DALBY, WENDLAND & CO., P.C.

INDEPENDENT AUDITORS' REPORT

WESTERN STATE COLLEGE
FINANCIAL AND COMPLIANCE AUDIT

FISCAL YEAR ENDED
JUNE 30, 2003

LEGISLATIVE AUDIT COMMITTEE
2003 MEMBERS

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Sally Symanski
Deputy State Auditor

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of Western State College. The audit included examinations of the basic financial statements and the statements of state-funded student assistance programs. This report includes the financial statements as well as the independent auditors' reports issued as part of the audit.

DALBY, WENDLAND & CO., P.C.

October 31, 2003

TABLE OF CONTENTS

STATE OF COLORADO
WESTERN STATE COLLEGE
REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT
Year Ended June 30, 2003

PURPOSE AND SCOPE OF AUDITS

The Office of the State Auditor, State of Colorado, engaged Dalby, Wendland & Co., P.C. to conduct audits of Western State College (the College) for its fiscal year ended June 30, 2003. Dalby, Wendland & Co., P.C. performed these audits 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. We conducted the related field work from June through September 2003.

The purpose and scope of these audits were to:

- Express an opinion on the financial statements of the College as of and for the year ended June 30, 2003. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of federal and state funds.

- Report on the College'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 Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the College for the year ended June 30, 2003.

- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed unqualified opinions on the College's financial statements and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2003.

We issued a report on the College's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements.

The College's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2003, Statewide Single Audit Report issued under separate cover.

We also issued certain required communications related to the conduct of an audit including our responsibility under auditing standards generally accepted in the United States of America, significant accounting policies, audit adjustments, and accounting estimates. No delays, disagreements or audit adjustments are reported.

The basic financial statements of Western State College for the year ended June 30, 2002 were not audited. The operations of the College were included in the financial reporting entity of the State Colleges in Colorado. The consolidated financial statements of the State Colleges in Colorado for the year ended June 30, 2002 were audited by the Office of the State Auditor and they expressed an unqualified opinion on them in their report dated November 24, 2002. They have not performed any auditing procedures since that date.

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

There were no reported findings and recommendations resulting from the audit work completed for fiscal year 2003.

Summary of Progress in Implementing Prior Audit Recommendations

There were no recommendations for the year ended June 30, 2002.

DESCRIPTION OF WESTERN STATE COLLEGE

Founded in 1911 as Colorado State Normal School, Western State College is Colorado's oldest college west of the Continental Divide. Originally planned as a preparatory college for teachers, Western remained a Normal School until 1923 when it was renamed Western State College. Western State College is an undergraduate college of liberal arts and sciences. Section 23-56-101, C.R.S, provides that Western State College be a general baccalaureate institution with moderately selective admission standards. The College is to provide a limited number of professional, educational, and traditional arts and sciences programs. Western State College cannot offer any two-year programs.

Through June 30, 2003, Western State College was a member of the Office of State Colleges in Colorado and, as such, was governed by the Board of Trustees of the Office of State Colleges. Effective July 1, 2003, the Office of State Colleges was dissolved in accordance with House Bill 03-1093 and each member became an independent entity. As a result of the dissolution of the Office of State Colleges, the College has a separate Board of Trustees comprised of 9 members appointed by the Governor, with consent of the Senate, for 4 year terms, one faculty member elected by the faculty and one student member elected by the student body.

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

	2001	2002	2003
Resident Students	1,431.7	1,499.2	1,549.9
Nonresident Students	640.3	594.5	591.4
Total Students	2,072.0	2,093.7	2,141.3
Faculty FTEs	112.6	109.9	103.2
Staff FTEs	159.6	154.5	130.8
Total Staff and Faculty FTEs	272.2	264.4	234.0

FINANCIAL STATEMENT SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Net Assets of Western State College, a blended component unit of the State of Colorado, as of June 30, 2003, and the related Statements of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the year then ended. These basic financial statements are the responsibility of the management of Western State College. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Western State College as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, Western State College implemented a new financial reporting model as required by the provisions of the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statements Note Disclosures*, as of July 1, 2001. This resulted in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of Western State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenues and Expenses for Enterprise Revenue Bonds is presented for purposes of additional analysis and is not a required part of the basic financial statements of Western State College. Such information, which is the responsibility of the College's management, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The basic financial statements of Western State College for the year ended June 30, 2002 were not audited. The operations of the College were included in the financial reporting entity of the State Colleges in Colorado. The consolidated financial statements of the State Colleges in Colorado for the year ended June 30, 2002 were audited by the Office of the State Auditor and they expressed an unqualified opinion on them in their reported dated November 24, 2002. They have not performed any auditing procedures since that date.

DALBY, WENDLAND & CO., P.C.

September 26, 2003

WESTERN STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Western State College's (the College) financial report presents management's discussion and analysis of the financial performance of the College during the year ended June 30, 2003. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes. A comparative analysis is presented for the year ended June 30, 2002.

Using the Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". In November 1999, GASB issued Statement No. 35 "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" which amended Statement No. 34 to include public colleges and universities. Several significant changes in accounting and financial reporting standards were required such as recording depreciation on capital assets, allocating summer session revenues and expenses between fiscal years, presenting financial statements from an entity-wide perspective (all funds in aggregate), and producing cash flow statements.

The financial statements prescribed by GASB Statement No. 35 (the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows) present financial information in a format more comparable to those used by for-profit colleges and universities. The statements are prepared under the accrual basis of accounting. Revenues and assets are recognized when service is provided, and expenses and liabilities are recognized when others provide the goods or service, regardless of when cash is exchanged.

Financial Highlights

- Economic conditions during fiscal years 2003 and 2002 forced the state of Colorado to reduce the appropriations to all higher education institutions and state agencies. In fiscal year 2003, the reductions totaled 13.8% of Western State College's appropriation, or $961,687. In fiscal year 2002, reductions to the College's appropriation totaled 2.6%, or $167,700.

- Western State College's financial position improved during the fiscal year ended June 30, 2003 as evidenced by an increase in net assets of $453 thousand, from $38.4 million at June 30, 2002 to $38.8 million.

- Western State College's current assets of $14.8 million (2003) and $4 million (2002) were sufficient to cover current liabilities of $3.3 million (2003) and $2.3 million (2002). The current ratio of 4.48 (2003) and 1.74 (2002) (current assets/current liabilities) demonstrates the liquidity of College assets and the relative availability of working capital to fund current operations.

- Operating deficits of $6.5 million (2003) and $8.6 million (2002) resulted from the College's dependence on state appropriations as the financial reporting model classifies state appropriations as non-operating revenues.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of Western State College's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

Condensed Statement of Net Assets
June 30, 2003 and 2002
(in thousands)

	2003	2002
Assets		
Current Assets	$14,822	$4,031
Noncurrent Assets	46,642	48,942
Total Assets	61,464	52,973
Liabilities		
Current Liabilities	3,307	2,279
Noncurrent Liabilities	19,336	12,326
Total Liabilities	22,643	14,605
Net Assets		
Invested in Capital Assets	31,558	35,823
Restricted	5,753	3,960
Unrestricted	1,510	(1,415)
Total Net Assets	$38,821	$38,368

At June 30, Western State College's total assets were $61.5 million (2003) and $53 million (2002). The largest asset category was the $44.9 million (2003) and $47 million (2002) in capital assets, which include land, buildings, equipment, library holdings, and construction in process, net of accumulated depreciation of $25.3 million (2003) and $22.8 million (2002). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In fiscal year 2003 and 2002, the College's current assets of $14.8 million (2003) and $4 million (2002) were sufficient to cover current liabilities of $3.3 million (2003) and $2.3 million (2002), producing current ratios of 4.48 (2003) and 1.74 (2002). Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised almost $11.7 million (2003) and $3.5 million (2002) in assets per the Statement of Cash Flows.

At June 30, 2002 the College had $11 million in outstanding bonds. In fiscal year 2003, the College advance refunded outstanding bonds and financed $5.5 million to renovate the Escalante dormitory complex. At June 30, 2003, bonds payable of $18.3 million represent almost 81% of Western State College's total liabilities of $22.6 million. $540 thousand is the current portion of the bonds payable liability.

Western State College's financial position improved during the fiscal year as evidenced by the increase in net assets of $453 thousand (see the Statement of Revenues, Expenses and Changes in Net Assets) from $38.4 million at June 30, 2002 to $38.8 million at June 30, 2003. $31.6 million (2003) and $35.8 million (2002) in net assets is invested in capital assets net of related debt, $5.8 million (2003) and $4 million (2002) is externally restricted for specific purposes, and $1.5 million (2003) is unrestricted and available for any lawful purpose of Western State College.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the results 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 Western State College. Non-operating revenues and expenses are those other than operating and include, but are not limited to: state appropriations, investment income and expenses, interest expense on capital debt, state capital construction and controlled maintenance appropriations, and transfers.

Tuition and fee revenues in 2003 accounted for $7.4 million (a $285 thousand increase from 2002) of the $20.1 million in operating revenues. The tuition and fee amount is net of scholarship allowances of $2.3 million (2003) and $2.0 million (2002). Scholarship allowances are defined as the financial aid awarded to students by the College that is used to pay College charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense, as reported previous to the implementation of GASB Statement No.34.

Operating expenses totaled $26.6 million (2003) and $27.1 million (2002). Of that total, $7.5 million (2003 and 2002) was for instruction, $6.4 million (2003) and $5.9 million (2002) for auxiliary enterprises, $3.9 million (2003 and 2002) for student services, $1.9 million (2003 and 2002) for institutional support, and $1 million (2003 and 2002) for academic support.

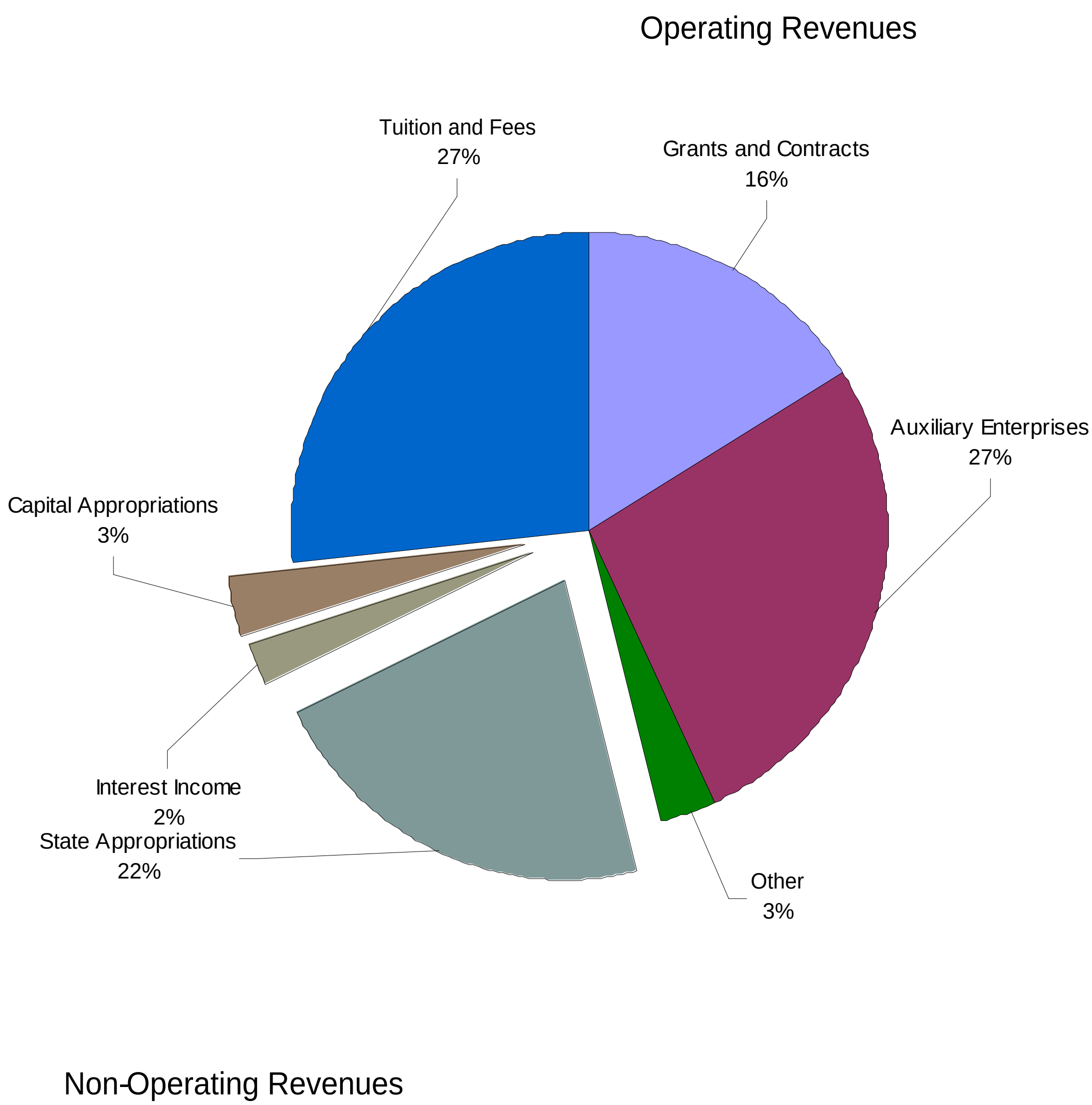
Because the financial reporting model classifies state appropriations as non-operating revenues, Western State College produced an operating deficit of $6.5 million in fiscal year 2003 and $8.6 million in fiscal year 2002. However, as the statement below depicts, the College had ending net assets at June 30, 2003 of $38.8 million, an increase of $453 thousand from the previous year end.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2003 and 2002
(in thousands)

	2003	2002
Operating Revenues		
Tuition and Fees, net	$7,390	$7,104
Grants and Contracts	4,453	3,941
Auxiliary Enterprises	7,422	6,745
Other	831	743
Total Operating Revenues	20,096	18,533
Operating Expenses	26,600	27,118
Net Operating (Loss)	(6,504)	(8,585)
Non-operating Revenue (Expense)		
State Appropriations	6,002	6,196
Interest Income	607	182
Other Non-operating	(715)	(1,412)
Net Non-operating Revenue	5,894	4,966
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(610)	(3,619)
State Appropriations, Capital	899	5,565
Other	164	452
Increase in Net Assets	453	2,398
Net Assets:		
Net Assets-Beginning of Year	38,368	35,970
Net Assets-End of Year	$38,821	$38,368

The following is a graphic illustration of total revenues by source for Western State College for fiscal year 2003. As this graph illustrates, non-operating revenue sources, including state appropriations, interest income and capital appropriations, comprise approximately 27% of total revenues. Each major revenue component is displayed relative to its proportionate share of total revenues.

Revenue by Source
Fiscal Year 2003



Statement of Cash Flows

The Statement of Cash Flows presents relevant information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and related investing activities. It also helps statement users identify the need for external financing as well as assess Western State College's ability to generate cash flows and meet financial obligations as they mature.

Condensed Statement of Cash Flows
Year Ended June 30, 2003 and June 30, 2002
(in thousands)

	2003	2002
Net Cash Provided (Used) by:		
Operating Activities	($2,417)	($5,834)
Non-Capital Financing Activities	6,133	6,051
Capital and Related Financing Activities	5,810	(248)
Investing Activities	(1,305)	402
Net Increase (Decrease) in Cash	8,221	371
Cash & Cash Equivalents:		
Beginning of Year	3,504	3,133
End of Year	$11,725	$3,504

Western State College's overall liquidity improved during fiscal year 2003 with an increase in cash and cash equivalents of $8.2 million. The net cash outflow from operating activities was $2.4 million. $7.4 million in net student tuition and fees (an increase from 2002 of $285 thousand), $6.2 million in sales of services (an increase of $711 thousand from 2002) and $4.4 million in contracts and grants (an increase from 2002 of $559 thousand) were the major sources of cash. Payments to or for employees of $13.3 million (a decrease from 2002 of $1.1 million) and payments to suppliers of $8.4 million (a decrease from 2002 of $548 thousand) were the primary uses of funds.

In 2003, Western sold revenue bonds to refinance the existing bond debt and to provide $5.5 million for the renovation of the Escalante dormitory complex. Additionally, legislation was passed to move the June 30, 2003 employee pay date to July 1, 2003 thereby deferring $700 thousand of cash outflows for employee salary and benefits until fiscal year 2004.

Economic Outlook
During fiscal year 2003, the State of Colorado continued to experience economic difficulties that resulted in loss of tax revenue. Consequently, higher education institutions had to cope with large reductions in their appropriations. For fiscal year 2004, the economic condition of the State is projected to improve. While Western State College's fiscal year 2004 appropriation is essentially equivalent to the fiscal year 2003 original appropriation, the College is not anticipating any appropriation reductions. Yet, because of constitutional limits on state revenue and appropriation growth and with an increasing share of the state budget going towards state and federally mandated programs, future appropriation growth for institutions of higher education, including Western State College, is expected to be minimal at best.

Despite the relatively weak General Fund outlook, Colorado Revised Statute, Section 23-1-104(6)(c), requires the state to provide a "minimal level of funding" to the state colleges, including Western State College. The $4 million increase proposed (part of a two year, $7.4 million proposed adjustment) by the Colorado Commission on Higher Education (the Commission) for fiscal year 2004 was not funded due to the state's economic condition. However, the base funding adjustment is expected to be a part of Commission's budget request for fiscal year 2005. Western State College's share of this $7.4 million increase is expected to be $2.7 million.

Total enrollment for Western State College is projected to remain relatively stable for fiscal year 2004. However, a tuition rate increase of 5.0% for resident students and 8.5% for nonresident students was approved.

HB03-1093, enacted during the 2003 legislative session, provided Western State College and the other state colleges their own independent governing boards. Subsequently, future appropriations will be directly appropriated to the individual colleges, a change from the previous method in which the former system board distributed appropriations on a revenue sharing model. Western State College's new board will also be responsible for setting annual tuition and fee rates as well as charges for room and board and other auxiliary programs.

STATE OF COLORADO
WESTERN STATE COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002 (unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Western State College (the College) is a public institution of higher education of the State of Colorado. Operations are funded largely through student tuition and fees and through annual state appropriations.

As an institution of the State of Colorado, the College's operations and activities are funded partially through state appropriations. In accordance with Section 23-1-104, C.R.S., unspent revenues earned by the College in excess of appropriated amounts are retained by the College for future use.

Reporting Entity

For financial reporting purposes, the College 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 State Controller's Office, General Support Services, Denver, Colorado.

The financial statements of the College include all of the integral parts of the College's operations. The College applied various criteria to determine if it is financially accountable for any organization which would require that organization to be included in the College's reporting entity. These criteria include fiscal dependency, financial benefit/burden relationship, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Management has determined that no organizations meet these criteria.

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and 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.

The College applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 30, 1989: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For the purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, 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.

Investments
Investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable
Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories
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 markup ratio.

Restricted Cash and Cash Equivalents
Restricted cash and cash equivalents include amounts restricted for project construction and bond debt service reserves.

Capital Assets

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation. The College capitalizes only those assets with an initial cost or fair market value greater than or equal to $5,000. Renovations to buildings, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 20 to 40 years for buildings and building improvements and 3 to 10 years for equipment and library materials.

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absence in the statement of net assets and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

The recording of the liability for compensated absences may result in fund-balance deficits, which will be funded by state appropriation, self-supporting funds, or other sources available in future years when the liability is paid.

Classification of Revenue

The College has classified its revenues as either operating or non-operating 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 College such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, and (3) interest on student loans.
>
> Non-operating revenues – Non-operating revenues are those revenues that do not meet the definition of operating revenues. Non-operating revenues include state appropriations for operations, gifts, investment income and insurance reimbursement revenue.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30 were $2,611,049 (2003) and $2,468,993 (2002).

Net Assets

The College's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the College'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 invested in capital assets, net of related debt.

Restricted net assets – expendable – Restricted expendable net assets include resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Application of Restricted and Unrestricted Resources
The College's policy is to first apply an expense against restricted resources then to unrestricted resources, when both restricted and unrestricted resources are available.

Reconciliation to Other Reports
Any effort to reconcile this report with presentations made for other purposes, such as data submitted with the legislative budget request for the College, must take into consideration any differences in the basis of accounting and other requirements for the preparation of such other presentations.

Interfund Borrowing
All interfund loans are temporary in nature; no interest is charged on interfund loans.

Foundation
The College is the beneficiary of a foundation that is a separate legal entity with its own board of trustees (see Note 12). The Foundation has legal title to all of the Foundation assets. The Foundation is not a component unit of the College and, thus, not reflected in the accompanying financial statements.

Financial Statement Presentation and Changes in Accounting Principles
In June 1999, GASB approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*. This was followed by the approval of Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. The State of Colorado was required to implement GASB No. 34 as of and for the year ended June 30, 2002. As an institution of the State of Colorado, the College was also required to adopt GASB Nos. 34 and 35. The College elected to follow the financial statement presentation guidelines for special-purpose governments engaged only in business-type activities as outlined in GASB No. 34. Those guidelines require the financial statements to be prepared using an entity-wide perspective. Therefore, the financial statements report the College's assets, liabilities, and net assets, revenues, expenses and changes in net assets, and cash flows for the College as a whole, rather than by fund, as previously required.

The College was required to make the following significant changes in accounting principles to conform to GASB Nos. 34 and 35:

- *Scholarship Allowances* – Financial aid awarded to students by the College that is used to pay College charges, such as tuition, fees, residence hall charges and board, is recognized as a scholarship allowance rather than as financial aid expense, as previously required. A scholarship allowance directly reduces the appropriate revenue. To the extent that financial aid awarded exceeds College charges to students, the College recognizes financial aid expense.

- *Summer School Revenue and Expense* – The College is required to recognize summer school revenue and expense as earned or incurred rather than deferring summer school revenue and expense and reporting the entire term in one fiscal year, as previously required.
- *Depreciation Expense* – The College is required to record depreciation expense for capital assets. Previously, depreciation expense was not recognized.
- *Acquisitions of Capital Assets and Payments of Debt Principal* – Under the fund perspective, the College recognized an expenditure or fund deduction for the acquisition of capital assets and payment of debt principal. Under the entity-wide perspective, these items are not an expense against operations.

The provisions of GASB Statement Nos. 34 and 35 have been applied to the beginning net assets balance. The following is a reconciliation of the total fund balance previously reported as of June 30, 2001 to the total adjusted net assets balance:

Total Fund Balance at June 30, 2001	
As Originally Reported	$56,368,145
Accrual of Summer School Activity	179,394
Deferral of Restricted Fund Revenue	(149,750)
Accumulated Depreciation	(20,428,357)
Cumulative Effect of Change in Accounting Principle	(20,398,713)
Net Assets at June 30, 2001, Restated	$35,969,432

Change in Governance and Financial Reporting

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, established an independent governing board for Western State College. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of Western State College. For the year ended June 30, 2002, the College was audited as part of the consolidated financial statements of the State Colleges of Colorado.

New Accounting Pronouncements

GASB issued Statement No. 39 (the Statement), *Determining Whether Certain Organizations Are Components Units*, an amendment of GASB Statement No. 14 in August 2002. The Statement is effective for fiscal years beginning after June 15, 2003.

The Statement provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and clarifies reporting requirements for those organizations. Based on the criteria established in the Statement, management believes that Western State College Foundation will be required to be included in the financial statements of the College as a component unit for the fiscal year ending June 30, 2004.

Reclassifications

Certain 2002 balances have been reclassified to agree with current year presentation.

NOTE 2 - CASH AND INVESTMENTS

Cash

At June 30, the College had $11,527,966 (2003) and $3,444,890 (2002) 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:

	2003	2002 (unaudited)
Cash on hand	$162,289	$48,913
Cash in checking accounts at bank	34,966	10,243
Total cash	$197,255	$59,156

The carrying amount of the College's cash on deposit was $34,966 (2003) and $10,243 (2002) and the bank balance was $25,827 (2003) and $22,100 (2002). The bank balances were covered 100% by federal depository insurance.

Investments

At June 30, investments with a carrying value of $2,259,376 (2003) and $353,811 (2002) and a market value of $2,259,376 (2003) and $353,811 (2002) are categorized to give an indication of the level of risk assumed. Risk category descriptions are A) investments, which are insured, registered, or held by the entity or its agent in the entity's name; B) investments which are uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent in the Entity's name. The College's investments are category B. Yield on investments was 4.12% (2003) and 1.7% (2002).

STATE OF COLORADO
WESTERN STATE COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002 (unaudited)

NOTE 3 - RECEIVABLES AND PAYABLES

At June 30, receivable balances were as follows:

2003	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
Student Accounts Receivable	$315,767	$(133,961)	$181,806
Other Accounts Receivable	$258,680	$ -	$258,680
Student Loans Receivable	$383,244	$(114,948)	$268,296
2002 (unaudited)			
Student Accounts Receivable	$270,533	$(101,007)	$169,526
Other Accounts Receivable	$179,112	$ -	$179,112
Student Loans Receivable	$398,382	$(116,713)	$281,669

At June 30 accrued liabilities balances were as follows:

	2003	2002 (unaudited)
Accrued Payroll	$1,187,586	$318,968
Accrued Interest Payable	67,478	75,785
Other	25,535	33,657
Accrued Liabilities	$1,280,599	$428,410

NOTE 4 - CAPITAL ASSETS

	Balance 6/30/2002	Additions	Deletions	Balance 6/30/2003
Non-depreciable Capital Assets				
Land	$ 695,416	$ -	$ -	$ 695,416
Land Improvements	1,904,083	-	-	1,904,083
Construction in Progress	-	8,463	-	8,463
Total Non-depreciable Capital Assets	$ 2,599,499	$ 8,463	$ -	$ 2,607,962
Depreciable Capital Assets				
Buildings and Improvements	$61,237,000	$ -	$ -	$61,237,000
Furniture and Equipment	1,602,055	478,683	295,344	1,785,394
Library Materials	4,441,494	156,485	463	4,597,516
Total Depreciable Capital Assets	67,280,549	635,168	295,807	67,619,910
Less: Accumulated Depreciation				
Buildings and Improvements	17,829,531	2,586,867	-	20,416,398
Furniture and Equipment	1,319,079	100,068	295,344	1,123,803
Library Materials	3,646,161	158,225	463	3,803,923
Total Accumulated Depreciation	22,794,771	2,845,160	295,807	25,344,124
Net Depreciable Capital Assets	$44,485,778	$(2,209,992)	$ -	$42,275,786

NOTE 5 - REVENUE BONDS PAYABLE

2003

On May 28, 2003, the College issued $12,470,000 in Auxiliary Facilities System Revenue Bonds, Series 2003A, with an average interest rate of 4.08%. The 2003A bonds mature in increasing amounts through May 15, 2019. Interest rates range from 1.50% on bonds maturing May 15, 2004 to 5.40% on all bonds maturing after May 15, 2019. The bonds are collateralized by a first lien on and pledge of all revenues of the Auxiliary Facilities System.

The Series 2003A bonds were issued as an advance refunding to defease the Series C 1994 bonds (see Note 7). An additional cash flow requirement of $2,601,874 is required to service the Series 2003A bonds, resulting in an economic loss on the advance refunding of $(1,005,113) and an accounting loss of $(556,722). The accounting loss has been deferred and is being amortized over a 15-year period. The unamortized balance is netted with long-term bonds payable on the Statements of Net Assets.

Additionally, on May 28, 2003, the College issued $6,270,000 in Auxiliary Facilities System Improvement Bonds, Series 2003B, with an average interest rate of 4.74%. The 2003B bonds begin to mature on May 15, 2019 in increasing amounts through May 15, 2025. Interest rates range from 4.25% on bonds maturing May 15, 2019 to 5.00% on bonds maturing on May 15, 2025. The 2003B bonds, along with the 2003A bonds, are collateralized by a first lien on and pledge of all revenues of the Auxiliary Facilities System.

The College paid a premium of $106,572 for the Series 2003B bonds which is being amortized over a 22-year period. The unamortized balance is netted with long-term bonds payable on the Statements of Net Assets.

2002

On March 31, 1994, the College issued $14,145,000, Series C 1994, in Student Housing Revenue Bonds with an average interest rate of 5.458%. The 1994 bonds required interest only payments until May 15, 1996, when the bonds began to mature in increasing amounts through May 15, 2015. Interest rates varied from 4.00% to 5.625%. The bonds, collateralized by a first lien on and pledge of all revenues of the Auxiliary Facilities System, were defeased in 2003 (see Note 7).

STATE OF COLORADO
WESTERN STATE COLLEGE
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002 (unaudited)

Debt Service Reserve Requirement

Under the terms of the bond agreements the College is required to maintain in a Debt Service Reserve Fund an amount equal to the lesser of (1) the combined maximum annual principal and interest payments on all bonds outstanding, (2) the combined average annual principal and interest payments on all bonds outstanding, or (3) ten percent of the original principal amount of each issue outstanding. The debt service reserve requirements of $1,706,133 (2003) and $1,220,812 (2002) which were established from bond proceeds meet the minimums required under the bond agreements.

A summary of the amounts recorded in fund balance for the purpose of meeting the bond payments and satisfying the terms of the bond agreements as of June 30 is as follows:

	2003	2002 (unaudited)
Retirement of Indebtedness	$ 2,182,446	$ 471,266
Renewal and Replacement	$ 958,745	$1,032,569

Principal and interest requirements to maturity of the 2003 bonds are as follows:

Year Ending June 30,	Series A	Series B	Total
2004	$ 1,026,682	$ 284,468	$ 1,311,150
2005	1,075,360	295,125	1,370,485
2006	1,074,800	295,125	1,369,925
2007	1,077,125	295,125	1,372,250
2008	1,075,833	295,125	1,370,958
2009 – 2013	5,382,720	1,475,625	6,858,345
2014 – 2018	5,380,675	1,475,625	6,856,300
2019 – 2023	1,077,895	5,386,762	6,464,657
2024 – 2025	-	2,156,500	2,156,500
Total Principal & Interest	17,171,090	11,959,480	29,130,570
Less interest	(4,701,090)	(5,689,480)	(10,390,570)
Total Principal	$12,470,000	$ 6,270,000	$18,740,000

NOTE 6 - EXTINGUISHMENT OF DEBT

In fiscal year 1994, the College defeased 1992 series bonds by placing the proceeds of the 1994 series plus a portion of the 1992 series debt service reserve funds in an irrevocable trust to provide for all future debt service payments on the 1992 bonds. Accordingly, the trust-account assets and liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2003, $9,865,000 of 1992 bonds outstanding is considered defeased.

In fiscal year 2003, the College defeased 1994 series bonds by placing the proceeds of the 2003A series in an irrevocable trust to provide for all future debt service payments on the 1994 bonds. Accordingly, the trust-account assets and liabilities are not included in the College's financial statements. On June 30, 2003, $10,415,000 of 1994 bonds outstanding is considered defeased.

NOTE 7 - LEASE OBLIGATIONS

Capital Leases

Summary of changes in capital lease obligations:

Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003
$1,741,254	$32,859	$(365,755)	$1,408,358

A capital lease for an Energy Management System was refinanced following the June 2002 payment. The lease requires semi-annual payments of $218,655 (saving $8,890 annually) which include interest at 4.25%. The number of payments remains the same. Title to the equipment passed to the College at the beginning of the lease term.

Principal and interest requirements to maturity on the lease are as follows:

Year Ending June 30,	
2004	$ 437,310
2005	437,310
2006	437,310
2007	218,655
Total principal & interest payments	1,530,585
Less: amount representing interest	(122,227)
Principal outstanding	$1,408,358

NOTE 8 - EMPLOYEE PENSION PLANS

A. Optional Retirement Plan

On September 10, 1993, the Board of Trustees 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; on that date, eligible employees were offered the choice of remaining in Public Employees' Retirement Association (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.

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 College's contribution to the ORP is 11.4% of covered payroll and contributions by employees is 8% of covered payroll.

The College's contributions to the ORP for fiscal years ending June 30, 2003, 2002, and 2001 were $564,685, $621,963, and $611,366, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested 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 the decisions made by participants for their individual investment accounts.

Some exempt employees of the College have elected to continue as members with PERA; the rest participate in the ORP.

B. Public Employees Retirement Association

1. Plan Description

The rest of the College's employees participate in a defined benefit pension plan (the 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 Board of Trustees of PERA. Changes to the Plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, is included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, CO 80203.

Plan members vest after five years of service and are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Monthly benefits are calculated as a percentage of Highest Average Salary (HAS). HAS is 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. Members 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 spouse or their eligible children under the age of 18 (23 if a full-time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

2. Funding Policy

Employees contribute 8.0 percent of their annual gross covered wages to an individual account in the Plan. During the fiscal year ending June 30, the College contributed 10.04% (2003) and 9.9% (2002) of the employee's gross covered wages. Before January 1, 2003, 1.64% was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1% was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 9). The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The College's contributions to the three programs described above for the fiscal years ending June 30, 2003, 2002, and 2001 were $537,722, $524,614, and $541,370, respectively. These contributions were equal to the required contributions for each year.

C. Student-Employees Defined Contribution Plan

Beginning in fiscal year 1993, in accordance with the provisions of CRS 24-54.6 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll covered by the plan was $235,611 (2003) and $191,511 (2002).

NOTE 9 - VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the College matched PERA members voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100% of up to 3 percent of employee s gross wages. For the calendar year 2003, the match was 100% of up to 2 percent of employee s gross wages. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded, the maximum one-year change in the match rate is statutorily limited to 1%, and therefore, the match changed from 3% to 2%. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and the College offers a 403b plan. Members who contribute to any of these plans also receive the state match.

NOTE 10 - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

PERACare (formerly known as 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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the fiscal years ending June 30, 2003 and 2002, the subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), and reduced by 5% for each year of service fewer than 20. The Health Care Fund is maintained by an employer contribution as discussed above in Note 8-B2. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services in Colorado. As of December 31, 2002, there were 35,418 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

NOTE 11 - SCHOLARSHIP ALLOWANCE

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

	Tuition & Fees	Auxiliary Revenue	Total
2003			
Gross Revenue	$9,736,351	$7,686,379	$17,422,730
Scholarship Allowances:			
Federal	(1,069,940)	(120,698)	(1,190,638)
State	(542,009)	(61,143)	(603,152)
Private	(354,301)	(39,968)	(394,269)
Institutional	(380,110)	(42,880)	(422,990)
Total Allowances	(2,346,360)	(264,689)	(2,611,049)
Net Revenue	$7,389,991	$7,421,690	$14,811,681
2002 (unaudited)			
Gross Revenue	$9,117,010	$7,201,543	$16,318,553
Scholarship Allowances:			
Federal	(867,500)	(196,636)	(1,064,136)
State	(450,739)	(102,315)	(553,054)
Private	(334,030)	(75,823)	(409,853)
Institutional	(360,189)	(81,761)	(441,950)
Total Allowances	(2,012,458)	(456,535)	(2,468,993)
Net Revenue	$7,104,552	$6,745,008	$13,849,560

NOTE 12 - WESTERN STATE COLLEGE FOUNDATION, INC.

Western State College Foundation, Inc. (the Foundation) is an unconsolidated nonprofit corporation formed to provide financial assistance to college students and to otherwise assist the College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the Board of Trustees. Their financial records are maintained separately from the College's financial accounting system. As of June 30, the Foundation's condensed financial statements are as follows:

Western State College Foundation, Inc.
Condensed Balance Sheet
As of June 30, 2003 and 2002

	2003	2002
Assets	$7,539,458	$7,628,251
Liabilities	1,904	1,264
Fund Balances	7,537,554	7,626,987
Total liabilities and fund balances	$7,539,458	$7,628,251

Western State College Foundation, Inc.
Condensed Revenues & Expenditures
For the Year Ended June 30, 2003 and 2002

	2003	2002
Revenues	$1,457,513	$2,011,047
Expenditures	(1,546,946)	(1,637,688)
Excess of expenditures over revenues	(89,433)	373,359
Beginning fund balances	7,626,987	7,253,628
Ending fund balance	$7,537,554	$7,626,987

NOTE 13 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The College is subject to risks of loss from liability for accident property damage and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill. Therefore, the College is not required to obtain insurance, and accordingly, no reduction occurred in coverage nor did any settlements exceed coverage. The College 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 14 - LEGISLATIVE APPROPRIATION

Appropriated Funds

The Colorado Legislature establishes spending authority for the Trustees of the State Colleges System in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources.

For the years ended June 30, the Trustees of the State Colleges appropriated to the College $6,693,860 (2003) and $6,631,923 (2002). Actual appropriated revenues earned, including capital appropriations, totaled $6,901,555 (2003) and $11,761,111 (2002). Actual appropriated expenditures and transfers totaled $11,604,684 (2003) and $14,000,772 (2002). See Note 1 for discussion of the College's change in governance effective July 1, 2003.

Non-Appropriated Funds

All other revenues and expenditures reported by the College represent non-appropriated funds and are excluded from the Long Appropriations Bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues and other revenue sources.

SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUE AND EXPENSES
FOR
ENTERPRISE REVENUE BONDS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Western State College, a blended component unit of the State of Colorado, as of and for the year ended June 20, 2003, and have issued our report thereon dated September 26, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Western State College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Western State College's internal control over financial reporting. This was done to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

DALBY, WENDLAND & CO., P.C.

September 26, 2003

Members of the Legislative Audit Committee:

We have audited the financial statements of Western State College, a blended component unit of the State of Colorado, for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. As required by professional auditing standards, we are providing you with information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

Our responsibility under professional standards is to plan and perform out audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Western State College. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Western State College's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Western State College's significant accounting policies are described in the notes to the financial statements. There were no new accounting policies adopted in 2003, and the application of existing policies was not changed during 2003.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's judgments. 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 significant accounting estimates affecting the financial statements are the allowance for uncollectible receivables, accrued compensated absences, scholarship allowances, and the depreciation of capital assets. We evaluated the factors and assumptions used to develop these estimates and determined they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Western State College's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no adjustments to Western State College's financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing the Audit

We encountered to significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Legislative Audit Committee and management of Western State College and is not intended to be and should not be used by anyone other than these specified parties.

DALBY, WENDLAND & CO., P.C.

September 26, 2003

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION

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

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Western State College, a blended component unit of the State of Colorado, for the year ended June 30, 2003. This statement is the responsibility of the College's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of American 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The statement was prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2003 revision. The statement is a summary of cash activity of the state-funded student financial assistance program with the exception of the College Work-Study Program and the Perkins Loan Program, and does not present certain transactions that would be included in the statements of the state-funded student financial assistance programs if presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statement is not intended to present the financial position or changes in financial position of Western State College, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Program of Western State College for the year ended June 30, 2003, in conformity with the provisions of the Colorado Commission on Higher Education's *Colorado Handbook for State-Funded Financial Assistance Programs.*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003 on our consideration of Western State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DALBY, WENDLAND & CO., P.C.

September 26, 2003

STATE OF COLORADO
WESTERN STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS

STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS

Year Ended June 30, 2003

	Total State- Funded Student Assistance	Part-time Student Grants	Student Incentive Grants	Student Grant Program	Work Study Program	Graduate Grant Program	Diversity Grant Program	Under-Grad Merit Program	Perkins Loan Match	Governor's Opportunity Scholarship
Appropriations Original supplemental Transfers	$1,057,119	$ -	$50,766	$546,426	$225,569	$ -	$ -	$234,358	$ -	$ -
Total	$1,057,119	$ -	$50,766	$546,426	$225,569	$ -	$ -	$234,358	$ -	$ -
Expenditures	$1,057,119	$ -	$50,766	$546,426	$225,569	$ -	$ -	$234,358	$ -	$ -
Reversions to State *General Fund*	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

See accompanying note.

STATE OF COLORADO
WESTERN STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
NOTE TO THE STATEMENT
Year Ended June 30, 2003

Basis of Accounting

The Statement of Appropriations, Expenditures, Transfers, and Revisions has been prepared in accordance with the format set forth in the Colorado Commission on Higher Education's publication *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

The Perkins Loan Program matching requirement from general funds, as approved by the Colorado Commission on Higher Education, is recorded as a transfer from the general fund to the loan fund and not as general fund expense and loan fund revenue.

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

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