the refurbishing of Richardson Hall will result in strong fiscal performance in FY14-15 for the University. The University has also been appropriated \$5.8 million in state capital construction funds to renovate its East Campus. This infusion of capital will further enhance the University's Statement of Net Position. FY14-15 also marked the first year in the last four the University was able to balance its operating budget without reliance on cash reserves. The budget work of the University's executive council over the last 15 months, improved retention, healthy graduate enrollment, and stable nonresident undergraduate enrollment, have the University positioned well to meet its budgeted tuition and fee revenue targets for FY14-15. As of November 30, 2014, unaudited data shows that the University's Unrestricted Net Position has increased \$2.1 million over the prior year.

CONTACTING THE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide users of our financial statements with a general overview of the University's finances and to show the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Adams State University Controller's office at Richardson Hall, Room 130, Alamosa, Colorado 81101 or call (719) 587-7699.

ADAMS STATE UNIVERSITY
STATEMENTS OF NET POSITION
As of June 30, 2014 and 2013

	2014	2013 Restated
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 15,222,891	\$ 18,892,478
Investments	2,591,902	2,578,088
Student accounts receivable, net	1,328,612	1,254,184
Other accounts receivable	1,066,075	781,593
Student loans receivable, net	124,412	113,902
Inventories	372,843	348,384
Prepaid expenses and other assets	172,148	49,870
<i>Total current assets</i>	20,878,883	24,018,499
Noncurrent Assets		
Restricted cash and cash equivalents	28,250	64,522
Student loans receivable, net	512,312	570,092
<i>Total non-current assets</i>	540,562	634,614
Non-depreciable capital assets:		
Land	445,249	445,249
Art and historic treasures	260,488	-
Construction in progress	6,943,428	4,193,822
<i>Total non-depreciable capital assets</i>	7,649,165	4,639,071
Depreciable capital assets, net:		
Buildings	99,446,630	97,890,139
Land improvements	8,028,317	7,348,525
Furniture & equipment	1,955,073	1,934,537
Library books	662,485	732,983
<i>Total depreciable capital assets, net</i>	110,092,505	107,906,184
<i>Total noncurrent assets</i>	118,282,232	113,179,869
Total Assets	139,161,115	137,198,368
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Refunding Loss	651,469	792,327
<i>Total Deferred Outflows of Resources</i>	651,469	792,327
LIABILITIES		
Current Liabilities		
Accounts payable	982,326	1,687,532
Accrued liabilities	5,143,682	5,194,993
Unearned revenue	962,435	985,803
Deposits held for others	348,097	295,605
Bonds payable, current	1,365,000	820,000
Notes payable, current	9,551	9,551
Capital leases payable, current	66,304	376,296
Compensated absences liability	13,136	8,819
<i>Total current liabilities</i>	8,890,531	9,378,599

The accompanying notes are integral part of this financial statement

ADAMS STATE UNIVERSITY
STATEMENTS OF NET POSITION
As of June 30, 2014 and 2013

	2014	2013 Restated
Noncurrent Liabilities		
Compensated absences liability	1,287,067	1,208,150
Notes payable	23,343	26,711
Capital leases payable	1,223,208	1,289,512
Bonds payable	69,223,285	70,619,515
<i>Total noncurrent liabilities</i>	<u>71,756,903</u>	<u>73,143,888</u>
<i>Total Liabilities</i>	<u>80,647,434</u>	<u>82,522,487</u>
NET POSITION		
Net investment in capital assets	<u>47,583,263</u>	44,406,107
Restricted for non-expendable purposes:		
Endowments	28,250	28,250
Restricted for expendable purposes:		
Endowments	34,858	36,432
Loans	823,738	873,577
Other Purposes	3,343,811	4,057,744
<i>Total Restricted</i>	<u>4,230,657</u>	<u>4,996,003</u>
<i>Unrestricted</i>	<u>7,351,230</u>	<u>6,066,098</u>
<i>Total Net Position</i>	<u><u>\$ 59,165,150</u></u>	<u><u>\$ 55,468,208</u></u>

The accompanying notes are integral part of this financial statement

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash in Bank	\$ 267,524	\$ 451,146
Pooled Cash - Brokerage Accounts	56,679	84,521
Segregated Cash - Brokerage Accounts	27,855	10,785
Certificates of Deposit	300,000	300,000
Pooled Investments, at Fair Value	9,768,164	8,101,171
Restricted Investments, at Fair Value	6,776,054	6,029,280
Pledges Receivable, net of allowance	87,917	112,750
Inventories	10,680	10,680
TOTAL ASSETS	\$ 17,294,873	\$ 15,100,333
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 42,023	\$ 62,021
TOTAL LIABILITIES	42,023	62,021
NET ASSETS		
Unrestricted:		
Unreserved	2,543,718	1,191,746
Board Designated	21,950	20,950
Total Unrestricted	2,565,768	1,212,696
Temporarily Restricted Net Assets:		
Temporarily Restricted	1,877,772	1,905,995
Total Temporarily Restricted Net Assets	1,877,672	1,905,995
Permanently Restricted Net Assets	12,809,410	11,919,621
TOTAL NET ASSETS	17,252,850	15,038,312
TOTAL LIABILITIES AND NET ASSETS	\$ 17,294,873	\$ 15,100,333

The accompanying notes are an integral part of this statement.

ADAMS STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ending June 30, 2014 and 2013

	2014	2013 Restated
Operating Revenues:		
Tuition & fees (including \$9,959,779 and \$8,790,664, respectively of revenues pledged for bonds and net of scholarship allowances of \$11,866,291 and \$11,180,233, respectively)	\$ 18,463,301	\$ 16,902,401
Sales & services of auxiliary enterprises (including \$7,728,524 and \$7,646,906, respectively of revenues pledged for bonds and net of scholarship allowances of \$644,155 and \$674,347, respectively)	7,507,221	7,370,766
Fee for service contract revenue	8,940,559	8,375,066
Federal grants and contracts	3,320,491	3,515,267
State grants and contracts	1,703,895	1,664,925
Other operating revenues (including \$160,093 and \$224,086, respectively of revenues pledged for bonds)	1,165,537	973,688
<i>Total Operating Revenues</i>	41,101,004	38,802,113
Operating Expenses:		
Instruction	17,822,925	17,000,519
Research	-	1,859
Public service	108,643	11,526
Academic support	2,343,472	2,120,534
Student services	4,645,267	4,303,818
Institutional support	3,420,549	3,470,937
Operation of plant	3,095,882	2,953,772
Scholarships and fellowships	831,691	1,171,567
Auxiliary enterprises expenditures	12,664,501	12,887,488
Depreciation	6,670,913	6,384,014
Total operating expenses	51,603,843	50,306,034
<i>Operating Loss</i>	(10,502,839)	(11,503,921)
Nonoperating Revenues (Expenses):		
Federal Pell Grants	5,126,682	5,284,183
Gifts and Donations	1,995,508	2,014,219
Federal Build America Bonds Subsidy	574,166	591,799
Investment & interest income (loss) (including \$20,069 and \$31,315, respectively of revenue pledged for bonds)	158,354	(97,443)
Limited gaming transfer	19,381	20,123
Interest on capital debt	(3,549,646)	(3,344,395)
<i>Net nonoperating revenue</i>	4,324,445	4,468,486
<i>Income (Loss) before other revenues, expenses, gains, losses or transfers</i>	(6,178,394)	(7,035,435)
Other Revenues, Expenses, Gains, Losses or Transfers:		
Student capital fees	2,187,058	1,824,748
State appropriation, capital	7,759,043	321,140
Transfers to Other Institutions	(70,765)	(69,427)
<i>Increase (Decrease) in Net Position</i>	3,696,942	(4,958,974)
Net Position - beginning of the year	55,468,208	61,116,730
Restatement	-	(689,548)
Net Position - beginning of the year, restated	55,468,208	60,427,182
Net Position - end of the year	\$ 59,165,150	\$ 55,468,208

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
NET ASSETS, BEGINNING OF YEAR	\$ 1,212,696	\$ 1,905,995	\$ 11,919,621	\$ 15,038,312
REVENUES, GAINS, AND OTHER SUPPORT				
Donations - Cash	118,204	1,088,435	135,571	1,342,210
Investment Income	14,136	563,034	-	577,170
Net Realized Gains (Losses) on long-term investments	15,385	23,834	-	39,219
Net Unrealized Gains (Losses) on long-term investments	1,220,586	686,434	-	1,907,020
Subtotal	1,368,311	2,361,737	135,571	3,865,619
Net Assets Released from Restriction	1,571,656	(1,571,656)	-	-
Total from Revenues, Gains, and Other Support	2,939,967	790,081	135,571	3,865,619
EXPENSES AND LOSSES				
Scholarships and Awards	963,597	-	-	963,597
Program Services	623,059	-	-	623,059
Management and General Activities	55,877	-	-	55,877
Fundraising	8,548	-	-	8,548
Total Expenses and Losses	1,651,081	-	-	1,651,081
Transfers:				
Transfers In/(Out)	64,086	(818,304)	754,218	-
Change in Net Assets for the Year	1,352,972	(28,223)	889,789	2,214,538
NET ASSETS AT END OF YEAR	\$ 2,565,668	\$ 1,877,772	\$ 12,809,410	\$ 17,252,850

The accompanying notes are an integral part of this statement.

ADAMS STATE UNIVERSITY FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
NET ASSETS, BEGINNING OF YEAR	\$ 676,817	\$ 1,952,965	\$ 11,370,610	\$ 14,000,392
REVENUES, GAINS, AND OTHER SUPPORT				
Donations - Cash	102,415	990,871	236,897	1,330,183
Investment Income	(67,020)	425,558	-	358,538
Net Realized Gains (Losses) on long-term investments	664,372	159,100	-	823,472
Net Unrealized Gains (Losses) on long-term investments	(18,678)	260,398	-	241,720
Subtotal	681,089	1,835,927	236,897	2,753,913
Net Assets Released from Restriction	1,402,472	(1,402,472)	-	-
Total from Revenues, Gains, and Other Support	2,083,561	433,455	236,897	2,753,913
EXPENSES AND LOSSES				
Scholarships and Awards	866,218	-	-	866,218
Program Services	557,954	-	-	557,954
Management and General Activities	51,615	-	-	51,615
Donation	225,250	-	-	225,250
Fundraising	13,926	-	-	13,926
Total Expenses and Losses	1,714,963	-	-	1,714,963
Reinstate Recovery of Investments	111,318	(111,318)	-	-
Loss on Disposal of Asset	(1,030)	-	-	(1,030)
Transfers:				
Transfers In/(Out)	56,993	(369,107)	312,114	-
Change in Net Assets for the Year	535,879	(46,970)	549,011	1,037,920
NET ASSETS AT END OF YEAR	\$ 1,212,696	\$ 1,905,995	\$ 11,919,621	\$ 15,038,312

The accompanying notes are an integral part of this statement.

ADAMS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
For the years ending June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
<u>Cash Received:</u>		
Tuition and fees	\$18,113,250	\$16,872,614
Fee for service Contract Revenue	8,940,559	8,375,066
Sales of services	6,565,193	6,059,882
Sales of products	904,795	1,023,230
Grants and contracts	4,827,333	5,114,706
Student loans collected	244,303	196,134
Other receipts	1,158,563	902,557
<u>Cash Payments:</u>		
Payments to or for employees	(31,411,796)	(30,640,258)
Payments to suppliers	(13,101,463)	(11,519,139)
Scholarships disbursed	(831,691)	(1,171,567)
Student loans disbursed	(184,682)	(135,567)
<i>Net Cash (Used) Provided by Operating Activities</i>	<u>(4,775,636)</u>	<u>(4,922,342)</u>
Cash Flows from Noncapital Financing Activities:		
Federal grants and contracts, non-operating	5,700,848	5,875,982
Gifts/grants for other than capital purposes	2,014,889	2,034,342
Agency receipts	21,387,700	22,811,486
Agency payments	(21,337,766)	(23,132,068)
Transfers from (to) other institutions	(70,765)	(69,427)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>7,694,906</u>	<u>7,520,315</u>
Cash Flows from Capital & Related Financing Activities:		
State appropriations, capital	7,759,043	321,140
Student capital fees	2,167,742	1,820,318
Acquisition or construction of capital assets	(11,748,760)	(9,037,170)
Principal paid on capital debt	(1,090,036)	(1,056,449)
Interest paid on capital debt	(3,863,847)	(3,892,559)
<i>Net Cash Provided (Used) by Capital & Related Financing Activities</i>	<u>(6,775,858)</u>	<u>(11,844,720)</u>
Cash Flows from Investing Activities:		
Investment earnings	164,543	(78,003)
<i>Net Cash Provided (Used) by Investing Activities</i>	<u>164,543</u>	<u>(78,003)</u>
Net Increase (Decrease) in Cash	<u>(3,692,045)</u>	<u>(9,324,750)</u>
Beginning cash balance	21,535,088	30,859,838
Ending cash balance	<u>\$17,843,043</u>	<u>\$21,535,088</u>

The accompanying notes are an integral part of this financial statement.

ADAMS STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
For the years ending June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Loss to Net Cash (used) Provided		
by Operating Activities		
Operating loss	(\$10,502,839)	(\$11,503,921)
Adjustments to reconcile:		
Depreciation expense	6,670,913	6,384,014
Decrease (increase) in assets:		
Receivables, net	(292,323)	(70,624)
Inventories & prepaids	(146,737)	163,378
Increase (decrease) in liabilities:		
Accounts payable	(705,206)	(21,473)
Accrued liabilities	138,132	72,984
Unearned revenues	(23,368)	64,784
Student deposits	2,558	(7,177)
Compensated absences	83,234	(4,307)
<i>Net Cash Used by Operating Activities</i>	<u><u>(\$4,775,636)</u></u>	<u><u>(\$4,922,342)</u></u>
Noncash Investing, Capital, and Financing Activities:		
State Capital Contributions	\$7,759,043	\$321,140
Amortization of capital premium/discount and capital loss	172,088	172,088

The accompanying notes are integral part of this financial statement.

STATE OF COLORADO
ADAMS STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Institution Name Change

With passage of House Bill 12-1080, Colorado Revised Statute (CRS) 23-51-101 was amended, effective August 7, 2012, to confer university status and re-name the institution formerly known as Adams State College to Adams State University. With the name change, formerly known as Adams State College Foundation has changed its name to Adams State University Foundation.

Governance

HB 03-1093 authorized independent governance for Adams State University effective July 1, 2003. Adams State University is governed by the Board of Trustees. The Trustees are statutorily charged with responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies. The Board consists of nine members appointed by the Governor serving four-year terms. Additionally, the Board also includes an elected member of the student body of the University who serves for a one-year term and an elected member of the faculty of the University who serves for a two-year term.

Reporting Entity

Adams State University is an institution of higher education of the State of Colorado. Thus, for financial reporting purposes, Adams State University is included as part of the State of Colorado's primary government. A copy of the State Comprehensive Annual Financial Report may be obtained from the Office of the State Controller.

The University implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus -an amendment of GASB Statements No.14 and No. 34*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 34, *Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments* to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the University's financial reporting entity.

The University has determined that the Adams State University Foundation meets the Governmental Accounting Standards Board (GASB) Statement No. 61 criteria for inclusion in the University's financial statements. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities, facilities, and programs of the University by the donors. Because these restricted resources held by the Foundation can only be used 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.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), Topic 958 Not-for-Profit Entities. 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 entity for these differences. Complete financial statements for the Foundation can be obtained from the Controller's Office at the University. See Note 16 for a description of the Adams State University Foundation.

As defined by GASB Statement 61, *The Financial Reporting Entity*, the University is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relation with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

Basis of Accounting

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, and certificates of deposit with financial institutions, pooled cash with the State Treasurer and all highly liquid investments with an original maturity of three months or less, including restricted and unrestricted balances.

Investments

Investments are stated at their fair market value as determined by quoted market prices.

Inventory

Inventories consist primarily of bookstore inventory and consumable supplies and are stated at the lower of cost or market as determined by the FIFO (first in, first out) method. The valuation of the bookstore inventory is determined by the retail FIFO method, which involves pricing items at current selling prices reduced to the lower of cost or market by the application of an average mark-up ratio.

Capital Assets

Physical plant and equipment are stated at cost at date of acquisition, or fair market value at date of donation. A physical inventory of all plant assets is taken annually with appropriate adjustments made to the financial records. Annual revisions of statement of values for insurance purposes are performed. The University follows the policy of capitalizing only those plant assets with an initial cost or fair value equal to or greater than \$5,000.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are determined as 40 years for buildings, 15-20 years for building improvements, 10-20 years for improvements other than buildings, 5-30 years for equipment, and 10 years for library materials.

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, was \$308,011 (2014) and \$528,725 (2013).

Classification of Revenue

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

- § Operating revenues – Operating revenues generally result from providing goods and services for instruction, public service or related support services to an individual or entity separate from the University.
- § Nonoperating revenues – Nonoperating revenues are those revenues that do not meet the definition of operating revenues. Nonoperating revenues include state appropriations for operations, gifts, investment income and insurance reimbursement revenue.

STATE OF COLORADO
ADAMS STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

Application of Restricted and Unrestricted Resources

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

Unearned Revenue

Revenues on grants, which are restricted by the grant document for specific purposes, are recognized as revenue only after eligible grant costs have been incurred. Grant funds received in excess of grant expenditures are recorded as deferred revenues.

Compensated Absence Liabilities

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as compensated absence liabilities in the Statement of Net Position and as a component of appropriate functional expense categories in the Statement of Revenues, Expenses, and Changes in Net Position. The current portion of this liability is estimated based on historical trends.

Net Position

The University has classified its net position according to the following criteria:

- § *Net Investment in Capital Assets* – This category represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of this category.
- § *Restricted Net Position, Nonexpendable* – This category consists of endowment funds that are required to be retained in perpetuity.
- § *Restricted Net Position, Expendable* – This category includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. Restricted expendable net position is classified as expendable for loans, debt service, capital projects and other purposes. For the University, restricted net position expendable for other purposes includes net assets of its bonded auxiliaries.
- § *Unrestricted Net Position* – Unrestricted Net Position are those that do not meet the definition of "Restricted" or "Net Investment in Capital Assets" as described above. Generally, these resources will be derived from student tuition and fees, state appropriations, sales and services of educational activities, and sales and services of certain auxiliary and self-funded activities.

The Foundation applies Financial Accounting Standards Board FASB Staff Position 117-1, Endowments of Not-for-Profit Organizations. This policy provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was ratified into Colorado state law as of September 1, 2008.

STATE OF COLORADO
ADAMS STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

Enterprise Designation

Senate Bill 04-189, provides higher education institutions the opportunity to become designated enterprises under Section 20, Article X of the State Constitution (The Taxpayer's Bill of Rights) so long as the governing board of the institution has the authority to issue revenue bonds and the institution receives less than ten percent of its revenue from the State of Colorado and local governments. The Legislative Audit Committee and the Board of Trustees approved the designation of the University as an enterprise in fiscal year 2006. The University met the criteria for designation as an enterprise in fiscal years 2006 through 2014, with the exception of 2009 and 2014. The enterprise designation is reviewed at the end of each fiscal year to ensure that the criteria are still being met.

Restatement of 2013 Financial Statements

The University restated the Statement of Net Position as of June 30, 2012, and Statement of Revenue, Expenses and Changes in Net Position for the Year Ended June 30, 2013, to account for debt issuance costs per GASB 65. The impact of the GASB 65 restatement on the Statement of Net Position as of June 30, 2013, was a reduction in the Beginning Net Position of \$689,548. The impact of the restatement on the Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended June 30, 2013, was a reduction in Other Nonoperating Expenses of \$23,869 with a related increase to the change in Net Position.

Reclassifications

Certain reclassifications were made to the fiscal year 2013 financial statements presentation in order to conform to the fiscal year 2014 financial statements presentation.

New Accounting Pronouncements

During 2014, the University adopted the provisions of the following Governmental Accounting Standards Board (GASB) pronouncements:

Effective July 1, 2013, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The University has retroactively recognized the deferred loss on the defeasance of debt as a deferred outflow of resources. GASB 65 also established standards of accounting and financial reporting for debt issuance costs. Debt issuance costs, except any portion related to prepaid insurance costs, were recognized as an expense in the period incurred.

In the next fiscal year, the University will adopt the provisions of the following Governmental Accounting Standards Board (GASB) pronouncements:

Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, (GASB No. 68) revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The University provides certain of its employees with pension benefits through the State's multiple employer cost-sharing Public Employees' Retirement Association (PERA) defined benefit retirement program.

GASB No. 68 requires cost-sharing employers participating in the PERA program, such as the University, to record their proportionate share, as defined in GASB No. 68, of PERA's unfunded pension liability. The University has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA or the General Assembly. The requirement of GASB No. 68 to record a portion of PERA's unfunded liability will negatively impact the University's future unrestricted net position. GASB No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in its Comprehensive Annual Financial Report.

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NOTE 2 - CASH WITH THE STATE TREASURER, CASH ON HAND AND IN BANK, AND INVESTMENTS

For an investment, custodial credit risk is the risk that in the event of a bank failure, 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. The University does not have a deposit policy for custodial credit risk.

At June 30, 2014, the University had \$9,027,478 including unrealized gains of \$39,443 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office. At year-end, cash on hand and in banks consisted of the following:

Cash on hand	\$ 8,870
Cash in checking accounts at bank	5,656,778
Certificates of deposits	3,149,917
Total cash	<u>\$ 8,815,565</u>

The carrying amount of the University's cash on deposit was \$8,806,695. The bank balance of these deposits was \$8,985,218, of which \$1,167,598 was covered by federal depository insurance and \$7,817,620 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

At June 30, 2013, the University had \$17,037,528, including unrealized gains of \$28,043, on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office. At year-end, cash on hand and in banks consisted of the following:

Cash on hand	\$ 7,840
Cash in checking accounts at bank	1,356,641
Certificates of deposits	3,133,078
Total cash	<u>\$ 4,497,559</u>

The carrying amount of the University's cash on deposit was \$4,489,719. The bank balance of these deposits was \$4,538,555, of which \$918,969 was covered by federal depository insurance and \$3,619,586 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

The University deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer 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. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2014, the University had cash on deposit with the State Treasurer of \$9,027,478, which represented approximately 0.1 percent of the total \$7,455.0 million fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer 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.

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Investments in the Treasurer’s Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State’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 State’s name. As of June 30, 2014, none of the investments in the State Treasurer’s Pool are subject to custodial credit 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 of 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. Based on these parameters, as of June 30, 2014, approximately 87.0 percent of investments of the Treasurer’s Pool are subject to credit quality risk reporting. Except for \$15,235,458 of corporate bonds rated lower medium and \$25,528,000 of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an 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. As of June 30, 2014, the weighted average maturity of investments in the Treasurer’s Pool is 0.043 years for Commercial Paper (1.0 percent of the Pool), 1.424 years for U.S. Government Securities (55.8 percent of the Pool), 3.033 years for Asset Backed Securities (19.9 percent of the Pool), and 2.766 years for Corporate Bonds (23.3 percent of the Pool).

The Treasurer’s Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2013-14.

Additional information on investments of the State Treasurer’s Pool may be obtained in the State’s Comprehensive Annual Financial Report for the year ended June 30, 2014.

ASU Foundation Investments and Concentration of Risk

At June 30, investments recorded at fair value are comprised of the following:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Common Fund	\$ 14,243,507	\$ 16,628,751	\$ 13,705,072	\$ 14,225,757

Common Fund investments of the individual net asset classes are combined to form a pool of investments, which is managed by the Common Fund. Income earned on investments is allocated, based on cost, to the individual net asset classes with earnings of the endowment investments being included as an increase of temporarily restricted net assets or unrestricted net assets.

As of June 30, the Foundation had bank deposits in two financial institutions that exceeded insurance coverage by a total of \$240,292 (2014) and \$432,945 (2013).

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NOTE 3 - ACCOUNTS AND LOANS RECEIVABLE

Account receivable balances are presented net of estimated allowance for doubtful accounts in the accompanying Statement of Net Position. At June 30, accounts receivable were as follows:

	2014	2013
Student Accounts Receivable	\$ 2,303,877	\$ 2,501,221
Less: Allowance for Doubtful Accounts	(975,265)	(1,247,037)
Student Accounts Receivable, net	1,328,612	1,254,184
Other Accounts Receivable	1,066,075	781,593
Student Loans Receivable	963,015	977,166
Less: Allowance for Doubtful Accounts	(326,291)	(293,172)
Student Loans Receivable, Net	636,724	683,994
Total Receivables	<u>\$ 3,031,411</u>	<u>\$ 2,719,771</u>

NOTE 4 - CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2014.

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Nondepreciable Capital Assets				
Land	\$ 445,249	\$ -	\$ -	\$ 445,249
Art and Historic Treasures	-	260,488	-	260,488
Construction in Progress	4,193,822	11,203,482	8,453,876	6,943,428
Total Nondepreciable Capital Assets	<u>\$ 4,639,071</u>	<u>\$ 11,463,970</u>	<u>\$ 8,453,876</u>	<u>\$ 7,649,165</u>
Depreciable Capital Assets				
Land Improvements	\$ 12,536,445	\$ 1,237,185	\$ -	\$ 13,773,630
Buildings and Improvements	146,343,442	7,216,692	-	153,560,134
Equipment	4,674,090	551,338	485,636	4,739,792
Library Materials	4,933,940	112,507	77,945	4,968,502
Total Depreciable Capital Assets	<u>168,487,917</u>	<u>9,117,722</u>	<u>563,581</u>	<u>177,042,058</u>
Less: Accumulated Depreciation				
Land Improvements	5,187,920	557,393	-	5,745,313
Buildings and Improvements	48,453,303	5,660,201	-	54,113,504
Equipment	2,739,553	305,552	260,386	2,784,719
Library Materials	4,200,957	147,767	42,707	4,306,017
Total Accumulated Depreciation	<u>60,581,733</u>	<u>6,670,913</u>	<u>303,093</u>	<u>66,949,553</u>
Net Depreciable Capital Assets	<u>\$ 107,906,184</u>	<u>\$ 2,446,809</u>	<u>\$ 260,488</u>	<u>\$ 110,092,505</u>

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The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2013.

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Nondepreciable Capital Assets				
Land	\$ 445,249	\$ -	\$ -	\$ 445,249
Construction in Progress	5,468,850	8,806,051	10,081,079	4,193,822
Total Nondepreciable Capital Assets	\$ 5,914,099	\$ 8,806,051	\$ 10,081,079	\$ 4,639,071
Depreciable Capital Assets				
Land Improvements	\$ 12,536,445	\$ -	\$ -	\$ 12,536,445
Buildings and Improvements	136,262,363	10,081,079	-	146,343,442
Equipment	4,485,890	627,248	439,048	4,674,090
Library Materials	4,830,154	111,395	7,609	4,933,940
Total Depreciable Capital Assets	158,114,852	10,819,722	446,657	168,487,917
Less: Accumulated Depreciation				
Land Improvements	4,692,386	495,534	-	5,187,920
Buildings and Improvements	42,995,817	5,457,486	-	48,453,303
Equipment	2,902,109	276,492	439,048	2,739,553
Library Materials	4,054,064	154,502	7,609	4,200,957
Total Accumulated Depreciation	54,644,376	6,384,014	446,657	60,581,733
Net Depreciable Capital Assets	\$ 103,470,476	\$ 4,435,708	\$ -	\$ 107,906,184

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NOTE 5 - NONCURRENT LIABILITIES

The University's noncurrent liability activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Current Portion
Bond and Leases Payable:					
Series 2009A Bonds	\$ 19,020,000	\$ -	\$ 400,000	\$ 18,620,000	\$ 415,000
Series 2009B Bonds	11,200,000	-	420,000	10,780,000	875,000
Series 2009C Bonds	27,615,000	-	-	27,615,000	-
Series 2012 Bonds	12,975,000	-	-	12,975,000	75,000
Unamortized Premium 2009A	318,796	-	12,400	306,396	-
Unamortized Premium 2009B	308,822	-	19,352	289,470	-
Unamortized Premium 2009C	(542,285)	-	(19,396)	(522,889)	-
Unamortized Premium 2012	544,182	-	18,875	525,307	-
Capital Lease Obligation	1,665,808	-	376,296	1,289,512	66,304
<i>Total Bonds and Leases Payable</i>	<u>73,105,323</u>	<u>-</u>	<u>1,227,527</u>	<u>71,877,796</u>	<u>1,431,304</u>
Other Liabilities:					
Compensated Absences	1,216,969	83,234	-	1,300,203	13,136
Other	36,262	-	3,368	32,894	9,551
<i>Total Other Liabilities</i>	<u>1,253,231</u>	<u>83,234</u>	<u>3,368</u>	<u>1,333,097</u>	<u>22,687</u>
<i>Total Long-Term Liabilities</i>	<u>\$ 74,358,554</u>	<u>\$ 83,234</u>	<u>\$ 1,230,895</u>	<u>\$ 73,210,893</u>	<u>\$ 1,453,991</u>

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The University's noncurrent liability activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Bond and Leases Payable:					
Series 2009A Bonds	\$ 19,420,000	\$ -	\$ 400,000	\$ 19,020,000	\$ 400,000
Series 2009B Bonds	11,600,000	-	400,000	11,200,000	420,000
Series 2009C Bonds	27,615,000	-	-	27,615,000	-
Series 2012 Bonds	12,975,000	-	-	12,975,000	-
Unamortized Premium 2009A	331,197	-	12,401	318,796	-
Unamortized Premium 2009B	328,174	-	19,352	308,822	-
Unamortized Premium 2009C	(561,681)	-	(19,396)	(542,285)	-
Unamortized Premium 2012	563,055	-	18,873	544,182	-
Capital Lease Obligation	2,029,168	-	363,360	1,665,808	376,296
<i>Total Bonds and Leases Payable</i>	<u>74,299,913</u>	<u>-</u>	<u>1,194,590</u>	<u>73,105,323</u>	<u>1,196,296</u>
Other Liabilities:					
Compensated Absences	1,221,276	-	4,307	1,216,969	8,819
Other	38,980	-	2,718	36,262	9,551
Total Other Liabilities	<u>1,260,256</u>	<u>-</u>	<u>7,025</u>	<u>1,253,231</u>	<u>18,370</u>
<i>Total Long-Term Liabilities</i>	<u>\$ 75,560,169</u>	<u>\$ -</u>	<u>\$ 1,201,615</u>	<u>\$ 74,358,554</u>	<u>\$ 1,214,666</u>

NOTE 6 - LEASE OBLIGATIONS

A capital lease for Energy Conservation Measures equipment was entered into July 7, 2011, in the amount of \$1,414,680. The lease requires quarterly payments ranging between \$30,026 and \$37,855 for fifteen years at an interest rate of 4.375%.

Principal and Interest requirements to maturity for this lease purchase is as follows:

Year Ending June 30	
2015	\$ 121,648
2016	122,796
2017	127,128
2018	131,815
2019	133,946
2020-2024	689,874
2025-2028	369,790
	<u>1,696,997</u>
Less amount representing interest	(407,485)
Principal outstanding	<u>\$ 1,289,512</u>

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NOTE 7 - BONDS PAYABLE

Series 2009A Bonds

On March 12, 2009, the University issued Auxiliary Facilities Revenue Improvement Bonds Series 2009A in the amount of \$19,805,000 for the purpose of obtaining funds for various campus improvement projects, including the acquisition, construction, improvement and equipping of a new residence and recreational facility.

The Series 2009A Bonds have annual maturities through 2039. The bonds maturing between May 2020 and May 2039 are subject to optional redemption prior to their respective maturities at the option of the Board of Trustees. The bonds maturing between May 2025 thru May 2039 are subject to mandatory sinking fund requirements by lot, on the dates and in the designated principal amounts as specified in the bond resolution, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date. Interest rates vary from 2.50% to 5.50% with an average rate of 5.18%. The bonds are collateralized by first lien on and pledge of all net revenues of continuing education and capital construction debt service fee and pledge of all net revenues of the Auxiliary Facilities System. In addition, ten percent of tuition revenues will be pledged as collateral if the University is designated as an institutional enterprise under Section 23-5-101.7, Colorado Revised Statutes, as amended.

Series 2009B and 2009C Bonds

On December 15, 2009, the University issued Auxiliary Facilities Revenue Bonds Series 2009B in the amount of \$12,760,000 for the purpose of refunding \$9,380,000 of Series 2004A Enterprise Revenue Bonds and to obtain additional funds in the amount of \$2,621,740 for improvement projects. Proceeds in the amount of \$10,407,501 were placed into an irrevocable escrow account and invested in non-callable direct obligations of the United States of America. Principal and interest on the government obligations will be used, together with any cash balance in the escrow account, to pay the regularly scheduled principal and interest on the refunded bonds through May 15, 2014 and to redeem on such date the refunded bonds maturing on and after May 15, 2015. As a result, the Series 2004A Bonds are considered defeased and the liability for those bonds has been removed from the University's Statement of Net Position.

On December 15, 2009, the University also issued Taxable Auxiliary Facilities Revenue Bonds Series 2009C in the amount of \$27,615,000 for the purpose of obtaining funds for various campus improvement projects, including the remodeling of various academic buildings. The Series 2009C Bonds are designated as "Build America Bonds" and the University will receive a cash subsidy payment equal to 35% of the interest payable on these bonds.

The Series 2009B Bonds have annual maturities through 2029. The Series 2009C Bonds have annual maturities through 2041. The bonds maturing after May 15, 2020 are subject to optional redemption prior to their respective maturities at the option of the Board of Trustees. The bonds maturing between May 2022 thru May 2041 are subject to mandatory sinking fund requirements by lot, on the dates and in the designated principal amounts as specified in the bond resolution, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date. Interest rates on the Series 2009B Bonds vary from 2.00% to 5.00% with an average rate of 3.52%. Interest rates on the Series 2009C Bonds vary from 5.245% to 6.771% with an average rate of 5.97% net of the 35% Federal Interest Subsidy for Build America Bonds.

The bonds are collateralized by first lien on and pledge of all net revenues of continuing education, capital construction debt service fee and pledge of all net revenues of the Auxiliary Facilities System. In addition, ten percent of tuition revenues will be pledged as collateral if the University is designated as an institutional enterprise under Section 23-5-101.7, Colorado Revised Statutes, as amended.

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Series 2012 Bonds

On May 1, 2012, the University issued Institutional Enterprise Revenue Bonds, Series 2012 in the amount of \$12,975,000 for the purpose of obtaining funds for certain capital improvements to the campus.

The Series 2012 Bonds have annual maturities through 2042. The bonds maturing between May 2023 and May 2042 are subject to optional redemption prior to their respective maturities at the option of the Board of Trustees. The bonds maturing between May 2032 thru May 2042 are subject to mandatory sinking fund requirements by lot, on the dates and in the designated principal amounts as specified in the bond resolution, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date. Interest rates vary from 2.00% to 5.00% with an average rate of 4.07%. The bonds are collateralized by first lien on and pledge of all net revenues of continuing education and capital construction debt service fee and pledge of all net revenues of the Auxiliary Facilities System. In addition, ten percent of tuition revenues will be pledged as collateral if the University is designated as an institutional enterprise under Section 23-5-101.7, Colorado Revised Statutes, as amended.

At June 30, 2014 and 2013, the University was in compliance with all covenants related to all bonds outstanding.

The long-term bonds payable are shown in the Statement of Net Position net of unamortized discount or premium and unamortized deferred loss on refunding.

The following is a schedule of future minimum bond payments as of June 30, 2014:

	2009A Series	2009B Series	2009C Series	2012 Series	Total
Year Ending June 30,					
2015	\$ 1,362,511	\$ 1,309,250	\$ 1,767,752	\$ 602,645	\$ 5,042,158
2016	1,360,061	1,310,500	1,767,752	701,145	5,139,458
2017	1,361,780	1,302,900	1,767,752	817,645	5,250,077
2018	1,356,380	1,305,300	1,767,752	816,745	5,246,177
2019	1,363,380	1,306,000	1,767,752	820,745	5,257,877
2020-2024	6,815,925	3,781,738	11,485,051	4,110,125	26,192,839
2024-2029	6,806,105	3,787,375	11,148,766	4,095,043	25,837,289
2030-2034	6,797,850	-	14,159,493	4,138,250	25,095,593
2035-2039	6,808,850	-	13,126,318	4,160,000	24,095,168
2040-2044	-	-	2,749,943	2,459,400	5,209,343
Total Bond Payments	34,032,842	14,103,063	61,508,331	22,721,743	132,365,979
Less: Interest Included Above	(15,412,842)	(3,323,063)	(33,893,331)	(9,746,743)	(62,375,979)
Total Principal Outstanding	18,620,000	10,780,000	27,615,000	12,975,000	69,990,000
Less: Current Portion	(415,000)	(875,000)	-	(75,000)	(1,365,000)
Net Long Term Principal	18,205,000	9,905,000	27,615,000	12,900,000	68,625,000
Less: Unamortized Premium and Discount	306,396	289,470	(522,888)	525,307	598,285
Bonds Payable, Net	<u>\$ 18,511,396</u>	<u>\$ 10,194,470</u>	<u>\$ 27,092,112</u>	<u>\$ 13,425,307</u>	<u>\$ 69,223,285</u>

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NOTE 8 - COMMITMENTS AND CONTINGENCIES

Amounts expended under the terms of certain grants and contracts are subjected to audit and possible adjustment by governmental agencies. In the opinion of management, any adjustments will not have a material or adverse effect on the accompanying financial statements.

The University receives significant amounts from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed amounts resulting from such audits could become a liability of the University. However, University management believes that any such disallowed amounts will not have a material adverse effect on any of the financial statements or on the overall financial position of the University at June 30, 2014.

NOTE 9 - ACCRUED PAYROLL

Prior to fiscal year 2003, salaries and wages earned through the end of the fiscal year were paid to employees on June 30. Senate Bill 03-197 requires that monthly salaries for June that were normally paid on June 30 are to be paid on July 1. This created an accrual for June 30, of \$2,429,985 (2014) and \$2,257,590 (2013), respectively.

NOTE 10 - COMPENSATED ABSENCES

Employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount, which will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, are estimated as \$13,136 (2014) and \$8,819 (2013). The estimated costs of non-current compensated absences for which employees are vested for the years ended June 30, are estimated as \$1,287,067 (2014) and \$1,208,150 (2013). Current expenses include an increase of \$4,317 for the estimated compensated absence liability. None of the liability relates to the current restricted fund.

NOTE 11 - PENSION PLAN OBLIGATIONS

On September 10, 1993 the Board of Trustees of the State Universities adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff, under the authority of Senate Bill 92-127. The implementation date was May 1, 1994; eligible employees were offered the choice of remaining in PERA or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire. On July 1, 2003 the Board of Trustees for Adams State University elected to continue with the Optional Retirement Plan (ORP).

The ORP is a defined contribution pension plan with three vendors, Fidelity Investments, TIAA-CREF and VALIC, providing a range of investment accounts for participants. The institution's contribution to the ORP is 11.4 percent of covered payroll and contributions by employees is 8 percent of covered payroll.

The University's contributions to the ORP for the fiscal years ending June 30, were \$1,197,766 (2014), \$1,177,665 (2013) and \$1,156,805 (2012). These contributions were equal to the required contributions for each year. All ORP contributions are immediately vested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and decisions made by participants for their individual investment accounts.

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As of May 1, 1994, some exempt employees of the institution elected to continue as members with the Public Employee's Retirement Association of Colorado (PERA), the remainder participates in the ORP.

PERA Plan Description

Many of the University's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

Non-higher education employees hired by the State after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Defined benefit plan members vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- § Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- § Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.
- § Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

- § Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- § Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- § Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- § Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.
- § Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- § Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- § Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- § Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the National Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- § The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5 percent for members in the State and Judicial Divisions to replace the 2.5 percent reduction in employer contributions effective for Fiscal Years 2010-11 and 2011-12 expired.

From July 1, 2013, to December 31, 2013, the State contributed 16.55 percent of the employee's salary. From January 1, 2014, through June 30, 2014, the state contributed 17.45 percent. During all of Fiscal Year 2013-14, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2013, the division of PERA in which the State participates has a funded ratio of 57.5 percent and a 60 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0 percent.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

At a 103 percent funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90 percent funded both the AED and SAED will be increased by one-half percentage point. For the Judicial Division, if the funding ratio reaches 90 percent and subsequently declines, the AED and SAED will be increased by one-half percentage point.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The University's contributions to PERA and/or the state defined contribution plan for the fiscal years ending June 30, were \$1,974,531 (2014), \$1,815,985 (2013), and \$1,400,744 (2012). These contributions met the contribution requirement for each year.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of Section 24-54.6-101, Colorado Revised Statute (C.R.S.), and as provided in section 403 (b) of the Internal Revenue Code, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees not currently attending classes are required to participate. The plan requires a 7.5 percent contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan, for Adams State University was \$172,061. Employee contributions were 7.5 percent of covered payroll.

NOTE 12 - OTHER RETIREMENT PLANS

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. At July 1, 2009, the State's administrative functions for the defined contribution plan were transferred to PERA. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent (10 percent for state troopers) of their salary. The temporary contribution rate increase to 10.5 percent (12.5 percent for State Troopers) effective in Fiscal Years 2010-11 and 2011-12 expired on July 1, 2012. At December 31, 2013, the plan had 4,719 participants.

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. At 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 2013, 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 \$17,500. The reduction for the 8 percent PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5 percent effective in Fiscal Years 2010-11 and 2011-12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2013, for total contributions of \$23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

NOTE 13 - VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer 403(b) or 401(a) plans.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS & LIFE INSURANCE

Health Care Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and \$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 maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note 11. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The University contributed for the Fiscal Years \$117,784 (2014), \$114,463 (2013), \$111,920 (2012) as required by statute. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2013, there were 53,041 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2013, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.26 billion, a funded ratio of 18.8 percent, and a 30-year amortization period.

Other Programs - Colorado Higher Education Insurance Benefits Alliance (CHEIBA)

Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States using the accrual basis of accounting following Governmental Accounting Standards for a business-type activity. The financial statements can be obtained by contacting the Adams State University Human Resources Office. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the Trust's investments is based on quoted market prices from national securities exchanges.

There are no long term contracts for contributions to the plan. Participating schools can withdraw their participation in the plan with at least one years notice to the CHEIBA board.

NOTE 15 - SCHOLARSHIP ALLOWANCES

Tuition, fee and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2014 and 2013, were as follows:

**STATE OF COLORADO
ADAMS STATE UNIVERSITY**

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014 and 2013

	Tuition & Fees	Auxiliary Revenue	2014 Total	2013 Total
Gross Revenue	\$ 30,329,592	\$ 8,151,376	\$ 38,480,968	\$ 36,127,747
Scholarship Allowances:				
Federal	4,795,178	260,303	5,055,481	5,126,414
State	1,185,332	64,345	1,249,677	1,221,231
Private	1,298,394	70,483	1,368,877	1,252,705
Institutional	4,587,387	249,024	4,836,411	4,254,230
Total Allowances	11,866,291	644,155	12,510,446	11,854,580
Net Revenue	\$ 18,463,301	\$ 7,507,221	\$ 25,970,522	\$ 24,273,167

NOTE 16 - UNIVERSITY FOUNDATION

The Adams State University Foundation was formed and incorporated on January 23, 1962, as a non-profit corporation for the purpose of receiving gifts, legacies and grants of money and property and to administer these exclusively for educational purposes entirely within the Adams State University area in the State of Colorado, and for the purpose of promoting and furthering the interests, objectives and purposes of Adams State University in such other ways and manners as the corporation may from time to time determine.

During the year ended June 30, the University received funds totaling \$1,192,378 (2014) and \$1,068,328 (2013), from the Foundation for scholarships, work study and grants-in-aid. These funds are appropriately accounted for and reported in the financial statements. In addition, the Foundation has expended funds for the purchase of an insignificant quantity of supplies and other services from the University.

NOTE 17 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The University is subject to risks of loss from liability for accident property damage and personal injury. The University is required to obtain insurance, but no reduction occurred in coverage nor did any settlements exceed coverage. The University does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$1,000 deductible per incident.

NOTE 18 - LONG BILL BUDGET, ACTUAL REVENUE AND ACTUAL EXPENSES

The budget, actual revenue and actual expenses related to the amounts shown in the State of Colorado Long Bill for tuition, academic fees, stipends and fee for service contracts for fiscal year 2014 are as follows:

Budget	\$11,582,905
Actual Revenues	11,580,582
Actual Expenses	11,582,905

SUPPLEMENTAL INFORMATION

ADAMS STATE UNIVERSITY
SCHEDULE OF PLEDGED REVENUES AND EXPENSES
FOR SERIES 2009A, 2009B, 2009C AND 2012 AUXILIARY FACILITIES REVENUE BONDS
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue		
Tuition revenues	\$ 2,237,901	\$ 2,031,570
Extended Studies tuition and fees	4,874,120	4,297,991
Capital fees	2,187,057	1,824,748
College service fees	615,725	636,353
Traffic control fees	44,974	0
Rental income	4,462,841	4,302,702
Food service income	2,256,910	2,189,962
Sales/services auxiliaries	918,547	1,030,818
Interest income	20,068	31,316
Other income	250,323	347,511
<i>Total Revenue</i>	<u>17,868,466</u>	<u>16,692,971</u>
Expenses		
Salaries & benefits	5,130,175	4,774,620
Costs of goods	727,796	735,618
Utilities expense	585,717	550,668
Rental expense	192,633	189,242
Contract food services	1,328,597	1,294,957
Travel	97,757	85,003
Supplies	283,534	269,270
Other operating expenses	423,379	394,174
Purchased services-personal	330,967	217,325
Financial aid	577,059	683,749
Administrative cost allowance	1,233,923	1,139,795
Furniture & equipment	242,294	205,873
Other capital expenditures	225,000	150,000
Other expenses	277,742	372,957
<i>Total Expenses</i>	<u>11,656,573</u>	<u>11,063,251</u>
Net Revenue before Transfers	6,211,893	5,629,720
Transfers		
Mandatory transfers	3,432,918	3,105,326
Nonmandatory transfers	469,149	48,934
<i>Total Transfers</i>	<u>3,902,067</u>	<u>3,154,260</u>
<i>Net Revenue</i>	<u>\$ 2,309,826</u>	<u>\$ 2,475,460</u>
Debt Service Coverage		
Net Operating Revenue	\$ 6,211,893	\$ 5,629,720
Bond Principal and Interest	4,423,445	3,898,895
Excess of Net Operating Revenue Over Debt Service	<u>\$ 1,788,448</u>	<u>\$ 1,730,825</u>
Debt Service Coverage Ratio	140%	144%

**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**



Wall,
Smith,
Bateman Inc.

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 major fund of Adams State University (the University), an Institution of Higher Education, State of Colorado, the Adams State University Foundation, a discretely presented component unit, discussed in Note 1 of the financial statements, which represents 100 percent of the total assets, total revenues, and total net assets of the aggregate discretely presented component unit, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 10, 2014. The financial statements of the discretely presented component unit, Adams State University Foundation, 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 opinions 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.

Certified Public Accountants

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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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Wall, Smith, Bateman Inc." in a cursive script.

Wall, Smith, Bateman Inc.
Alamosa, Colorado

November 10, 2014



Wall,
Smith,
Bateman Inc.

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the major fund of Adams State University (the University), an Institution of Higher Education, State of Colorado, and the Adams State University Foundation, a discretely presented component unit of the University, discussed in Note 1 of the financial statements, as of and for the years ended June 30, 2014 and 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and *OMB Circular A-133*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 29, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

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. As described in Note 1, the University changed accounting policies by adopting Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during Fiscal Year 2014. 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 depreciation expense is based on the estimated useful life of the capital assets being depreciated at June 30, 2014. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the collectability of student accounts receivable and student loans is based on historical analysis. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

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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. There were no likely misstatements identified during the audit.

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 are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2014.

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 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.

Other Matters

We were engaged to report on the supplementary information, which accompany the financial statements but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction On Use

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

Very truly yours,

A handwritten signature in blue ink that reads "Wall, Smith, Bateman Inc." in a cursive script.

Wall, Smith, Bateman Inc.

November 10, 2014

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

**ADAMS STATE UNIVERSITY
STATE OF COLORADO
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2014**

INTRODUCTION

Adams State University is a state-supported institution of higher education located in Alamosa, Colorado.

The financial and compliance examination of the various state-funded student assistance programs at the University for the year ended June 30, 2014, was directed toward the objectives and criteria set forth in the Colorado handbook for State-Funded Student Assistance Programs, issued by the Colorado Department on Higher Education (CDHE). The state student financial assistance programs were examined simultaneously with the federal financial aid programs for the years ended June 30, 2014.

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS

The various state-funded student assistance programs at the University include the Colorado Student Grant Program, Colorado Work Study Program, and the Supplemental Educational Opportunity Grant Program.

The state-funded student assistance awards made by the University were approximately \$1,665,725 for the fiscal year ending on June 30, 2014.

The Director of Financial Aid is responsible for the administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state financial aid programs. The University Controller is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period, Adams State University obtained authorizations to award federal student financial aid funds of \$5,112,308 in the Pell Grant Program, \$187,873 in the Supplemental Educational Opportunity Grant Program and \$289,320 in the University Work-Study Program.

During the fiscal year ended 2014, Adams State University obtained authorizations to award Colorado student financial aid funds of \$1,313,718 in the Student Grant Program and \$352,007 in the Colorado Work Study Program.



Wall,
Smith,
Bateman Inc.

**INDEPENDENT AUDITORS' REPORT
ON THE STATEMENT OF APPROPRIATIONS , EXPENDITURES ,
TRANSFERS AND REVERSIONS OF THE STATE-FUNDED
STUDENT FINANCIAL ASSISTANCE PROGRAMS**

Members of the Legislative Audit Committee :

Report on Financial Statement

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs (the Statement) for Adams State University (the University), an Institution of Higher Education, State of Colorado, for the year ended June 30, 2014, and the notes related to the Statement. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on the Statement based on our audit.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the financial format as set forth in the *2013-2014 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education (DHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this Statement based on our audit. 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 Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, 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 Statement 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 Statement.

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

Certified Public Accountants

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Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the University for the year ended June 30, 2014, in accordance with the format as set forth in the *2013-14 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the DHE, and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University described in Note 1 to the Statement.

Basis of Accounting

We draw attention to Note 1 to the Statement, which describes the basis of accounting. As described in Note 1 to the Statement, the Statement prepared by the University was prepared in accordance with the *2013-2014 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the DHE, and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study programs, and does not present certain transactions that would be included in the statement of state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to, and does not present the financial position, changes in financial position, or cash flows of the University in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have issued our report dated November 10, 2014 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Report Restriction

This report is intended solely for the information and use of the Legislative Audit Committee, the University's Board of Trustees, and management of the University, the Department of Education, and the Colorado Commission of Higher Education and is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,



Wall, Smith, Bateman Inc.
Alamosa, Colorado

November 10, 2014

STATE OF COLORADO
ADAMS STATE UNIVERSITY
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS
Year ended June 30, 2014

	TOTAL STATE- FUNDED STUDENT ASSISTANCE	COLORADO STUDENT GRANT	COLORADO WORK STUDY
APPROPRIATIONS:			
ORIGINAL	\$ 1,665,725	\$ 1,293,718	\$ 372,007
SUPPLEMENTAL	-	-	-
TRANSFERS	-	20,000	(20,000)
RETURNED TO CCHE	-	-	-
TOTAL	1,665,725	1,313,718	352,007
EXPENDITURES	1,665,725	1,313,718	352,007
REVERSIONS TO STATE GENERAL FUND	\$ -	\$ -	\$ -

ADAMS STATE UNIVERSITY
NOTES TO THE STATEMENT OF APPROPRIATIONS, EXPENDITURES,
TRANSFERS AND REVERSIONS
FOR THE YEAR ENDED JUNE 30, 2014

BASIS OF ACCOUNTING

Adams State University's accounting system is structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Offices in its revised publication *Financial Accounting and Reporting Manual*.

All student aid is expensed on a cash basis, except for the Perkins Student Loan and the College Work-Study Program (CWS). Perkins Student Loans are recorded as loans receivable when the funds are disbursed. CWS is on the accrual basis in that the expense is recognized when the services are performed.