

MESA STATE COLLEGE

FINANCIAL AND COMPLIANCE AUDIT

FISCAL YEARS ENDED JUNE 30, 2005 and 2004

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Deputy State Auditor

November 1, 2005

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of Mesa State College. The audit was conducted under contract with 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. The report includes the financial statements as well as the independent auditors' reports issued as part of the audit.

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**STATE OF COLORADO
MESA STATE COLLEGE
REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT
Year Ended June 30, 2005**

PURPOSE AND SCOPE OF AUDIT

The Office of the State Auditor, State of Colorado, engaged Chadwick, Steinkirchner, Davis & Co., P.C. to conduct an audit of Mesa State College (the College) for its Fiscal Year ended June 30, 2005 and 2004. Chadwick, Steinkirchner, Davis & 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. The related field work was conducted from June through September 2005.

The purpose and scope of the audit was to:

- Express an opinion on the financial statements of the College as of and for the year ended June 30, 2005 and 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, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the College for the year ended June 30, 2005.
- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed an unqualified opinion on the College's financial statements and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Financial Assistance Programs as of and for the years ended June 30, 2005 and 2004, as applicable.

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.

REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT

Year Ended June 30, 2005

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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, 2005, 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, management judgments and accounting estimates, audit adjustments, disagreements with management, and difficulties encountered in performing the audit. No delays or disagreements are reported. One audit adjustment for \$429,297 recording donated property received from Mesa State College Foundation was recorded.

Summary of Key Findings and Recommendations

There were no reported findings and recommendations resulting from the audit work completed for Fiscal Year 2005.

Summary of Progress in Implementing Prior Audit Recommendations

There were no recommendations for the year ended June 30, 2004.

Description of Mesa State College

The Board of Trustees of Mesa State College

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, establishes an independent governing board for Mesa State College. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of Mesa State College. For the years ended June 30, 2005 and 2004, the financial statements of Mesa State College are presented on a stand-alone basis as the State Colleges in Colorado system no longer exists. For the years ended on and prior to July 1, 2002, the financial statements of Mesa State College were included on a consolidated basis, which included Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, the Office of State Colleges, and the Western Colorado Graduate Center.

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

The Board has three goals:

- To provide outstanding teaching with diverse student populations.
- To furnish Board and campus leadership that connects educational issues with the future of Colorado and the communities served by Mesa State College.
- To assure the people of Colorado that human and financial resources are utilized most effectively.

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

Mesa State College

Mesa State College offers certificate programs, associate degrees, baccalaureate degrees, and selected graduate programs. Section 23-53-101, C.R.S., provides for Mesa State College to be a general baccalaureate and specialized graduate institution with moderately selective admission. Mesa State College is to offer liberal arts and sciences programs and a limited number of professional, technical, and graduate programs. Mesa State College is also to maintain a community college role and mission, including vocational and technical programs.

Section 23-53-115, C.R.S., authorizes Mesa State College to offer graduate programs in selected areas to ensure that persons living in Western Colorado have reliable and cost-effective access to necessary graduate courses and programs.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Resident Students	4,679.1	4,334.3	4,216.1
Non-Resident Students	<u>473.7</u>	<u>463.0</u>	<u>441.3</u>
Total Students	<u>5,152.8</u>	<u>4,797.3</u>	<u>4,657.4</u>
Faculty FTEs	242.0	240.8	243.7
Staff FTEs	<u>144.0</u>	<u>148.4</u>	<u>144.9</u>
Total Faculty and Staff FTEs	<u>386.0</u>	<u>389.2</u>	<u>388.6</u>

FINANCIAL STATEMENT SECTION

INDEPENDENT AUDITORS' REPORT

September 9, 2005

Members of the Legislative Audit Committee:

We have audited the accompanying Statements of Net Assets of Mesa State College, a blended component unit of the State of Colorado, as of June 30, 2005 and 2004, 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 Mesa State College Foundation, a discretely presented component unit of Mesa State College, as of June 30, 2005 and 2004, and the related Statements of Activities for the years then ended. These basic financial statements are the responsibility of the management of Mesa State College. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *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 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 respective financial position of Mesa State College and its discretely presented component unit as of June 30, 2005 and 2004, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of Mesa 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.

September 9, 2005

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

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

Chadwick, Stoutrenner, Davis & Co., P.C.

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

This section of Mesa State College's annual financial report presents management's discussion and analysis of the financial performance of the College during the years ended June 30, 2005 and 2004. In 2003, the Colorado General Assembly authorized the Mesa State College Board of Trustees and the College was granted independence. The former State College System was comprised of Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, the Western Colorado Graduate Center and the Office of State Colleges (governing board staff). Additional information is provided in the notes accompanying the basic financial statements. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

Using the 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". In November 1999, GASB issued Statement No. 35 "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" which amended Statement No. 34 to include public colleges and universities. Several significant changes in accounting and financial reporting standards were required such as recording depreciation on capital assets, allocating summer session revenues and expenses between Fiscal Years, presenting financial statements from an entity-wide perspective, and producing cash flow statements.

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

Component Units

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 Mesa State College Foundation meets GASB Statement No. 39 criteria for inclusion in the College's financial statements. The Foundation had net assets of \$9.0 million and \$7.1 million as of June 30, 2005 and 2004, respectively, and total support and revenue of \$3.3 million and \$1.6 million for Fiscal Year 2005 and Fiscal Year 2004, respectively. Typically, discretely presented information is shown in a separate column on the same page as the information of the reporting entity. However, if a component unit uses a different financial reporting model (i.e., FASB Non-Profit) then GASB 39 states that the information "... need not be presented on the same page as the primary government, but may be presented on separate pages."

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

For Colorado institutions of higher education, either of these presentation options is acceptable if the component unit uses a different reporting model. Component Unit reporting must include a Statement of Net Assets (or Financial Position) and a Statement of Revenues, Expenses, and Changes in Net Assets (or Statement of Activities). A Statement of Cash Flows is not required.

For the year ended June 30, 2005, Mesa State College, using GASB 39 criteria, has identified the Mesa State College Foundation as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages immediately following the basic financial statements as allowed by GASB 39.

The Mesa State College Foundation is a separate non-profit corporation under Internal Revenue Code Section 501 (c) (3) formed to provide financial assistance to Mesa State College students and to otherwise assist Mesa State College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the Mesa State College Board of Trustees. The Foundation's records are maintained separately from the College.

The Foundation transferred real property of \$429,297 (2005) and \$2,783,694 (2004) to the College to assist with the College's expansion efforts.

Financial Highlights

- Mesa State College's financial position improved during the Fiscal Year ended June 30, 2005 as evidenced by a \$3.7 million increase in net assets; net assets were \$63.0 million at June 30, 2005 and \$59.3 million at June 30, 2004.
- Mesa State College's current assets of \$17.9 million (2005) and \$12.8 million (2004) were sufficient to cover current liabilities of \$5.1 million (2005) and \$4.9 million (2004). The current ratio (current assets/current liabilities) of 3.51 (2005) and 2.61 (2004) demonstrates the liquidity of assets and the relative availability of working capital to fund current operations.
- The financial reporting model required by GASB classifies state appropriations as non-operating revenues. This classification produced operating deficits of \$12.3 million (2005) and \$14.7 million (2004). When all revenues and expenditures are considered, the College had an increase in net assets of \$3.7 million (2005) and \$4.7 million (2004).
- Mesa State College was part of the State Colleges' system during 2003. HB 03-1093 authorized independent governance for Mesa State College effective July 1, 2003. Since the State Colleges system no longer exists, Mesa State College's financials are presented on a stand-alone basis for 2005 and 2004.

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

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) are one indicator of Mesa State College's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

**Mesa State College
Condensed Statement of Net Assets
As of June 30,**

	2005	2004	2003
Assets			
Current Assets	\$ 17,851,467	\$ 12,831,245	\$ 13,720,575
Non-Current Assets	<u>63,232,289</u>	<u>64,910,825</u>	<u>60,006,498</u>
Total Assets	\$ 81,083,756	\$ 77,742,070	\$ 73,727,073
Liabilities			
Current Liabilities	\$ 5,116,139	\$ 4,915,558	\$ 4,816,444
Non-Current Liabilities	<u>12,926,836</u>	<u>13,533,804</u>	<u>14,316,231</u>
Total Liabilities	18,042,975	\$ 18,449,362	\$ 19,132,675
Net Assets			
Invested in Capital Assets	\$ 48,386,695	\$ 49,257,673	\$ 44,677,601
Restricted	9,326,878	8,617,884	9,303,364
Unrestricted	<u>5,327,208</u>	<u>1,417,151</u>	<u>613,433</u>
Total Net Assets	<u>\$ 63,040,781</u>	<u>\$ 59,292,708</u>	<u>\$ 54,594,398</u>

At June 30, 2005, Mesa State College's total net assets were \$63.0 million compared to \$59.3 million at June 30, 2004. Capital assets (net of related debt) is the largest asset category with \$48.4 million (2005) and \$49.3 million (2004), which includes land, buildings, equipment, library holdings, and construction in process. The capital asset amounts are net of accumulated depreciation of \$31.8 million (2005) and \$28.4 million (2004). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In Fiscal Year 2005, Mesa State College's current assets of \$17.9 million were sufficient to cover current liabilities of \$5.1 million (producing a current ratio of 3.51.) This compares to Fiscal Year 2004 with current assets of \$12.8 million and current liabilities of \$4.9 million, which produced a current ratio of 2.61. Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer,

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

and highly liquid investments with maturities of three months or less) comprised approximately \$16.6 million (2005) and \$10.6 million (2004) in assets per the Statement of Net Assets.

Bonds payable totaled \$12.8 million (2005) \$13.4 million (2004) and represents 71% (2005) and 73% (2004) of Mesa State College's total liabilities of \$18.0 million (2005) and \$18.5 million (2004). The current portion of the bonds payable liability totals \$610,000 (2005) and \$595,000 (2004).

Mesa State College's financial position improved during the Fiscal Year as evidenced by the increase in net assets of \$3.7 million (2005) and \$4.7 million (2004) (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$63.0. million (2004) and \$59.3 million (2004.) Of the total net assets, \$48.4 million (2005) and \$49.3 million (2004) is invested in capital assets net of related debt, a total of \$9.3 million (2005) and \$8.6 million (2004) is restricted for specific purposes, and \$5.3 million (2005) and \$1.4 million (2004) is unrestricted and available for use at the discretion of the Board of Trustees.

Statement of Revenues, Expenses and Changes in Net Assets

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

Tuition and fee revenues accounted for \$10.0 million of the \$31.3 million in operating revenues (2005) and \$7.8 million of the \$28.7 million (2004). The tuition and fee amount is net of scholarship allowances of \$6.7 million (2005) and \$6.6 million (2004). 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.

Operating expenses totaled \$43.6 million (2005) and \$43.4 million (2004). Of that total, \$15.4 million was for instruction in Fiscal Year 2005 and \$15.5 million in Fiscal Year 2004, \$11.8 million for auxiliary enterprises in Fiscal Year 2005 and \$11.7 million in Fiscal Year 2004, \$2.7 million for student services in Fiscal Year 2005 and \$2.6 million in Fiscal Year 2004, \$1.5 million for institutional support in Fiscal Year 2005 and \$1.6 million in Fiscal Year 2004, and \$2.6 million for academic support in Fiscal Year 2005 and \$2.9 million in Fiscal Year 2004. Operating expense for Research and Public Service totaled \$1.1 million in Fiscal Year 2005 and \$557 thousand in Fiscal Year 2004.

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

Because the financial reporting standard classifies state appropriations as non-operating revenues, Mesa State College's dependency on state appropriations produced an operating deficit of \$12.3 million in Fiscal Year 2005 and \$14.7 million in Fiscal Year 2004.

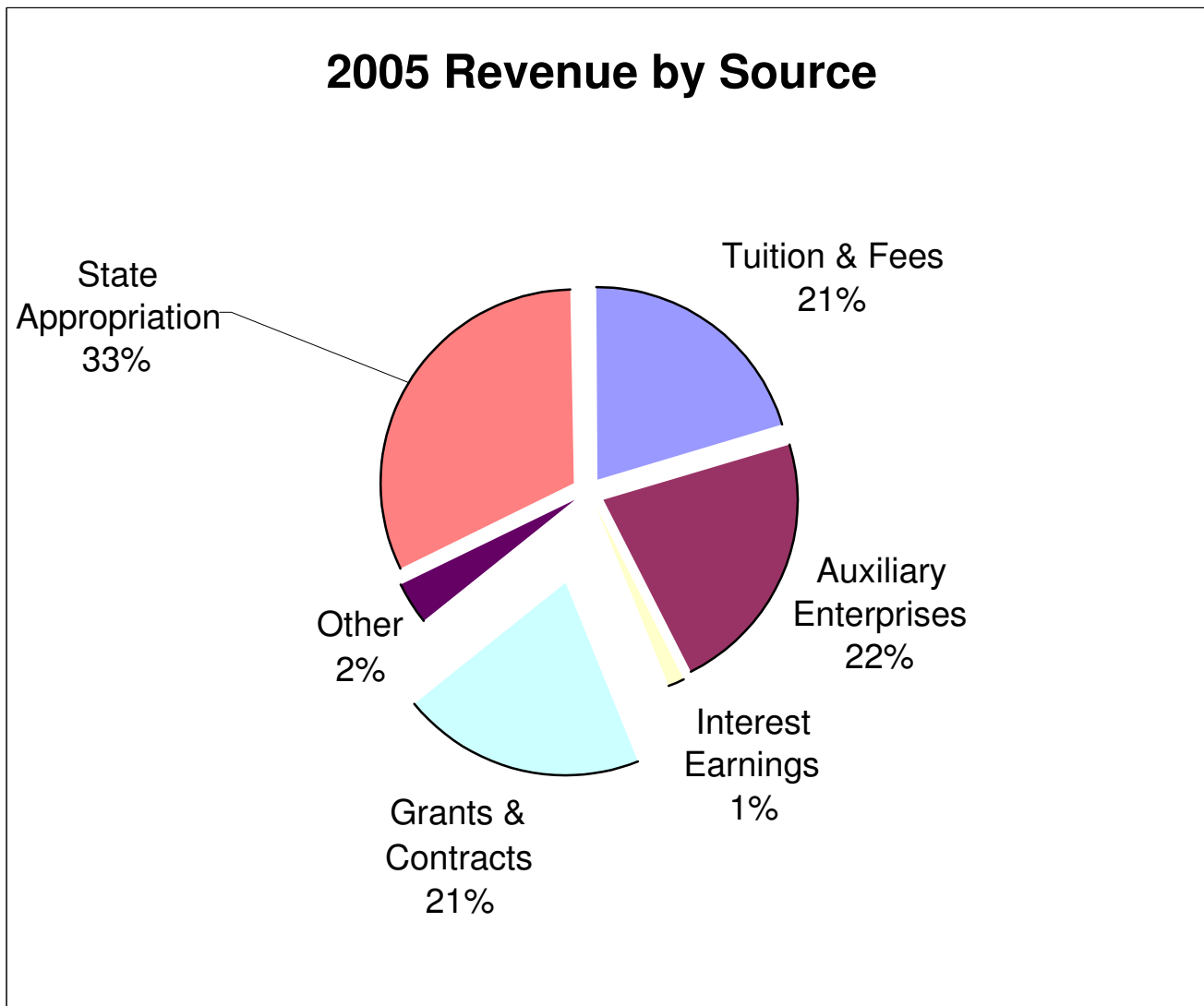
**Condensed Statement of Revenues Expenses and Changes in Net Assets
Years Ended June 30,**

	<u>FY2005</u>	<u>FY2004</u>	<u>FY2003</u>
Operating Revenues:			
Tuition and Fees (net)	\$ 10,031,948	\$ 7,826,106	\$ 7,928,148
Grants and Contracts	10,001,131	9,835,672	6,479,208
Auxiliary Enterprises (net)	10,591,715	10,368,745	8,587,680
Other	<u>686,915</u>	<u>624,461</u>	<u>369,547</u>
Total Operating Revenues	\$ 31,311,709	\$ 28,654,984	\$ 23,364,583
Operating Expenses:	<u>\$ 43,617,907</u>	<u>\$ 43,368,189</u>	<u>\$ 41,260,731</u>
Net Operating (Loss)	\$ (12,306,198)	\$ (14,713,205)	\$ (17,896,148)
Non-Operating Revenues (Expenses):			
State Appropriations	\$ 15,775,165	\$ 15,775,165	\$ 17,174,370
Interest Income	607,548	336,645	660,648
Other Non-Operating Income (Expense)	<u>(254,642)</u>	<u>2,954,297</u>	<u>(174,704)</u>
	\$ 16,128,071	\$ 19,066,107	\$ 17,660,314
Income (Loss) Before Other Revenues Expenses Gains or Losses	<u>\$ 3,821,873</u>	<u>\$ 4,352,902</u>	<u>\$ (235,834)</u>
State Appropriations Capital	\$ 21,222	\$ 345,409	\$ 1,928,792
Other	<u>(95,022)</u>	<u>--</u>	<u>958,784</u>
Increase (Decrease) in Net Assets	<u>\$ 3,748,073</u>	<u>\$ 4,698,311</u>	<u>\$ 2,651,742</u>
Net Assets:			
Net Assets Beginning of Year	<u>\$ 59,292,708</u>	<u>\$ 54,594,397</u>	<u>\$ 51,942,655</u>
Nets Assets End of Year	<u>\$ 63,040,781</u>	<u>\$ 59,292,708</u>	<u>\$ 54,594,397</u>

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

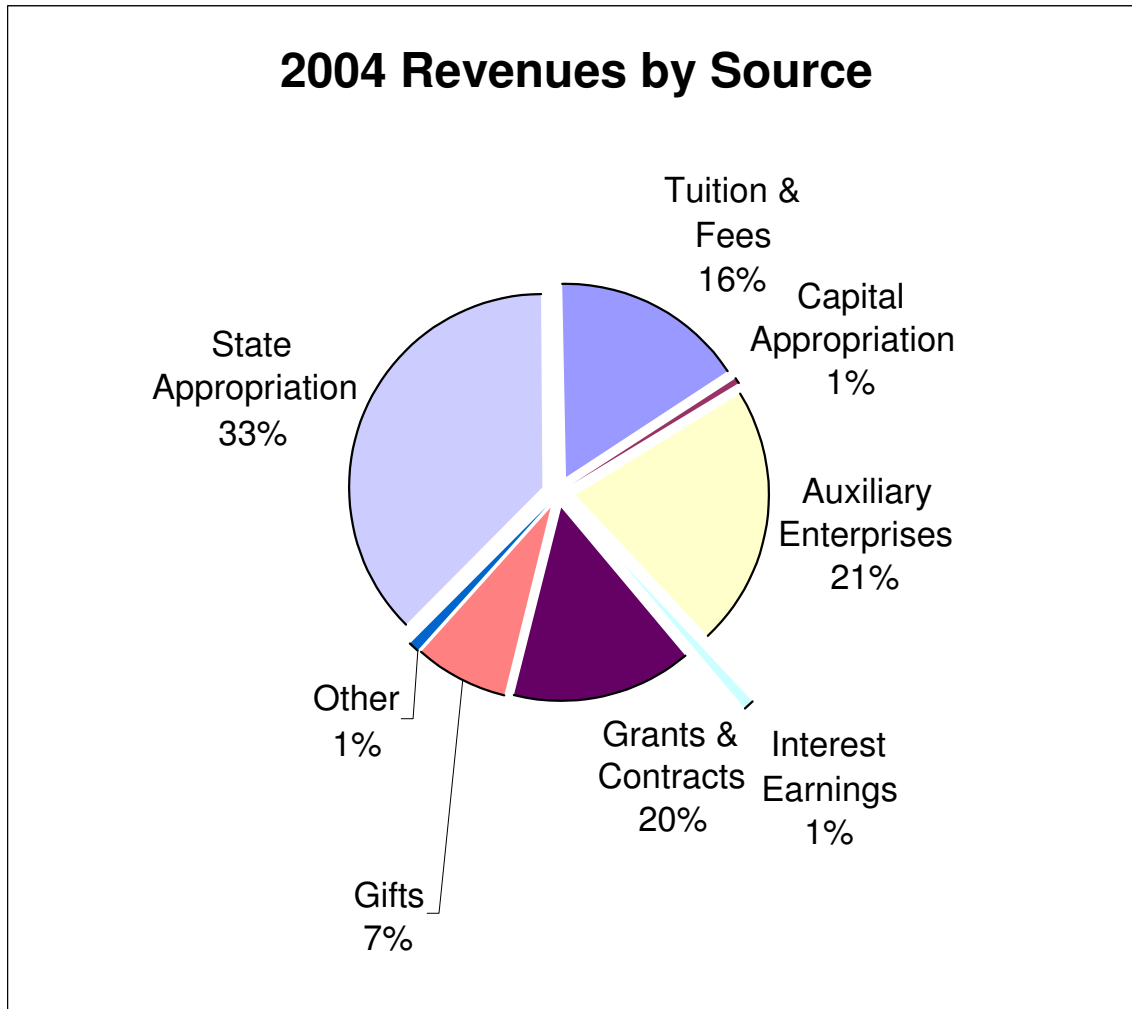
Years Ended June 30, 2005 and 2004

Below is a graphic illustration of total revenues by source for Mesa State College. It reflects the College's dependence on State Appropriations which account for approximately 33% (2005) and 33% (2004) of total revenues. Each major revenue component is displayed relative to its proportionate share of total revenues. Tuition and Fee revenues are shown net of scholarship allowance of \$6.7 million (2005) and \$6.6 million (2004).



MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004



MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, and capital financing and related investing activities. It also helps statement users assess the College's ability to generate cash flows to meet financial obligations.

**Mesa State College
Condensed Statement of Cash Flows
Years Ended June 30,**

	2005	2004	2003
Net Cash Provided (Used) by:			
Operating Activities	\$ (9,752,502)	\$ (11,608,753)	\$ (12,535,545)
Non-Capital Financing Activities	16,313,103	16,080,762	18,760,593
Capital and Related Financing Activities	(3,997,372)	(2,938,012)	563,925
Investing Activities	607,548	334,996	641,395
Net Increase (Decrease) in Cash	3,170,777	1,868,993	7,430,368
Cash and Equivalents:			
Beginning of Year	13,385,705	11,516,712	4,086,347
End of Year	\$ 16,556,482	\$ 13,385,705	\$ 11,516,715

Mesa State College's overall liquidity improved during the Fiscal Year with an increase in cash and cash equivalents of nearly \$3.2 million. The net cash outflow from operating activities was \$9.2 million (2005) and \$11.6 million (2004). Major sources of cash included tuition and fees of \$17.1 million (2005) and \$15.3 million (2004); contracts and grants of \$10.0 million (2005) and \$10.1 million (2004); and auxiliary sales and services of \$10.3 million (2005) and \$9.5 (2004) in auxiliary sales and services. Primary uses of funds included payments to or for employees of \$26.1 million (2005) and \$25.2 million (2004); payments to suppliers of \$12.4 million (2005) and \$12.2 million (2004); and scholarships disbursed of \$8.9 million (2005) and \$9.2 million (2004).

Financing Activities

In March of 2003, Mesa State College took advantage of the favorable bond market created by 40 year lows in interest rates and advance refunded the College's outstanding Series 1994 and Series 1996 bonds by issuing new 2002 Series A & B bonds. The College also increased borrowing to accelerate planned improvements/renovations to student housing. The new debt issue totaled \$15.2 million with the proceeds first applied to an escrow account for retirement of the now defeased Series 1994 and Series 1996 bonds with the remainder (\$2.5 million) deposited to a capital improvement construction fund. At June 30, 2005, \$535 thousand remained in the construction fund. The fund will be expended

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

in Fiscal Year 2006 for renovation/improvement of the Auxiliary Facilities System. On June 30, 2005 the amount of defeased debt still outstanding was \$4.0 million.

Economic Outlook

Enrollments on a student FTE basis at Mesa State College have increased annually for several years with undergraduate gains of 7.4% (2005) 3.16% (2004), and 4.67% (2003). Graduate enrollment dipped by 4.8 FTE in 2005 after increases of 1.30% (2004), 12.14% (2003), and 8.42% (2002).

The College hired an independent consulting firm to conduct a student housing market study in April 2005. The firm determined that there was an unmet demand for 383 beds in the Fall 2004 term. To help meet the need, the College issued \$20 million of auxiliary system revenue bonds in September 2005 to construct a 288 bed residence hall and parking facilities, and to expand and equip the College's auxiliary facilities system. The new residence hall is scheduled to be open for the Fall 2006 term.

College Opportunity Fund and Fee For Service Contract

In July of 2004, the College Opportunity Fund (COF) (C.R.S. 23-18-101 through 23-18-207) became law. The legislation established a new student-based process by funding individual students rather than institutions beginning with the Fall 2005 semester. The COF is funded by annual appropriation and establishes a stipend value that is available to eligible students, defined as in-state for tuition purposes, to help pay tuition costs. The stipend is paid directly to the institution on behalf of the student and is credited to a student's account. The value of the stipend for Fiscal Year 2006 is \$80 per eligible credit hour.

Also, state colleges and universities executed performance contracts with the Department of Higher Education for services that are not limited to, but may include:

- Basic skills courses
- Educational services associated with the "Postsecondary Enrollment Options Act"
- Educational services associated with the high school fast track program
- Educational services required of the Commission to meet its obligations under reciprocal agreements with other states.
- Educational services that may increase economic development opportunities in the State.
- Specialized educational services and professional degrees such as nursing, law, forestry and engineering.

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Years Ended June 30, 2005 and 2004

The value of Mesa State College's 2006 Fee for Service contract with the Department of Higher Education is \$7.1 million, and when combined with the projected stipend revenues of \$10.1 million, the College expects to receive \$17.2 million from the State in Fiscal Year 2006. This will replace General Fund monies appropriated to the College in past years for tuition and other educational services.

Enterprise Status

To qualify as a TABOR-exempt enterprise, a higher education institution needs to be a government-owned business authorized to issue its own revenue bonds and receiving under 10 percent of its revenue from grants from all Colorado state and local governments combined. On August 10, 2005, the Legislative Audit Committee approved designation of the College as a TABOR-exempt enterprise for Fiscal Year 2006. The designation will be reviewed at the end of each year to determine that the College continues to meet TABOR-exempt criteria. By achieving TABOR enterprise status, the College will have greater flexibility in terms of pricing, recruitment, retention and seeking additional revenue sources to further their respective roles and missions as educational providers.

Colorado Economic Recovery Act

On April 18, 2005 the Colorado General Assembly approved HB05-1194, which will be sent to the voters in November 2005 as Referendum C. Referendum C asks voters to temporarily override the current TABOR revenue formula that limits annual growth in State revenues to the rate of change in inflation plus population. With no increase to current tax rates, Referendum C would allow the State to keep and spend the revenue it collects under current rates for the next five years. The revenue retained by this change would be used to fund projects including higher education.

Management cannot currently predict what impact current limitations on State revenues and spending may have on fiscal operations of the College in future fiscal years.

**STATE OF COLORADO
MESA STATE COLLEGE
Statements of Net Assets
For The Years Ended:**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
ASSETS		
<u>Current Assets</u>		
Cash & Cash Equivalents (Note 2)	\$ 15,698,321	\$ 10,643,159
Student Accounts Receivable, Net	634,356	535,512
Other Accounts Receivable, Net	758,367	671,017
Student Loans, Net	228,806	459,135
Inventories	507,449	510,047
Prepaid Expenses	24,168	5,619
Other Current Assets	-	6,756
Total Current Assets	<u>\$ 17,851,467</u>	<u>\$ 12,831,245</u>
<u>Non-current Assets</u>		
Restricted Cash & Cash Equivalents (Note 2)	\$ 858,161	\$ 2,742,547
Student Loans, Net	811,739	576,490
Other Non-current Assets	323,662	343,609
Total Non-current Assets	<u>\$ 1,993,562</u>	<u>\$ 3,662,646</u>
Land	\$ 1,979,684	\$ 1,979,684
Construction in Progress	3,094,999	887,113
Total Non-depreciable Capital Assets	<u>\$ 5,074,683</u>	<u>\$ 2,866,797</u>
Depreciable Capital Assets, Net		
Land Improvements (less accumulated depreciation of \$741,732 and \$647,462)	\$ 536,539	\$ 614,808
Buildings & Improvements (less accumulated depreciation of \$20,024,246 and \$18,171,419)	49,096,712	50,259,660
Furniture and Equipment (less accumulated depreciation of \$5,759,005 and \$4,740,632)	3,010,730	3,812,181
Library Materials (less accumulated depreciation of \$5,293,446 and \$4,861,008)	3,520,063	3,694,733
Total Depreciable Capital Assets, Net	<u>\$ 56,164,044</u>	<u>\$ 58,381,382</u>
Total Non-current Assets	<u>\$ 63,232,289</u>	<u>\$ 64,910,825</u>
TOTAL ASSETS	<u>\$ 81,083,756</u>	<u>\$ 77,742,070</u>

continued

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

**STATE OF COLORADO
MESA STATE COLLEGE
Statements of Net Assets (continued)
For The Years Ended:**

June 30, 2005 June 30, 2004

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 321,792	\$ 246,993
Accrued Liabilities	2,851,624	3,179,843
Deferred Revenues	763,101	310,481
Deposits Held For Others	220,416	162,363
Student Deposits	228,777	214,387
Bonds Payable, Current Portion	610,000	595,000
Capital Leases Payable, Current Portion	15,226	73,199
Compensated Absence Liability, Current Portion	105,203	133,292
Total Current Liabilities	<u>\$ 5,116,139</u>	<u>\$ 4,915,558</u>

Non-current Liabilities

Bonds Payable (net of \$569,524 and \$526,804 unamortized premium/gain) Note 5	\$ 12,185,477	\$ 12,838,196
Capital Leases Payable	15,911	49,658
Other Long Term Liabilities	50,000	50,000
Compensated Absence	675,448	595,950
Total Non-current Liabilities	<u>\$ 12,926,836</u>	<u>\$ 13,533,804</u>
Total Liabilities	<u>\$ 18,042,975</u>	<u>\$ 18,449,362</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 48,386,695	\$ 49,257,673
Restricted For:		
Non-expendable Endowments		
Expendable Purposes		
Endowments		
Loans	1,159,352	1,153,871
Capital Projects	533,161	1,683,900
Other Purposes	7,634,365	5,780,113
Unrestricted	5,327,208	1,417,151
Total Net Assets	<u>\$ 63,040,781</u>	<u>\$ 59,292,708</u>
Total Liabilities and Net Assets	<u>\$ 81,083,756</u>	<u>\$ 77,742,070</u>

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

MESA STATE COLLEGE FOUNDATION
GASB 39 COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30,

	2005	2004
ASSETS		
Cash and cash equivalents	\$ 1,263,938	\$ 916,036
Investments, at fair value	6,307,580	5,893,222
Unconditional promises to give	326,623	100,124
Due From Mesa State College	50,000	50,000
Investments, at cost	7	15,915
Property held for sale	1,005,000	585,000
Property and equipment, net of depreciation	570,655	765,788
	\$ 9,523,803	\$ 8,326,085
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 21,672	\$ 16,269
Accrued liabilities	-	5,507
Deposits Held For Others	93,437	356,654
Due to Mesa State College	-	258,013
Line of credit	240,000	250,000
Notes payable	-	165,000
Trust annuity payable	132,884	145,617
Deferred gifts payable	27,915	27,915
	515,908	1,224,975
Unrestricted	137,918	1,049,919
Temporarily restricted	2,022,993	633,414
Permanently restricted	6,846,984	5,417,777
	9,007,895	7,101,110
	\$ 9,523,803	\$ 8,326,085

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

**STATE OF COLORADO
MESA STATE COLLEGE
Statements of Revenues, Expenses, and Changes
in Net Assets
For The Years Ended:**

June 30, 2005 June 30, 2004

REVENUES

Operating Revenues:

Tuition and Fees (including \$1,462,081 (2005) and \$1,454,691(2004) pledged for bonds and net of scholarship allowances of \$6,698,504 (2005) and \$6,611,512 (2004))	\$ 10,031,948	\$ 7,826,106
Federal, State, Private Grants and Contracts	10,001,131	9,835,672
Gifts	513,837	300,022
Auxiliary Enterprises (including \$10,343,914 (2005) and \$8,775,341 (2004) pledged for bonds)	10,591,715	10,368,745
Other Operating Revenues (including \$3,000 (2005) and \$1,106 (2004) pledged for bonds)	173,078	324,439
Total Operating Revenues	<u>\$ 31,311,709</u>	<u>\$ 28,654,984</u>

EXPENSES

Operating Expenses:

Instruction	\$ 15,403,540	\$ 15,485,952
Research	611,494	449,222
Public Service	495,298	107,730
Academic Support	2,591,873	2,901,260
Student Services	2,706,650	2,599,819
Institutional Support	1,454,551	1,631,922
Operation and Maintenance of Plant	2,898,109	3,192,736
Scholarships and Fellowships - net of allowance of \$6,698,504 (2005) and \$6,611,512 (2004)	2,250,097	2,578,864
Auxiliary Enterprises	11,788,378	11,697,205
Depreciation	3,417,917	2,723,479
Total Operating Expenses	<u>\$ 43,617,907</u>	<u>\$ 43,368,189</u>
Operating Income (Loss)	<u>\$ (12,306,198)</u>	<u>\$ (14,713,205)</u>

NON-OPERATING REVENUES (EXPENSES)

State Appropriations	\$ 15,775,165	\$ 15,775,165
Gifts	774,423	3,596,316
Investment and Interest Income (including \$333,118 (2005) and \$278,027 (2004) pledged to bonds)	607,548	336,645
Interest Expense on Capital Debt	(520,729)	(536,981)
Other Non-operating Revenues (Expenses)	(508,336)	(105,038)
Net Non-operating Revenues (Expenses)	<u>\$ 16,128,071</u>	<u>\$ 19,066,107</u>
Income (Loss) Before Other Revenues or Expenses	<u>\$ 3,821,873</u>	<u>\$ 4,352,902</u>

Other Revenues, Expenses, Gains, Losses, or Transfers

State Appropriations, Capital	\$ 21,222	\$ 345,409
Gain or (Loss) on Disposal of Assets		
Transfers (To) From Governing Boards or Other Institutions	(95,022)	-
Increase (Decrease) in Net Assets	<u>\$ 3,748,073</u>	<u>\$ 4,698,311</u>

NET ASSETS

Net Assets - Beginning of Year	<u>\$ 59,292,708</u>	<u>\$ 54,594,397</u>
Net Assets - End of Year	<u>\$ 63,040,781</u>	<u>\$ 59,292,708</u>

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

MESA STATE COLLEGE FOUNDATION
GASB 39 COMPONENT UNIT
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT								
Contributions	\$ 196,871	\$ 1,224,533	\$ 1,228,449	\$ 2,649,853	\$ 6,826	\$ 731,207	\$ 234,639	\$ 972,672
Investment income (loss)	88,443	69,016	76,253	233,712	37,756	116,039	13,517	167,312
Net unrealized gains on investments	70,055	40,605	63,184	173,844	288,681	12,492	-	301,173
Administrative fee	117,393	-	-	117,393	73,076	-	-	73,076
Rental income, net of expenses of \$51,171 and \$73,694	-	39,642	-	39,642	-	50,799	-	50,799
Special events, net of expenses of \$34,786 and \$67,269	46,974	860	-	47,834	67,743	(893)	-	66,850
Loss on sale of property	(2,368)	-	-	(2,368)	-	-	-	-
Net assets released from restrictions:	1,006,952	(1,006,952)	-	-	3,726,990	(3,726,990)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	\$ 1,524,320	\$ 367,704	\$ 1,367,886	\$ 3,259,910	\$ 4,201,072	\$ (2,817,346)	\$ 248,156	\$ 1,631,882
EXPENSES								
Program services	\$ 990,582	\$ -	\$ -	\$ 990,582	\$ 3,726,990	\$ -	\$ -	\$ 3,726,990
Supporting services:								
Management and general	311,668	-	-	311,668	304,441	-	-	304,441
Fundraising	33,811	-	-	33,811	24,880	-	-	24,880
TOTAL EXPENSES	1,336,061	-	-	1,336,061	4,056,311	-	-	4,056,311
-								
CHANGE IN NET ASSETS BEFORE TRANSFERS	188,259	367,704	1,367,886	1,923,849	144,761	(2,817,346)	248,156	(2,424,429)
Transfers from liabilities	(15,708)	(1,356)	-	(17,064)	-	(69,950)	(2,996)	(72,946)
Transfers in equity	(1,084,552)	1,023,231	61,321	-	220,328	(231,316)	10,988	-
CHANGE IN NET ASSETS	(912,001)	1,389,579	1,429,207	1,906,785	365,089	(3,118,612)	256,148	(2,497,375)
Net Assets, beginning of year	1,049,919	633,414	5,417,777	7,101,110	684,830	3,752,026	5,161,629	9,598,485
Net Assets, end of year	\$ 137,918	\$ 2,022,993	\$ 6,846,984	\$ 9,007,895	\$ 1,049,919	\$ 633,414	\$ 5,417,777	\$ 7,101,110

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

**STATE OF COLORADO
MESA STATE COLLEGE
Statements of Cash Flows
For The Years Ended:**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
<u>Cash Received:</u>		
Tuition & Fees	\$ 17,141,609	\$ 15,264,336
Sales of Service	4,643,814	4,119,469
Sales of Product	5,691,822	5,417,326
Grants Contracts and Gifts	10,010,615	10,111,447
Student Loans Collected	157,375	148,206
Other Operating Receipts	221,611	118,552
<u>Cash Payments:</u>		
Payments to or for Employees	(26,054,859)	(25,234,624)
Payments to Suppliers	(12,404,199)	(12,197,118)
Scholarships Disbursed	(8,938,950)	(9,190,376)
Student Loans Disbursed	(219,249)	(160,503)
Other Operating Payments	(2,091)	(5,468)
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,752,502)</u>	<u>\$ (11,608,753)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
State Appropriations, Non-Capital	\$ 15,775,165	\$ 15,775,165
Gifts/Grants for Other than Capital Purposes	513,837	314,277
Other Agency Inflows	17,246,993	16,501,298
Other Agency (Outflows)	(17,175,381)	(16,452,995)
Transfers from (to) Other Campuses, Board, or Institution	(47,511)	(56,983)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>\$ 16,313,103</u>	<u>\$ 16,080,762</u>
<u>CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES</u>		
State Appropriations, Capital	\$ 21,222	\$ 345,410
Acquisition and Construction of Capital Assets	(2,743,510)	(1,987,658)
Proceeds from Sale of Capital Assets	-	810
Principal Paid on Capital Debt	(686,681)	(698,984)
Interest on Capital Debt	(588,403)	(597,590)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>\$ (3,997,372)</u>	<u>\$ (2,938,012)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Investment Earnings (Interest/Dividends)	\$ 607,548	\$ 334,996
Net Cash Provided (Used) by Investing Activities	<u>607,548</u>	<u>334,996</u>
Net Increase (Decrease) in Cash & Cash Equivalents	3,170,777	1,868,993
Cash & Cash Equivalents - Beginning of the Year	13,385,705	11,516,712
Cash & Cash Equivalents - End of the Year	<u>\$ 16,556,482</u>	<u>\$ 13,385,705</u>

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

**STATE OF COLORADO
MESA STATE COLLEGE
Statements of Cash Flows (continued)
For The Years Ended:**

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	\$ (12,306,198)	\$ (14,713,205)
Adjustments to Reconcile:		
Depreciation Expense	3,417,917	2,723,479
Grants classified on the Statement of Revenues, Expenses, and Changes in		
Net Assets as operating revenues	(513,837)	(300,022)
Provision for Uncollectible Accounts	72,726	125,011
Decrease (Increase) in Assets	(253,088)	312,730
Increase (Decrease) in Liabilities	286,271	(24,454)
Other Reconciling Items	(456,293)	267,706
Net Cash Provided (Used) by Operating Activities	<u>\$ (9,752,502)</u>	<u>\$ (11,608,755)</u>
 Supplemental Disclosure of Noncash Investing and Financing Activities:		
Donation of capital assets received from Mesa State College Foundation	\$ 429,297	\$ 2,942,739
Donation of capital assets received from City of Grand Junction	193,000	-

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial activities of Mesa State College (the College) for the fiscal year ended June 30, 2005 and 2004. The College is an institution of higher education of the State of Colorado. Thus, 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, Department of Personnel and Administration (DPA), Denver Colorado.

Applying GASB 39 criteria, the College has identified Mesa State College Foundation as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages as allowed by GASB 39.

The Mesa State College Foundation is a separate non-profit corporation under Internal Revenue Code Section 501 (c) (3) formed to provide financial assistance to Mesa State College students and to otherwise assist Mesa State College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the Mesa State College Board of Trustees. The Foundation's financial records are maintained separately from the College.

Basis of Accounting

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

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the state treasurer, including unrealized gains and losses, and all highly liquid investments with an original maturity of three months or less, except those deposits and investments representing endowments. All endowment investments are considered long-term investments regardless of the liquidity or maturity of those investments.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Investments are stated at fair value.

Inventories

Inventories are stated at the lower of cost or market. The central stores inventory consists primarily of office supplies and other consumable goods. It is valued using the average cost method. The bookstore inventory includes instructional materials and soft goods held for resale. It is valued using the first-in-first-out method.

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 updated 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 \$50,000.

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. The College capitalizes assets whose cost exceeds \$5,000.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a half-year convention for asset additions. Estimated useful lives range from 25-40 years for buildings, 10-20 years for improvements other than buildings, and 3-20 years for equipment, collections and library materials.

Summer Sessions

Summer session tuition and fees and related direct academic expenditures are recognized in the year they are earned and incurred.

Classification of Revenue

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

- Operating revenues – Revenues generally resulting from providing goods and services for instruction, public service or related support services to an individual or entity separate from the College.
- Non-operating revenues – Non-operating revenues are those revenues that do not meet the definition of operating revenues. Non-operating revenues include state appropriations for operations, gifts, investment income and insurance reimbursements.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 \$6,698,504 (2005) and \$6,611,512 (2004).

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.

Changes in Accounting Principles

GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14" was applied for the first time during the year ended June 30, 2004. As a result, the Mesa State College Foundation is now presented as a component unit of the College.

Financial Statement Presentation - Net Assets

Net assets are classified as either Unrestricted (formally unreserved/undesignated fund balance) or Restricted. Restricted net assets are further classified as expendable or non-expendable, i.e. permanent endowments. As of June 30, 2005, the College had no non-expendable restricted assets. Restricted expendable net assets are classified as expendable for loans, debt service, capital projects and other purposes. For the College, restricted net assets expendable for other purposes includes net assets (fund balances) of its bonded auxiliaries. Colorado Revised Statutes, CRS 23-05-103 specifically restricts the residual funds of the bonded auxiliaries, in excess of those required for operations and current year debt service, for the direct benefit of the bonded auxiliaries. At June 30, the restricted net assets of the bonded auxiliary operations totaled \$1,124,559 (2005) and \$1,889,310 (2004).

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.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

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

Mesa State 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 and 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, 2005. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized losses included in "Investment Income" reflect only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

At June 30 the College had \$16,691,151 (2005) and \$10,934,794 (2004), including unrealized losses of \$39,470 in 2005 and unrealized gains of \$63,741 in 2004, 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>2005</u>	<u>2004</u>
Cash on hand	\$ 20,700	\$ 19,000
Cash in checking accounts at bank	<u>844,631</u>	<u>2,431,912</u>
Total cash	<u>\$ 865,331</u>	<u>\$ 2,450,912</u>

The carrying amount of the College's cash on deposit was \$865,331 (2005) and \$2,450,912 (2004) and the bank balance was \$1,617,418 (2005) and \$2,616,941 (2004). Of this bank balance, \$1,617,418 (2005) and \$2,616,941 (2004) was covered by federal note depository insurance or by collateral held by the institution's agent in the institution's name. The difference between the College's cash on hand and the amount reported by the various banks was \$752,087 (2005) and \$166,029 (2004) in the form of outstanding checks. Of the total cash on deposit with banks, \$533,161 (2005) and \$1,683,900 (2004) was in an account restricted for capital construction and therefore unavailable for general operations. Other amounts presented as restricted cash relate to reserve and replacement and debt service requirements.

At June 30, 2005 and 2004, the College had no investments.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 3 – ACCOUNTS AND LOANS RECEIVABLE

The following schedule shows the status of accounts and loans receivable and related allowance for doubtful accounts at June 30, 2005:

	Total	Less Allowance for Doubtful Accounts	Net
<u>Entity Wide</u>			
Accounts Receivable	<u>\$ 3,144,268</u>	<u>\$ (711,000)</u>	<u>\$ 2,433,268</u>

The following schedule shows the status of accounts and loans receivable and related allowance for doubtful accounts at June 30, 2004:

	Total	Less Allowance for Doubtful Accounts	Net
<u>Entity Wide</u>			
Accounts Receivable	<u>\$ 2,840,756</u>	<u>\$ (598,602)</u>	<u>\$ 2,242,154</u>

Receivables reported on the statement of net assets may be aggregations of various components, such as balances due to or from students, vendors, other governments, and employees.

NOTE 4 – CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2005

	Balance June 30, 2004	Additions/ Depreciation	Retirements CIP Transfers/ Depreciation	Balance June 30, 2005
Non-depreciable Capital Assets				
Land	\$ 1,979,684	\$ –	\$ –	\$ 1,979,684
Land Improvements	–	–	–	–
Construction in Progress	887,113	2,994,425	(786,539)	3,094,999
Total Non-depreciable Capital Assets	<u>\$ 2,866,797</u>	<u>\$ 2,994,425</u>	<u>\$ (786,539)</u>	<u>\$ 5,074,683</u>
Depreciable Capital Assets				
Land Improvements	\$ 1,262,270	\$ –	\$ 16,001	\$ 1,278,271
Buildings	68,431,079	–	689,879	69,120,958
Equipment	8,552,813	136,264	80,659	8,769,736
Library Materials	8,555,741	277,776	(20,009)	8,813,508
Total Depreciable Capital Assets	<u>\$ 86,801,903</u>	<u>\$ 414,040</u>	<u>\$ 766,530</u>	<u>\$ 87,982,473</u>
Less: Accumulated Depreciation				
Land Improvements	(647,462)	(94,270)	–	(741,732)
Buildings	(18,171,419)	(1,852,827)	–	(20,024,246)
Equipment	(4,740,632)	(1,018,373)	–	(5,759,005)
Library Materials	(4,861,008)	(452,447)	20,009	(5,293,446)
Total Accumulated Depreciation	<u>\$(28,420,521)</u>	<u>\$(3,417,917)</u>	<u>\$ 20,009</u>	<u>\$(31,818,429)</u>
Net Depreciable Capital Assets	<u>\$ 58,381,382</u>	<u>\$(3,003,877)</u>	<u>\$ 786,539</u>	<u>\$ 56,164,044</u>
Capital Assets, Net	<u>\$ 61,248,179</u>	<u>\$ (9,452)</u>	<u>\$ –</u>	<u>\$ 61,238,727</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 4 – CAPITAL ASSETS

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

	Balance June 30, 2003	Additions/ Depreciation	Retirements CIP Transfers/ Depreciation	Balance June 30, 2004
Non-depreciable Capital Assets				
Land	\$ 1,157,257	\$ 822,427	\$ –	\$ 1,979,684
Land Improvements	–	–	–	–
Construction in Progress	<u>7,323,534</u>	<u>479,844</u>	<u>(6,916,265)</u>	<u>887,113</u>
Total Non-depreciable Capital Assets	<u>\$ 8,480,791</u>	<u>\$ 1,302,271</u>	<u>\$ (6,916,265)</u>	<u>\$ 2,866,797</u>
Depreciable Capital Assets				
Land Improvements	\$ 1,262,270	\$ –	\$ –	\$ 1,262,270
Buildings	58,455,786	3,059,028	6,916,265	68,431,079
Equipment	8,290,302	262,511	–	8,552,813
Library Materials	<u>8,262,218</u>	<u>306,586</u>	<u>(13,063)</u>	<u>8,555,741</u>
Total Depreciable Capital Assets	76,270,576	3,628,125	6,903,202	86,801,903
Less: Accumulated Depreciation				
Land Improvements	\$ (590,994)	\$ (56,468)	\$ –	\$ (647,462)
Buildings	(16,527,648)	(1,643,771)	–	(18,171,419)
Equipment	(4,143,065)	(597,567)	–	(4,740,632)
Library Materials	<u>(4,448,397)</u>	<u>(425,674)</u>	<u>13,063</u>	<u>(4,861,008)</u>
Total Accumulated Depreciation	<u>(25,710,104)</u>	<u>(2,723,480)</u>	<u>13,063</u>	<u>(28,420,521)</u>
Net Depreciable Capital Assets	<u>\$ 50,560,472</u>	<u>\$ 904,645</u>	<u>\$ 6,916,265</u>	<u>\$ 58,381,382</u>
Capital Assets, Net	<u>\$ 59,041,263</u>	<u>\$ 2,206,916</u>	<u>\$ –</u>	<u>\$ 61,248,179</u>

NOTE 5 – LONG-TERM LIABILITIES

- Lease Obligations:

The College currently has a capital lease for piano lab computer equipment and pianos, through October 9, 2006, at which time the title will be transferred to the College. The lease can be terminated due to lack of funding with 30 days written notice, and the College has an option to purchase at any time during the lease. The College paid off a capital lease for phone system equipment on October 1, 2004 and paid off a capital lease for student ID equipment and an automated parking attendant machine on June 29, 2005. Title for equipment under both leases transferred to the College.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

The following is a schedule of future minimum lease payments as of June 30, 2005:

<u>Year Ending</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Total Payments		
2005	\$ –	\$ 78,196
2006	16,628	36,546
2007	<u>16,628</u>	<u>16,628</u>
Total principal and interest payments	33,256	131,370
Less amount representing interest	<u>(2,119)</u>	<u>(8,513)</u>
Total Principal Outstanding	31,137	122,857
Less Current Portion	<u>(15,226)</u>	<u>(73,199)</u>
Net Long Term Principal	<u>\$ 15,911</u>	<u>\$ 49,658</u>

- Revenue Bonds Payable

The College advance refunded the outstanding Series 1994 and Series 1996 bonds in March 2003 by issuing the 2002 Series A & B listed below. The new debt issue totaled \$15,180,000 with the proceeds first applied to an escrow account for retirement of the now defeased Series 1994 and Series 1996 bonds with the remainder (\$2,500,000) deposited to a capital improvement construction fund. At June 30, 2005 \$530,000 remained in the construction fund. On June 30, 2005 the amount of defeased debt still outstanding was \$4,035,000.

Mesa Auxiliary Facilities Revenue Bonds, Series A & B 2002, require annual debt service payments ranging from \$745,500 to \$1,409,150, including interest at 1.34% to 4.57%. Final payments are due in May of 2022. The bonds are secured by a first lien on and pledge of certain net revenues of the Mesa Auxiliary Facilities System. A \$325,000 renewal and replacement reserve fund is maintained, as required by the bond resolution. Bonds maturing on or after May 15, 2014 are callable at 100% par value plus accrued interest at the discretion of the Board on or after May 15, 2014. Bonds maturing in 2020 and thereafter are subject to mandatory sinking fund redemption without premium.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

The following is a schedule of future minimum bond payments as of June 30, 2005.

Auxiliary Facilities System Revenue Bonds

<u>Year Ending June 30,</u>	<u>2002 Series A</u>	<u>2002 Series B</u>
2006	\$ 641,080	\$ 536,385
2007	637,050	536,385
2008	–	1,341,385
2009	–	1,342,065
2010	–	1,329,378
2011-2015	–	6,791,560
2016-2020	–	4,334,100
2021-2025	–	1,495,000
Subtotals	<u>1,278,130</u>	<u>17,706,258</u>
Less: Amount of Interest Included Above:	<u>(48,130)</u>	<u>(5,571,258)</u>
Total Principal Outstanding	1,230,000	12,135,000
Less Current Portion	<u>(610,000)</u>	–
Net Long Term Principal	\$ 620,000	\$ 12,135,000
Less: Unamortized Discount & Gain:	–	<u>(569,523)</u>
Bonds Payable Net	<u>\$ 620,000</u>	<u>\$ 11,565,477</u>

The following is a schedule of future minimum bond payments as of June 30, 2004.

Auxiliary Facilities System Revenue Bonds

<u>Year Ending June 30,</u>	<u>2002 Series A</u>	<u>2002 Series B</u>
2005	\$ 636,790	\$ 536,385
2006	641,080	536,385
2007	637,050	536,385
2008	–	1,341,385
2009	–	1,342,065
2010-2014	–	6,776,788
2015-2020	–	4,931,500
2021-2024	–	2,241,750
Subtotals	<u>1,914,920</u>	<u>18,242,643</u>
Less: Amount of Interest Included Above:	<u>(89,920)</u>	<u>(6,107,643)</u>
Total Principal Outstanding	1,825,000	12,135,000
Less Current Portion	<u>(595,000)</u>	–
Net Long Term Principal	\$ 1,230,000	\$ 12,135,000
Less: Unamortized Discount & Gain:	–	<u>(526,804)</u>
Bonds Payable Net	<u>\$ 1,230,000</u>	<u>\$ 11,608,196</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

- Other Long Term Liabilities

Under a memorandum of understanding between the College and the Mesa State College Foundation (the Foundation), the College is to grant and manage student loans made from designated Foundation funds. The College absorbs any associated costs in excess of loan interest collections, including loan write-offs and administrative expenses. Student loan fund assets at June 30, 2005, consisting primarily of loans receivable, are held by the College and represent a payable to the Foundation of \$50,000.

- 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 and/or retirement. The estimated costs of compensated absences for which employees are vested for the years ended June 30, 2005 and June 30, 2004, are estimated as \$780,651 (including the current portion of \$105,203 listed in note 6 below) and \$729,242 respectively. Expenses include an increase of \$51,409 (2005) and a decrease of \$81,339 (2004) for the estimated compensated absence liability.

NOTE 6 – SHORT-TERM LIABILITIES

Year-end payables were as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Accounts Payable, Vendors	\$ 321,792	\$ 246,993
Salaries and Benefits Payable	2,826,279	3,133,926
Capital Leases Payable Current Portion	15,226	73,199
Capital Bonds Payable Current Portion	610,000	595,000
Compensated Absences Current Portion	105,203	133,292
Other Payables	<u>25,345</u>	<u>45,917</u>
Total Payables	<u>\$ 3,903,845</u>	<u>\$ 4,228,327</u>

NOTE 7 – CONTINGENT LIABILITIES

Amounts expended under the terms of certain grants and contracts are subject to audit and possible adjustment by governmental agencies. In the opinion of college management, adjustments, if required, will not have a material impact on the accompanying financial statements.

The College, in the course of conducting business, is a party to various litigation and other claims. Although the final outcome of these legal actions cannot be determined at this time, management does not believe the ultimate resolution of these matters will have a significant adverse effect on the financial position of the College.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 8 – PENSION PLAN OBLIGATIONS

On September 10, 1993 the Board of Trustees adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff, under the authority of Senate Bill 92-127. The implementation was May 1, 1994. On that date, eligible employees were offered the choice of remaining in the Public Employees' Retirement Association of Colorado (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 of current service credit with PERA at the date of hire.

A. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

Plan Description. 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, defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). PERA was established by statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, as well as the other division's plans, is included in PERA's financial statements, which may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, CO 80203, or by calling PERA's Info Line at 1-800-759-PERA (7372) or Denver metro area 303-382-9550, or by visiting www.copera.org.

Plan members vest after five years of service and are eligible for 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. 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 (by PERA) as a percentage of highest salary (HAS). HAS is one-twelfth (1/12) of the average 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 (by PERA) to be permanently disabled. If a member dies before retirement, the member's eligible children under the age of 18 (23 if a full-time student) or the member's spouse are entitled to benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy. Most employees contribute 8 percent of their annual covered wages to an individual account in the plan. During the fiscal year ended June 30, 2005 the College contributed 10.15 percent of the employee's gross covered wages. Effective July 1, 2004, 1.02 percent of the total contribution was allocated to the Health Care Trust Fund. The annual gross 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 Service Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 8 – PENSION PLAN OBLIGATIONS - CONTINUED

The College's contributions to the three programs described above for the fiscal years ending June 30, 2005, 2004 and 2003 were \$846,152, \$862,049 and \$904,726. These contributions were equal to the required contributions for each year.

B. OPTIONAL RETIREMENT PLAN (ORP)

Plan Description. The ORP is a defined contribution pension plan with three vendors (fund sponsors), 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 percent of covered payroll. 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.

Several exempt employees of the College elected to continue as members with the Public Employees' Retirement Association of Colorado (PERA); the remainder participate in the ORP.

Funding Policy. The College's contributions to the ORP for fiscal years ended June 30, 2005, 2004, and 2003 were \$1,187,328, \$1,155,113, and \$1,124,175, respectively.

C. STUDENT RETIREMENT PLAN

Beginning in Fiscal Year 1993, in accordance with the provisions of CRS 24-54.6 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% contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan was \$419,453. Employee contributions were \$31,459 or 7.5% of covered payroll.

NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan that is entirely separate from the defined benefit plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer one or more 403b plans. Eligible PERA members who contribute to any of these plans receive the state match, when available.

In January 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board set the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of actuarially accrued plan liabilities. The condition was not met during Fiscal Year 2004-05.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

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 dependants 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 FY04-05, the premium subsidy was \$115 for those with 20 years of service credit (\$230 for members under 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

Funding Policy

The Health Care Trust Fund is maintained by employer contributions as explained in Footnote 8A above. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. 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, 2004, there were 39,668 enrollees in the plan.

Life Insurance

During Fiscal year 2004-05, PERA provided its members access to two group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life. Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected monthly by payroll deduction or from an automatic deduction from a retiree's annuity check.

Other Programs

Separate post-retirement health care and life insurance plans exist for the employees not eligible for the PERACare Plan System, but participation is small in comparison to the PERA plans for state employees. The state has no liability for any of these other post-retirement health care and life insurance plans.

NOTE 11 – COMPONENT UNITS

Beginning with financial statements issued for years ending on or after June 30, 2004, GASB Statement 39 requires the inclusion of certain organizations as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support to the primary government or its other component units. If a separate entity is determined (by GASB 39 criteria) to be a component unit, its financial information should be discretely presented within the financial statements of the reporting entity.

Typically, discretely presented information is shown in a separate column on the same page as the information of the reporting entity. However, if a component unit uses a different GAAP reporting model (i.e., FASB Non-Profit) then GASB 39 states that the information "... need not be presented on the same page as the primary government, but may be presented on separate pages."

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS - CONTINUED

For Colorado institutions of higher education, either of these presentation options is acceptable if the component unit uses a different reporting model. Component Unit reporting must include a Statement of Net Assets (or Financial Position) and a Statement of Revenues, Expenses, and Changes in Net Assets (or Statement of Activities). A Statement of Cash Flows is not required.

For the year ended June 30, 2005, the College, using GASB 39 criteria, has identified the following entity as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages as allowed by GASB 39.

MESA STATE COLLEGE FOUNDATION

The Mesa State College Foundation (the Foundation) is a separate non-profit corporation under Internal Revenue Code Section 501 (c) (3) formed to provide financial assistance to Mesa State College students and to otherwise assist the College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the College Board of Trustees. The Foundation's financial records are maintained separately from the College.

Under a memorandum of understanding between the College and the Foundation, the College is to grant and manage student loans made from designated Foundation funds. The College absorbs any associated costs in excess of loan interest collections, including loan write-offs and administrative expenses. Student loan fund assets at June 30, 2005, consisting primarily of loans receivable, are held by the College and represent a payable to the Foundation of \$50,000. The corresponding amount is shown as a receivable on the Foundation financial statements.

The MSC Foundation solicits and receives donations and other forms of support for the benefit of the College's intercollegiate athletic program as well as other programs and/or initiatives. The Foundation maintains an account on which the athletic administration can draw from to cover certain expenditures.

The MSC Foundation received donations to partially fund regular operations of various college departments. During FY2004 cash and in-kind donations totaled \$333,736 and were recorded as revenue and expense in the appropriate funds. The Foundation also funded a portion of the new Moss Performing Arts Center in the amount of \$278,608 during FY2004. The project was completed during FY04 and the appropriate balance sheet accounts and revenue accounts were used to record the transactions. These amounts are included as expense and or revenue on the Foundation financial statements.

During FY2005, the Foundation donated real property, including land and buildings, to the College valued at \$429,297 (donor value). The donation was recorded in the appropriate balance sheet and revenue account and included as non-operating gift revenue on the College's financial statements. The same amount is included as expense and or revenue on the Foundation's financial statements.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

MESA STATE COLLEGE FOUNDATION

During FY2005, the Foundation awarded \$365,097 in scholarship funds directly to MSC students. Since the funds were paid directly to students, the College did not record related revenue or expense. Accordingly, this amount is not included in the schedule of Student Financial Assistance provided in Note 12.

The following is an excerpt from the Foundation’s independent annual financial report. Note references for FY2004 follow those for FY2005.

FY 2005 NOTES:

FOUNDATION - INVESTMENTS – FY 2005

Investment return is summarized as follows:

	Cost	Fair Value	Excess of Fair Value Over Cost
Balance at end of year	\$ 5,973,154	\$ 6,307,580	\$ 334,426
Balance at beginning of year	5,732,640	5,893,222	<u>160,582</u>
Increase in unrealized appreciation			<u>\$ 173,844</u>
Interest and dividend income			\$ 227,144
Realized losses on investments			43,254
Trust fees			<u>(36,686)</u>
Total			<u>\$ 233,712</u>

Investments recorded at fair value are comprised of the following:

	Cost	Fair Value
Mutual Funds	\$ 1,001,566	\$ 982,630
Corporate Bonds and Notes	2,399,570	2,418,281
U.S. Government Securities and Agencies	546,087	542,280
Common Stock and other	<u>2,025,931</u>	<u>2,364,389</u>
	<u>\$ 5,973,154</u>	<u>\$ 6,307,580</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

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

	Carrying Value
Corporate stocks	\$ <u> 7</u>

FOUNDATION - PROMISES TO GIVE – FY 2005

A summary of the unconditional promises to give at June 30 and expected years of completion follows:

Receivable in less than one year	\$ 157,944
Receivable in one to five years	<u>253,515</u>
Total Unconditional Promises to Give	411,459
Less discounts to net present value	(48,545)
Less allowance for uncollectible promises receivable	<u>(36,291)</u>
Net Unconditional Promises to Give	<u>\$ 326,623</u>

FOUNDATION - PROPERTY AND EQUIPMENT –FY 2005

Property and equipment consist of the following:

	Estimated Useful life	Amount
Purchased property to be later donated to Mesa State College		
Depreciable property with rental income	20-30 years	\$ 550,581
Equipment	5-10 years	263,190
Memorial alcove	10 years	<u>7,400</u>
		821,171
Less accumulated depreciation		<u>(250,516)</u>
		<u>\$ 570,655</u>

No properties were transferred to the College in this year.

FOUNDATION – NOTES PAYABLE – FY 2005

As part of its capital campaign, the Foundation has purchased certain properties with promissory notes to the sellers. Following is a summary of those notes at June 30 and one other promissory note:

Promissory Note of \$240,000, due August 7, 2005, including interest at 6% secured by real property. The note allows borrowing up to \$250,000.	<u>\$ 240,000</u>
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**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION – SPLIT INTEREST AGREEMENT – FY 2005

The Foundation administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled \$111,660, with another \$27,915 being recorded as a liability for 20% of the total gift, which is to go to other organizations at the end of the trust's term. Assets held in the charitable remainder trust totaled \$346,602 at June 30, 2005 and are reported at fair value in the Foundation's Statement of Financial Position. On an annual basis, the Foundation will revalue the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$132,884 at June 30, 2005) is calculated using a discount rate of 5.2% and applicable mortality tables.

FY2004 NOTES:

FOUNDATION – INVESTMENTS – FY 2004

Investment return is summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
Balance at end of year	\$ 5,732,640	\$ 5,893,222	\$ 160,582
Balance at beginning of year	5,813,722	5,673,131	<u>140,591</u>
Increase in unrealized appreciation			<u>\$ 301,173</u>
Interest and dividend income			\$ 187,596
Realized gains on investments			11,287
Trust fees			<u>(31,571)</u>
Total			<u>\$ 167,312</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION – INVESTMENTS – FY 2004 – continued

Investments recorded at fair value are comprised of the following:

	Cost	Fair Value
Mutual Funds	\$ 718,315	\$ 628,210
Corporate Bonds and Notes	2,319,066	2,355,344
U.S. Government Securities and Agencies	594,794	590,178
Common Stock and other	<u>2,100,465</u>	<u>2,319,490</u>
	<u>\$ 5,732,640</u>	<u>\$ 5,893,222</u>

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

	Carrying Value
Partnership interests	\$ 15,908
Corporate Stock	<u>7</u>
	<u>\$ 15,915</u>

FOUNDATION - PROMISES TO GIVE - FY 2004

In 1996, the Foundation initiated a capital campaign soliciting funds to purchase property near the College to meet the College's growth demands. The Foundation donates the properties to the College when the College deems necessary.

Promises to give result from that campaign and are temporarily restricted for houses and lot purchases. The promises are generally for a five to ten year period payable in equal installments over that period. The majority of the promises come from businesses and citizens located in Mesa County, Colorado. In the fiscal year ended June 30, 2000, the Foundation began a new capital campaign to replace the original promises that were completed in 2001.

A summary of the unconditional promises to give at June 30 and expected years of completion follows:

Receivable in less than one year	\$ 82,545
Receivable in one to five years	110,595
Receivable in more than five years	<u>6,200</u>
Total Unconditional Promises to Give	199,340
Less discounts to net present value	(81,077)
Less allowance for uncollectible promises receivable	<u>(18,139)</u>
Net Unconditional Promises to Give	<u>\$ 100,124</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

The Foundation has a conditional promise to give from the City of Grand Junction (the City) whereby the City will match capital campaign contributions. The City has agreed to match contributions up to \$250,000 annually for ten years expiring in 2005 for a total contribution of \$2,500,000. The agreement specifies that these funds will be used to purchase property to be later donated to the College.

FOUNDATION - PROPERTY AND EQUIPMENT - FY 2004

Property and equipment consist of the following:

	Estimated useful life	Amount
Purchased property to be later donated to Mesa State College		
Depreciable property with rental income	20-30 years	\$ 791,311
Equipment	5-10 years	207,084
Memorial alcove	10 years	7,400
		1,005,795
Less accumulated depreciation		(240,007)
		\$ 765,788

Twenty-four properties were transferred to the College this year. The properties were transferred at book value for a decrease in net assets of \$2,783,694.

FOUNDATION – NOTES PAYABLE – FY 2004

As part of its capital campaign, the Foundation has purchased certain properties with promissory notes to the sellers. Following is a summary of those notes at June 30 and one other promissory note:

Term loan, \$80,000 matures July 2006, monthly payments of \$573 including interest at 6%. Secured by a deed of trust. Interest only payments through June 30, 2004, of \$400 monthly.	\$ 80,000
Term loan, \$85,000, matures July 2006, monthly payments of \$609 including interest at 6%. Secured by a deed of trust. Interest only payments through June 30, 2004, of \$425 monthly.	85,000
	165,000
Less current portion	(4,405)
	\$ 160,595
Aggregate maturities are as follows:	
Years Ending	Principal
June 30,	Amounts
2005	\$ 4,405
2006	4,677
2007	155,918
	\$ 165,000

Promissory note of \$250,000, due August 7, 2004, including interest at 4%. Secured by real property. The note allows borrowing up to \$250,000	\$ 250,000
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**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION – SPLIT INTEREST AGREEMENT – FY 2004

The Foundation administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled \$111,660, with another \$27,915 being recorded as a liability for 20% of the total gift, which is to go to other organizations at the end of the trust's term. Assets held in the charitable remainder trust totaled \$336,747 at June 30, 2004 and are reported at fair value in the Foundation's Statement of Financial Position. On an annual basis, the Foundation will revalue the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments (\$145,617 at June 30, 2004) is calculated using a discount rate of 5.2% and applicable mortality tables.

NOTE 12 – STUDENT FINANCIAL ASSISTANCE

The College receives funds from and administers student financial assistance programs for various federal and state agencies. In addition, the college dedicates institutional resources to fund scholarships and work-study programs for students. With the implementation of GASB 34 in 2002, the new financial statement format lacks the detail of student financial assistance available on pre 2002 financial statements since part of the revenues previously recorded are now properly netted against tuition and fees with a corresponding reduction in scholarship expense. The tables below reflect the student financial assistance activities that the College received resources for and expended for and on the behalf of students in FY2005 and FY2004. Student loans, external scholarships, grants, and other student financial assistance not recorded on the Colleges financial system are not included. A detailed schedule of state funded financial assistance is provided in the 'State-Funded Student Assistance Programs Section'.

A schedule of non-loan student assistance for the year ended June 30, 2005 follows:

	<u>Federal Sources</u>	<u>State Sources</u>	<u>Institutional Sources</u>	<u>Total All Sources</u>
Scholarships				
Colorado Need-Based	\$ –	\$ 1,343,389	\$ –	\$ 1,343,389
Colorado Merit	–	167,003	–	167,003
CLEAP	–	51,725	–	51,725
SLEAP	–	33,951	–	33,951
Governor's Opportunity	–	355,100	–	355,100
Pell Grants	5,865,879	–	–	5,865,879
General Institutional	67,846	9,108	404,769	481,723
Auxiliary	–	–	496,284	496,284
Work Study **	201,419	630,715	916,406	1,748,540
Perkins Match	–	7,369	145	7,514
SEOG	131,586	–	43,863	175,449
Non-Resident Scholar	–	–	98,329	98,329
Total	<u>\$6,266,730</u>	<u>\$ 2,598,360</u>	<u>\$1,959,796</u>	<u>\$10,824,886</u>

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 12 – STUDENT FINANCIAL ASSISTANCE – CONTINUED

A schedule of non-loan student assistance for the year ended June 30, 2004 follows:

	<u>Federal Sources</u>	<u>State Sources</u>	<u>Institutional Sources</u>	<u>Total All Sources</u>
Scholarships				
Colorado Need-Based	\$ –	\$ 1,423,006	\$ –	\$ 1,423,006
Colorado Merit	–	170,146	–	170,146
CLEAP	–	52,401	–	52,401
SLEAP	–	31,514	–	31,514
Governor's Opportunity	–	368,780	–	368,780
Pell Grants	5,743,502	–	–	5,743,502
General Institutional	73,376	9,108	701,261	783,745
Auxiliary	–	–	435,145	435,145
Work Study **	212,708	631,024	798,189	1,641,921
Perkins Match	–	7,369	115	7,484
SEOG	136,604	–	45,534	182,138
Non-Resident Scholar	–	–	261,567	261,567
Total	<u>\$6,166,190</u>	<u>\$ 2,693,348</u>	<u>\$2,241,811</u>	<u>\$11,101,349</u>

** Includes MSC Student Assist Work Study - Not Based on Financial Need

NOTE 13 – LEGISLATIVE APPROPRIATION

The Colorado Legislature establishes spending authority for the Trustees Mesa State College in its annual Long Appropriation 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 other certain revenue sources.

For the year ended June 30, 2005, the College received an appropriation allocation, net of scholarship allowance, from the State of \$22,612,154. Actual appropriated revenues earned totaled \$22,399,840. Actual appropriated expenditures and transfers totaled \$22,767,004.

NOTE 14 – CHANGE IN GOVERNANCE AND FINANCIAL REPORTING

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, establishes an independent governing board for the College. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of the College. For the years ending June 30, 2003 and later, the financial statements of the College are presented on a stand-alone basis. For the years ending on and prior to July 1, 2002, the financial statements of Mesa State College were included on a consolidated basis, which included Adams State College, Mesa State College, Metropolitan State College of Denver, the Office of State Colleges, and the Western Colorado Graduate Center.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 15 – 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 of Colorado, limited to a \$1,000 deductible per incident.

NOTE 16 – SUBSEQUENT EVENTS

Debt Issuance

The College issued Auxiliary Facilities System Revenue Bonds Series 2005 on September 15, 2005. The new debt issue totaled \$20,842,434, including a net premium of \$807,434 that will be amortized over the life of the bonds. After the costs of issuance, \$19,468,388 was deposited into the Project Construction Fund. The 2005 Resolution establishes a Capitalized Interest Fund funded with \$1,049,879 of the bond proceeds to pay interest through November 2006, after which any remaining funds will be transferred to the Project Fund. The Project Fund will be used to construct student housing and parking facilities, and to expand and equip the College's auxiliary facilities system.

Mesa Auxiliary Facilities Revenue Bonds, Series 2005 require annual debt service payments ranging from \$616,975 to \$1,294,250, including coupon interest of 3.5% to 5.0%, affecting a net interest rate of 4.38%. Final payments are due in May of 2035. The bonds are secured by the pledge of certain net revenues and other money in funds and accounts held by the Trustees of Mesa State College which are pledged and assigned for equal and ratable payment of the bonds.

A Reserve Fund requirement was satisfied by the purchase of a surety bond in an amount equal to the Debt Service Reserve Requirement that is equal to the lesser of (i) the combined maximum annual principal and interest payments on all bonds outstanding, (ii) the combined average annual principal and interest payments on all bonds, or (iii) ten percent (10%) of the original principal of each issue of Bonds Outstanding.

Enterprise Status

To qualify as a TABOR-exempt enterprise, a higher education institution needs to be a government-owned business authorized to issue its own revenue bonds and receiving under 10 percent of its revenue grants from all Colorado state and local governments combined. On August 10, 2005 the Legislative Audit Committee approved designation of the College as a TABOR-exempt enterprise for Fiscal year 2006. The Designation will be reviewed at the end of each year to determine if the College continues to meet TABOR-exempt criteria.

**STATE OF COLORADO
MESA STATE COLLEGE**

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2005 and 2004

NOTE 17 – CHANGE IN FINANCIAL STATEMENT PRESENTATION

The College re-stated \$2,652,763 of state student financial aid that was recorded as state appropriations on the 2004 financial statements as state grants to be consistent with classifications in the 2005 statements. According to the State Fiscal Procedures Manual, state appropriated student financial aid should be presented as grants/contract revenue, rather than as state appropriations.

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

MESA STATE COLLEGE
Auxiliary Facilities System - Enterprise Revenue Bonds
Schedule of Revenues and Expenses
For Years Ended June 30,

	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>		
College Service Fees	\$ 1,630,636	\$ 1,082,800
Rental Income	3,371,321	3,197,705
Food Service Income	2,657,336	2,133,513
Sales/Services Auxiliaries	3,890,579	4,359,093
Interest Income	333,118	279,099
Other Income	27,479	1,106
Total Revenues	\$ 11,910,469	\$ 11,053,316
<u>EXPENDITURES</u>		
Salaries & Benefits	\$ 1,569,528	\$ 1,653,408
Costs of Goods	2,221,412	2,275,945
Utilities Expense	604,305	574,895
Rental Expense	195,776	132,791
Contract Food Services	1,720,518	1,298,526
Travel	6,474	16,282
Supplies	407,875	555,129
Other Operating Expenses	1,008,307	735,536
Purchased Services-Personnel	227,926	127,988
Financial Aid	79,920	284,036
Administrative Cost Allowance	888,347	835,371
Furniture & Equipment	10,200	141,440
Other Capital Expenditures	6,834	10,515
Other Expenses	-	-
Total Expenditures	\$ 8,947,422	\$ 8,641,862
Net Revenue before Transfers	\$ 2,963,047	\$ 2,411,454
<u>TRANSFERS</u>		
Mandatory Transfers	\$ 1,134,874	\$ 1,346,448
Non-mandatory Transfers	1,000,557	757,010
Total Transfers	\$ 2,135,431	\$ 2,103,458
Net Revenue	\$ 827,616	\$ 307,996

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

September 9, 2005

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Mesa State College, a blended component unit of the State of Colorado and its discretely presented component unit, as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 9, 2005. 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, Mesa State College Foundation, were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether Mesa 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 audits, we considered Mesa 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.

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

Chadwick, Starkreiner, Davis & Co., P.C.

AUDIT COMMITTEE COMMUNICATIONS

September 9, 2005

Members of the Legislative Audit Committee:

We have audited the financial statements of Mesa State College, a blended component unit of the State of Colorado, for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 9, 2005. 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 Mesa 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 Mesa 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

Management is responsible for the 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 Mesa State College are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005 or 2004. We noted no transactions entered into by Mesa 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.

Management Judgments and Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Mesa State College's financial reporting process (that is, cause future financial statements to be materially misstated). We noted one adjustment that could have a significant effect on Mesa State College's financial reporting process. During fiscal year 2004-2005, the College received transfers of capital assets from the Foundation. Through our audit procedures we noted the transfers of \$429,297 had not been recorded at year end prior to our audit. This transaction is now reflected in the 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.

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

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Mesa State College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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 Mesa State College and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record upon release by the Legislative Audit Committee.

Chadwick, Starkreiner, Davis & Co., P.C.

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

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

September 9, 2005

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Mesa State College, a blended component unit of the State of Colorado, for the year ended June 30, 2005. 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), 2005 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 Mesa State College, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Program of Mesa State College for the year ended June 30, 2005, in conformity with the provisions of the Colorado Commission on Higher Education's *Colorado Handbook for State-Funded Financial Assistance Programs*.

Members of the Legislative Audit Committee
September 9, 2005
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of Mesa 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.

Chadwick, Starkrenner, Davis & Co., P.C.

STATE OF COLORADO
MESA STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES AND REVERSIONS
FOR THE YEAR ENDED JUNE 30, 2005

	Total State-Funded Student Assistance	Colorado Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	Perkins Loan Match	Colorado Need-Based Grant	Colorado Merit Scholarship
Appropriations:								
Original	\$ 2,582,006	\$ 615,193	\$ 368,780	\$ 51,969	\$ 30,480	\$ 7,369	\$ 1,349,030	\$ 159,185
Supplemental	7,634	15,522	(13,292)	(244)	3,471	-	(5,641)	7,818
Transfers	-	-	-	-	-	-	-	-
TOTAL	<u>\$ 2,589,640</u>	<u>\$ 630,715</u>	<u>\$ 355,488</u>	<u>\$ 51,725</u>	<u>\$ 33,951</u>	<u>\$ 7,369</u>	<u>\$ 1,343,389</u>	<u>\$ 167,003</u>
Expenditures	<u>2,589,252</u>	<u>630,715</u>	<u>355,100</u>	<u>51,725</u>	<u>33,951</u>	<u>7,369</u>	<u>1,343,389</u>	<u>167,003</u>
Reversions to State General Fund	<u>\$ 388</u>	<u>\$ -</u>	<u>\$ 388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MESA STATE COLLEGE

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS

June 30, 2005

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND
REVERSIONS**

Basis of Accounting

The Statement of Appropriations, Expenditures, Transfers, and Revisions has been prepared in accordance with the format set forth in the Colorado Commission on Higher Education's publication *Colorado Handbook for State-Funded Student Financial Assistance Programs, 2005* revision.

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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