

ADAMS STATE COLLEGE

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2003 and 2002

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**ADAMS STATE COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002**

Authority, Purpose and Scope

The audit of Adams State College was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state agencies. The 2003 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was made in accordance with audit standards generally accepted in the United States of America. Audit work was performed June through September 2003.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of Adams State College for the year ended June 30, 2003 and to express an opinion on the financial statements. This included 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 rules and regulations governing the expenditures of federal and State funds.
- Express an opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2003.
- Evaluate progress in implementing prior audit recommendations.
- The Schedule of Federal Assistance for Adams State College and applicable audit opinions are included in the June 30, 2003 Statewide Single Audit Report issued by the Office of the State Auditor under a separate cover.

Audit Results and Summary of Major Audit Findings

Wall, Smith, Bateman and Associates, Inc. expressed an unqualified opinion on the financial statements for the year ended June 30, 2003. The June 30, 2002 basic financial statements were not audited, however the operations of the College were included in the financial reporting entity of the State Colleges of 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 the Office expressed an unqualified opinion on those financial statements in its report dated November 24, 2002.

Wall, Smith, Bateman and Associates, Inc. also expressed an unqualified opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2003.

Required Auditor Communications to the Legislative Audit Committee

An independent auditor is required to communicate to the Audit Committee certain matters related to the conduct of the audit and to ensure that the Audit Committee receives additional information regarding the scope and results of the audit that may assist the 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 no audit adjustments were required and that there were no difficulties encountered in performing the audit.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Following is a summary of the findings contained in the report. The audit recommendations for these findings and associated College responses are summarized in the recommendation locator, which follows the summary.

During Fiscal Year 2002, the College discovered an embezzlement of funds in the amount of \$168,000. The employee involved in the embezzlement plead guilty and paid restitution to the College during Fiscal Year 2003. The College instituted a review of its accounting and administrative procedures and implemented changes to strengthen its internal controls.

During our Fiscal Year 2003 audit, we noted several additional procedures the College could improve. These include performing succession planning for the Controller position, writing a comprehensive policies and procedures manual, implementing a procedure to review and reconcile subsidiary ledgers, and drawing federal funds on a timely basis.

The Financial Aid Department is responsible for preparing and filing student financial aid reports with state and federal agencies. We found that the reports filed for Fiscal Year 2003 contained a number of errors.

Students must meet certain eligibility requirements in order to receive various scholarships and grants. We noted two instances of students receiving state-funded grant or scholarship funds that the students were not eligible for.

Information system security as well as building security is imperative to safeguard the data and assets of the College. We noted procedures and controls regarding passwords

for information systems and door keys to buildings/rooms that could be improved. The procedures include the need for notifying Computing Services of personnel changes so that personnel access to the information system is appropriately restricted and checking in building/room keys when there is a personnel change.

The College is highly dependent on technology to deliver many of its student and business services. The Fiscal Year 2002 audit of the College noted several information system procedures and controls that could be improved. The College made little progress in addressing the recommendations during Fiscal Year 2003. We believe the issues are still important and include the need for conducting tests to ensure recovery of backups for major applications and databases, developing and testing a disaster/contingency plan, and requiring users to change passwords periodically.

Recommendations and College Responses

A summary of the recommendations for the above comments is included in the Recommendation Locator included at the end of this summary. The Recommendation Locator also shows the College's responses to the audit recommendations. A detailed description of the audit comments and recommendations is contained in the findings and recommendations section of the report.

Summary of Progress in Implementing Prior Audit Findings

The audit report for the State Colleges in Colorado for the year ended June 30, 2002 included one recommendation that included four items to address. Three of the areas were not implemented and one area was implemented.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1		<p>Adams State College should improve the accounting policies and procedures by:</p> <ul style="list-style-type: none"> a. Performing periodic reconciliations of receipts and disbursements between the College and the Adams State College Foundation. b. Developing a comprehensive policies and procedures manual for every area of the Business Office. c. Performing succession planning for the Controller/Business Manager position, evaluating how duties performed by the Controller can be delegated to other individuals, and having other individuals review accounting functions performed by the Controller. d. Drawing federal funds timely and cross training other personnel to perform this function if needed. e. Reconciling all subsidiary ledgers to general ledger accounts on a regular basis. 	<p>Agree</p> <p>Agree</p> <p>Agree</p> <p>Agree</p> <p>Agree</p>	<p>December 2003</p> <p>June 2004</p> <p>June 2004</p> <p>June 2004</p> <p>March 2004</p>
4	2	<p>Adams State College should improve its procedures and controls over student financial aid reporting and eligibility by:</p> <ul style="list-style-type: none"> a. Ensuring that the SURDS and FISAP reports are prepared and filed on a timely basis and contain accurate data that agree with accounting and financial aid records. b. Improving controls over student financial assistance grants and scholarships to identify and take appropriate action on students whom don't meet all eligibility requirements. 	<p>Agree</p> <p>Agree</p>	<p>June 2004</p> <p>June 2004</p>
3		<p>Adams State College should improve information processes and controls by:</p> <ul style="list-style-type: none"> a. Establishing a process to inform Computing Services of personnel changes so that employee passwords and/or access to data files can be adjusted as needed. b. Enforcing processes to account for the issuance and return of door keys to buildings and rooms. c. Developing and implementing a plan to routinely test recovery of backup for information databases and applications. d. Developing and testing a disaster/recovery plan. e. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals. 	<p>Agree</p> <p>Agree</p> <p>Agree</p> <p>Agree</p> <p>Agree</p>	<p>June 2004</p> <p>June 2004</p> <p>June 2004</p> <p>June 2004</p> <p>June 2004</p>

Description of Adams State College

Through June 30, 2003 the Board of Trustees of the State Colleges in Colorado (State Colleges) was the governing board for Adams State College, Mesa State College, Western State College, and the Western Colorado Graduate Center. The Board of Trustees had oversight responsibility for the three state colleges and the Graduate Center in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The Board consisted of seven members appointed by the Governor to serve four-year terms. Additionally, a faculty and a student Trustee are elected to serve one-year terms. The President of the State Colleges was responsible for providing leadership for the system and for administering the policies and procedures of the Trustees. The Board conducted its business at regular monthly meetings and special meetings, all of which were open to the public.

The Office of State Colleges, under the direction of the President of the State Colleges in Colorado, was responsible for administering the Trustees' policies and procedures, and for coordinating reporting requirements and external matters for the three State Colleges.

House Bill 03-1093 authorized independent governance for Adams State College effective July 1, 2003 and a new Board of Trustees was appointed to govern the College.

Adams State College is a liberal arts college with graduate programs in Teacher Education, Counseling, and Art. Section 23-51-101, C.R.S., provides that Adams State College shall be a general baccalaureate institution with moderately selective admission standards. Adams State College is to offer limited professional programs, Hispanic programs, undergraduate education degrees, masters' 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 College for the last three fiscal years were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Resident Students	1,808.6	1,934.4	1,965.9
Nonresident Students	<u>334.5</u>	<u>341.0</u>	<u>355.7</u>
Total Students	<u>2,143.1</u>	<u>2,275.4</u>	<u>2,321.6</u>
Faculty FTEs	132.5	135.5	157.6
Staff FTEs	<u>129.7</u>	<u>131.4</u>	<u>124.3</u>
Total Staff and Faculty FTEs	<u>262.2</u>	<u>266.9</u>	<u>281.9</u>

FINDINGS AND RECOMMENDATIONS SECTION

Findings and Recommendations

Internal Accounting Controls

During Fiscal Year 2002, the Vice President of Finance at Adams State College plead guilty to embezzlement of funds. He paid restitution of \$168,000 to the College during Fiscal Year 2003. After the embezzlement was discovered, the College instituted a review of its accounting and administrative procedures. The review identified weaknesses in the system that allowed the embezzlement to occur and not be detected in a timely manner. The College strengthened its internal accounting controls during Fiscal Year 2003 by:

- Revising the way the accounting was performed for the Adams State Booster Club, which had been used as a conduit to embezzle College funds. Prior to 2002, the Booster Club had an off-campus checking account and the accounting was performed by a College employee; however, the accounting records were not a part of the College's accounting system. The off-campus checking account was closed December 2001. The College Business Office now performs all of the accounting functions for the Booster Club making the transactions subject to the accounting system and controls of the College. The Business Office provides the Booster Club with financial information on a monthly basis.
- Improving controls over replenishing the currency in the Cashier's drawer. A Cashier's change log has been created to track all currency replacement transactions made with the bank. Procedures were also added to improve the reconciliation process by matching all transactions in the bank statement to the Cashier's change log. The only person now allowed to complete the deposit slips is the Cashier requesting the currency.
- Decreasing the number of checks made payable to Adams State College by using journal entries instead of checks for certain inter-fund transactions.
- Improving controls over check vouchers by performing a weekly review of the numerical sequence of the vouchers and researching missing vouchers.
- Requiring two signatures by management to approve check requests greater than \$5,000.

During our audit, we noted the following additional areas in which procedures could be improved and controls strengthened.

- The embezzlement was discovered during a reconciliation of receipts and disbursements between the College and the Adams State College Foundation. A similar reconciliation was not performed for Fiscal Year 2003. We think the

performance of this reconciliation on a regular basis would help ensure the proper recording of transactions between the College and the Foundation.

- The Business Office does not have a comprehensive written policy and procedures manual. Such a manual is needed for documenting the College's policies and procedures, providing guidance and reinforcement on job duties to current employees, and training new employees on procedures to be followed.
- The College Controller position has been combined with the Business Manager position. This imposes an increased workload including the need for a considerable amount of travel. There does not appear to be an effective work structure or delegation of duties for performance of both the Controller's function and Business Manager's function. For example, the Controller/Business Manager performs many functions and computations that are not reviewed by other personnel. During the audit, we discovered an error made in computing the scholarship allowance that could have been detected by an appropriate review structure. In addition, the Controller/Business Manager has announced plans to retire effective January 2005. We are not aware of any succession planning being done for this position to prepare for his retirement.

Federal Funds Draw Procedures

Adams State College received approximately \$3.1 million during Fiscal Year 2003 for federal student financial assistance programs. The College obtains reimbursement of federal expenditures by drawing funds on a federal letter of credit. The College did not draw federal funds for the programs in a timely manner during the Fiscal Year. From July 2002 to January 2003, federal funds were drawn once or twice a month when they should have been drawn at least weekly, especially at the beginning of the academic semesters. For example, 41 days had elapsed between June 27, 2002 and August 7, 2002 before \$249,602 was drawn. Another example is that expenditures had accumulated for 32 days between September 20, 2002 and October 22, 2002 before \$350,670 was drawn. There were also instances where the amount drawn was not sufficient to cover the amount necessary to replenish cash used. For example, a draw was made on August 14, 2002 but a negative cash balance of \$218,352 still existed after the draw. The next draw was not made for another 22 days.

It appears that federal funds were not drawn timely because a turnover of personnel occurred during the year and other employees were not trained to perform this function. Not drawing the full amount of federal funds on a timely basis results in the use of state funds for federal programs for an unnecessarily long period and therefore, lost interest income to the State.

Subsidiary Ledger Reconciliation

Some of the College's subsidiary ledgers are not routinely reviewed and reconciled to the general ledger. Specifically, the subsidiary ledger containing a detailed listing of Perkins Loan receivables was approximately \$31,000 more than the general ledger balance. Also, the College does not perform a regular reconciliation of the accounts payable subsidiary ledger to the general ledger and did not have a detailed listing of accounts payable available when we requested it for our audit. The College should perform regular reconciliations to ensure that general ledger accounts are accurately maintained and that the detail in subsidiary ledgers is valid. Misstatements in financial balances can occur and not be detected in a timely manner if asset and liability accounts are not reconciled to subsidiary ledgers on a regular basis.

Recommendation No. 1:

Adams State College should improve its accounting policies and procedures by:

- a. Performing periodic reconciliations of receipts and disbursements between the College and the Adams State College Foundation.
- b. Developing a comprehensive policies and procedures manual for every area of the Business Office.
- c. Performing succession planning for the Controller/Business Manager position, evaluating how duties performed by the Controller can be delegated to other individuals, and having other individuals review accounting functions performed by the Controller.
- d. Drawing federal funds timely and cross training other personnel to perform this function if needed.
- e. Reconciling all subsidiary ledgers to general ledger accounts on a regular basis.

Adams State College Response:

- (a) Agree. Adams State College is meeting quarterly with the Foundation and performing reconciliations.
- (b) Agree. The Business Office is in the initial stages of an administrative streamlining project in which we will evaluate our current policies and procedures, re-engineer procedures to realize efficiencies through enabling technologies, codify administrative policies, and publish them in a centralized web-enabled location. In addition each position will be tasked with developing and maintaining a desk manual for their area.

(c) Agree. The Vice President of Finance and Administration was granted permission by the Cabinet to begin the hiring process for a Controller. We are anticipating having the position filled by April, which will give us an eight month transition leading up to the current Controller's retirement in January 2005.

(d) Agree. Federal funds were not drawn on a timely basis during the time period mentioned because we had three people in the business and finance area terminate their employment with Adams State College, one being the person responsible for drawing the cash. With the hiring of a Controller of Sponsored Programs, cash is being drawn on a weekly basis. We will train another person for backup.

(e) Agree. Adams State College will reconcile subsidiary ledgers to the general ledger accounts on a quarterly basis. New Banner and pro forma reports need to be developed in order to do this and will be done by March 31, 2004.

Student Financial Aid

During Fiscal Year 2003, the College received \$1.9 million in state funds and \$3.1 million in federal funds for student financial aid. The College's Financial Aid Department processes and awards the funds to students and is responsible for preparing and filing various reports to state and federal agencies.

The College periodically files Student Unit Record System (SURDS) reports with the Colorado Commission on Higher Education (CCHE). The reports provide information on undergraduate applicants, registration, financial aid and degrees granted on a per student basis. CCHE uses the reports for analysis and reporting purposes. The year-end report for Fiscal 2003 had a September 15th deadline, which was extended to September 30th. Our review found the report filed by the College to meet the September 30th deadline contained a number of errors. We noted fifteen instances in which information in the College's accounting records did not agree to the SURDS report. For example, we found that 10 students, in a sample of 25 students tested, had received student financial aid from the College but were not listed in the SURDS report. We also found five instances in which the financial aid award reported in the SURDS report was missing a digit in the amount of aid received. For example, a financial aid award for \$6,429 was reported in the SURDS report as \$642. The College submitted a corrected SURDS report to the CCHE in January 2004.

The College also files a year-end report on student financial aid with the Federal Government. The Fiscal Operations Report and Application to Participate (FISAP) report was filed on the due date of October 1st. However, the College told us the report contained errors and needed to be corrected. A corrected FISAP report was filed in December 2003. Since the College filed corrected SURDS and FISAP reports after completion of our audit work, we did not review the corrected reports and plan to review them during our Fiscal 2004 audit of the College.

In addition to reporting errors, we noted two students from a sample of 25 tested who did not meet certain eligibility requirements for the student financial assistance they received. Students must meet certain eligibility requirements to receive financial aid grants and scholarships.

- A student received \$1,500 of Supplemental Leveraging Educational Assistance Partnership (SLEAP) funds which is a state-funded assistance grant. The student did not fulfill the grant requirement to maintain at least half-time status during the semester. The student dropped one class the first day of the semester and completed 3 credit hours for the spring semester. As a result, the student did not meet the requirement for half-time status.
- A student received \$600 of President's scholarship funds for non-resident students. The student did not meet the requirement for maintaining a minimum grade point average (GPA). The student was required to have a GPA of 3.2 but had a 3.1 GPA.

We did not see any indication in the financial aid records that the College identified these eligibility problems or took any action because of them. Because the amount of student financial aid is limited, the College should have adequate controls to ensure all recipients meet eligibility requirements.

Recommendation No. 2:

Adams State College should improve its procedures and controls over student financial aid reporting and eligibility by:

- a. Ensuring that the SURDS and FISAP reports are prepared and filed on a timely basis and contain accurate data that agree with accounting and financial aid records.
- b. Improving controls over student financial assistance grants and scholarships to identify and take appropriate action on students whom fail to meet all eligibility requirements.

Adams State College Response:

(a) Agree. Adams State College will evaluate its procedures to ensure the timely and accurate reporting of the State SURDS and the U.S. Department of Education FISAP. Adams State College and CCHE will work in a cooperative training and information-sharing mode to ensure the above.

(b) Agree. Adams State College will evaluate its internal controls, policies and procedures to ensure all students receiving student financial assistance meet all the eligibility requirements.

Information System Processes and Controls

Safeguarding of Assets and Data

We noted several areas in which procedures could be improved to safeguard assets and data files.

- Computing Services is not routinely informed of personnel changes such as departmental transfers or terminations. As a result, employee passwords and access to data files do not always get terminated or adjusted to fit the new position in the case of a transfer.
- The process for disbursing and collecting door keys to buildings and rooms is not effective. While the College has a process to track keys issued and returned, the process is not working as prescribed and there are keys that are unaccounted for.

Because of the above, current and former personnel may have inappropriate access to assets and electronic data.

Comments Repeated From the Prior Year

The Fiscal Year 2002 audit of the College made several recommendations to improve the College's processes for information systems. During Fiscal Year 2003, the College made little progress in addressing the recommendations. Because we believe these issues are still important, we have repeated the comments below and indicated what action has been taken by the College.

Recovery of Computer Backup

The College's databases, servers, and network are subject to routine backups. Although backups are appropriately stored offsite, recovery of major applications and databases has not been tested.

Databases and applications will, to some degree, periodically fail. Recovery must be tested to ensure that backups are adequate. Failure to adequately recover the College's databases could result in negative financial and programmatic impacts. The risk of permanent data loss increases greatly when tests to recover computer backups are not periodically performed. A plan for testing backup recovery should be developed and implemented as a normal part of system maintenance activities.

During Fiscal Year 2003, the College implemented a weekly process to verify that the backup files are readable. However, the College does not have a plan in place to actually test that backups can be adequately recovered.

Disaster Recovery Plan

The College is highly dependent on technology to deliver many of its student and business services. Because of this, it is very important that a disaster/contingency plan be developed for every database and application.

The College has not developed a disaster/contingency plan for recovery of its information systems. The Department of Personnel and Administration requires state agencies to have a disaster/contingency plan and a means for periodic testing. Such a plan should address recovery from a partial and/or total loss of facilities and computing resources. Without such a plan, there is a higher likelihood that the College could not maintain its ability to provide services in the event of a disaster.

The College took no action to develop a disaster/contingency plan during Fiscal Year 2003.

Passwords

The College does not require users to change passwords for any function or application other than for functions relating to the Colorado Financial Reporting System (COFRS). Although password changes are encouraged, they are not required. Consequently, there is a good chance that some users may be using the same password for long periods of time. Without periodic changes to passwords, the risk of inappropriate access to programs and data becomes higher.

The College did not require users to change passwords during Fiscal Year 2003, but said it intends to install software in the future that will require passwords to be changed on a regular basis.

Recommendation No. 3:

Adams State College should improve information system processes and controls by:

- a. Establishing a process to inform Computing Services of personnel changes so that employee passwords and/or access to data files can be adjusted as needed.
- b. Enforcing processes to account for the issuance and return of door keys to buildings and rooms.
- c. Developing and implementing a plan to routinely test recovery of backup for information databases and applications.
- d. Developing and testing a disaster/recovery plan.

- e. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.

Adams State College Response:

(a) Agree. New processes and procedures will be formulated in order to notify Computing Services in a timely fashion of any personnel changes.

(b) Agree. A review of the check out procedures will be made and changed to eliminate the loophole in the enforcement of door key returns.

(c) Partially Agree. Based on limited resources a complete test to verify that the backup files are readable is not possible without completely wiping out the backup files. Our position is this type of test is highly risky if the files are found to be unreadable. Backup files are now tested for readability based on sample data on a case-by-case basis. This has occurred throughout the year on selected files as needed. Documentation of this process will be strengthened. A periodic review of the frequency and distribution of these files will be made to determine if the sample tests are adequate.

(d) Agree. Adams State College has taken action to develop a disaster/contingency plan. It will not happen in one step. It has begun by retaining a consulting firm through a State Buildings project to assess the current IT system. From this information priorities and weaknesses will be identified. From this assessment a disaster/contingency plan can be developed within available resources.

(e) Agree. An Oracle upgrade scheduled for this spring will allow the College to force users to change passwords with a frequency to be determined by the administration.

Disposition of Prior Audit Recommendations

Listed below are the recommendations included in the State Colleges in Colorado audit report for Adams State College for the year ended June 30, 2002, and their disposition as of September 30, 2003.

Recommendation	Disposition
1. Adams State College should improve information systems processes and controls by:	
a. Developing and implementing a plan to routinely test recovery of backup for information databases and applications.	Not implemented. See current year Recommendation No. 3.
b. Developing and testing a disaster/contingency plan.	Not implemented. See current year Recommendation No. 3.
c. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.	Not implemented. See current year Recommendation No. 3.
d. Performing the check writing process in the Business Office or having Business Office staff oversee and perform certain review functions if the process is performed in Computing Services.	Implemented.

FINANCIAL STATEMENTS SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Net Assets of Adams 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 financial statements are the responsibility of the management of Adams State College. Our responsibility is to express an opinion 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Adams 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, Adams 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 financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 on our consideration of Adams 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 financial statements but is supplemental information required by the Government Accounting Standards Board. 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 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 financial statements of Adams 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The financial statements of Adams 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 the Office expressed an unqualified opinion on those financial statements in its report dated November 24, 2002. The Office of the State Auditor has not performed any auditing procedures since that date.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

September 30, 2003

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the financial report presents a discussion and analysis of the financial performance of Adams State College for the fiscal year ended June 30, 2003, with selected comparative information for the year ended June 30, 2002. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

FINANCIAL HIGHLIGHTS

The State of Colorado's economic condition resulted in us starting FY 2002-03 with a General Fund reduction of 3.67% of our appropriation. During the year an additional 6.82% of our appropriation was reduced. However, the financial position of the College improved during the fiscal year ended June 30, 2003. The net assets increased \$2.1 million or 3.8% from the previous year.

The College has a ratio of current assets to current liabilities of 2.40. This current ratio demonstrates the liquidity of college assets and the relative availability of working capital to fund current operations.

An operating deficit of \$11.4 million is the result from the College's dependence on state appropriations, which under the guidelines established by GASB Statements 34 and 35 is shown as non-operating revenues. When all revenues and expenses are considered, the College's net assets increased by \$2.1 million.

STATEMENT OF NET ASSETS

The Statement of Net Assets 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 others provide the service, regardless of when cash is exchanged. Over time, increases and decreases in net assets (the difference between assets and liabilities) is one indicator of the College'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 College's assets, liabilities and net assets at June 30, 2003 and 2002 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

	2003	2002
	(in thousands)	
Assets		
Current Assets	\$10,278	\$7,178
Noncurrent Assets	59,948	60,183
Total Assets	70,226	67,361
Liabilities		
Current Liabilities	4,331	3,023
Noncurrent Liabilities	9,762	10,294
Total Liabilities	14,093	13,317
Net Assets		
Invested in Capital Assets, net of related debt	48,943	48,515
Restricted	3,102	2,637
Unrestricted	4,088	2,892
Total Net Assets	\$56,133	\$54,044

At June 30, 2003, the College's total assets were \$70.2 million. The largest asset category is the \$58.6 million in capital assets, net of accumulated depreciation of \$23.6 million. These assets include land, buildings, equipment, library holdings, and construction in process. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In Fiscal Year 2003, the College's current assets of \$10.3 million were sufficient to cover current liabilities of \$4.3 million (producing a current ratio of 2.40). Cash and cash equivalents (bank deposits, certificates of deposits, pooled cash with the State Treasurer) comprised almost \$8.9 million in assets per the Statement of Net Assets.

Capital lease and bonds payables of \$9.6 million represent almost 68% of the College's total liabilities of \$14.1 million. The current portion of the capital lease and bonds payable liability is \$0.5 million.

The College's financial position improved during the Fiscal Year as evidenced by the increase of \$2.1 million in net assets (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$56.1 million. Net Assets is composed of \$48.9 million invested in capital assets net of related debt, \$3.1 million externally restricted for specific purposes, and \$4.1 million unrestricted and available for any lawful purpose of the College.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets 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, public service, and related support services to an individual or entity separate from the College. 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 and other non-operating revenue.

Tuition and fee revenues accounted for \$5.5 million of the \$19.2 million in operating revenues. The tuition and fee amount is net of scholarship allowances of \$3.1 million. 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.

Operating expenses totaled \$30.6 million. Of that total, \$9.4 million was for instruction, \$1.6 million for academic support, \$3.7 million for student services, \$2.2 million for institutional support, \$2.1 million for operations of plant and \$6.3 million for auxiliary enterprises.

The College's dependency on state appropriations produced an operating deficit of \$11.4 million in Fiscal Year 2003 because the financial reporting model classifies state appropriations as non-operating revenues. However, the College realized a \$2.1 million increase in net assets, principally resulting from an increase in depreciable capital assets.

A summarized comparison of the College's revenues, expenses and changes in net asset at June 30, 2003 and 2002 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Operating Revenues		
Tuition and Fees, net	\$5,510	\$4,590
Grants and Contracts	7,804	7,384
Auxiliary Enterprises	5,571	5,885
Other	<u>278</u>	<u>478</u>
Total Operating Revenues	19,163	18,337
Operating Expenses	<u>30,581</u>	<u>32,147</u>
Net operating (Loss)	(11,418)	(13,810)
Nonoperating Revenue(Expense)		
State Appropriations	9,609	10,028
Gifts and Donations	1,045	1,202
Interest Income	431	229
Other Nonoperating	<u>(432)</u>	<u>(634)</u>
Net Nonoperating Revenue	<u>10,653</u>	<u>10,825</u>
Income(Loss) Before Other Revenue, Expenses, Gains or Losses	(765)	(2,985)
State Appropriations, Capital	2,688	6,825
Other	166	120
Increase(Decrease) In Net Assets	2,089	3,960
Net Assets		
Net Assets-Beginning of Year	54,044	50,084
Net Assets-End of Year	<u><u>\$56,133</u></u>	<u><u>\$54,044</u></u>

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 the College's ability to generate cash flows and meet financial obligations as they mature.

A summarized comparison of the College's statement of cash flows at June 30, 2003 and 2002 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

	2003	2002
	(in thousands)	
Net Cash Provided (Used) by:		
Operating Activities	(\$7,177)	(\$12,097)
Non-Capital Financing Activities	11,002	11,377
Capital and Related		
Financing Activities	(1,074)	(53)
Investing Activities	431	229
Net Increase (Decrease)	3,182	(544)
in Cash		
 Cash & Cash Equivalents:		
Beginning of Year	5,750	6,294
End of Year	\$8,932	\$5,750

The College's overall liquidity improved during the Fiscal Year with a healthy increase in cash and cash equivalents of \$3.2 million. The net cash outflow from operating activities was \$7.2 million. The major sources of cash were \$5.4 million in student tuition and fees and \$7.9 million in contracts and grants. Payments to or for employees of \$16.1 million and payments to suppliers of \$7.7 million were the primary uses of funds.

CAPITAL ASSETS

At June 30, 2003 the College had approximately \$58.6 million invested in capital assets, net of accumulated depreciation of \$23.6 million. Depreciation charges were \$2.7 million for the current year compared to \$2.5 million last year. Details of these assets for the two years are shown below.

Capital Assets, Net, at Year End

	2003	2002
Land	\$170,210	\$170,210
Land Improvements	3,291,795	3,561,359
Buildings	48,045,078	44,061,638
Construction in Progress	4,902,218	8,581,011
Equipment	1,350,630	1,563,443
Library Materials	847,494	829,379
	\$58,607,425	\$58,767,040
Total		

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2003**

DEBT

At June 30, 2003, the College had approximately \$9.7 million in debt outstanding compared to \$10.3 million at June 30, 2002. The table below summarizes these amounts by type of debt.

Outstanding Debt, at Year End		
	<u>2003</u>	<u>2002</u>
Enterprise Revenue Bonds	\$8,976,553	\$9,443,213
Capital Lease	620,538	732,191
Notes Payable	<u>67,858</u>	<u>76,420</u>
Total	<u><u>\$9,664,949</u></u>	<u><u>\$10,251,824</u></u>

ECONOMIC OUTLOOK

The economic position of the College is closely tied to that of the State. This was shown by the reduction of \$1.1 million in our appropriation this Fiscal Year due to the State's continuing loss in revenues and having to cut funds from higher education and other state programs to balance its budget. The College is looking for other sources of revenue in order to cushion itself from further reductions if they should come in future years.

For FY 2003-2004, a tuition rate increase of 5% for resident students and 10% for nonresident students was approved.

The College is looking into refinancing its revenue bond issue in order to take advantage of the lower interest rates and to get additional funds for much needed controlled maintenance and improvement projects in the auxiliary area.

HB 03-1093 authorized independent governance for Adams State College effective July 1, 2003. Because of this budget allocations for the College will be directly appropriated to the Board of Trustees for Adams State College.

ADAMS STATE COLLEGE
Statement of Net Assets
as of June 30, 2003 and 2002

	FY 2003	UNAUDITED
	TOTAL	FY 2002
		TOTAL
Assets:		
<u>Current Assets</u>		
Cash & cash equivalents	\$8,604,010	\$5,422,006
Student accounts receivable, net	587,011	445,519
Other accounts receivable	422,883	679,887
Student loans receivable, net	176,996	169,491
Inventories	481,197	453,626
Prepaid expenses	1,209	2,652
Other current assets	4,500	4,500
Total current assets	10,277,806	7,177,681
<u>Noncurrent Assets</u>		
Restricted cash & cash equivalents	328,250	328,250
Student loans receivable, net	875,970	942,639
Deferred charges-bond issuance costs	136,485	145,015
Non-depreciable capital assets:		
Land	170,210	170,210
Construction in progress	4,902,218	8,581,011
Total non-depreciable capital assets	5,072,428	8,751,221
Depreciable capital assets, net:		
Buildings	48,045,078	44,061,638
Land improvements	3,291,795	3,561,359
Furniture & equipment	1,350,630	1,563,443
Library books	847,494	829,379
Total depreciable capital assets, net	53,534,997	50,015,819
Total noncurrent assets	59,948,130	60,182,944
Total Assets	70,225,936	67,360,625
Liabilities:		
<u>Current Liabilities</u>		
Accounts payable	322,906	562,876
Accrued liabilities	2,713,582	1,088,041
Deferred revenue	261,521	280,907
Deposits held for others	425,573	409,814
Bonds payable, current	420,000	475,000
Notes payable, current	11,960	11,960
Capital leases payable, current	119,427	111,653
Compensated absences liability	56,445	83,133
Total current liabilities	4,331,414	3,023,384
<u>Noncurrent Liabilities</u>		
Compensated absences liability	648,206	640,022
Notes payable	55,898	64,460
Capital leases payable	501,111	620,538
Bonds payable	8,556,553	8,968,213
Total noncurrent liabilities	9,761,768	10,293,233
Total Liabilities	14,093,182	13,316,617
Net Assets:		
Invested in capital assets, net of related debt	48,942,477	48,515,216
Restricted for		
Non-expendable Endowments	28,250	28,250
Expendable		
Endowments	32,084	29,088
Loans	1,224,128	1,275,022
Capital Projects	300,000	300,000
Other Purposes	1,518,151	1,004,224
Total Expendable	3,074,363	2,608,334
Unrestricted	4,087,664	2,892,208
Total Net Assets	\$56,132,754	\$54,044,008

The accompanying notes are an integral part of this statement

ADAMS STATE COLLEGE
Statement of Revenues, Expenses, and Changes in Net Assets
for the years Ended June 30, 2003 and 2002

	FY 2003	UNAUDITED
	TOTAL	FY 2002
	TOTAL	TOTAL
Operating Revenues:		
Tuition & fees (including \$533,134 and \$564,292, respectively of revenues pledged for bonds and net of scholarship allowances of \$3,047,647 and \$2,966,576, respectively)	\$5,510,318	\$4,590,118
Sales & services of auxiliary enterprises (including \$6,091,224 and \$6,126,468, respectively of revenues pledged for bonds and net of scholarship allowances of \$776,984 and \$671,491, respectively)	5,571,084	5,885,344
Federal grants and contracts	5,451,121	5,108,644
State grants and contracts	2,352,682	2,275,313
Other operating revenues (including \$20,732 and \$14,510, respectively of revenues pledged for bonds)	277,690	477,840
Total operating revenues	19,162,895	18,337,259
Operating Expenses:		
Instruction	9,371,681	9,502,488
Public service	16,308	29,569
Academic support	1,625,829	1,682,443
Student services	3,680,523	3,811,673
Institutional support	2,156,379	2,357,142
Operation of plant	2,118,119	2,169,824
Scholarships and fellowships	2,593,155	2,062,145
Auxiliary enterprises expenditures	6,269,258	8,044,721
Depreciation	2,750,147	2,487,164
Total operating expenses	30,581,399	32,147,169
Operating Income (Loss)	(11,418,504)	(13,809,910)
Nonoperating Revenues (Expenses):		
State appropriation, noncapital	9,609,028	10,027,697
Gifts and Donations	1,045,095	1,202,099
Investment & interest income (including \$29,504 and \$38,233, respectively of revenue pledged for bonds)	431,301	228,884
Interest on capital debt	(586,935)	(620,206)
Gain or Loss on Disposal of Assets	(6,513)	(13,879)
Other Non-operating Revenues (including \$1,858 of revenue pledged for bonds)	161,946	0
Net nonoperating revenue (expenses)	10,653,922	10,824,595
Income (Loss) before other revenues, expenses, gains, losses or transfers	(764,582)	(2,985,315)
Other Revenues, Expenses, Gains, Losses or Transfers:		
State appropriation, capital	2,687,687	6,824,966
Transfers (to)/from Governing Board	165,641	120,005
Increase (Decrease) in Net Assets	2,088,746	3,959,656
Net Assets at Beginning of Year, as originally reported	54,044,008	69,149,338
Cumulative effect of change in accounting principle		(19,064,986)
Net Assets at Beginning of Year, Restated	54,044,008	50,084,352
Net Assets at End of Year	\$56,132,754	\$54,044,008

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Cash Flows
for the years Ended June 30, 2003 and 2002

	FY 2003 TOTAL	UNAUDITED FY 2002 TOTAL
Cash Flows from Operating Activities:		
<u>Cash Received:</u>		
Tuition and fees	\$5,414,908	\$4,511,316
Sales of services	4,179,920	4,154,697
Sales of products	1,358,541	1,385,361
Grants and contracts	7,924,246	7,178,514
Student loans collected	214,130	168,324
Other receipts	340,048	334,115
<u>Cash Payments:</u>		
Payments to or for employees	(16,092,608)	(17,755,114)
Payments to suppliers	(7,734,094)	(9,573,875)
Scholarships disbursed	(2,593,155)	(2,347,079)
Student loans disbursed	(188,737)	(152,788)
Net cash provided (used) by operating activities	<u>(7,176,801)</u>	<u>(12,096,529)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations, noncapital	9,609,028	10,027,697
Gifts/Grants for Other than Capital Purposes	1,045,094	1,202,099
Change in funds held for others	20,432	27,512
Other NonCapital Revenues	161,946	0
Transfers from (to) other funds	165,641	120,005
Net cash provided (used) by noncapital financing activities	<u>11,002,141</u>	<u>11,377,313</u>
Cash Flows from Capital & Related Financing Activities:		
State appropriations, capital	2,687,687	6,824,966
Acquisition or construction of capital assets	(2,597,044)	(5,703,432)
Principal paid on capital debt	(595,216)	(567,965)
Interest paid on capital debt	(570,064)	(606,626)
Net cash provided (used) by capital & related financing activities	<u>(1,074,637)</u>	<u>(53,057)</u>
Cash Flows from Investing Activities:		
Investment earnings	431,301	228,883
Net cash provided (used) by investing activities	<u>431,301</u>	<u>228,883</u>
Net Increase (Decrease) in Cash	3,182,004	(543,390)
Beginning cash balance	5,750,256	6,293,646
Ending cash balance	<u>\$8,932,260</u>	<u>\$5,750,256</u>
Reconciliation of net operating revenues (expenditures) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$11,418,504)	(\$13,809,909)
Adjustments to reconcile:		
Depreciation expense	2,750,147	2,487,164
Prior period adjustment		334,739
Decrease (increase) in assets:		
Receivables, net	174,677	(433,166)
Inventories & prepaids	(26,129)	(54,335)
Increase (decrease) in liabilities:		
Accounts payable	(239,970)	(44,498)
Accrued liabilities	1,625,541	(52,371)
Deferred revenues	(19,388)	(546,708)
Student deposits	(4,672)	(1,738)
Compensated absences	(18,503)	24,293
Net cash provided (used) by operating activities	<u>(\$7,176,801)</u>	<u>(\$12,096,529)</u>

The accompanying notes are an integral part of this statement

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governance

The Board of Trustees of the State Colleges in Colorado ("State Colleges") is the governing board for Adams State College (ASC), Mesa State College (MSC), Western State College (WSC) and the Western Colorado Graduate Center (WCGC). 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 seven members appointed by the Governor serving four-year terms. Additionally, a faculty and a student trustee are elected to serve for one-year terms.

Reporting Entity

Adams State College is an institution of higher education of the State of Colorado. Thus, for reporting purposes, Adams State College is included as part of the State of Colorado's primary government. As defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" the College is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete. A copy of the state Comprehensive Annual Financial Report may be obtained from the State Controller's Office, General Support Services, Denver, Colorado.

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. 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.

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.

Cash and Cash Equivalents

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

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Plant 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 College follows the policy of capitalizing only those plant assets with an initial cost or fair value equal to or greater than \$5,000.

Depreciation

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, 5-20 years for equipment, and 10 years for library materials.

Classification of Revenue

The College 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 College.
- 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.

Application of Restricted and Unrestricted Resources

The College'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.

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 Assets and as a component of appropriate functional expense categories in the Statement of Revenues, Expenses, and Changes in Net Assets. The current portion of this liability is estimated based on historical trends.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The College has classified its net assets according to the following criteria:

- *Invested in Capital Assets, Net of Related Debt* – This category 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 this category.
- *Restricted Net Assets, Nonexpendable* – This category consists of endowment funds that are required to be retained in perpetuity.
- *Restricted Net Assets, Expendable* – This category includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- *Unrestricted Net Assets* – Unrestricted Net Assets are those that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt” 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.

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

At June 30, 2003, the College had \$6,620,610 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	\$ 10,580
Cash in checking accounts at bank	1,017,315
Certificate of Deposits	1,072,289
Total cash	\$2,100,184

The carrying amount of the college's cash on deposit was \$2,089,604. The bank balance of these deposits was \$2,422,292, of which \$260,334 was covered by federal depository insurance and \$2,161,958 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

At June 30, 2002, the College had \$3,761,403 on deposit with the State Treasurer. At year-end, cash on hand and in banks consisted of the following:

Cash on hand	\$ 9,950
Cash in checking accounts at bank	934,708
Certificate of Deposits	1,044,195
Total cash	\$1,988,853

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

**NOTE 2: CASH WITH THE STATE TREASURER, CASH ON HAND AND IN BANK,
AND INVESTMENTS (Continued)**

The carrying amount of the college's cash on deposit was \$1,978,903. The bank balance of these deposits was \$2,787,216, of which \$257,338 was covered by federal depository insurance and \$2,529,878 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

The College deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The College reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2003. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gains of \$211,466 included in "Investment Income" reflect the fair value as of June 30, 2003. Additional information on the Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

NOTE 3: ACCOUNTS AND LOANS RECEIVABLE

Account receivable balances are presented net of estimated allowance for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2003 and 2002, accounts receivable were as follows:

	<u>2003</u>	<u>2002</u>
Student Accounts Receivable	\$721,252	\$623,045
Less: Allowance for Doubtful Accounts	(134,241)	(177,526)
Student Accounts Receivable, net	<u>587,011</u>	<u>445,519</u>
Other Accounts Receivable	<u>422,883</u>	<u>679,887</u>
Student Loans Receivable	1,204,617	1,243,468
Less: Allowance for Doubtful Accounts	(151,651)	(131,338)
Student Loans Receivable, net	<u>1,052,966</u>	<u>1,112,130</u>
Total Receivables	<u>\$2,062,860</u>	<u>\$2,237,536</u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002**

NOTE 4: CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2003.

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30,</u> <u>2003</u>
Nondepreciable Capital Assets				
Land	\$ 170,210	\$ -0-	\$ -0-	\$ 170,210
Construction in Progress	<u>8,581,011</u>	<u>2,687,687</u>	<u>6,366,480</u>	<u>4,902,218</u>
Total Nondepreciable Capital Assets	<u>\$8,751,221</u>	<u>\$2,687,687</u>	<u>\$6,366,480</u>	<u>\$5,072,428</u>
Depreciable Capital Assets				
Land Improvements	\$ 5,211,398	\$ -0-	\$ -0-	\$ 5,211,398
Buildings and Improvements	58,746,193	5,985,964	-0-	64,732,157
Equipment	3,119,498	107,342	30,056	3,196,784
Library Materials	<u>3,789,687</u>	<u>182,532</u>	<u>25,156</u>	<u>3,947,063</u>
Total Depreciable Capital Assets	70,866,776	6,275,838	55,212	77,087,402
Less: Accumulated Depreciation				
Land Improvements	1,650,039	269,564	-0-	1,919,603
Buildings and Improvements	14,684,555	2,002,524	-0-	16,687,079
Equipment	1,556,055	313,642	23,543	1,846,154
Library Materials	<u>2,960,308</u>	<u>164,417</u>	<u>25,156</u>	<u>3,099,569</u>
Total Accumulated Depreciation	<u>20,850,957</u>	<u>2,750,147</u>	<u>48,699</u>	<u>23,552,405</u>
Net Depreciable Capital Assets	<u>\$50,015,819</u>	<u>\$3,525,691</u>	<u>\$6,513</u>	<u>\$53,534,997</u>

NOTE 5: LONG-TERM LIABILITIES

The College's Long-Term Liability activity for the year ended June 30, 2003 was as follows:

	<u>Balance</u> <u>6/30/2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2003</u>	<u>Current</u> <u>Portion</u>
Bond and Leases Payable:					
Enterprise Revenue Bonds	\$9,585,000	\$0	\$475,000	\$9,110,000	\$420,000
Less: Unamortized Discount	(141,787)		(8,340)	(133,447)	
Capital Lease Obligation	732,191		111,653	620,538	119,427
Total Bonds and Leases Payable	<u>10,175,404</u>	<u>0</u>	<u>578,313</u>	<u>9,597,091</u>	<u>539,427</u>
Other Liabilities:					
Compensated Absences	723,155		18,504	704,651	56,445
Other	76,420		8,562	67,858	11,960
Total Other Liabilities	<u>799,575</u>	<u>0</u>	<u>27,066</u>	<u>772,509</u>	<u>68,405</u>
Total Long-Term Liabilities	<u>\$10,974,979</u>	<u>\$0</u>	<u>\$605,379</u>	<u>\$10,369,600</u>	<u>\$607,832</u>

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 6: LEASE OBLIGATIONS

A capital lease for Energy Conservation Equipment was entered into May 17, 1996 in the amount of \$1,144,242. This lease consisted of two purchase agreements. Phase 1 agreement requires monthly payments of \$4,527 for ten years with an interest rate of 6.75%. Phase 2 agreement requires monthly payments of \$8,612 for ten years with an interest rate of 6.75%.

Principal and Interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	
2004	\$157,664
2005	157,664
2006	157,664
2007	148,610
2008	<u>103,340</u>
	724,942
Less amount representing interest	<u>(104,404)</u>
Principal outstanding	<u>\$620,538</u>

NOTE 7: BONDS PAYABLE

The Series A 1994 Enterprise Revenue Bonds have annual maturities through 2006 then the bonds will mature in 2009, 2014, and 2019. Interest rates vary from 3.30% to 5.75% with an average rate of 5.55%. The bonds are collateralized by first lien on all net revenues of the Auxiliary Facilities System, which consists of all dormitories, cafeteria, apartment buildings, and college center. Also, the Series A 1994 Bonds are insured through the Municipal Bond Investors Assurance Corporation (MBIA).

Under the terms of the bond resolution, the Debt Service Reserve Requirement may be maintained by cash or a qualified surety bond or a combination of both in the amount of \$1,182,180. The College fulfilled this requirement with the purchase of a Debt Service Reserve Surety Bond in the amount of \$1,182,180 issued through the Municipal Bond Investors Assurance Corporation (MBIA).

Under the terms of the bond resolution the Repair and Replacement Reserve Requirement is to start with an initial amount of \$200,000 with deposits in the amount of not less than \$25,000 each year from 1995 through 1998 or until a reserve of \$300,000 is met. As of June 30, 2003, the College had a Repair and Replacement Reserve balance of \$430,095. Principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 420,000	\$ 511,803
2005	450,000	490,383
2006	470,000	466,982
2007	420,000	442,072
2008	440,000	418,972
2009-2013	2,625,000	1,694,863
2014-2018	3,465,000	854,715
2019-2023	<u>820,000</u>	<u>47,150</u>
	9,110,000	<u>\$4,926,940</u>
Less unamortized discount	<u>(133,447)</u>	
Bonds Payable	<u>\$8,976,553</u>	

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002**

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 College 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 is subject to audit by the grantor agencies. Any disallowed amounts resulting from such audits could become a liability of the College. However, College 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 College at June 30, 2003.

The amount of state capital appropriations unexpended was \$1,819,837 as of June 30, 2003.

NOTE 9: 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, 2003, and June 30, 2002, are estimated as \$56,445 and \$83,133 respectively. The estimated costs of non-current compensated absences for which employees are vested for the years ended June 30, 2003, and June 30, 2002, are estimated as \$648,206 and \$640,022 respectively. Current expenses include a decrease of \$18,504 for the estimated compensated absence liability. None of the liability relates to the current restricted fund.

NOTE 10: PENSION PLAN OBLIGATIONS

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; 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.

The ORP is a defined contribution pension plan with three vendors, Fidelity Investments, TIAA-CREFF 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 College's contributions to the ORP for the fiscal years ending June 30, 2003, 2002, and 2001 were \$554,920, \$591,197 and \$541,352 respectively. 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.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002**

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 participate in the ORP.

A. PERA PLAN DESCRIPTION

Many of the College's employees participate in a defined benefit pension plan. The PERA plan's purpose is to provide income to members and their families at retirement or in the 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, Colorado 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. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and 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.

B. FUNDING POLICY

Most employees contribute 8 percent of their annual gross covered wages to an individual account in the plan. During FY02-03, the state contributed 10.04 percent of the employee's gross covered wages. Before January 1, 2003, 1.64 percent was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1 percent 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 11 below.) 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 are the 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. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

B. FUNDING POLICY (Continued)

The College's contributions to three programs described above for the fiscal years ending June 30, 2003, 2002 and 2001 were \$773,253, \$789,498 and \$765,140 respectively. These contributions were equal to the required contributions for each year.

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 College was \$118,096. Employee contributions were 7.5 percent of covered payroll.

NOTE 11: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. 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 one percent, and therefore, the match changed from 3 percent to 2 percent. 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 a 403b plan. Members who contribute to any of their plans also receive the state match.

NOTE 12: 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 year 2002-2003, the subsidy was \$115.00 for those with 20 years of service credit (\$230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

Health Care Program (Continued)

The Health Care Trust Fund is maintained by the institution's contribution as explained in Footnote 10B above.

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 a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans and with health maintenance organizations to provide services within Colorado. As of December 31, 2002 there were 35,418 participants, including spouses and dependents from all contributors to the plan.

Life Insurance Program

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

Other Programs

Separate post-retirement health care and life insurance benefit plans exist for the State College System, but are small in comparison to the PERA plan for state employees. The state has no liability for any of these other post-retirement health care and life insurance plans.

NOTE 13: SCHOLARSHIP ALLOWANCES

Tuition, fee and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2003 And 2002 were as follows:

	Tuition & Fees	Auxiliary Revenue	2003 Total	2002 Total
Gross Revenue	<u>\$8,557,965</u>	<u>\$6,348,068</u>	<u>\$14,906,033</u>	<u>\$14,113,529</u>
Scholarship Allowances:				
Federal	1,559,480	397,584	1,957,064	1,941,272
State	893,571	227,811	1,121,382	897,511
Private	460,804	117,480	578,284	678,500
Institutional	133,792	34,109	167,901	120,784
Total Allowances	<u>3,047,647</u>	<u>776,984</u>	<u>3,824,631</u>	<u>3,638,067</u>
Net Revenue	<u>\$5,510,318</u>	<u>\$5,571,084</u>	<u>\$11,081,402</u>	<u>\$10,475,462</u>

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 14: COLLEGE FOUNDATION

The Adams State College 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 College area in the State of Colorado, and for the purpose of promoting and furthering the interests, objectives and purposes of Adams State College in such other ways and manners as the corporation may from time to time determine.

During the year ended June 30, 2003, the College received funds totaling \$500,780 from the Foundation for special projects, library materials, scholarships 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 College.

The Foundation changed its year from a calendar year end to a fiscal year end of June 30 for audit and tax purposes. An unaudited summary Balance Sheet and Statement of Cash Receipts, Expenditures, and Changes in Net Assets at June 30, 2003 is as follows:

Assets	<u>\$6,957,457</u>	Total Revenues, Support, & Other Addition	\$616,850
Net Assets		Total Expenditures & Other Deductions	<u>(709,931)</u>
Unrestricted	3,660,366		
Temporarily Restricted	872,182		
Permanently Restricted	<u>2,424,909</u>		
Total Net Assets	<u>\$6,957,457</u>	Change in Net Assets	(93,081)
		Gain on Investments	<u>342,555</u>
		Total Change in Net Assets	<u>\$249,474</u>

NOTE 15: 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. Because of Senate Bill 03-197, monthly salaries for June, 2003 that were normally paid on June 30 were paid on July 1, 2003. This created an accrual for fiscal year 2003 of \$1,189,251.

NOTE 16: RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The College is subject to risks of loss from liability for accident property damage and personal injury. The State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill, manages these risks. 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.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2003 and 2002

NOTE 17: RECLASSIFICATION

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statement.

SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND EXPENSES FOR
ENTERPRISE REVENUE BONDS

**Schedule of Revenues and Expenses
for Enterprise Revenue Bonds
Adams State College
For Years Ended June 30, 2003 and 2002**

	<u>2003</u>	<u>Undaudited</u> <u>2002</u>
Revenue		
College Service Fees	\$ 533,134	\$ 564,292
Rental Income	3,160,916	3,120,053
Food Service Income	1,428,479	1,463,662
Sales/Service Auxiliaries	1,388,728	1,425,661
Interest Income	29,504	38,232
Other Income	135,691	131,604
Total Revenue	<u>6,676,452</u>	<u>6,743,504</u>
 Expenses		
Employee Compensation	1,382,270	1,374,108
Costs of Goods	912,967	904,101
Utilities	320,086	369,914
Rental	178,700	181,607
Contract Food	869,718	831,508
Travel	19,646	18,459
Supplies	118,568	151,026
Other Operating Expenses	329,908	329,835
Purchased Services	9,830	9,278
Financial Aid	275,373	276,105
Administrative Cost	563,720	566,543
Furniture & Equipment	22,869	51,298
Other Capital Expenditures	120,801	124,254
Other Expenses	24,282	82,694
Total Expenses	<u>5,148,738</u>	<u>5,270,730</u>
 Net Revenue Before Transfers	 1,527,714	 1,472,774
 Transfers		
Mandatory Transfers-Debt Service	1,010,553	1,101,878
Nonmandatory Transfers	24,957	141,707
Total Transfers	<u>1,035,510</u>	<u>1,243,585</u>
 Net Revenue	 <u>\$ 492,204</u>	 <u>\$ 229,189</u>

**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 financial statements of Adams State College, a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. Our report contained an explanatory paragraph discussing that Adams 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 Statement Note Disclosures*, as of July 1, 2001. 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 the financial statements of Adams State College 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 Adams State College's internal control over financial reporting in order 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 general purpose 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 operation that we consider to be material weaknesses. However, we noted other matters involving the internal controls over financial reporting that we have reported in the Findings and Recommendations section of the report.

Wall, Smith, Bateman and Associates, Inc.

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.
Certified Public Accountants

September 30, 2003

Members of the Legislative Audit Committee:

We have audited the financial statements of Adams State College for the year ended June 30, 2003, and have issued our report thereon dated September 30, 2003. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated March 24, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that 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 Adams State College. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Adams State College are described in Note 1 to the financial statements. The new accounting policies resulted in changes in the format and content of the financial statements. We noted no transactions entered into by Adams State College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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 financial statements are the allowance for uncollectible receivables, accrued compensated absences, scholarship

allowances, and the depreciation of capital assets. We evaluated the key factors and assumptions used to develop these estimates and determined that 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. There were no adjustments arising from the audit.

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 statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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 governmental unit'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.

Issues Discussed Prior to Retention of Independent Auditors

There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

September 30, 2003

STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION

ADAMS STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2003

Introduction

Adams State College 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 College for the year ended June 30, 2003, was directed toward the objectives and criteria set forth in the Colorado Handbook for State-Funded Student Assistance Programs, issued by the Colorado Commission on Higher Education (CCHE). The State student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2003.

State-Funded Student Assistance Programs

The various state-funded student assistance programs at the College include the Colorado Student Grant Program, Colorado Work Study Program, Undergraduate Merit Award Program, Perkins Student Loan Matching Program, Diversity Grant Program, Governor's Opportunity Scholarship, CLEAP and SLEAP.

The state-funded student assistance awards made by the College were \$1,914,000 for the fiscal year ended June 30, 2003. In addition, total state-funded matching funds of \$838 were transferred to the Perkins Student Loan Fund.

The Director of Financial Aid is responsible for 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 College in federal and state financial aid programs. The College Controller is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period, Adams State College obtained authorizations to award federal student financial aid funds of \$2,683,000 in the Pell Grant Program, \$145,000 in the Supplemental Educational Opportunity Grant Program, \$289,000 in the College Work-Study Program and \$7,038 in the Perkins Student Loan Program.

During the audit period, Adams State College obtained authorizations to award Colorado student financial aid funds of \$219,000 in the CLEAP and SLEAP Programs, \$852,000 in the Student Grant Program, \$377,000 in the Colorado Work Study Program, \$220,000 in the Merit Award Program, and \$244,000 in the Governor's Opportunity Scholarship.

**Independent Auditors' Report on the Statements of Appropriations, Expenditures,
Transfers, and Reversions of the State-Funded Student Assistance Programs**

Members of the Legislative Audit Committee:

We have audited the accompanying Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Adams State College for the year ended June 30, 2003. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion 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 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 audits provide a reasonable basis for our opinion.

The statements were 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 statements are a summary of cash activity of the state-funded student financial assistance programs with the exception of the College Work-Study Program and the Perkins Loan Program, and do 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 statements are not intended to present the financial position or changes in financial position of Adams State College in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly the appropriations, expenditures, transfers, and reversions of the state-funded student assistance programs of Adams State College, in all material respects, for the year ended June 30, 2003, in conformity with the provisions of the Colorado Commission of Higher Education's *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2003 on our consideration of Adams 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.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

September 30, 2003

**ADAMS STATE COLLEGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND NOTES TO STATEMENT OF APPROPRIATIONS,
EXPENDITURES,
TRANSFERS AND REVERSIONS**

Basis of Accounting

The accounting systems of Adams State College are structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Officers in its revised publication *Financial Accounting and Reporting Manual*.

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

Note A

CLEAP and SLEAP Grants consist of 67 percent state funds and 33 percent federal funds. The amount shown is the combined total.

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