

DALBY, WENDLAND & CO., P.C.



**INDEPENDENT
AUDITORS'
REPORT**

**WESTERN STATE COLLEGE OF COLORADO
FINANCIAL AND COMPLIANCE AUDIT**

**FISCAL YEAR ENDED
JUNE 30, 2004**

**LEGISLATIVE AUDIT COMMITTEE
2004 MEMBERS**

EFFECTIVE AUGUST 2, 2004

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DALBY, WENDLAND & CO., P.C.



Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of Western State College of Colorado. The audit was conducted under contract with the Office of the State Auditor pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government. The audit included examinations of the basic financial statements and the statements of state-funded student assistance programs. This report includes the financial statements as well as the independent auditors' reports issued as part of the audit.

DALBY, WENDLAND & CO., P.C.

October 29, 2004

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**WESTERN STATE COLLEGE OF COLORADO
REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT
Year Ended June 30, 2004**

PURPOSE AND SCOPE OF AUDIT

The Office of the State Auditor, State of Colorado, engaged Dalby, Wendland & Co., P.C. to conduct an audit of Western State College of Colorado (the College) for its fiscal year ended June 30, 2004. Dalby, Wendland & Co., P.C. performed the audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related field work from June through September 2004.

The purpose and scope of the audit were to:

- Express an opinion on the financial statements of the College as of and for the year ended June 30, 2004. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of federal and state funds.
- Report on the College's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures Report Summary, and Reversions of the State-Funded Student Assistance Programs of the College for the year ended June 30, 2004.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed unqualified opinions on the College's financial statements as of and for the years ended June 30, 2004 and 2003, and the Statement of Appropriations, Expenditures Report Summary, and Reversions of the State-Funded Student Assistance Programs as of and for the year ended June 30, 2004.

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

The College's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado are included in the June 30, 2004, Statewide Single Audit Report issued under separate cover.

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

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

Accounting Controls

One individual in the accounting department with access to the manual check signing plate also reconciles the bank statements. The lack of separation of duties could result in intentional or unintentional errors being made and not be detected. Having the Budget Director perform this function in the absence of the Director of Accounting could provide for separation of duties.

Information Technology Controls

The information technology department (IT) has developed a disaster recovery plan that is not complete and has not been fully tested. Completion of a disaster recovery plan is crucial to the College's ability to function effectively in an emergency situation. The plan should be completed, approved by the Cabinet, and periodically tested.

Summary of Progress in Implementing Prior Audit Recommendations

There were no recommendations for the year ended June 30, 2003.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1		Western State College of Colorado should improve controls over accounting department functions through separation of duties involving check signing and reconciliation of bank statements.	Agree	January 2005
2		Western State College of Colorado should improve its information technology controls by finalizing its disaster recovery plan and obtaining approval of the plan by the Cabinet. Once the plan is completed and approved, periodic testing should be scheduled.	Agree	June 2005

DESCRIPTION OF WESTERN STATE COLLEGE OF COLORADO

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

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Resident Students	1,499.2	1,549.9	1,617.6
Nonresident Students	<u>594.5</u>	<u>591.4</u>	<u>547.1</u>
<i>Total Students</i>	<u>2,093.7</u>	<u>2,141.3</u>	<u>2,164.7</u>
Faculty FTEs	109.9	103.2	103.5
Staff FTEs	<u>154.5</u>	<u>130.8</u>	<u>123.3</u>
<i>Total Staff and Faculty FTEs</i>	<u>264.4</u>	<u>234.0</u>	<u>226.8</u>

DESCRIPTION OF WESTERN STATE COLLEGE FOUNDATION

Western State College Foundation (the Foundation) was incorporated on August 22, 1975 under the laws of the state of Colorado. The purpose of the Foundation is to aid, directly and indirectly, Western State College in fulfilling its education purposes. The Foundation is supported primarily through donor contributions.

**FINDINGS AND RECOMMENDATIONS
REPORT SECTION**

**WESTERN STATE COLLEGE OF COLORADO
AUDITORS' FINDINGS AND RECOMMENDATIONS**

ACCOUNTING DEPARTMENT CONTROLS

During our audit work for the year ended June 30, 2004, we noted that one individual in the accounting department had access to the manual check signing plate and also reconciles the College's bank statements.

Although the small size of the College's accounting department limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to all phases of a transaction. A critical area is cash disbursements, cash receipts, and bank account reconciliations. The result is the danger that intentional or unintentional errors could be made and not detected. We recommend that the Budget Director be used to provide the manual check signing, as he is independent of cash receipts, cash disbursements, and bank account reconciliation. This step would not require the addition of any new employees or add significant time to the completion of cash disbursements.

Recommendation No. 1:

Western State College of Colorado should improve controls over accounting department functions through separation of duties involving check signing and reconciliation of bank statements by providing for the Budget Director to access the manual check-signing machine instead of the current accountant.

Western State College of Colorado Response:

Agree.

The College will grant Budget Director access to the manual check-signing machine instead of the current accountant as of January 1, 2005.

INFORMATION TECHNOLOGY CONTROLS

The College has completed a draft of a disaster recovery plan; however, the plan has not been finalized and approved by the board of trustees. Completion of a disaster recovery plan is crucial to the College's ability to function effectively in an emergency situation. Completion of the plan prior to a disaster will assist College personnel in being aware of their responsibilities in the event of an emergency situation that precludes the use of existing information technology (IT) facilities. We recommend the IT department complete the plan and seek approval from the Cabinet. Once approved, the plan should be periodically tested.

Recommendation No. 2:

Western State College of Colorado should improve its information technology controls by finalizing its disaster recovery plan and obtaining approval of the plan by the Cabinet. Once the plan is completed and approved, periodic testing should be scheduled.

Western State College of Colorado Response:

Agree.

The College will finalize its disaster recovery plan and obtain approval of the plan by the Cabinet by June 30, 2005.

**WESTERN STATE COLLEGE OF COLORADO
DISPOSITION OF PRIOR AUDIT FINDINGS**

Western State College of Colorado has no prior audit findings or recommendations.

FINANCIAL STATEMENT SECTION

DALBY, WENDLAND & CO., P.C.



Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying Statements of Net Assets of Western State College of Colorado, a blended component unit of the State of Colorado, as of June 30, 2004 and 2003, and the related Statements of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the years then ended. We have also audited the Statements of Financial Position of Western State College Foundation, a discretely presented component unit of Western State College of Colorado, as of June 30, 2004 and 2003, and the related Statements of Activities for the years then ended. These basic financial statements are the responsibility of the management of Western State College of Colorado. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Western State College Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Western State College of Colorado and its discretely presented component unit as of June 30, 2004 and 2003, and the changes in financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, during fiscal year 2004, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004 on our consideration of Western State College of Colorado'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 on pages 10 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

DALBY, WENDLAND & CO., P.C.

October 1, 2004

WESTERN STATE COLLEGE OF COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)
Years Ended June 30, 2004 and 2003

This section of Western State College of Colorado's financial report presents management's discussion and analysis of the financial performance of the College during the year ended June 30, 2004. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes. A comparative analysis is presented for the years ended June 30, 2003 and 2002.

Using the Consolidated Financial Report

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

The financial statements prescribed by Statement No. 35, the statement of net assets, statement of revenues, expenses and changes in net assets, and the statement of cash flows, present financial information in a format more comparable to that used by for-profit colleges and universities. The statements are prepared under the accrual basis of accounting. Revenue and assets are recognized when service is provided, and expenses and liabilities are recognized when others provide the goods or service, regardless of when cash is exchanged.

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 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 Western State College Foundation meets 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 years 2004 and 2003 (since the College presents comparative financial information). The Foundation had net assets of \$9.6 million and \$7.5 million as of June 30, 2004 and 2003, respectively, and total support and revenue of \$1.65 million and \$1.50 million for fiscal year 2004 and fiscal year 2003, respectively.

Financial Highlights

- Economic conditions during fiscal year 2004 forced the state of Colorado to hold appropriations of all higher education institutions at static levels. Cost increases related to enrollment growth and mandated increases in other operating areas (e.g., utilities, state personnel compensation increases, etc.) had to be absorbed within institutional budgets. In fiscal year 2003, reductions to the College's appropriation

totaled 13.8% or \$961,687 compared to fiscal year 2002 amounts. In 2002, reductions totaled 2.6%, or \$167,700.

- Western State College of Colorado's financial position declined during the fiscal year ended June 30, 2004 as evidenced by a decrease in net assets of \$1.2 million, from \$38.8 million at June 30, 2003 to \$37.6 million. In 2003, net assets increased by \$453 thousand from \$38.4 million at June 30, 2002.
- Western State College of Colorado's current assets of \$12.2 million (2004), \$14.8 million (2003) and \$4 million (2002) were sufficient to cover current liabilities of \$4.3 million (2004), \$3.3 million (2003) and \$2.3 million (2002). The current ratio of 2.84 (2004), 4.48 (2003) and 1.74 (2002) (current assets/current liabilities) demonstrates the liquidity of College assets and the relative availability of working capital to fund current operations.
- An operating deficit of \$6.8 million (2004), \$6.5 million (2003) and \$8.6 million (2002) resulted from Western State College of Colorado's dependence on state appropriations because the financial reporting model classifies state appropriations as non-operating revenues.

Statement of Net Assets

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

Condensed Statement of Net Assets June 30, 2004 and 2003 (in thousands)

	2004	2003	2002 (unaudited)
Assets			
Current Assets	\$12,187	\$14,822	\$ 4,031
Noncurrent Assets	48,006	46,642	48,942
<i>Total Assets</i>	60,193	61,464	52,973
Liabilities			
Current Liabilities	4,253	3,307	2,279
Noncurrent Liabilities	18,328	19,336	12,326
<i>Total Liabilities</i>	22,581	22,643	14,605
Net Assets			
Invested in Capital Assets	29,965	31,558	35,823
Restricted	5,777	5,753	3,960
Unrestricted	1,869	1,510	(1,415)
<i>Total Net Assets</i>	\$37,611	\$38,821	\$ 38,368

At June 30, Western State College of Colorado's total assets were \$60.2 million (2004), \$61.5 million (2003), and \$53 million (2002). The largest asset category is the \$45.7 million (2004), \$44.9 million (2003) and \$47 million (2002) in capital assets, which includes land, buildings, equipment, library holdings, and construction in process, net of accumulated depreciation of \$28.2 million (2004), \$25.3 million (2003) and \$22.8 million (2002). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In fiscal year 2004, 2003 and 2002 the College's current assets of \$12.2 million (2004), \$14.8 million (2003) and \$4 million (2002) were sufficient to cover current liabilities of \$4.3 million (2004), \$3.3 million (2003) and \$2.3 million (2002) producing current ratios of 2.84 (2004), 4.48 (2003) and 1.74 (2002). Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised almost \$9.8 million (2004), \$11.7 million (2003) and \$3.5 million (2002) in assets per the Statement of Cash Flows.

Bonds payable of \$17.8 million (2004), \$18.3 million (2003) and \$11 million (2002) represent almost 79% (2004), 81% (2003) and 75% (2002) of the College's total liabilities of \$22.6 million (2004 and 2003) and \$14.6 million (2002). Current portion of the bonds payable is \$640,000 (2004), \$540,000 (2003) and \$610,000 (2002).

Western State College of Colorado's financial position declined during the fiscal year as evidenced by the decrease in net assets of \$1.2 million (see the Statement of Revenues, Expenses and Changes in Net Assets) from \$38.8 million at June 30, 2003 to \$37.6 million at June 30, 2004. \$30 million (2004), \$31.6 million (2003) and \$35.8 million (2002) in net assets is invested in capital assets net of related debt, \$5.8 million (2004 and 2003) and \$4 million (2002) is externally restricted for specific purposes, and \$1.9 million (2004) and \$1.5 million (2003) is unrestricted and available for any lawful purpose of Western State College of Colorado.

Statement of Revenue, Expenses and Changes in Net Assets

The Statement of Revenue, Expenses and Changes in Net Assets presents the results of operations during the year. Activities are reported as either operating or non-operating. Operating revenue and expenses generally result from providing goods and services for instruction, research, public service and related support services to an individual or entity separate from Western State College of Colorado. Non-operating revenue and expenses are those other than operating and include, but are not limited to: state appropriations, investment income and expenses, interest expense on capital debt, state capital construction and controlled maintenance appropriations, and transfers.

Tuition and fee revenue in 2004 accounted for \$7.9 million (a \$525 thousand increase from 2003) of the \$20.7 million in operating revenue. Tuition and fee revenue in 2003 was \$7.4 million, a \$285 thousand increase from 2002. The tuition and fee amount is net of scholarship allowances of \$2.4 million (2004), \$2.3 million (2003) and \$2.0 million (2002). Scholarship allowances are defined as the financial aid awarded to students by the colleges 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 \$27.5 million (2004), \$26.6 million (2003) and \$27.1 million (2002). Of that total, \$7.7 million (2004) and \$7.5 million (2003 and 2002) was for instruction, \$6.8 million (2004), \$6.4 million (2003) and \$5.9 million (2002) for auxiliary enterprises, \$4.1 million (2004) and \$3.9 million (2003 and 2002) for student services, \$2.3 million (2004) and \$1.9 million (2003 and 2002) for institutional support, and \$1.0 million (2004), \$0.9 million (2003) and \$1.0 million (2002) for academic support.

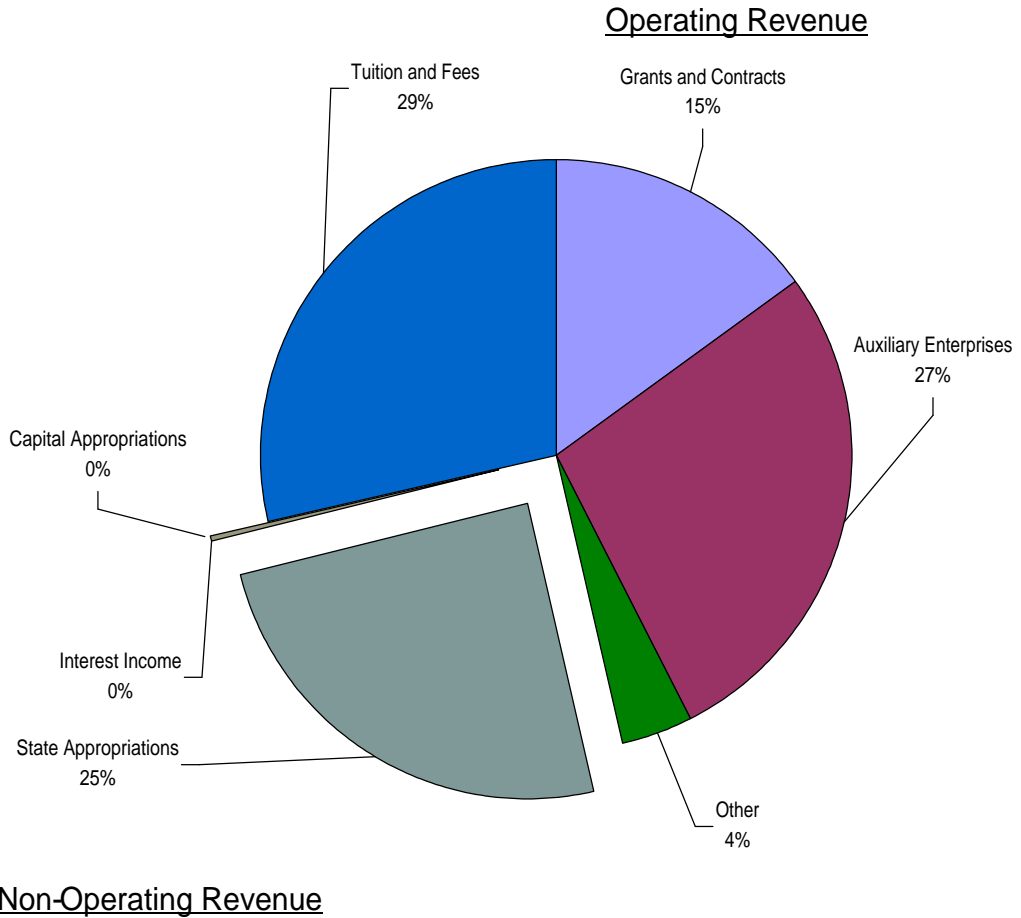
Because the financial reporting model classifies state appropriations as non-operating revenues, Western State College of Colorado produced an operating deficit of \$6.8 million in fiscal year 2004, \$6.5 million in fiscal year 2003 and \$8.6 million (2002). Western State College of Colorado had ending net assets at June 30, 2004 of \$37.6 million, a decrease of \$1.2 million from the previous year-end. Ending net assets at June 30, 2003 were \$38.8 million, an increase of \$453 thousand from the previous year-end.

Condensed Statement of Revenue, Expenses and Changes in Net Assets
June 30, 2004, 2003 and 2002
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues			(unaudited)
Tuition and Fees, net	\$7,915	\$7,390	\$ 7,104
Grants and Contracts	4,172	4,453	3,941
Auxiliary Enterprises	7,565	7,422	6,745
Other	1,056	831	743
<i>Total Operating Revenues</i>	<u>20,708</u>	<u>20,096</u>	<u>18,533</u>
Operating Expenses	<u>27,487</u>	<u>26,600</u>	<u>27,118</u>
<i>Net Operating (Loss)</i>	<u>(6,779)</u>	<u>(6,504)</u>	<u>(8,585)</u>
Nonoperating Revenue (Expense)			
State Appropriations	6,897	6,002	6,196
Interest Income	(1)	607	182
Other Nonoperating	(1,360)	(715)	(1,412)
<i>Net Nonoperating Revenue</i>	<u>5,536</u>	<u>5,894</u>	<u>4,966</u>
<i>Income (Loss) Before Other Revenue</i>			
<i>Expenses, Gains or Losses</i>	<u>(1,243)</u>	<u>(610)</u>	<u>(3,619)</u>
State Appropriations, Capital	30	899	5,565
Other	3	164	452
<i>Increase (Decrease) in Net Assets</i>	<u>(1,210)</u>	<u>453</u>	<u>2,398</u>
Net Assets:			
Net Assets-Beginning of Year	38,821	38,368	35,970
Net Assets-End of Year	<u>\$ 37,611</u>	<u>\$ 38,821</u>	<u>\$ 38,368</u>

The following is a graphic illustration of total revenues by source for Western State College for fiscal year 2004. It clearly depicts Western State College's dependence on state appropriations and other non-operating revenue sources which comprise approximately 25% of total revenues. Each major revenue component is displayed relative to its proportionate share of total revenues.

Revenue by Source



Statement of Cash Flows

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

Condensed Statement of Cash Flows June 30, 2004 and 2003 (in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net Cash Used by:			
Operating Activities	\$ (3,710)	\$ (2,417)	\$ (5,834)
Non-Capital Financing Activities	6,116	6,133	6,051
Capital and Related			
Financing Activities	(4,149)	5,810	(248)
Investing Activities	<u>(194)</u>	<u>(1,305)</u>	<u>402</u>
<i>Net Increase (Decrease) in Cash</i>	(1,937)	8,221	371
Cash & Cash Equivalents:			
Beginning of Year	<u>11,725</u>	<u>3,504</u>	<u>3,133</u>
End of Year	<u>\$ 9,788</u>	<u>\$ 11,725</u>	<u>\$ 3,504</u>

Western State College of Colorado's overall liquidity declined during the fiscal year 2004 with a decrease in cash and cash equivalents of \$1.9 million (in 2003, liquidity improved by \$8.2 million, largely due to the sale of bonds to finance dormitory renovations). In 2004, the net cash outflow from operating activities was \$3.7 million (\$2.4 million in 2003 and \$5.8 million in 2002). \$7.9 million in net student tuition and fees (an increase of \$478 thousand from 2003 which had an increase of \$285 thousand from 2002), \$6.2 million in net sales of services (an increase of \$19 thousand from 2003 which had an increase of \$711 thousand from 2002) and \$4.2 million in grants and contracts (a decrease of \$270 thousand from 2003 which had an increase of \$559 thousand from 2002) were the major sources of cash. Payments to or for employees of \$14.6 million (an increase of \$1.3 million from 2003 which had a decrease of \$1.1 million from 2002) and payments to suppliers of \$9.0 million (an increase of \$558 thousand from 2003 which had a decrease of \$548 thousand from 2002) were the primary uses of funds.

Economic Outlook

During fiscal year 2004, the state of Colorado continued to experience economic difficulties as the economy began recovery from the recent recession. While funding for public higher education institutions remained at originally appropriated levels for fiscal year 2004, State support has been reduced by over 21% since fiscal year 2001. For fiscal year 2005, the economic forecast for public higher education institutions in the State remains tenuous. While no reductions in appropriations are anticipated in the fiscal year 2005, possible reductions are looming in the future given current State revenue projections and the need for the State to balance its structural budget deficit.

Enrollments for Western State College of Colorado are projected to be down in fiscal year 2005. However, tuition rate increases of 1.1% for full time students and the closure of the tuition window by one credit hour (resulting in an effective increase of 11.0% for full time resident and 11.2% for full time nonresident students) are projected to hold tuition revenue at stable levels. In 2005, students will be charged per the credit hour rate up to eleven hours instead of ten hours. (Students taking eleven to eighteen credit hours pay the same rate.)

Financing of public higher education was changed substantially with passage of SB04-189. Beginning in fiscal year 2006, funding for qualifying institutions will come from stipends provided to eligible Colorado residents and through fee for service contracts negotiated with the State. This change in financing will allow institutions to achieve enterprise status under TABOR, thus providing them greater management flexibility in areas such as tuition setting.

**STATE OF COLORADO
WESTERN STATE COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents	\$ 254,964	\$ 1,030,003
Certificates of deposit	65,571	63,640
Investments	8,387,911	5,609,047
Contributions receivable	198,478	56,551
Due from Western State College	13,634	114,047
Other assets	29,768	23,768
Property and equipment, net of depreciation	<u>625,437</u>	<u>642,402</u>
<i>Total Assets</i>	<u>\$9,575,763</u>	<u>\$7,539,458</u>
LIABILITIES		
Accounts payable	<u>\$ 81</u>	<u>\$ 1,904</u>
NET ASSETS		
Unrestricted	734,909	609,869
Temporarily restricted	3,691,527	2,202,362
Permanently restricted	<u>5,149,246</u>	<u>4,725,323</u>
<i>Total Net Assets</i>	<u>9,575,682</u>	<u>7,537,554</u>
<i>Total Liabilities and Net Assets</i>	<u>\$9,575,763</u>	<u>\$7,539,458</u>

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLLEGE
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUE		
Tuition & fees, including pledged for bonds of \$883,859 (2004) and \$868,672 (2003)	\$ 10,353,708	\$ 9,736,351
Less: Scholarship allowances	(2,439,055)	(2,346,360)
<i>Net Tuition and Fees</i>	7,914,653	7,389,991
Federal, state, and private grants and contracts	4,172,136	4,452,606
Sales and services of auxiliary enterprises, including revenue pledged for bonds of \$7,652,705 (2004) and \$7,477,353 (2003)	7,874,730	7,686,379
Less: Scholarship allowances	(309,739)	(264,689)
<i>Net Auxiliary Sales and Services</i>	7,564,991	7,421,690
Other operating revenue, including revenue pledged for bonds of \$92,694 (2004) and \$148,390 (2003)	1,056,461	831,470
<i>Total Operating Revenue</i>	20,708,241	20,095,757
OPERATING EXPENSES		
Instruction	7,653,494	7,450,864
Research	92,860	94,504
Academic Support	989,883	902,232
Student Services	4,053,934	3,943,593
Institutional Support	2,255,694	1,902,818
Operation & Maintenance of Plant	1,730,707	2,065,402
Scholarships & Fellowships	983,517	994,300
Auxiliary Enterprises	6,824,140	6,375,287
Depreciation	2,902,776	2,870,703
<i>Total Operating Expenses</i>	27,487,005	26,599,703
<i>Operating Loss</i>	(6,778,764)	(6,503,946)
NONOPERATING REVENUE (EXPENSES):		
State Appropriation, Noncapital	6,896,788	6,002,173
Investment and interest income including \$216,449 (2004) of revenue and \$115,041 (2003) pledged for bonds	(1,082)	606,507
Interest Expense on Capital Debt	(600,754)	(681,360)
Other Nonoperating Revenues (Expenses)	(758,667)	(32,943)
<i>Net Nonoperating Revenue (Expenses)</i>	5,536,285	5,894,377
<i>Loss Before Other Items</i>	(1,242,479)	(609,569)
Other Revenues, Expenses, Gains, Losses, or Transfers		
State Appropriation, Capital	29,799	899,382
Capital Grants	3,182	-
Transfers From (To) Governing Boards or Other Institutions	-	163,458
<i>Increase (Decrease) in Net Assets</i>	(1,209,498)	453,271
Net Assets - Beginning of Year	38,820,870	38,367,599
Net Assets - End of Year	\$ 37,611,372	\$ 38,820,870

See accompanying notes.

**STATE OF COLORADO
WESTERN STATE COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue, gains and other support:		
Contributions	\$ 164,944	\$ 178,984
Investment income	101,755	47,907
Rental income	<u>14,482</u>	<u>7,242</u>
	281,181	234,133
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>1,369,801</u>	<u>1,270,308</u>
	1,650,982	1,504,441
	<i>Total Revenue, Gains and Other Support</i>	<i>1,504,441</i>
Expenses:		
Programs	1,275,075	1,276,129
Management and general	119,829	142,798
Fund-raising	<u>106,975</u>	<u>128,019</u>
	1,501,879	1,546,946
	<i>Total Expenses</i>	<i>1,546,946</i>
Transfers	<u>(24,063)</u>	<u>(1,365)</u>
	125,040	(43,870)
	<i>Increase (Decrease) in Unrestricted Net Assets</i>	<i>(43,870)</i>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and gains:		
Contributions	2,161,250	871,625
Investment income	702,122	44,935
Royalties	<u>85,324</u>	<u>72,478</u>
	2,948,696	989,038
Net assets released from restrictions:		
Satisfaction of program restrictions	<u>(1,369,801)</u>	<u>(1,270,308)</u>
Transfers	<u>(89,730)</u>	<u>14,846</u>
	1,489,165	(266,424)
	<i>Increase (Decrease) in Temporarily Restricted Net Assets</i>	<i>(266,424)</i>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Revenues and gains:		
Contributions	310,130	234,342
Transfers	<u>113,793</u>	<u>(13,481)</u>
	423,923	220,861
	<i>Increase in Permanently Restricted Net Assets</i>	<i>220,861</i>
	<i>Increase (Decrease) in Net Assets</i>	<i>(89,433)</i>
Net Assets – Beginning of year	<u>7,537,554</u>	<u>7,626,987</u>
Net Assets – End of year	<u>\$ 9,575,682</u>	<u>\$ 7,537,554</u>

See accompanying notes.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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

Reporting Entity

For financial reporting purposes, the College is included as part of the state of Colorado's primary government. A copy of the state Comprehensive Annual Financial Report may be obtained from the State Controller's Office, General Support Services, Denver, Colorado.

The financial statements of the College include all of the integral parts of the College's operations. The College applied required criteria to determine whether any organization should be included in the College's reporting entity. Management has determined that Western State College Foundation (the Foundation) meets the criteria to be included in the College's financial statements as a discretely presented component unit. A full copy of the Foundation's financial statements may be obtained from the Western State College Foundation, 909 East Escalante Drive, P.O. Box 1264, Gunnison, CO 81230.

Basis of Accounting

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

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

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

The Foundation's financial statements have been presented on the accrual basis and pronouncements of the Financial Accounting Standards Board (FASB) have been applied.

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

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

Accounts Receivable

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

Inventories

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

Restricted Cash and Cash Equivalents

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

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

Capital Assets

Capital assets are stated at cost at date of acquisition, or fair market value at date of donation. The College capitalizes only those assets with an initial cost or fair market value greater than or equal to \$5,000. State capital construction revenue is recognized only to the extent of current expenditures. Controlled maintenance (corrective repairs or replacements to existing facilities) funded by the state is recorded as state appropriated revenue and the assets recorded to the extent that expenditures qualify for capitalization.

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

Deferred Revenues

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

Compensated Absences

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

Classification of Revenue

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues - Operating revenues generally result from providing goods and services for instruction, public service or related support services to an individual or entity separate from the College such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, and (3) interest on student loans.

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

Non-operating revenue – Non-operating revenue is that revenue that does not meet the definition of operating revenue. Non-operating revenue includes state appropriations for operations, gifts, investment income and insurance reimbursement revenue.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30 were \$2,748,794 (2004) and \$2,611,049 (2003).

Net Assets

The College's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

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

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

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

Net assets of the Foundation are classified as unrestricted, temporarily restricted and permanently restricted. Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. All unconditional promises to give are due within the next year.

Application of Restricted and Unrestricted Resources

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

Reconciliation to Other Reports

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

Financial Statement Presentation and Changes in Accounting Principles

In August 2002, GASB approved Statement No. 39, *Determining Whether Certain Organizations are Component Units* (the Statement), an amendment to GASB Statement No. 14. The Statement provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationships with a primary government and clarifies reporting requirements for those organizations. Based on the criteria established in the Statement, Western State College Foundation (the Foundation) is considered a component unit of the College. The Foundation meets the criteria to be included in the College's financial statements as a discretely presented component unit. The Statement allows for the Foundation's financial statements to be presented on separate pages from the College's financial statements due to the fact that the Foundation's basis of accounting and reporting is different from the College's.

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

Change in Governance and Financial Reporting

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, established an independent governing board for Western State College of Colorado. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of Western State College of Colorado.

New Accounting Pronouncements

GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, (Statement No. 40) an amendment to Statement No. 3 in June 2003. Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk, interest rate risk and foreign currency risk and is effective for fiscal years beginning after June 15, 2004.

GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (Statement No. 42) in February 2004. Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal years beginning after December 15, 2004. Management does not believe the adoption of Statement No. 42 will have a significant effect on the College's financial statements.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Reclassifications

Certain 2003 balances have been reclassified to agree with current year presentation.

NOTE 2 - CASH AND INVESTMENTS

Cash

At June 30, the College had \$9,707,394 (2004) and \$11,527,966 (2003) 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:

	<u>2004</u>	<u>2003</u>
Cash on hand	\$58,629	\$162,289
Cash in checking accounts at bank	<u>21,577</u>	<u>34,966</u>
Total cash	<u>\$80,206</u>	<u>\$197,255</u>

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

The carrying amount of the College's cash on deposit was \$21,577 (2004) and \$34,966 (2003) and the bank balance was \$20,131 (2004) and \$25,827 (2003). The bank balances were covered 100% by federal depository insurance.

Investments

At June 30, investments with a carrying value of \$2,459,317 (2004) and \$2,259,376 (2003) and a market value of \$2,459,317 (2004) and \$2,259,376 (2003) are categorized to give an indication of the level of risk assumed. Risk category descriptions are A) investments, which are insured, registered, or held by the entity or its agent in the entity's name; B) investments which are uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent in the Entity's name. The College's investments are category B. Yield on investments was 4.12% (2004) and (2003).

At June 30, the Foundation had investments with a cost of \$7,564,842 (2004) and \$5,153,635 (2003) and a market value of \$8,387,911 (2004) and \$5,609,047 (2003).

NOTE 3 - RECEIVABLES AND PAYABLES

At June 30, receivable balances were as follows:

	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
<u>2004</u>			
Student Accounts Receivable	<u>\$348,935</u>	<u>\$(133,246)</u>	<u>\$215,689</u>
Other Accounts Receivable	<u>\$173,945</u>	<u>\$ -</u>	<u>\$173,945</u>
Student Loans Receivable	<u>\$366,638</u>	<u>\$(126,663)</u>	<u>\$239,975</u>
 <u>2003</u>			
Student Accounts Receivable	<u>\$315,767</u>	<u>\$(133,961)</u>	<u>\$181,806</u>
Other Accounts Receivable	<u>\$258,680</u>	<u>\$ -</u>	<u>\$258,680</u>
Student Loans Receivable	<u>\$383,244</u>	<u>\$(114,948)</u>	<u>\$268,296</u>

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

At June 30 accrued liabilities balances were as follows:

	<u>2004</u>	<u>2003</u>
Accrued Payroll	\$1,289,627	\$1,187,586
Accrued Interest Payable	91,311	67,478
Other	-	25,535
<i>Accrued Liabilities</i>	<u>\$1,380,938</u>	<u>\$1,280,599</u>

NOTE 4 - CAPITAL ASSETS

	<u>Balance 6/30/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2004</u>
Non-depreciable Capital Assets				
Land	\$ 695,416	\$ -	\$ -	\$ 695,416
Land Improvements	1,904,083	-	-	1,904,083
Construction in Progress	<u>8,463</u>	<u>3,474,644</u>	<u>-</u>	<u>3,483,107</u>
<i>Total Non-depreciable Capital Assets</i>	<u>\$ 2,607,962</u>	<u>\$3,474,644</u>	<u>\$ -</u>	<u>\$ 6,082,606</u>
Depreciable Capital Assets				
Buildings and Improvements	\$61,237,000	\$ -	\$ -	\$61,237,000
Furniture and Equipment	1,785,394	56,171	(62,050)	1,779,515
Library Materials	<u>4,597,516</u>	<u>154,455</u>	<u>(368)</u>	<u>4,751,603</u>
Total Depreciable Capital Assets	<u>67,619,910</u>	<u>210,626</u>	<u>(62,418)</u>	<u>67,768,118</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(20,416,398)	(2,586,868)	-	(23,003,266)
Furniture and Equipment	(1,123,803)	(156,275)	62,050	(1,218,028)
Library Materials	<u>(3,803,923)</u>	<u>(159,633)</u>	<u>368</u>	<u>(3,963,188)</u>
<i>Total Accumulated Depreciation</i>	<u>(25,344,124)</u>	<u>(2,902,776)</u>	<u>62,418</u>	<u>(28,184,482)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$42,275,786</u>	<u>\$(2,692,150)</u>	<u>\$ -</u>	<u>\$39,583,636</u>

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

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

Property and equipment for the Foundation consist of the following as of June 30:

	<u>2004</u>	<u>2003</u>
Land	\$ 38,225	\$ 38,225
Building and improvements	1,053,778	1,053,778
Furniture and equipment	<u>145,538</u>	<u>132,823</u>
	1,237,541	1,224,826
Less accumulated depreciation	<u>(612,104)</u>	<u>(582,424)</u>
	<u>\$ 625,437</u>	<u>\$ 642,402</u>

NOTE 5 - REVENUE BONDS PAYABLE

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

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

The Series 2003A bonds were issued as an advance refunding to defease the Series 1994C bonds (see Note 6). An additional cash flow requirement of \$2,601,874 is required to service the Series 2003A bonds, resulting in an economic loss on the advance refunding of \$(1,005,113) and an accounting loss of \$(556,722). The accounting loss has been deferred and is being amortized over a 16-year period. The unamortized balance is netted with long-term bonds payable on the Statements of Net Assets.

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

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

Debt Service Reserve Requirement

Under the terms of the bond agreements the College is required to maintain in a Debt Service Reserve Fund an amount equal to the lesser of (1) the combined maximum annual principal and interest payments on all bonds outstanding, (2) the combined average annual principal and interest payments on all bonds outstanding, or (3) ten percent of the original principal amount of each issue outstanding. The debt service reserve requirements of \$1,706,133 (2004) and (2003) which were established from bond proceeds meet the minimums required under the bond agreements.

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

	<u>2004</u>	<u>2003</u>
Retirement of Indebtedness	<u>\$2,054,221</u>	<u>\$ 2,182,446</u>
Renewal and Replacement	<u>\$ 593,821</u>	<u>\$ 958,745</u>

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

Principal and interest requirements to maturity of the 2004 bonds are as follows:

<u>Year Ending June 30,</u>	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
2005	\$ 1,075,360	\$ 295,125	\$ 1,370,485
2006	1,074,800	295,125	1,369,925
2007	1,077,125	295,125	1,372,250
2008	1,075,833	295,125	1,370,958
2009	1,077,132	295,126	1,372,258
2010 – 2014	5,379,857	1,475,625	6,855,482
2015 – 2019	5,384,300	2,260,625	7,644,925
2020 – 2024	-	5,386,887	5,386,887
2025	-	<u>1,076,250</u>	<u>1,076,250</u>
<i>Total Principal & Interest</i>	16,144,407	11,675,013	27,819,420
Less interest	<u>(4,214,407)</u>	<u>(5,405,013)</u>	<u>(9,619,420)</u>
<i>Total Principal</i>	<u>\$11,930,000</u>	<u>\$ 6,270,000</u>	<u>\$18,200,000</u>

NOTE 6 - EXTINGUISHMENT OF DEBT

In fiscal year 1994, the College defeased 1992 series bonds by placing the proceeds of the 1994 series plus a portion of the 1992 series debt service reserve funds in an irrevocable trust to provide for all future debt service payments on the 1992 bonds. Accordingly, the trust-account assets and liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2004, \$9,300,000 of 1992 bonds outstanding is considered defeased.

In fiscal year 2003, the College defeased 1994 series bonds by placing the proceeds of the 2003A series in an irrevocable trust to provide for all future debt service payments on the 1994 bonds. Accordingly, the trust-account assets and liabilities are not included in the College's financial statements. On June 30, 2004, \$9,780,000 of 1994 bonds outstanding is considered defeased.

NOTE 7 - LEASE OBLIGATIONS

Capital Leases

Summary of changes in capital lease obligations:

Balance			Balance
<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>
<u>\$1,408,358</u>	<u>\$ -</u>	<u>\$(381,466)</u>	<u>\$1,026,892</u>

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

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

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

<u>Year Ending June 30.</u>	
2005	\$ 437,310
2006	437,310
2007	<u>218,655</u>
<i>Total principal & interest payments</i>	1,093,275
Less: amount representing interest	<u>(66,383)</u>
<i>Principal outstanding</i>	<u><u>\$1,026,892</u></u>

NOTE 8 - EMPLOYEE PENSION PLANS

A. Optional Retirement Plan

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

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

The College's contributions to the ORP for fiscal years ending June 30, 2004, 2003, and 2002 were \$589,544, \$564,685, and \$621,963, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 65, with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

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

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

B. Public Employees Retirement Association

1. Plan Description

The rest of the College's employees participate in a defined benefit pension plan (the Plan). The Plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The Plan is a cost-sharing multiple-employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the Plan is placed with the Board of Trustees of PERA. Changes to the Plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, CO 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), 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. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

2. Funding Policy

Employees contribute 8.0 percent of their annual gross covered wages to an individual account in the Plan. During the fiscal year ending June 30, the College contributed 10.15% (2004) and 10.04% (2003) of the employee's gross covered wages. Effective January 1, 2003, 1.1% 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 9). The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The annual gross covered wages subject to PERA is the gross earnings less any reduction in pay to offset employer contributions to the state sponsored 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 the three programs described above for the fiscal years ending June 30, 2004, 2003, and 2002 were \$535,199, \$537,722, and \$524,614, respectively. These contributions were equal to the required contributions for each year.

C. Student-Employees Defined Contribution Plan

Beginning in fiscal year 1993, in accordance with the provisions of C.R.S. 24-54.6 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll covered by the plan was \$234,622 (2004) and \$235,611 (2003).

NOTE 9 - VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA members voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100% of up to 3 percent of employee s gross wages. For the calendar year 2003, the match was 100% of up to 2 percent of employee s gross wages. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of employee s gross wages. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to 1%, and therefore, the match changed from 2% to 1% 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 110 percent of actuarially accrued plan liabilities.

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

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and the College offers a 403b plan. Members who contribute to any of these plans also receive the state match, if available.

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

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the fiscal years ending June 30, 2004 and 2003, the subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and reduced by 5% for each year of service fewer than 20.

The Health Care Fund is maintained by an employer contribution as discussed above in Note 8-B2. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services in 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 Insurance Company and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

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

NOTE 11 - SCHOLARSHIP ALLOWANCE

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

	<u>Tuition & Fees</u>	<u>Auxiliary Revenue</u>	<u>Total</u>
<u>2004</u>			
Gross Revenue	\$10,353,708	\$7,874,730	\$18,228,438
Scholarship Allowances:			
Federal	(1,100,014)	(139,692)	(1,239,706)
State	(458,542)	(58,231)	(516,773)
Private	(395,127)	(50,178)	(445,305)
Institutional	<u>(485,372)</u>	<u>(61,638)</u>	<u>(547,010)</u>
<i>Total Allowances</i>	<u>(2,439,055)</u>	<u>(309,739)</u>	<u>(2,748,794)</u>
<i>Net Revenue</i>	<u>\$ 7,914,653</u>	<u>\$7,564,991</u>	<u>\$15,479,644</u>
<u>2003</u>			
Gross Revenue	\$9,736,351	\$7,686,379	\$17,422,730
Scholarship Allowances:			
Federal	(1,069,940)	(120,698)	(1,190,638)
State	(542,009)	(61,143)	(603,152)
Private	(354,301)	(39,968)	(394,269)
Institutional	<u>(380,110)</u>	<u>(42,880)</u>	<u>(422,990)</u>
<i>Total Allowances</i>	<u>(2,346,360)</u>	<u>(264,689)</u>	<u>(2,611,049)</u>
<i>Net Revenue</i>	<u>\$7,389,991</u>	<u>\$7,421,690</u>	<u>\$14,811,681</u>

NOTE 12 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The College is subject to risks of loss from liability for accident property damage and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill. Therefore, the College is not required to obtain insurance, and accordingly, no reduction occurred in coverage nor did any settlements exceed coverage. The College does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$1,000 deductible per incident.

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

NOTE 13 - LEGISLATIVE APPROPRIATION

Appropriated Funds

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

For the years ended June 30, funds appropriated to the College were \$6,896,788 (2004) and \$6,693,860 (2003). Actual appropriated revenue earned, including capital appropriations, totaled \$6,926,587 (2004) and \$6,901,555 (2003). Actual appropriated expenditures and transfers totaled \$12,377,948 (2004) and \$11,604,684 (2003). For the year ended June 30, 2003, the spending authority was established with the Trustees of the State Colleges System who then appropriated funds to Western State College. See Note 1 for discussion of the College's change in governance effective July 1, 2003.

Non-Appropriated Funds

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

**SUPPLEMENTAL INFORMATION
SCHEDULES OF REVENUE AND EXPENSES
FOR
ENTERPRISE REVENUE BONDS**

STATE OF COLORADO
WESTERN STATE COLLEGE
SCHEDULES OF REVENUE AND EXPENSES
FOR ENTERPRISE REVENUE BONDS
For the Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
REVENUE		
College service fees	\$ 883,860	\$ 868,672
Bookstore sales	1,256,508	1,265,763
Rental income	3,480,819	3,299,634
Food service income	2,200,533	2,033,779
Sales/service auxiliaries	807,539	1,026,567
Interest income	<u>216,449</u>	<u>115,041</u>
<i>Total Revenue</i>	8,845,708	8,609,456
EXPENSES		
Employee compensation	943,410	898,076
Costs of goods	904,405	908,951
Utilities	541,121	478,508
Rental	16,187	19,142
Contract food	1,353,217	1,318,602
Travel	13,100	20,254
Supplies	159,029	171,519
Purchased services – personnel	25,210	70,893
Financial aid	94,957	85,323
Administrative cost allowance	1,633,236	1,613,688
Furniture and equipment	56,485	122,583
Other operating expenses	<u>587,472</u>	<u>536,151</u>
<i>Total Expenses</i>	6,327,829	6,243,690
<i>Net Revenue Before Transfers</i>	2,517,879	2,365,766
TRANSFERS		
Mandatory transfers	(1,230,665)	(1,216,279)
Non-Mandatory transfers	<u>(1,133,570)</u>	<u>(387,093)</u>
<i>Total Transfers</i>	(2,364,235)	(1,603,372)
<i>Net Revenue</i>	<u>\$ 153,644</u>	<u>\$ 762,394</u>



DALBY, WENDLAND & CO., P.C.

Certified Public Accountants & Consultants

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Western State College of Colorado, a blended component unit of the state of Colorado and its discretely presented component unit, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 1, 2004. We conducted our audits 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 discretely presented component unit, Western State College Foundation, were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether Western State College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

DALBY, WENDLAND & CO., P.C.

October 1, 2004



DALBY, WENDLAND & CO., P.C.

Certified Public Accountants & Consultants

Members of the Legislative Audit Committee:

We have audited the financial statements of Western State College of Colorado, a blended component unit of the state of Colorado, for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 1, 2004. As required by professional auditing standards, we are providing you with information related to our audit.

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

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

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

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

Significant Accounting Policies

Western State College of Colorado's significant accounting policies are described in the notes to the financial statements. There was one new accounting policy adopted in 2004. No new policies were adopted in 2003, and the application of existing policies was not changed during 2004 or 2003.

The College adopted GASB No. 39, *Determining Whether Certain Organizations are Component Units*, in 2004. Based on criteria established in the Statement, Western State College Foundation is considered a component unit of the College.

Management's Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements and are based on management's judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The significant accounting estimates affecting the financial statements are the allowance for uncollectible receivables, accrued compensated absences, scholarship allowances, and the depreciation of capital assets. We evaluated the factors and assumptions used to develop these estimates and determined they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Western State College's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed one adjustment related to retainage payable. The adjustment in the amount of \$313,023 has been recorded by the College and is reflected in the accompanying financial statements.

Disagreements with Management

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

Difficulties Encountered in Performing the Audit

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

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

DALBY, WENDLAND & CO., P.C.

October 1, 2004

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

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

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures Report Summary, and Reversions of the State-Funded Student Assistance Programs for Western State College of Colorado, a blended component unit of the state of Colorado, for the year ended June 30, 2004. This statement is the responsibility of the College's management. Our responsibility is to express an opinion on the statement based on our audit.

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

The statement was prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2004 revision. The statement is a summary of cash activity of the state-funded student financial assistance program with the exception of the College Work Study Program and the Perkins Loan Program, and does not present certain transactions that would be included in the statements of the state-funded student financial assistance programs if presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statement is not intended to present the financial position or changes in financial position of Western State College of Colorado, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs of Western State College of Colorado for the year ended June 30, 2004, in conformity with the provisions of the Colorado Commission on Higher Education's *Colorado Handbook for State-Funded Financial Assistance Programs*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004 on our consideration of Western State College of Colorado's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DALBY, WENDLAND & CO., P.C.

October 1, 2004

**STATE OF COLORADO
WESTERN STATE COLLEGE**

**STATEMENT OF APPROPRIATIONS,
EXPENDITURES SUMMARY REPORT , AND REVERSIONS OF THE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS**

Year Ended June 30, 2004

	Total State-Funded <u>Student Assistance</u>	Part-time Student <u>Grants</u>	Student Incentive <u>Grants</u>	Student Grant <u>Program</u>	Work Study <u>Program</u>	Under-Grad Merit <u>Program</u>
Appropriations	\$905,722	\$ -	\$47,774	\$544,569	\$205,033	\$108,346
Expenditures	<u>905,722</u>	<u>-</u>	<u>47,774</u>	<u>544,569</u>	<u>205,033</u>	<u>108,346</u>
<i>Reversions to State</i>						
<i>General Fund</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note.

**STATE OF COLORADO
WESTERN STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
NOTE TO THE STATEMENT
Year Ended June 30, 2004**

Basis of Accounting

The Statement of Appropriations, Expenditures Report Summary, and Reversions has been prepared in accordance with the format set forth in the Colorado Commission on Higher Education's publication, 2003-04 Audit Guide, *Colorado Funded Student Aid*.

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

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

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