

ADAMS STATE COLLEGE

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2004 and 2003

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**ADAMS STATE COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

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 2004 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 2004.

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, 2004 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, 2004.
- Evaluate progress in implementing prior audit recommendations.
- The Schedule of Expenditures of Federal Awards for Adams State College and applicable audit opinions are included in the June 30, 2004 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, 2004 and 2003. 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, 2004.

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

The 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 our fiscal year 2004 and 2003 audits, we noted that the authorization process for drawing down Federal funds was not adequate and did not allow for the necessary amounts to be drawn in a timely manner. Therefore, the College unnecessarily used State funds instead of Federal funds for cash flow purposes.

During our fiscal year 2003 audit, we noted several improvements were needed in accounting procedures and controls. We addressed the status of the recommendations during the fiscal year 2004 audit and found that management had addressed some areas but improvements are still needed. Management has started to restructure its procedures and is documenting the current procedures as well as the new procedures and expects to complete this project by fiscal year end 2005.

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 implemented changes in three areas of the recommendation and has two more areas to address. We believe the remaining two issues are still important including the need for 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

There were three recommendations made in the prior year audit. One recommendation was fully implemented and the other two recommendations were partially implemented. A detail description and the disposition is contained in the findings and recommendations section of the report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	7	Adams State College should improve the accounting policies and procedures by:		
		a. Continuing the process of developing a comprehensive policies and procedures manual for every area of the Business Office	Agree	June 30, 2005
		b. Evaluating how duties performed by the Controller can be delegated to other individuals, and having other individuals review accounting functions performed by the Controller.	Agree	June 30, 2005
		c. Identifying and correcting financial aid data errors timely and improving the authorization process so that federal funds drawn down are adequate to meet the cash flow demands for related expenses.	Agree	June 30, 2005
		d. Cross training other personnel in the Financial Aid Department and the business office to minimize disruption when personnel are absent.	Agree	June 30, 2005
2	8	Adams State College should improve information processes and controls by:		
		a. Developing and testing a disaster/recovery plan.	Agree	October 31, 2005
		b. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.	Agree	February 28, 2005

Description of Adams State College

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.

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

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

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 a regional educational provider approved 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>2002</u>	<u>2003</u>	<u>2004</u>
Resident Students	1,934.4	1,965.9	1993.2
Nonresident Students	<u>341.0</u>	<u>355.7</u>	<u>320.0</u>
Total Students	<u>2,275.4</u>	<u>2,321.6</u>	<u>2313.2</u>
Faculty FTEs	135.5	157.6	143.2
Staff FTEs	<u>131.4</u>	<u>124.3</u>	<u>125.5</u>
Total Staff and Faculty FTEs	<u>266.9</u>	<u>281.9</u>	<u>268.7</u>

FINDINGS AND RECOMMENDATIONS SECTION

Findings and Recommendations

Internal Accounting Controls

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

- The Business Office does not have a comprehensive written policy and procedures manual. Such a manual is necessary for documenting the College's policies and procedures, providing consistent guidance and reinforcement of job duties to current employees, and training new employees on procedures to be followed. This was a prior year comment that has not been fully implemented. Management is restructuring the policies and procedures along with documenting the current and new policies and procedures.
- There does not appear to be an effective work structure or delegation of duties for performance of the Controller's function. We found the Controller performs many duties and computations that are not reviewed by other personnel. For example, the Controller prepares the payroll tax deposits, quarterly 941 forms, and W-2 forms, with no review by other personnel. This was also a prior year comment that has not been fully implemented. The College hired a new Controller September 1, 2004.

Without adequate internal controls, there is an increase in the risk that errors and irregularities will go undetected.

Federal Funds Draw Procedures

Adams State College received approximately \$3.2 million during fiscal year 2004 for federal student financial assistance programs. The College obtains reimbursement of federal expenditures by drawing funds on a federal letter of credit. Financial Aid office personnel originate a disbursement record, which ultimately results in an authorization of a designated amount of money to be drawn on the federal letter of credit. The disbursement record contains student financial aid information and is submitted electronically to the U.S. Department of Education. The Department of Education verifies the data and authorizes the amount to be drawn on the federal letter of credit. However, if there are errors in the data, the amount drawn is limited to the valid data. For the period January through June 2004 the authorization was not always timely and the amount authorized was never enough to replenish the cash used. For example, on January 22, 2004 the necessary amount to draw down was \$112,737. However, an authorization was not made until February 5, 2004 and the amount authorized was \$67,429, which was \$45,308 short of replenishing the cash.

A finding was noted in the fiscal year 2003 audit regarding the federal draw down process not being performed timely due to turnover in personnel and because other employees had not been trained to perform this function. During the fiscal year 2004 audit it became more apparent that a cross training program needs to be established to ensure enough people are sufficiently trained in the drawdown process. This way, in the event personnel are absent, processes can continue without interruption.

Not drawing the full amount of federal funds on a timely basis results in the use of state funds for federal programs and lost interest income to the State.

Recommendation No. 1:

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

- a. Continuing the process of developing a comprehensive policies and procedures manual for every area of the Business Office.
- b. Evaluating how duties performed by the Controller can be delegated to other individuals, and having other individuals review accounting functions performed by the Controller.
- c. Identifying and correcting financial aid data errors timely and improving the authorization process so that federal funds drawn are adequate to meet the cash flow demands for related expenses.
- d. Cross training other personnel in the Financial Aid Department and the business office to minimize disruption when personnel are absent.

Adams State College Response:

- a. Agree. The Business Office is continuing the evaluation process of the current policies and procedures in order to streamline them. Each position is in the process of developing a desk manual, with some of them completed. It is the goal to have all these policies and manuals published in a centralized web-enabled location.
- b. Agree. A review of the Controller's duties has identified some which can be delegated to the Accounting Tech II and III in the Business and Payroll Office. These employees will be trained during the coming fiscal year. Pursuant to the recommendation, the Vice President of Finance and Administration and the Controller visited Fort Lewis College to learn the structure of their Business Office and the duties of their Controller. Fort Lewis College has three professional accountants that do the majority of the accounting duties. The Controller reviews their work. Adams State College has no professional accountants except for the Controller, so the Controller performs the majority of the accounting duties.
- c. Agree. The Office of Student Financial Aid will evaluate its policies and procedures for identifying and correcting of student financial aid data and ensure timely and accurate submission of electronic files to the U.S. Department of Education for authorization to draw down federal funds.
- d. Agree. Both offices will evaluate and document its procedures and establish a program of cross-training of staff to ensure processes and procedures are timely and uninterrupted.

Information System Processes and Controls

The fiscal year 2002 audit of the College made a recommendation to improve the College's processes for information systems. During fiscal year 2004, the College implemented three areas of the recommendation and is in the process of addressing the remaining two areas. Because we believe the two issues are still important, we have repeated the comments below and indicated what action has been taken and still needs to be taken by the College.

Disaster Recovery Plan

The College is highly dependent on technology to deliver many of its student and business services, such as maintaining student records that track student transcripts, student financial aid, student accounts and the College's accounting records. 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 years 2003 or 2004 due to various personnel changes.

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 years 2003 and 2004, but said it intends to install software in the future that will require passwords to be changed on a regular basis. The software was purchased during fiscal year 2004, however it was not implemented.

Recommendation No. 2:

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

- a. Developing and testing a disaster/recovery plan.
- b. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.

Adams State College Response:

- a. Agree. Due to institutional budget reductions during the Fiscal Year 2003, the Adams State College (ASC) Chief Information Officer (CIO) position was intentionally left vacant. This decision was re-evaluated during Fiscal Year 2004 because of the institutions increasing reliance on computer-based information and administrative systems. Given this increased dependence and, therefore, risk, the CIO position was filled in August 2004.

One of the key tasks assigned to the new CIO is development of an ASC Disaster Recovery Plan. To date, the CIO has established a Computing Services Disaster Recovery Working Group with the initial charter to rank order information technology services being provided to the campus, perform a risk assessment for each service and, based on the identified risks, develop a risk mitigation or risk reduction plan. The first meeting of the working group is scheduled for January 2005. The target date for completion of the initial risk assessment is 1 July 2005, with completion of the full plan by October 1, 2005.

Additionally, in recognition of the criticality of the Banner Enterprise Resource Planning (ERP) system to overall campus business and student support operations, two backup Banner Servers were purchased in Fiscal Year 2004 to provide fail over capability in the event of hardware failures. Having backup systems available, such as these, for mission critical applications will be an important element of the Disaster Recovery Plan.

b. Agree. ASC is implementing a forced-password change policy for the Banner system during February 2005. Databases within this system contain student, faculty and staff personnel data which must be properly protected. Banner users will be required, via automated prompting, to change passwords on a quarterly basis. If the user does not comply, he or she will be prevented from accessing Banner. Implementation of this policy will be staggered, starting in February, to preclude the possibility of all Banner user's being required to change passwords on the same day each quarter.

Computing Services is also in the early planning stages of developing a single sign-on capability for all campus IT applications. As the design for this feature is refined, a key element will be inclusion of password change policy and logic. This new capability is expected to be in place by the spring of 2006.

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, 2003, and their disposition as of September 30, 2004.

Recommendation	Disposition
1. Adams State College should improve its accounting policies and procedures by:	
a. Performing a periodic reconciliation of receipts and disbursements between the College and the Adams State College Foundation.	Implemented.
b. Developing a comprehensive policies and procedures manual for every area of the Business Office.	Not implemented. See current year recommendation No. 1.
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.	Partially implemented. See current year recommendation No. 1.
d. Drawing federal funds timely and cross training other personnel to perform this function if needed.	Partially implemented. See current year recommendation No. 1.
e. Reconciling all subsidiary ledgers to general ledger accounts on a regular basis.	Implemented.
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 the accounting and financial aid records.	Implemented.
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.	Implemented.

Recommendation**Disposition**

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. | Implemented. |
| b. Enforcing processes to account for the issuance and return of door keys to buildings and rooms. | Implemented. |
| c. Developing and implementing a plan to routinely test recovery of backup for information databases and applications. | Implemented. |
| d. Developing and testing a disaster/recovery plan. | Not implemented.
See current year recommendation No. 2. |
| e. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals. | Not implemented.
See current year recommendation No. 2. |

FINANCIAL STATEMENTS SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of Adams State College, a blended component unit of the State of Colorado, as of June 30, 2004 and 2003. 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 audits. We did not audit the financial statements of Adams State College Foundation, which represents total assets of \$7.9 million and \$7.3 million as of June 30, 2004 and 2003 and total revenues, gains and other support of \$1.6 million and \$1 million for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

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. The financial statements of the Adams State College Foundation were not audited in accordance with the *Government Auditing Standards*. 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, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As in described in Note 1, Adams State College implemented Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. This resulted in the Adams State College Foundation financial statements being included in the Adams State College financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2004 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.

Wall, Smith, Bateman and Associates, Inc.

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

September 24, 2004

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

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, 2004, with selected comparative information for the years ended June 30, 2003 and 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 for the reporting entity of the College that includes Adams State College and the Adams State College Foundation, a discretely presented component unit. (See Note 1 for additional information on the reporting entity.)

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2004

Under House Bill 03-1093, the State Board of Trustees was dissolved as of June 30, 2003. The state appropriation that originally went to the Board was reallocated between Mesa State College, Western State College and Adams State College. This resulted in an approximate \$0.7 million increase in the College's appropriation for fiscal year 2004.

The College has a ratio of current assets to current liabilities of 2.9. This current ratio demonstrates the liquidity of college assets and the relative availability of working capital to fund current operations.

An operating deficit of \$13.2 million is largely 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. State appropriations, including capital appropriations, were \$10.8 million during fiscal year 2004.

The College's total net assets decreased by \$1.5 million during fiscal year 2004 compared to a \$2.1 million increase in net assets during fiscal year 2003.

Year Ended June 30, 2003

The State of Colorado's economic condition resulted in us starting fiscal year 2003 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 2.4. This current ratio demonstrates the liquidity of the 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. State appropriations, including capital appropriations, were \$12.2 million during fiscal year 2003.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

STATEMENTS OF NET ASSETS

The Statements 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 services are received, 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, 2004, 2003 and 2002 follows:

	<u>2004</u>	<u>2003</u> (in thousands)	<u>2002</u>
Assets			
Current Assets	\$13,695	\$10,278	\$7,178
Noncurrent Assets	<u>57,690</u>	<u>59,948</u>	<u>60,183</u>
Total Assets	71,385	70,226	67,361
Liabilities			
Current Liabilities	4,706	4,331	3,023
Noncurrent Liabilities	<u>12,056</u>	<u>9,762</u>	<u>10,294</u>
Total Liabilities	16,762	14,093	13,317
Net Assets			
Invested in Capital Assets, net of related debt	42,205	48,943	48,515
Restricted	5,933	3,102	2,637
Unrestricted	<u>6,485</u>	<u>4,088</u>	<u>2,892</u>
Total Net Assets	<u><u>\$54,623</u></u>	<u><u>\$56,133</u></u>	<u><u>\$54,044</u></u>

At June 30, 2004, the College's total assets were \$71.4 million. The largest asset category is the \$56.1 million in capital assets, net of accumulated depreciation of \$26.5 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 2004, the College's current assets of \$13.7 million were sufficient to cover current liabilities of \$4.7 million (producing a current ratio of 2.9). Cash and cash equivalents (bank deposits, certificates of deposits, pooled cash with the State Treasurer) comprised almost \$12.5 million in assets per the Statement of Net Assets.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

STATEMENTS OF NET ASSETS (Continued)

Capital lease and bonds payables of \$11.8 million represent almost 71% of the College's total liabilities of \$16.8 million. The current portion of the capital lease and bonds payable liability is \$0.51 million.

The College's financial position decreased during the fiscal year as evidenced by the decrease of \$1.5 million in net assets (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$54.6 million. Net Assets is composed of \$42.2 million invested in capital assets net of related debt, \$5.9 million externally restricted for specific purposes, and \$6.5 million unrestricted and available for any lawful purpose of the College.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements 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 \$6.2 million of the \$19.7 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 \$32.9 million. Of that total, \$10.7 million was for instruction, \$1.3 million for academic support, \$3.6 million for student services, \$2.7 million for institutional support, \$2.8 million for operations of plant and \$6.1 million for auxiliary enterprises.

The College's dependency on State appropriations of \$10.8 million, including capital appropriations, contributed to an operating deficit of \$13.2 million in fiscal year 2004 because the financial reporting model classifies State appropriations as non-operating revenues and State capital appropriations as other revenues.

A summarized comparison of the College's revenues, expenses and changes in net asset at June 30, 2004, 2003 and 2002 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

	<u>2004</u>	<u>2003</u> (in thousands)	<u>2002</u>
Operating Revenues			
Tuition and Fees, net	\$6,185	\$5,510	\$4,590
Grants and Contracts	7,812	7,804	7,384
Auxiliary Enterprises	5,285	5,571	5,885
Other	<u>391</u>	<u>278</u>	<u>478</u>
Total Operating Revenues	19,673	19,163	18,337
Operating Expenses	<u>32,908</u>	<u>30,581</u>	<u>32,147</u>
Net operating (Loss)	(13,235)	(11,418)	(13,810)
Nonoperating Revenue(Expense)			
State Appropriations	10,317	9,609	10,028
Gifts and Donations	1,216	1,045	1,202
Interest Income	83	431	229
Other Nonoperating	<u>(379)</u>	<u>(432)</u>	<u>(634)</u>
Net Nonoperating Revenue	<u>11,237</u>	<u>10,653</u>	<u>10,825</u>
Income(Loss) Before Other Revenue, Expenses, Gains or Losses	(1,998)	(765)	(2,985)
State Appropriations, Capital	516	2,688	6,825
Other	<u>(28)</u>	<u>166</u>	<u>120</u>
Increase(Decrease) In Net Assets	(1,510)	2,089	3,960
Net Assets			
Net Assets-Beginning of Year	<u>56,133</u>	<u>54,044</u>	<u>50,084</u>
Net Assets-End of Year	<u><u>\$54,623</u></u>	<u><u>\$56,133</u></u>	<u><u>\$54,044</u></u>

STATEMENTS OF CASH FLOWS

The Statements 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, 2004, 2003 and 2002 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

	<u>2004</u>	<u>2003</u> (in thousands)	<u>2002</u>
Net Cash Provided (Used) by:			
Operating Activities	(\$9,576)	(\$7,177)	(\$12,097)
Non-Capital Financing Activities	11,459	11,002	11,377
Capital and Related Financing Activities	1,621	(1,074)	(53)
Investing Activities	94	431	229
Net Increase (Decrease) in Cash	<u>3,598</u>	<u>3,182</u>	<u>(544)</u>
Cash & Cash Equivalents:			
Beginning of Year	8,932	5,750	6,294
End of Year	<u>\$12,530</u>	<u>\$8,932</u>	<u>\$5,750</u>

The College's overall liquidity improved during the fiscal year with a healthy increase in cash and cash equivalents of \$3.6 million. The net cash outflow from operating activities was \$9.6 million. The major sources of cash were \$6.3 million in student tuition and fees, \$7.9 million in contracts and grants and \$2.1 million in proceeds from capital debt. Payments to or for employees of \$18.4 million and payments to suppliers of \$8.3 million were the primary uses of funds.

CAPITAL ASSETS

At June 30, 2004 the College had approximately \$56.1 million invested in capital assets, net of accumulated depreciation of \$26.5 million. Depreciation charges were \$3.0 million for the current year compared to \$2.7 million in 2003 and \$2.5 million in 2002. Details of these assets for the three years are shown below.

Capital Assets, Net of Depreciation, at Year End

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Land	\$170,210	\$170,210	\$170,210
Land Improvements	3,022,231	3,291,795	3,561,359
Buildings	50,495,022	48,045,078	44,061,638
Construction in Progress	213,514	4,902,218	8,581,011
Equipment	1,355,935	1,350,630	1,563,443
Library Materials	856,624	847,494	829,379
Total	<u>\$56,113,536</u>	<u>\$58,607,425</u>	<u>\$58,767,040</u>

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

CAPITAL ASSETS (Continued)

Major capital additions completed this year and the source of resources that funded their acquisition included:

Information Technology Upgrade project, funded by State Appropriations	\$4,442,016
Fire Alarm Systems project, funded by State Appropriations	<u>300,685</u>
	<u>\$4,742,701</u>

DEBT

On February 18, 2004, the College issued Auxiliary Facilities Refunding and Improvement Revenue Bonds Series 2004A in the amount of \$11.6 million for the purpose of refunding \$9.1 million of Series A 1994 Bonds and to obtain addition funds in the amount of \$2.1 million for improvement projects (see Note 7 of the financial statements for more information on this refinancing). The improvement projects consist of roof repairs to Rex Gym and the College Center and completing the renovation of Coronado Hall.

At June 30, 2004, the College had approximately \$11.9 million in debt outstanding compared to \$9.7 million at June 30, 2003 and \$10.3 million at June 30, 2002. The table below summarizes these amounts by type of debt.

Outstanding Debt, at Year End

	2004	2003	2002
Enterprise Revenue Bonds	\$11,342,436	\$8,976,553	\$9,443,213
Capital Lease	501,111	620,538	732,191
Notes Payable	60,709	67,858	76,420
Total	\$11,904,256	\$9,664,949	\$10,251,824

ECONOMIC OUTLOOK

The economic position of the College is closely tied to that of the State. For fiscal year 2005, the General Assembly appropriated the College \$10.3 million in General Fund, which equaled the previous year's appropriation. Due to TABOR revenue constraints, tuition inflationary increases were restricted by the General Assembly to 1.1%. This will present budgetary challenges to the College, with the cost of health insurance premiums, utilities, and other expenses escalating at much higher rates.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

ECONOMIC OUTLOOK (Continued)

In 2004, Governor Owens signed Senate Bill 04-189, which created the Colorado Opportunity Fund. This legislation created a first-in-the-nation funding mechanism for higher education. The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. In addition, the bill provides higher education institutions the opportunity to become enterprises under TABOR. Because funding is provided to students through the stipends and to the institutions through fee-for-service arrangements, the bill allows all qualifying public institutions to be designated as "enterprises" if approved by the Legislative Audit Committee.

This will have a significant impact on how higher education is funded in Colorado. The purpose of S.B. 04-189, or the College Opportunity Fund bill, is to bring awareness to students that funding from the State of Colorado does help cover their educational expenses. The trust fund's monies are administered by the Colorado Student Loan Program. The student can direct their stipend funding to a particular institution by applying for the program and registering at the institution of their choice.

The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. For fiscal year 2006, the stipend is currently projected to be approximately \$2,400 for a full-time student attending a public institution. However, the General Assembly has discretion in setting the final appropriated stipend amounts.

Based on a \$2,400 stipend and the College's current enrollment, this will account for \$3.8 million of the current \$10.3 million appropriation. The balance, \$6.5 million, will be billed through a fee for service contract with the Commission on Higher Education (CCHE). The bill institutes fee-for-service contract arrangements between each institution and the CCHE to provide graduate education, rural education, economic development, and basic education services to the State. These fee-for-service contracts must be negotiated annually with the CCHE.

During the upcoming fiscal year, the College will have to make several operational and budgetary adjustments to accommodate this new funding model. Adams State College is restructuring its tuition rate structure to align with the stipend reimbursement model. Adams State College staff from financial services, academics, and information systems are engaged in planning sessions with all higher education institutions and the Colorado Commission on Higher Education to implement S.B. 04-189.

ADAMS STATE COLLEGE
Statements of Net Assets
as of June 30, 2004 and 2003

	FY 2004	FY 2003
	TOTAL	TOTAL
Assets:		
<u>Current Assets</u>		
Cash & cash equivalents	\$12,201,614	\$8,604,010
Student accounts receivable, net	496,183	587,011
Other accounts receivable	351,856	422,883
Student loans receivable, net	188,637	176,996
Inventories	434,081	481,198
Prepaid expenses	18,085	1,209
Other current assets	4,500	4,500
Total current assets	13,694,956	10,277,807
<u>Noncurrent Assets</u>		
Restricted cash & cash equivalents	328,250	328,250
Student loans receivable, net	875,409	875,970
Deferred charges-bond issuance costs	372,545	136,485
Non-depreciable capital assets:		
Land	170,210	170,210
Construction in progress	213,514	4,902,218
Total non-depreciable capital assets	383,724	5,072,428
Depreciable capital assets, net:		
Buildings	50,495,022	48,045,078
Land improvements	3,022,231	3,291,795
Furniture & equipment	1,355,935	1,350,630
Library books	856,624	847,494
Total depreciable capital assets, net	55,729,812	53,534,997
Total noncurrent assets	57,689,740	59,948,130
Total Assets	71,384,696	70,225,937
Liabilities:		
<u>Current Liabilities</u>		
Accounts payable	429,134	322,906
Accrued liabilities	3,105,032	2,713,582
Deferred revenue	244,296	261,521
Deposits held for others	344,660	425,573
Bonds payable, current	380,000	420,000
Notes payable, current	11,960	11,960
Capital leases payable, current	127,743	119,427
Compensated absences liability	62,606	56,445
Total current liabilities	4,705,431	4,331,414
<u>Noncurrent Liabilities</u>		
Compensated absences liability	671,253	648,206
Notes payable	48,749	55,898
Capital leases payable	373,368	501,111
Bonds payable	10,962,436	8,556,553
Total noncurrent liabilities	12,055,806	9,761,768
Total Liabilities	16,761,237	14,093,182
Net Assets:		
Invested in capital assets, net of related debt	42,205,098	48,942,477
Restricted for		
Non-expendable Endowments	28,250	28,250
Expendable		
Endowments	33,112	32,084
Loans	1,204,526	1,224,128
Capital Projects	2,304,182	300,000
Other Purposes	2,362,797	1,518,151
Total Expendable	5,904,617	3,074,363
Unrestricted	6,485,494	4,087,665
Total Net Assets	\$54,623,459	\$56,132,755

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE FOUNDATION
Statements of Financial Position
June 30, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Cash	\$ 20,194	\$ 27,133
Certificates of deposit	698,208	698,208
Investments, at fair value	6,509,039	5,967,191
Notes receivable, net of allowance of \$-0-	275,503	270,967
Inventories	12,400	0
Land – available for sale	181,650	115,650
Art collection	220,750	220,750
	<hr/>	<hr/>
Total Assets	<u>\$ 7,917,744</u>	<u>\$ 7,299,899</u>

NET ASSETS

Net assets		
Unrestricted		
Unreserved	\$ 3,472,493	\$ 3,162,044
Board designated	669,743	671,415
	<hr/>	<hr/>
	4,142,236	3,833,459
Temporarily restricted net assets	1,080,743	904,962
Permanently restricted net assets	2,694,765	2,561,478
	<hr/>	<hr/>
Total net assets	<u>\$ 7,917,744</u>	<u>\$ 7,299,899</u>

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Revenues, Expenses, and Changes in Net Assets
for the years Ended June 30, 2004 and 2003

	FY 2004 TOTAL	FY 2003 TOTAL
Operating Revenues:		
Tuition & fees (including \$530,463 and \$533,134, respectively of revenues pledged for bonds and net of scholarship allowances of \$3,104,985 and \$3,047,647, respectively)	\$6,185,408	\$5,510,318
Sales & services of auxiliary enterprises (including \$5,714,807 and \$6,091,224, respectively of revenues pledged for bonds and net of scholarship allowances of \$644,337 and \$776,984, respectively)	5,284,683	5,571,084
Federal grants and contracts	6,011,165	5,451,121
State grants and contracts	1,800,817	2,352,682
Other operating revenues (including \$19,814 and \$20,732, respectively of revenues pledged for bonds)	390,631	277,690
Total operating revenues	19,672,704	19,162,895
Operating Expenses:		
Instruction	10,706,526	9,371,681
Public service	0	16,308
Academic support	1,345,920	1,625,829
Student services	3,586,401	3,680,523
Institutional support	2,718,917	2,156,379
Operation of plant	2,830,857	2,118,119
Scholarships and fellowships	2,580,231	2,593,155
Auxiliary enterprises expenditures	6,147,186	6,269,258
Depreciation	2,991,765	2,750,147
Total operating expenses	32,907,803	30,581,399
Operating Income (Loss)	(13,235,099)	(11,418,504)
Nonoperating Revenues (Expenses):		
State appropriation, noncapital	10,316,691	9,609,028
Gifts and Donations	1,216,330	1,045,095
Investment & interest income (including \$22,582 and \$29,504, respectively of revenue pledged for bonds)	83,421	431,301
Interest on capital debt	(398,547)	(586,935)
Gain or Loss on Disposal of Assets	(46)	(6,513)
Other Non-operating Revenues	19,904	161,946
Net nonoperating revenue (expenses)	11,237,753	10,653,922
Income (Loss) before other revenues, expenses, gains, losses or transfers	(1,997,346)	(764,582)
Other Revenues, Expenses, Gains, Losses or Transfers:		
State appropriation, capital	516,198	2,687,687
Federal Grant - Capital	8,468	0
Transfers (to)/from Other Institutions	(36,616)	165,641
Increase (Decrease) in Net Assets	(1,509,296)	2,088,746
Net Assets at Beginning of Year	56,132,755	54,044,009
Net Assets at End of Year	\$54,623,459	\$56,132,755

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE FOUNDATION
Statement of Activities
Year ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER				
SUPPORT				
Contributions	\$ 119,316	\$ 400,191	\$ 89,840	\$ 609,347
Income on investments	217,693	-	-	217,693
Realized and unrealized gains (losses) on investments	771,643	-	-	771,643
Net assets released from restrictions:				
Satisfaction of program restrictions	385,916	(385,916)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,494,568	14,275	89,840	1,598,683
EXPENSES				
Program services	842,304	-	-	842,304
Supporting services				
Advertising	3,568	-	-	3,568
Audit and professional fees	23,023	-	-	23,023
Insurance	197	-	-	197
General administration	1,876	-	-	1,876
Meetings	917	-	-	917
Real estate taxes	79	-	-	79
Salaries	81,229	-	-	81,229
Printing	11,996	-	-	11,996
Investment fees	11,808	-	-	11,808
Support and maintenance	3,841	-	-	3,841
TOTAL EXPENSES	980,838	-	-	980,838
CHANGE IN NET ASSETS				
BEFORE TRANSFERS	513,730	14,275	89,840	617,845
TRANSFERS				
Transfers in	11,452	211,905	52,082	275,439
Transfers out	(216,405)	(50,399)	(8,635)	(275,439)
CHANGE IN NET ASSETS	308,777	175,781	133,287	617,845
Net assets, beginning of year	3,833,459	904,962	2,561,478	7,299,899
Net assets, end of year	<u>\$ 4,142,236</u>	<u>\$ 1,080,743</u>	<u>\$ 2,694,765</u>	<u>\$ 7,917,744</u>

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE FOUNDATION
Statement of Activities
Year ended June 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions	\$ 319,640	\$ 230,847	\$ 20,915	\$ 571,402
Income on investments	184,468	-	-	184,468
Realized and unrealized gains (losses) on investments	203,422	-	-	203,422
Net assets released from restrictions:				
Satisfaction of program restrictions	652,555	(652,555)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,360,085	(421,708)	20,915	959,292
EXPENSES				
Program services	611,659	-	-	611,659
Supporting services				
Advertising	1,413	-	-	1,413
Audit and professional fees	5,400	-	-	5,400
Insurance	197	-	-	197
General administration	511	-	-	511
Meetings	718	-	-	718
Real estate taxes	78	-	-	78
Salaries	70,974	-	-	70,974
Printing	4,747	-	-	4,747
Investment fees	10,264	-	-	10,264
Support and maintenance	3,970	-	-	3,970
TOTAL EXPENSES	709,931	-	-	709,931
CHANGE IN NET ASSETS BEFORE TRANSFERS	650,154	(421,708)	20,915	249,361
TRANSFERS				
Transfers in	-	217,131	174,012	391,143
Transfers out	(353,700)	(37,443)	-	(391,143)
CHANGE IN NET ASSETS	296,454	(242,020)	194,927	249,361
Net assets, beginning of year	3,537,005	1,146,982	2,366,551	7,050,538
Net assets, end of year	\$ 3,833,459	\$ 904,962	\$ 2,561,478	\$ 7,299,899

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Cash Flows
for the years Ended June 30, 2004 and 2003

	FY 2004	FY 2003
	TOTAL	TOTAL
Cash Flows from Operating Activities:		
<u>Cash Received:</u>		
Tuition and fees	\$6,296,823	\$5,414,908
Sales of services	3,807,692	4,179,920
Sales of products	1,344,466	1,358,541
Grants and contracts	7,884,021	7,924,246
Student loans collected	177,998	214,130
Other receipts	376,678	340,048
<u>Cash Payments:</u>		
Payments to or for employees	(18,354,268)	(16,092,608)
Payments to suppliers	(8,318,842)	(7,734,094)
Scholarships disbursed	(2,580,231)	(2,593,155)
Student loans disbursed	(210,834)	(188,737)
Net cash provided (used) by operating activities	(9,576,497)	(7,176,801)
Cash Flows from Noncapital Financing Activities:		
State appropriations, noncapital	10,316,691	9,609,028
Gifts/Grants for Other than Capital Purposes	1,216,331	1,045,094
Change in funds held for others	(57,073)	20,432
Other NonCapital Revenues	19,904	161,946
Transfers from (to) other Institutions	(36,616)	165,641
Net cash provided (used) by noncapital financing activities	11,459,237	11,002,141
Cash Flows from Capital & Related Financing Activities:		
State appropriations, capital	516,198	2,687,687
Proceeds from capital debt	2,103,880	
Capital grants, contracts & gifts	8,468	
Acquisition or construction of capital assets	(475,110)	(2,597,044)
Principal paid on capital debt	(126,576)	(595,216)
Interest paid on capital debt	(405,560)	(570,064)
Net cash provided (used) by capital & related financing activities	1,621,300	(1,074,637)
Cash Flows from Investing Activities:		
Investment earnings	93,564	431,301
Net cash provided (used) by investing activities	93,564	431,301
Net Increase (Decrease) in Cash	3,597,604	3,182,004
Beginning cash balance	8,932,260	5,750,256
Ending cash balance	\$12,529,864	\$8,932,260
Reconciliation of net operating revenues (expenditures) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$13,235,099)	(\$11,418,504)
Adjustments to reconcile:		
Depreciation expense	2,991,765	2,750,147
Prior period adjustment		
Decrease (increase) in assets:		
Receivables, net	150,775	174,677
Inventories & prepaids	30,241	(26,129)
Increase (decrease) in liabilities:		
Accounts payable	106,228	(239,970)
Accrued liabilities	391,450	1,625,541
Deferred revenues	(17,225)	(19,388)
Student deposits	(23,840)	(4,672)
Compensated absences	29,208	(18,503)
Net cash provided (used) by operating activities	(9,576,497)	(7,176,801)

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Cash Flows
for the years Ended June 30, 2004 and 2003
(Continued)

	FY 2004	FY 2003
	TOTAL	TOTAL
Noncash Investing, Capital, and Financing Activities:		
State Capital Contributions	\$516,198	\$2,687,687
Loss on Capital Asset Deletions	\$0	\$6,513
Amortization of Capital Prem/Disc and Capital Loss	\$14,726	\$8,340
Capital Loss on Bond Refunding	\$602,189	\$0

The accompanying notes are an integral part of this statement.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governance

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

Reporting Entity

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

During fiscal year 2004, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the College's financial reporting entity. The College has determined that the Adams State College Foundation meets the GASB Statement No. 39 criteria for inclusion in the College's financial statements. The Foundation's financial information is presented on separate pages with the financial statements of the College for fiscal year June 30, 2004 and 2003. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. Complete financial statements for the Foundation can be obtained from the Controller's Office at the College. See note 14 for a description of the Adams State College Foundation.

As defined by, 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 relation with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

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

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investments

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

Inventory

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

Capital Assets

Physical plant and equipment are stated at cost at date of acquisition, or fair market value at date of donation. A physical inventory of all plant assets is taken annually with appropriate adjustments made to the financial records. Annual revisions of statement of values for insurance purposes are performed. The 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 is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are determined as 40 years for buildings, 15-20 years for building improvements, 10-20 years for improvements other than buildings, 5-30 years for equipment, and 10 years for library materials.

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, 2004 and 2003 was \$22,812 and \$0, respectively.

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.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2004, the College had \$7,321,530 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	\$ 9,580
Cash in checking accounts at bank	1,759,722
Certificate of Deposits	3,396,106
Total cash	\$5,165,408

The carrying amount of the college's cash on deposit was \$5,155,828. The bank balance of these deposits was \$5,621,547, of which \$261,362 was covered by federal depository insurance and \$5,360,185 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

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

At June 30, 2003, the College had \$6,620,610 on deposit with the State Treasurer. 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.

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, 2004. 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. For the years ended June 30, 2004 and June 30, 2003 the College had unrealized gains of \$42,926 and \$211,466, respectively. Additional information on the Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

ASC Foundation Investments and Concentration of Risk

Investments recorded at fair value are comprised of the following:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Fund	<u>\$6,597,429</u>	<u>\$6,509,039</u>	<u>\$6,871,947</u>	<u>\$5,967,191</u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

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

Other investments are recorded at estimated value on the date of contribution where fair value is not available.

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Value at Contribution</u>	<u>Carrying Value</u>	<u>Value at Contribution</u>	<u>Carrying Value</u>
Art collection	\$ 220,750	\$220,750	\$ 220,750	\$220,750
Land-available for sale	<u>181,650</u>	<u>181,650</u>	<u>115,650</u>	<u>115,650</u>
	<u>\$ 402,400</u>	<u>\$402,400</u>	<u>\$ 336,400</u>	<u>\$336,400</u>

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

As of June 30, 2004 and 2003 the Foundation had bank deposits in two financial institutions that exceeded insurance coverage by a total of \$135,155 and \$138,891, respectively.

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, 2004 and 2003, accounts receivable were as follows:

	<u>2004</u>	<u>2003</u>
Student Accounts Receivable	\$654,357	\$721,252
Less: Allowance for Doubtful Accounts	<u>(158,174)</u>	<u>(134,241)</u>
Student Accounts Receivable, net	496,183	587,011
Other Accounts Receivable	<u>351,856</u>	<u>422,883</u>
Student Loans Receivable	1,225,678	1,204,617
Less: Allowance for Doubtful Accounts	<u>(161,632)</u>	<u>(151,651)</u>
Student Loans Receivable, net	<u>1,064,046</u>	<u>1,052,966</u>
Total Receivables	<u>\$1,912,085</u>	<u>\$2,062,860</u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 4: CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2004.

	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>Balance June 30, 2004</u>
Nondepreciable Capital Assets				
Land	\$ 170,210	\$ -0-	\$ -0-	\$ 170,210
Construction in Progress	4,902,218	648,472	5,337,176	213,514
Total Nondepreciable Capital Assets	<u>\$5,072,428</u>	<u>\$648,472</u>	<u>\$5,337,176</u>	<u>\$383,724</u>
Depreciable Capital Assets				
Land Improvements	\$ 5,211,398	\$ -0-	\$ -0-	\$ 5,211,398
Buildings and Improvements	64,732,157	5,172,962	489,556	69,415,563
Equipment	3,196,784	431,983	174,931	3,453,836
Library Materials	3,947,063	176,156	5,960	4,117,259
Total Depreciable Capital Assets	77,087,402	5,781,101	670,447	82,198,056
Less: Accumulated Depreciation				
Land Improvements	1,919,603	269,564	-0-	2,189,167
Buildings and Improvements	16,687,079	2,233,462	-0-	18,920,541
Equipment	1,846,154	321,713	69,966	2,097,901
Library Materials	3,099,569	167,026	5,960	3,260,635
Total Accumulated Depreciation	<u>23,552,405</u>	<u>2,991,765</u>	<u>75,926</u>	<u>26,468,244</u>
Net Depreciable Capital Assets	<u>\$53,534,997</u>	<u>\$2,789,336</u>	<u>\$594,521</u>	<u>\$55,729,812</u>

The following presents changes in invested in capital assets, net of related debt, for the year ended June 30, 2004.

Invested in Capital Assets, Net of Related Debt, June 30, 2003	\$ 48,942,477
Nondepreciable Capital Assets	
Additions	648,472
Retirements/Transfers	(5,337,176)
Depreciable Capital Assets	
Additions	5,781,101
Retirements	(594,522)
Depreciation Expense	(2,991,765)
Long-term Liabilities	
Additions	(11,334,156)
Reductions	9,094,849
Bond Proceeds classified as Expendable for Capital Projects	<u>(2,004,182)</u>
Invested in Capital Assets, Net of Related Debt, June 30, 2004	<u>\$ 42,205,098</u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 5: LONG-TERM LIABILITIES

The College's Long-Term Liability activity for the year ended June 30, 2004 was as follows:

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004	Current Portion
Bond and Leases Payable:					
Enterprise Revenue Bonds	\$9,110,000	\$11,575,000	\$9,110,000	\$11,575,000	\$380,000
Less: Unamortized Discount	(133,447)	0	(133,447)	0	
Add: Unamortized Premium	0	\$361,345	6,775	354,570	
Less: Refunding Gain/(Loss)	0	(\$602,189)	(15,055)	(587,134)	
Capital Lease Obligation	620,538	0	119,427	501,111	127,743
Total Bonds and Leases Payable	9,597,091	11,334,156	9,087,700	11,843,547	507,743
Other Liabilities:					
Compensated Absences	704,651	29,208	0	733,859	62,606
Other	67,858		7,149	60,709	11,960
Total Other Liabilities	772,509	29,208	7,149	794,568	74,566
Total Long-Term Liabilities	\$10,369,600	\$11,363,364	\$9,094,849	\$12,638,115	\$582,309

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>	
2005	\$157,664
2006	157,664
2007	148,610
2008	<u>103,340</u>
	567,278
Less amount representing interest	<u>(66,167)</u>
Principal outstanding	<u>\$501,111</u>

NOTE 7: BONDS PAYABLE

On February 18, 2004, the College issued Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds Series 2004A in the amount of \$11,575,000 for the purpose of refunding \$9,110,000 of Series A 1994 Enterprise Revenue Bonds and to obtain additional funds in the amount of \$2,103,880 for improvement projects. Proceeds in the amount of \$9,452,801 were placed into an irrevocable Escrow account for the refunding of the Series A 1994 Bonds, which were called on May 15, 2004 at 101% of face value. As a result, the Series A 1994 Bonds are considered defeased and the liability for those bonds has been removed from the College's Statement of Net Assets.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 7: BONDS PAYABLE (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$602,188. This refunding loss is being amortized over a 15-year period. An additional cash flow requirement of \$951,996 is required to service the Series 2004A Bonds and an economic gain (difference between the present values of the old and new debt service payments) of \$472,524 is obtained.

The Series 2004A Bonds have annual maturities through 2018. The bonds maturing between May 2019 thru May 2024 are subject to mandatory sinking fund requirements by lot, on the dates and in the designated principal amounts as specified in the bond resolution, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date. Interest rates vary from 2.50% to 5.25% with an average rate of 4.63%. The bonds are collateralized by first lien on and pledge of all net revenues of the Auxiliary Facilities System. The Series 2004A Bonds are insured through the Municipal Bond Investors Assurance Corporation (MBIA).

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

Debt Service Reserve Requirement

Under the terms of the bond resolution, the Debt Service Minimum Reserve Requirement is not expected to exceed \$987,333; which amount (1) does not exceed 10% of the original stated principal amounts of the Series 2004A Bonds, (2) does not exceed the maximum annual principal and interest requirements of the Series 2004A Bonds and (3) does not exceed 125% of the average annual principal and interest requirements of the Series 2002A Bonds. The College fulfilled this requirement with the purchase of a Debt Service Reserve Surety Bond in the amount of \$987,333 issued through the Municipal Bond Investors Assurance Corporation (MBIA).

Under the terms of the bond resolution, the Repair and Replacement Reserve Requirement is in an amount of not less than \$300,000. As of June 30, 2004, the College had a Repair and Replacement Reserve balance of \$435,208. Principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 380,000	\$ 630,431
2006	500,000	479,628
2007	425,000	459,628
2008	440,000	449,002
2009	450,000	436,902
2010-2014	2,495,000	1,947,488
2015-2019	3,020,000	1,426,590
2020-2024	<u>3,865,000</u>	<u>629,475</u>
	\$11,575,000	<u>\$6,459,144</u>
Less unamortized Premium/ Discount and Refunding Loss	<u>(232,564)</u>	
Bonds Payable	<u>\$11,342,436</u>	

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

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 are 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, 2004.

The amount of state capital appropriations unexpended was \$676,085 as of June 30, 2004.

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, 2004, and June 30, 2003, are estimated as \$62,606 and \$56,445 respectively. The estimated costs of non-current compensated absences for which employees are vested for the years ended June 30, 2004, and June 30, 2003, are estimated as \$671,253 and \$648,206 respectively. Current expenses include an increase of \$29,208 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 of the State Colleges adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff, under the authority of Senate Bill 92-127. The implementation date was May 1, 1994; eligible employees were offered the choice of remaining in PERA or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire. On July 1, 2003 the Board of Trustees for Adams State College has elected to continue with the Optional Retirement Plan (ORP).

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, 2004, 2003, and 2002 were \$600,235, \$554,920 and \$591,197 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, 2004 and 2003**

NOTE 10: PENSION PLAN OBLIGATIONS (Continued)

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

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, and other divisions' plans, is included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA, or by visiting www.copera.org.

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 FY03-04, the state contributed 10.15 percent of the employee's gross covered wages. Effective January 1, 2003, 1.1 percent of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, 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.

The College's contributions to three programs described above for the fiscal years ending June 30, 2004, 2003 and 2002 were \$782,852, \$773,253 and \$789,498 respectively. These contributions were equal to the required contributions for each year.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 10: PENSION PLAN OBLIGATIONS (Continued)

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 \$144,554. 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. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of employee's gross covered wages paid during the month. The PERA Board sets the level of the match with two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 2 percent to 1 percent on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities.

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 FY03-04, the subsidy was \$115.00 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 12: POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans and with health maintenance organizations providing services within Colorado. As of December 31, 2003 there were 37,067 enrollees in the plan.

Life Insurance Program

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

Other Programs

Separate post-retirement health care and life insurance benefit plans exist for Adams State College, 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, 2004 And 2003 were as follows:

	<u>Tuition & Fees</u>	<u>Auxiliary Revenue</u>	<u>2004 Total</u>	<u>2003 Total</u>
Gross Revenue	\$9,290,393	\$5,929,020	\$15,219,413	\$14,906,033
<u>Scholarship Allowances:</u>				
Federal	1,682,592	349,165	2,031,757	1,957,064
State	801,707	166,368	968,075	1,121,382
Private	584,048	121,200	705,248	578,284
Institutional	36,638	7,604	44,242	167,901
Total Allowances	<u>3,104,985</u>	<u>644,337</u>	<u>3,749,322</u>	<u>3,824,631</u>
Net Revenue	<u>\$6,185,408</u>	<u>\$5,284,683</u>	<u>\$11,470,091</u>	<u>\$11,081,402</u>

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, 2004, the College received funds totaling \$727,805 from the Foundation for scholarships, work study and grants-in-aid. These funds are appropriately accounted for and reported in the financial statements. In addition, the Foundation has expended funds for the purchase of an insignificant quantity of supplies and other services from the College.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2004 and 2003**

NOTE 14: COLLEGE FOUNDATION (Continued)

For year ended June 30, 2004, the College is discretely presenting the Adams State College Foundation's Statement of Financial Position and Statement of Activities as required by GASB 39. The Foundation's note on Investments is included in Note 2 above.

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. Senate Bill 03-197 requires that monthly salaries for June that were normally paid on June 30 are to be paid on July 1. This created an accrual for June 30, 2004 and June 30, 2003 of \$1,345,952 and \$1,189,251, respectively.

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.

**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, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Revenue		
College Service Fees	\$ 530,463	\$ 533,134
Traffic Control Fees	50,108	-
Rental Income	2,962,291	3,160,916
Food Service Income	1,239,398	1,428,479
Sales/Service Auxiliaries	1,373,972	1,388,728
Interest Income	22,582	29,504
Other Income	108,852	135,691
Total Revenue	6,287,666	6,676,452
 Expenses		
Employee Compensation	1,323,655	1,382,270
Costs of Goods	928,616	912,967
Utilities	387,507	320,086
Rental	180,105	178,700
Contract Food	734,787	869,718
Travel	17,559	19,646
Supplies	134,654	118,568
Other Operating Expenses	355,843	329,908
Purchased Services	10,693	9,830
Financial Aid	214,560	275,373
Administrative Cost	528,351	563,720
Furniture & Equipment	52,546	22,869
Other Capital Expenditures	120,729	120,801
Other Expenses	70,068	24,282
Total Expenses	5,059,673	5,148,738
 Net Revenue Before Transfers	 1,227,993	 1,527,714
 Transfers		
Mandatory Transfers-Debt Service	465,902	1,010,553
Nonmandatory Transfers	19,148	24,957
Total Transfers	485,050	1,035,510
 Net Revenue	 \$ 742,943	 \$ 492,204

**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, 2004, and have issued our report thereon dated September 24, 2004. We did not audit the financial statements of Adams State College Foundation, which represents total assets of \$7.9 million and \$7.3 million as of June 30, 2004 and 2003 and total revenues, gains and other support of \$1.6 million and \$1 million for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors. 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. The financial statements of the Adams State College Foundation were not audited in accordance with the *Government Auditing Standards*.

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 24, 2004

Members of the Legislative Audit Committee:

We have audited the financial statements of Adams State College for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. 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 June 28, 2004, 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. For the fiscal years ended June 30, 2004 and 2003 the College appropriately implemented GASB 39, *Determining Whether Certain Organizations are Component Units*. 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. During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates the proposed adjustment and records the adjustment if it is necessary to prevent the financial statements from being materially misstated. A proposed adjustment was not recorded, as it was determined that the effect was not material. There were no other adjustments recorded based on 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 24, 2004

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

ADAMS STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2004

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, 2004, 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, 2004.

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 \$1,724,000 and \$1,914,000 for the fiscal years ended 2004 and 2003, respectively. In addition, total state-funded matching funds of \$2,082 during fiscal year 2004 and \$838 for fiscal year 2003 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 \$2,748,000 in the Pell Grant Program, \$145,000 in the Supplemental Educational Opportunity Grant Program, \$289,000 in the College Work-Study Program and \$6,246 in the Perkins Student Loan Program.

During the audit period, Adams State College obtained authorizations to award Colorado student financial aid funds of \$188,000 in the CLEAP and SLEAP Programs, \$835,000 in the Student Grant Program, \$343,000 in the Colorado Work Study Program, \$101,000 in the Merit Award Program, and \$253,000 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, 2004. 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), 2004 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, 2004, 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 24, 2004 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 24, 2004

STATE OF COLORADO
ADAMS STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS
EXPENDITURES AND REVERSIONS
YEAR ENDED JUNE 30, 2004

	<u>TOTAL STATE- FUNDED STUDENT ASSISTANCE</u>	<u>CLEAP PROGRAM</u>	<u>SLEAP PROGRAM</u>	<u>STUDENT GRANT PROGRAM</u>	<u>WORK STUDY PROGRAM</u>	<u>COLORADO MERIT SCHOLARSHIP</u>	<u>PERKINS LOAN MATCH</u>	<u>GOVERNOR'S OPPORTUNITY SCHOLARSHIP</u>
APPROPRIATIONS:								
ORIGINAL	1,713,473	45,414	143,183	835,264	343,101	101,709		244,802
SUPPLEMENTAL	10,668						2,082	8,586
TRANSFERS	-0-							
RETURNED TO CCHE	<u>-0-</u>							
TOTAL	1,724,141	45,414	143,183	835,264	343,101	101,709	2,082	253,388
EXPENDITURES	<u>1,724,141</u>	<u>45,414</u>	<u>143,183</u>	<u>835,264</u>	<u>343,101</u>	<u>101,709</u>	<u>2,082</u>	<u>253,388</u>
REVERSIONS TO STATE GENERAL FUND	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>	<u><u>-0-</u></u>

**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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