

WESTERN STATE COLORADO UNIVERSITY

FINANCIAL AND COMPLIANCE AUDIT

Fiscal Years Ended June 30, 2016 and 2015

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WESTERN STATE COLORADO UNIVERSITY

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WESTERN STATE COLORADO UNIVERSITY

FINANCIAL AND COMPLIANCE AUDIT REPORT SUMMARY

As of and for the Year Ended June 30, 2016

Authority, Purpose and Scope

The Office of the State Auditor of the State of Colorado engaged Dalby, Wendland, & Co., P.C. (DWC) to conduct a financial and compliance audit of Western State Colorado University (the University) for the year ended June 30, 2016. DWC performed this 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 of America. We conducted our fieldwork from June through October 2016.

The purposes and scope of the audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2016. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the progress in implementing prior audit findings and recommendations, if any.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in Fiscal Year 2016 Statewide Single Audit Report issued under separate cover.

Audit Opinion and Reports Summary

We expressed an unmodified opinion on the University's financial statements as of and for the year ended June 30, 2016.

There were proposed audit adjustments that were identified during the audit. These audit adjustments are detailed on page 56.

We issued a report on the University's compliance and internal control over financial reporting based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards*. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.

Summary of Findings and Recommendations

There were no reported findings or recommendations resulting from the audit of the University for the year ended June 30, 2016.

Summary of Progress in Implementing Prior Audit Findings

The University's audit report for the year ended June 30, 2015 did not include any findings or recommendations that were required to be implemented during the year ended June 30, 2016.

WESTERN STATE COLORADO UNIVERSITY

DESCRIPTION OF WESTERN STATE COLORADO UNIVERSITY

For the Years Ended June 30, 2016 and 2015

Description of Western State Colorado University

Founded in 1911 as Colorado State Normal School, Western State Colorado University (the University) is Colorado’s oldest college west of the Continental Divide. Originally planned as a preparatory college for teachers, the University remained a Normal School until 1923 when it was renamed Western State College. Western State College officially became Western State Colorado University on August 1, 2012. The University is an undergraduate university of liberal arts and sciences. The University also has a limited number of graduate programs. House Bill 16-1083, signed April 1, 2016, updated the University’s statutory mission. The new statutory mission, contained in Section 23-56-101 of the Colorado Revised Statutes (C.R.S.), states that the University is a general baccalaureate institution with selective admission standards, revised from moderately selective. The mission also states that the University shall offer undergraduate liberal arts and sciences and professional degree programs, basic skills courses receiving resident credit, and a limited number of graduate programs. The University shall also serve as a regional education provider.

Through June 30, 2003, the University was a member of the State Colleges in Colorado and, as such, was governed by the Board of Trustees of the Office of State Colleges. Effective July 1, 2003, the State Colleges in Colorado were dissolved in accordance with House Bill 03-1093 and each member became an independent entity. C.R.S. 23-56-102 established the composition of the Board of Trustees (Trustees) of the University to serve as the University’s governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are nonvoting members.

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

	2014	2015	2016
Resident Students	1,341.3	1,473.1	1,533.9
Nonresident Students	481.7	517.9	564.6
Total Students	<u>1,823.0</u>	<u>1,991.0</u>	<u>2,098.5</u>
Faculty FTEs	135.3	140.2	144.4
Staff FTEs	175.0	180.3	187.5
Total Staff and Faculty FTEs	<u>310.3</u>	<u>320.5</u>	<u>331.9</u>

Description of Western State Colorado University Foundation

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

FINANCIAL STATEMENTS SECTION



DALBY, WENDLAND & CO., P.C.

Grand Junction

CPAs and Business Advisors

464 Main Street • P.O. Box 430 • Grand Junction, CO 81502
Phone: (970) 243-1921 • Fax: (970) 243-9214

INDEPENDENT AUDITOR'S REPORT

Members of the Legislative Audit Committee:
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education, State of Colorado, as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit, discussed in Note A to the basic financial statements, which represents 100 percent of total assets, total revenues, and net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2016 and 2015, respectively. Those financial statements were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Western State Colorado University Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, an institution of higher education, State of Colorado, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A and H to the financial statements, during the year ended June 30, 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 71). GASB 68 and 71 were implemented prospectively and resulted in the beginning balance of net position being restated for the year ended June 30, 2015 to reflect the implementation of GASB 68 and 71. Our opinion is not modified with respect to this matter.

As discussed in Note A, the financial statements of the University, an institution of higher education, State of Colorado are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and the discretely presented component unit of the State that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2016 and 2015, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note O, the beginning balance of net position for the year ended June 30, 2015 was restated to reflect the impact of capital asset transactions involving the Foundation in previous fiscal years. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 14 be presented to supplement the basic financial statements. Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires that the Schedule of the University's Proportionate Share of the Net Pension Liability of the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association and the Schedule of University Contributions to the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association on pages 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

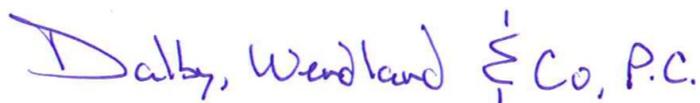
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedules of Revenue and Expenses for Enterprise Revenue Bonds are

presented for purposes of additional analysis and are not a required part of the basic financial statements of the University.

The Schedules of Revenue and Expenses for Enterprise Revenue Bonds for the years ended June 30, 2016 and 2015 are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Dalby, Wendland & Co., P.C." with a stylized flourish at the end.

DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado
January 9, 2017

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

This section of Western State Colorado University's (the University) financial report presents management's discussion and analysis of the University's financial position and results of operations as of and for the years ended June 30, 2016 and 2015, with comparative information presented for the year ended June 30, 2014. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

As discussed in Note O to the University's financial statements, certain items have been restated for fiscal year 2015 to be consistent with the presentation in fiscal year 2016. Fiscal year 2014 has not been restated and, therefore, certain items may not be comparable across years.

Understanding the Financial Statements

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63). GASB 63 defines the five elements that make up a statement of financial position to include:

- Assets – resources with a present service capacity under University control.
- Deferred Outflows of Resources – consumption of net assets by the University that is applicable to a future reporting period.
- Liabilities – present obligations to sacrifice resources.
- Deferred Inflows of Resources – Acquisitions of net assets by the University that is applicable to a future reporting period.
- Net Position – residual of all other elements presented in a statement of financial position.

The financial statements prescribed by GASB 35 as amended by GASB 63 (the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, 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.

A brief description of each of the components of the University's financial statements is provided as follows:

Statements of Net Position

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at a point in time (June 30, 2016 and 2015). Their purpose is to present a financial snapshot of the University. They aid readers in determining the assets available to continue the University's operations; how much the University owes to employees, vendors, etc.; and a picture of net position and the availability of assets for expenditure by the University.

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

As discussed in Notes A and H to the financial statements, during the year ended June 30, 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pensions that are provided to the employees of state and local governmental employers through pension plans. GASB 68 was implemented prospectively and resulted in the beginning balance of net position being restated for the year ended June 30, 2015 to reflect the implementation of GASB 68. GASB 68 was not required to be implemented as of and for the year ended June 30, 2014. Accordingly, the University's financial statements as of and for the year ended June 30, 2014 do not reflect the effects of GASB 68. This should be considered when comparing the University's fiscal years ended June 30, 2016 and 2015 financial statements to prior years.

Statements of Revenues, Expenses, and Changes in Net Position

The statements of revenues, expenses, and changes in net position present the total revenues and expenses of the University for operating, nonoperating, and other capital related purposes during the fiscal years ended June 30, 2016 and 2015. Their purpose is to assess the University's operating and nonoperating activities.

Statements of Cash Flows

The statements of cash flows present cash receipts and payments of the University during the fiscal years ended June 30, 2016 and 2015. Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

Notes to Financial Statements

The notes to the University's aforementioned statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows present additional information to support these financial statements. The purpose of the notes is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion to indicate where details of certain financial statement items may be found.

Required Supplementary Information (RSI)

The RSI presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes the management's discussion and analysis as well as certain RSI required by GASB 68 including the:

- Schedule of the University's Proportionate Share of the Net Pension Liability of the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association
- Schedule of University Contributions to the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association

The financial statements of the University include all of the integral parts of the University's operations. The University applied required criteria to determine whether any organization should be included in the University's reporting entity. Management of the University has considered the criteria described in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, paragraph 47, and management of the University has determined that the Western State Colorado University Foundation (the Foundation) meets the criteria to be included in the University's financial statements as a discretely presented component unit. The Foundation was incorporated on August 22, 1975 under the laws of the State of Colorado. The purpose of the Foundation is to aid, directly or indirectly, the University in fulfilling its educational purposes. The Foundation is

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

supported primarily through donor contributions. A full copy of the Foundation's financial statements may be obtained from the Western State Colorado University Foundation, 909 East Escalante Drive, P.O. Box 1264, Gunnison, CO 81230.

Financial Highlights

The University's financial position improved during the fiscal year ended June 30, 2016 as evidenced by an increase in net position of \$14.0 million, from \$25.7 million at June 30, 2015 to \$39.7 million. This improvement is primarily due to the receipt of \$17.4 million from the State of Colorado (the State) for the renovation of Quigley Hall. In fiscal year 2015, net position decreased by \$25.0 million from \$50.7 million at June 30, 2014, primarily due to the implementation of GASB 68, which impacted beginning net position for the fiscal year 2015 with a downward adjustment of \$17.7 million.

The University's current assets of \$20.2 million (2016), \$16.6 million (2015) and \$15.5 million (2014) were sufficient to cover current liabilities of \$9.3 million (2016), \$8.6 million (2015) and \$5.4 million (2014). The current ratio of 2.17 (2016), 1.93 (2015) and 2.85 (2014) (current assets/current liabilities) demonstrates the liquidity of University assets and the relative availability of working capital to fund current operations.

An operating deficit of \$1.6 million (2016), \$2.8 million (2015) and \$3.9 million (2014) resulted partly from the University's dependence on state appropriations for controlled maintenance and Federal Pell grants for operations. The financial reporting model classifies certain grants and contracts and state appropriations as non-operating revenues. Additionally, depreciation is an expense for which Colorado higher education has not historically been funded.

Statements of Net Position

The table below illustrates the University's summary of net position. Over time, increases or decreases in net position (the difference between assets plus deferred outflows minus liabilities and deferred inflows) are one indicator of the University's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

Condensed Statements of Net Position
June 30, 2016, 2015 and 2014
(in thousands)

	2016	2015	2014
Assets			
Current Assets	\$ 20,187	\$ 16,594	\$ 15,507
Noncurrent Assets	133,350	122,310	127,891
<i>Total Assets</i>	<u>153,537</u>	<u>138,904</u>	<u>143,398</u>
<i>Total Deferred Outflows</i>	3,219	1,841	1,067
Liabilities			
Current Liabilities	9,317	8,594	5,439
Noncurrent Liabilities	107,047	106,380	88,281
<i>Total Liabilities</i>	<u>116,364</u>	<u>114,974</u>	<u>93,720</u>
<i>Total Deferred Inflows</i>	706	124	-
Net Position			
Net investment in capital assets	45,969	32,346	38,337
Restricted	4,725	4,368	4,745
Unrestricted	(11,008)	(11,067)	7,663
<i>Total Net Position</i>	<u>\$ 39,686</u>	<u>\$ 25,647</u>	<u>\$ 50,745</u>

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

At June 30, the University's total assets were \$153.5 million (2016), \$138.9 million (2015) and \$143.4 million (2014). The largest asset category is the \$132.7 million (2016), \$121.5 million (2015) and \$126.9 million (2014) in capital assets, includes land, buildings, equipment, library holdings, and construction in progress. Construction in progress increased \$16.3 million in fiscal year 2016, primarily due to the renovation in progress for Quigley Hall. Construction in progress also increased \$1.8 million from fiscal year 2014 to 2015 due to renovations on Quigley Hall. The capital asset amount is net of accumulated depreciation of \$75.9 million (2016), \$69.2 million (2015) and \$62.0 million (2014). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised almost \$17.4 million (2016), \$14.9 million (2015) and \$13.9 million (2014) of total assets. The increase in cash and cash equivalents over that period is the result of improved operating performance. Additionally, in fiscal year 2016, the University had cash on hand at year-end related to State capital project appropriations for the Quigley Hall renovation.

The Governmental Accounting Standards Board issued GASB Statement No. 65 which defines certain elements of the financial statements previously reported as assets or liabilities as deferred outflows or deferred inflows of resources. Assets and liabilities are resources and obligations with present service capacities and present obligations, while deferred outflows and inflows of resources are acquisitions and uses of net assets that relate to a future period. See Note A to the financial statements for more detail. Deferred outflows of resources represent unamortized book losses on certain bond refinancing transactions and certain defined benefit pension related amounts recognized in accordance with GASB 68. See Notes E and H to the financial for detailed information on the composition of the University's deferred outflows and deferred inflows.

Bonds payable of \$86.7 million (2016), \$87.7 million (2015) and \$88.6 million (2014) represent 74.5% (2016), 76.2% (2015) and 94.5% (2014) of the University's total liabilities of \$116.4 million (2016), \$115.0 million (2015) and \$93.7 million (2014). The University issued \$58.8 million in revenue bonds in fiscal year 2010 to finance a new student apartment complex, new sports complex/field house and an energy conservation project as discussed in Note F. No bonds have been issued since a 2011 refunding; therefore bonds payable have been decreasing as principal payments are made. The current portion of the bonds payable is \$940,000 (2016), \$925,000 (2015) and \$900,000 (2014).

Net Position consisted of \$46.0 million (2016), \$32.3 million (2015) and \$38.3 million (2014) in net investment in capital assets. In addition, \$4.7 million (2016), \$4.4 million (2015) and \$4.7 million (2014) is externally restricted for specific purposes, and (\$11.0) million (2016), (\$11.1) million (2015) and \$7.7 million (2014) is unrestricted and available for any lawful purpose of the University. Unrestricted net position increased slightly during fiscal year 2016, but decreased during fiscal year 2015 from fiscal year 2014 by \$18.8 million. This is primarily due to the implementation of GASB 68, which impacted beginning net position for the fiscal year 2015 with a downward adjustment of \$17.7 million.

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position present the results of operations during the year. Revenues are distinguished between operating revenues, non-operating revenues, and revenues from capital contributions. 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 the University. Non-operating revenues and expenses are those other than operating and include, but are not limited to: Funding received or receivable for Federal Pell grants awarded to students, Federal interest subsidies,

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

investment income and expenses, and interest expense on capital debt. Revenues from capital contributions consist of capital construction and controlled maintenance appropriations from the State of Colorado.

Gross tuition and fee revenue for fiscal year 2016 increased 9.3% from fiscal year 2015; in addition, scholarship allowances of \$9.6 million (2016) were an increase from the two previous fiscal years of \$8.6 million (2015) and \$7.8 million (2014). Scholarship allowances are defined as the financial aid awarded to students by the University that is used to pay University charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense, as previously reported. Net tuition and fee revenues for the year ending June 30, 2016 were \$20.3 million, a \$1.5 million increase from 2015 due to an approximate 5% increase in tuition rates and increases in enrollment. Net tuition and fee revenue in 2015 was \$18.8 million, a \$2.1 million increase from 2014 due to an approximate 5% increase in tuition rates and increases in enrollment.

An operating deficit of \$1.6 million in fiscal year 2016, \$2.8 million in fiscal year 2015, and \$3.9 million in fiscal year 2014 was offset by capital contributions from the State of Colorado because the financial reporting model classifies these separately from operating revenues. The University's net position increased in fiscal year 2016 due to State capital contributions for the renovation of Quigley Hall after two years of decreases in net position in fiscal years 2015 and 2014 primarily due to the implementation of GASB 68 for fiscal year 2015 and unfunded depreciation expense.

Condensed Statements of Revenue, Expenses, and Changes in Net Position
June 30, 2016, 2015 and 2014
(in thousands)

	2016	2015	2014
Operating Revenue			
Tuition and fees, net	\$20,336	\$18,795	\$16,717
Federal, state, and private grants and contracts	7,110	5,255	2,843
Fee for service revenue	8,628	7,618	7,104
Sales and services of auxiliary enterprises, net	9,538	8,952	8,609
Other operating revenue	1,527	1,644	1,497
Total Operating Revenue	47,139	42,264	36,770
Operating Expenses			
Instruction	16,142	14,820	12,927
Academic support	2,948	2,234	1,854
Student services	4,556	4,255	4,250
Institutional support	4,485	4,149	3,763
Operation and maintenance of plant	2,485	2,332	2,322
Auxiliary enterprises	10,789	9,555	9,810
Depreciation	6,750	7,198	5,393
Other	629	518	322
Total Operating Expenses	48,784	45,061	40,641
Net Operating Loss	(1,645)	(2,797)	(3,871)
Nonoperating Revenue (Expenses)			
Federal Pell grants and interest subsidy	3,576	3,647	3,788
Investment and interest income	222	151	144
Interest expense on capital debt	(5,207)	(5,227)	(3,796)
Other nonoperating expenses	(275)	(107)	(121)
Net Nonoperating Revenue (Expense)	(1,684)	(1,536)	15
Loss Before Capital Contributions	(3,329)	(4,333)	(3,856)

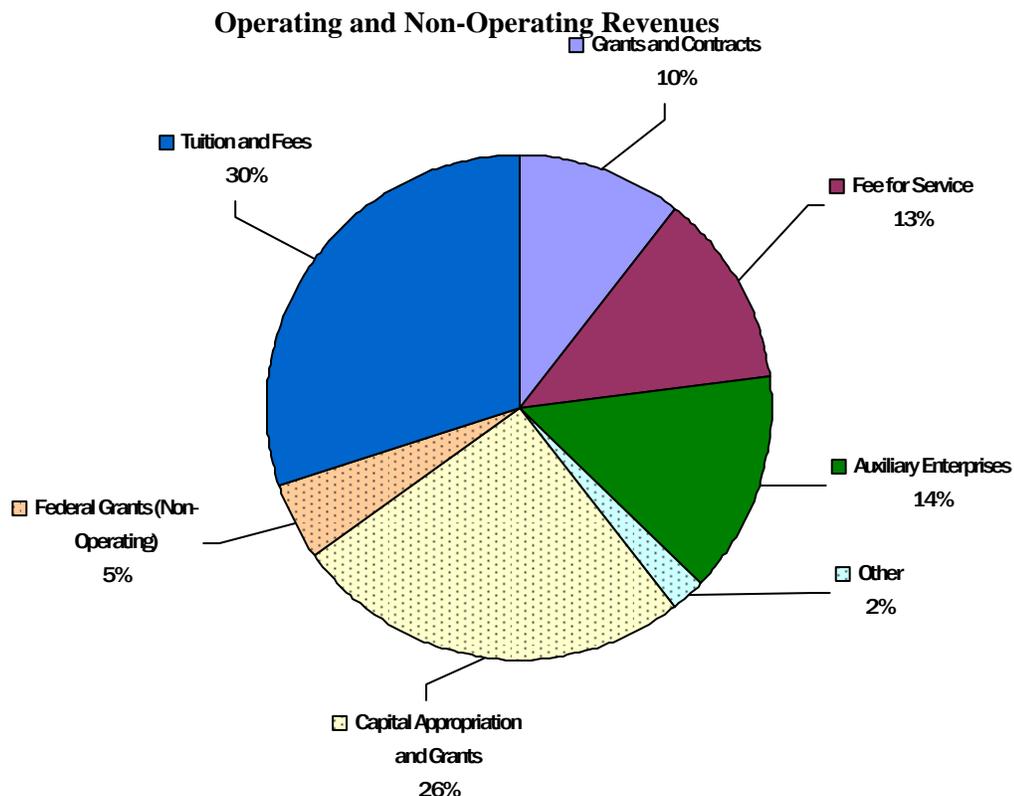
WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

Capital Contributions

State Appropriations, Capital	17,368	2,295	354
Increase (Decrease) in Net Position	14,039	(2,038)	(3,502)
Net Assets:			
Net Position, beginning of year	25,647	50,745	54,247
Restatement	-	(5,392)	-
Cumulative effect of adoption of new accounting standard	-	(17,668)	-
Net Position, beginning of year, as restated	25,647	27,685	54,247
Net Position, end of year	\$39,686	\$25,647	\$50,745

The following is a graphic illustration of total revenue by source for the University for fiscal year 2016. Each major revenue component is displayed relative to its proportionate share of total revenues.

Revenue by Source – Fiscal Year 2016



Capital Assets

At June 30, 2016, the University had approximately \$132.7 million invested in capital assets, net of accumulated depreciation of \$75.9 million. Depreciation charges were \$6.7 million for the year ended June 30, 2016. At June 30, 2015, the University had \$121.5 million invested in capital assets, net of accumulated depreciation of \$69.2 million. Depreciation charges were \$7.2 million for the year ended June 30, 2015. Details of capital asset balances are shown below.

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

Capital Assets, Net, at Year-End (in thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Land and Improvements	\$ 2,599	\$ 2,599	\$ 2,599
Construction in Progress	18,847	2,595	793
Land Improvements, Net	287	317	347
Buildings and Improvements, Net	109,083	112,619	122,029
Furniture and Equipment, Net	1,562	2,994	714
Library Materials, Net	296	338	411
Total	<u>\$ 132,674</u>	<u>\$ 121,462</u>	<u>\$ 126,893</u>

The following significant capital projects were in progress at June 30, 2016 (in thousands):

Quigley Hall renovation	\$18,819
Kelly Hall remodel	<u>28</u>
	<u>\$18,847</u>

The following significant capital projects were in progress at June 30, 2015 (in thousands):

Quigley Hall renovation	\$1,945
Electronic Door project	99
Ute Hall Bathroom remodel	<u>551</u>
	<u>\$2,595</u>

Debt

At June 30, 2016, the University had \$86.7 million in debt outstanding, a decrease of \$916 thousand from the debt outstanding of \$87.7 million as of June 30, 2015. At June 30, 2015, the University had \$87.7 million in debt outstanding, a decrease of \$891 thousand from the debt outstanding of \$88.6 million as of June 30, 2014. The table below summarizes the amounts by type of debt.

Outstanding Debt at Year-End (in thousands)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Auxiliary Revenue Bonds	\$ 86,749	\$ 87,665	\$ 88,556
Total	<u>\$ 86,749</u>	<u>\$ 87,665</u>	<u>\$ 88,556</u>

Economic Outlook

In May 2014, House Bill 14-1319 was signed into law. This Act required the Colorado Commission on Higher Education (CCHE) to develop a new funding formula to allocate state general fund dollars among public institutions of higher education. The intent of this new funding model was, in part, to determine and implement a funding mechanism that is more transparent and understandable for Colorado taxpayers, to provide predictability of funding while ensuring higher education access and affordability for Colorado residents and to support the goals of the statewide master plan.

WESTERN STATE COLORADO UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
As of and For the Years Ended June 30, 2016 and 2015

The new allocation model distributes money based on factors of enrollment, institutional role and mission, and performance outcomes. Enrollment funding is provided primarily through College Opportunity Fund (COF) stipends, and role and mission and performance funding is provided through fee-for-service contracts. For fiscal year 2017, the University is projected to receive \$3.0 million in funds from the COF stipend program and \$8.6 million in fee-for-service contracts, a decrease of \$0.1 million from fiscal year 2016.

The University has not made any assumptions about increased undergraduate enrollment for fiscal year 2017. However, tuition rate increases of \$468 or 8.0% for full time Colorado resident students and \$768 or 4.6% for full time nonresident students are projected to generate an additional \$1.0 million in undergraduate tuition revenue beyond fiscal year 2016 levels.

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax, and debt limitations that apply to all local governments and the State of Colorado, including the University. In fiscal Year 2005, the Colorado State Legislature determined in Section 23-5-101.7 of the Colorado Revised Statutes that an institution of higher education may be designated as an "enterprise" for the purposes of TABOR so long as the institution's governing board retains authority to issue revenue bonds on its behalf and the institution receives less than 10 percent of its total annual revenue in grants as defined by TABOR. Further, so long as it is so designated as an enterprise, the institution shall not be subject to any provisions of TABOR. During the fiscal Year ended June 30, 2016, the University lost enterprise status due to State funding for the renovation of Quigley Hall. During the fiscal Year ended June 30, 2015, the University believes it met all requirements of TABOR enterprise status. The amount of State grants received by the University was 26.1 percent and 8.7 percent of the total revenues during the fiscal Years ended June 30, 2016 and 2015, respectively. It is anticipated that the University will remain outside of enterprise status in fiscal year 2017 due to the continued State funding for the renovation of Quigley Hall.

In September 2016, the University issued \$27.0 million in Enterprise Revenue Refunding Bonds, Series 2016. The proceeds of the issue were used to refund the Series 2009 Revenue Bonds and a portion of the Series 2010A Institutional Enterprise Revenue Bonds. The new bonds are to be paid from Institutional Enterprise Revenues. The University secured significant interest savings as a result of this transaction.

Questions concerning any of the information provided in the report or requests for additional financial information should be addressed to the Controller's Office at Western State Colorado University, Taylor Hall, Room 328, Gunnison, CO 81231.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
STATEMENTS OF NET POSITION
As of June 30, 2016 and 2015

	2016	2015 ¹
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,412,996	\$ 14,858,897
Investments	126,970	111,608
Student accounts receivable, net	561,852	662,879
Other accounts receivable, net	1,307,759	409,576
Student loans receivable, net	111,904	119,408
Inventories	409,768	405,072
Other current assets	255,844	26,358
<i>Total Current Assets</i>	20,187,093	16,593,798
Noncurrent Assets		
Noncapital Noncurrent Assets		
Student loans receivable, net	676,043	847,794
<i>Total Noncapital Noncurrent Assets</i>	676,043	847,794
Nondepreciable Capital Assets		
Land	695,416	695,416
Land improvements	1,904,083	1,904,083
Construction in progress	18,847,115	2,594,746
<i>Total Nondepreciable Capital Assets</i>	21,446,614	5,194,245
Depreciable Capital Assets, Net		
Land improvements, less accumulated depreciation of \$316,588 (2016) and \$286,437 (2015)	286,437	316,588
Buildings and improvements, less accumulated depreciation of \$63,700,364 (2016) and \$58,910,293 (2015)	109,082,665	112,618,821
Furniture, equipment and software, less accumulated depreciation of \$6,209,109 (2016) and \$4,471,777 (2015)	1,562,227	2,994,642
Library materials, less accumulated depreciation of \$5,633,319 (2016) and \$5,541,290 (2015)	295,985	338,177
<i>Total Depreciable Capital Assets, Net</i>	111,227,314	116,268,228
<i>Total Noncurrent Assets</i>	133,349,971	122,310,267
Total Assets	153,537,064	138,904,065
DEFERRED OUTFLOWS		
Loss on bond refundings	863,981	965,626
Contributions to cost-sharing multiple-employer defined benefit pension plan subsequent to the measurement date (See Note H)	499,168	488,907
Net difference between projected and actual earnings on cost-sharing multiple-employer defined benefit pension plan investments (See Note H)	1,556,955	386,589
Difference between expected and actual experience in the measurement of the total pension liability from cost-sharing multiple-employer defined benefit pension plan (See Note H)	299,076	-
<i>Total Deferred Outflows</i>	3,219,180	1,841,122

¹ As restated, see Note O.

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
STATEMENTS OF NET POSITION
As of June 30, 2016 and 2015

	2016	2015 ¹
LIABILITIES		
Current Liabilities		
Accounts payable	2,380,655	1,299,488
Accrued liabilities	3,686,340	2,730,332
Unearned revenue	1,760,741	3,017,109
Student deposits	440,123	517,169
Bonds payable, current portion	940,000	925,000
Compensated absence liabilities, current portion	108,554	104,543
<i>Total Current Liabilities</i>	9,316,413	8,593,641
Noncurrent Liabilities		
Bonds payable	85,808,614	86,739,767
Compensated absence liabilities	700,173	681,144
Net pension liability (See note H)	20,538,558	18,959,603
<i>Total Noncurrent Liabilities</i>	107,047,345	106,380,514
Total Liabilities	116,363,758	114,974,155
DEFERRED INFLOWS		
Change in University's proportion and differences between the University's contributions and the University's proportionate share of contributions to a cost-sharing multiple-employer defined benefit pension plan (See Note H)	462,280	122,636
Difference between expected and actual experience in the measurement of the total pension liability from cost-sharing multiple-employer defined benefit pension plan (See Note H)	655	1,405
Change in assumptions of other inputs related to a cost-sharing multiple-employer defined benefit pension plan	243,118	-
<i>Total Deferred Inflows</i>	706,053	124,041
NET POSITION		
Net investment in capital assets	45,968,897	32,345,774
Restricted for:		
Loans	1,073,859	1,200,651
Debt service	3,651,957	3,167,803
Unrestricted comprised of:		
General unrestricted	7,340,432	6,699,494
Effect of GASB 68 on unrestricted net position (see Note A)	(18,889,412)	(18,208,148)
Designated by the Board	540,700	441,417
<i>Total Net Position</i>	\$ 39,686,433	\$ 25,646,991

¹ As restated, see Note O.

See accompanying notes.

WESTERN STATE COLORADO UNIVERSITY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents.....	\$ 494,062	\$ 201,343
Investments	15,335,183	15,215,858
Contributions receivable, net of allowance of \$44,311 (2016) and \$53,473 (2015).....	693,293	714,091
Other assets	383,382	370,593
Debt issuance costs, net.....	112,677	119,701
Property and equipment, net of accumulated depreciation	11,828,737	12,189,486
Total Assets	\$ 28,847,334	\$ 28,811,072
Liabilities		
Accounts payable	\$ 46,450	\$ 48,714
Accrued compensated absences	21,776	32,748
Accrued interest	78,498	5,304
Bonds payable	5,056,336	5,157,000
Total Liabilities	5,023,060	5,243,766
Net Assets		
Endowment asset deficiencies.....	(3,382,883)	(3,230,934)
Operating unrestricted	1,026,531	1,146,302
Net Unrestricted	(2,356,352)	(2,084,632)
Temporarily restricted.....	7,774,424	8,100,934
Permanently restricted.....	18,226,202	17,551,004
Total Net Assets	23,644,274	23,567,306
Total Liabilities and Net Assets	\$ 28,847,334	\$ 28,811,072

The accompanying notes are an integral part of these statements.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	2016	2015 ¹
Operating Revenue		
Tuition and fees, including \$9,861,679 (2016) and \$8,632,785 (2015) pledged for bonds	\$ 29,931,252	\$ 27,375,775
Less: scholarship allowances	<u>(9,595,182)</u>	<u>(8,581,521)</u>
<i>Net Tuition and Fees</i>	20,336,070	18,794,254
Federal, state, and private grants and contracts	7,110,273	5,254,854
Fee for service revenue	8,628,355	7,618,171
Sales and services of auxiliary enterprises, including \$9,565,305 (2016) and \$8,871,047 (2015) pledged for bonds	9,704,494	9,069,815
Less: scholarship allowances	<u>(167,043)</u>	<u>(117,756)</u>
<i>Net Sales and Services of Auxiliary Enterprises</i>	9,537,451	8,952,059
Other operating revenue, including \$237,724 (2016) and \$204,489 (2015) pledged for bonds	<u>1,526,860</u>	<u>1,644,199</u>
<i>Total Operating Revenue</i>	<u>47,139,009</u>	<u>42,263,537</u>
Operating Expenses		
Instruction	16,141,649	14,820,246
Research	144,852	138,066
Public service	193,538	148,331
Academic support	2,948,327	2,234,390
Student services	4,555,810	4,254,830
Institutional support	4,485,327	4,148,595
Operation and maintenance of plant	2,484,626	2,331,672
Scholarships and fellowships	290,883	232,190
Auxiliary enterprises	10,789,114	9,554,661
Depreciation	<u>6,749,764</u>	<u>7,197,578</u>
<i>Total Operating Expenses</i>	<u>48,783,890</u>	<u>45,060,559</u>
<i>Operating Loss</i>	<u>(1,644,881)</u>	<u>(2,797,022)</u>
Nonoperating Revenue (Expenses)		
Federal Pell grants	2,421,019	2,499,903
Federal interest subsidy, including \$1,154,746 (2016) and \$1,147,318 (2015) pledged for bonds	1,154,746	1,147,319
Investment and interest income, including \$64,374 (2016) and \$59,914 (2015) pledged for bonds	221,944	151,137
Interest expense on capital debt	<u>(5,206,612)</u>	<u>(5,227,114)</u>
Other nonoperating expenses	<u>(275,122)</u>	<u>(107,387)</u>
<i>Net Nonoperating Expenses</i>	<u>(1,684,025)</u>	<u>(1,536,142)</u>
<i>Loss Before Capital Contributions</i>	<u>(3,328,906)</u>	<u>(4,333,164)</u>
Capital Contributions		
State appropriation, capital	17,368,348	2,294,965
<i>Increase (Decrease) in Net Position</i>	<u>14,039,442</u>	<u>(2,038,199)</u>
Net Position - beginning of year	25,646,991	50,744,844
Restatement (See Note O)	-	(5,392,045)
Cumulative effect of adoption of new accounting standard	-	<u>(17,667,609)</u>
Net Position - beginning of year, as restated	25,646,991	27,685,190
Net Position - end of year	<u>\$ 39,686,433</u>	<u>\$ 25,646,991</u>

¹ As restated, see Note O.

See accompanying notes.

WESTERN STATE COLORADO UNIVERSITY FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2016 and 2015

	2016	2015
Changes in Unrestricted Net Assets		
Revenues, gains and other support:		
Contributions.....	\$ 240,324	\$ 212,441
In-kind mining claim contribution	-	20,000
Investment income (loss)	10,972	(30,638)
Rental Income	14,482	14,482
	265,778	216,285
Net assets released from restrictions:		
Satisfaction of program restrictions.....	5,715,803	3,847,558
Change in endowment asset deficiencies	(151,949)	(687,439)
Transfers	251,196	315
	6,080,828	3,376,719
Expenses:		
Programs	5,793,417	3,659,485
Management and general	292,620	368,779
Fund-raising	266,511	394,181
	6,352,548	4,422,445
(Decrease)/Increase in Unrestricted Net Assets	(271,720)	(1,045,726)
Changes in Temporarily Restricted Net Assets		
Revenues and gains:		
Contributions.....	1,808,217	2,056,098
Fundraising.....	674,467	533,494
In-kind contributions	2,200,659	127,002
Investment (loss) income	765,704	(4,301)
Royalties	39,916	72,105
	5,488,964	2,784,398
Net assets released from restrictions:		
Satisfaction of program restrictions.....	(5,715,803)	(3,847,558)
Change in endowment asset deficiencies	151,949	687,439
Transfers	(251,620)	95,955
(Decrease)/Increase in Temporarily Restricted Net Assets	(326,510)	(279,766)
Changes in Permanently Restricted Net Assets		
Revenues and gains:		
Contributions.....	674,774	322,129
Transfers	424	(96,270)
Increase in Permanently Restricted Net Assets	675,198	225,859
Increase (Decrease) in Net Assets	76,968	(1,099,633)
Net Assets - July 1	23,567,306	24,666,939
Net Assets - June 30	\$ 23,644,274	\$ 23,567,306

The accompanying notes are an integral part of these statements.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash Received		
Tuition and fees	\$ 20,278,367	\$ 18,670,479
Sales of services	16,757,178	15,588,139
Sales of product	892,874	998,049
Grants, contracts and gifts	3,929,720	3,569,138
Student loans collected	177,627	269,219
Other operating receipts	1,526,860	1,644,199
Cash Payments		
Payments to or for employees	(25,168,830)	(24,019,024)
Payments to suppliers	(14,495,632)	(13,386,179)
Scholarships disbursed	(290,883)	(232,190)
Student loans disbursed	-	(90,984)
<i>Net Cash Provided by Operating Activities</i>	3,607,281	3,010,846
Cash Flows from Noncapital Financing Activities		
Federal, state, private grants & contracts	3,573,546	3,442,214
Other agency inflows (outflows)	(273,494)	(75,075)
<i>Net Cash Provided by Noncapital Financing Activities</i>	3,300,052	3,367,139
Cash Flows from Capital and Related Financing Activities		
State appropriations, capital	17,368,349	2,294,965
Acquisition or construction of capital assets	(15,904,121)	(1,884,006)
Principal paid on capital debt	(925,000)	(900,000)
Interest on capital debt	(5,099,044)	(5,119,129)
<i>Net Cash Provided Used for Capital and Related Financing Activities</i>	(4,559,816)	(5,608,170)
Cash Flows from Investing Activities		
Investment earnings	206,582	151,136
<i>Net Cash Provided by Investing Activities</i>	206,582	151,136
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	2,554,099	920,951
Cash and cash equivalents - beginning of year	14,858,897	13,937,946
Cash and cash equivalents - end of year	\$ 17,412,996	\$ 14,858,897

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	<u>\$ (1,644,881)</u>	<u>\$ (2,797,022)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,749,764	7,197,578
Provision for uncollectable accounts	5,791	37,199
Decrease (increase) in assets	(857,283)	(45,432)
Increase (decrease) in liabilities	(646,110)	(1,160,723)
Other reconciling items	-	(220,754)
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$ 3,607,281</u></u>	<u><u>\$ 3,010,846</u></u>
Noncash Investing, Capital, and Financing Activities:		
Additions to capital assets included in accounts payable and accrued liabilities	2,057,099	-
Unrealized gains on investments	(15,362)	(7,488)
Amortization of deferred bond loss	101,645	101,645
Amortization of bond discount	8,847	8,847

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

As an institution of the State, the University's operations and activities are funded partially through fee-for-service contracts with the State.

Governance

Effective July 1, 2003, Colorado Revised Statute (C.R.S.) 23-56-102 established the Board of Trustees (Trustees) of the University to serve as the University's governing board. Nine of the eleven Trustees are members outside the University who are appointed by the Governor with the consent of the Senate. The remaining two members consist of a student, elected by the student body, and a faculty member, elected by tenure and tenure track faculty. Both of these members are nonvoting members. The Trustees have full authority and responsibility for the control and governance of the University, including such areas as role and mission, academic programs, curriculum, admissions, finance, and personnel policies. To exercise their authority appropriately, the Trustees regularly establish policies designed to enable the University to perform its statutory functions in a rational and systematic manner. To assist them in meeting their responsibilities, the Trustees delegate to the President the authority to interpret and administer their policies in all areas of operations.

Reporting Entity

The accompanying financial statements reflect the financial activities of the University for the fiscal years ended June 30, 2016 and 2015. The University is an institution of higher education of the State. Thus, for financial reporting purposes, the University is included as part of the State's primary government. A copy of the State's Comprehensive Annual Financial Report may be obtained from the Colorado Office of the State Controller (OSC), Department of Personnel and Administration (DPA), Denver, Colorado.

The financial statements of the University include all of the integral parts of the University's operations. The University applied required criteria to determine whether any organization should be included in the University's reporting entity. Management has determined that the Western State Colorado University Foundation (the Foundation) meets the criteria to be included in the University's financial statements as a discretely presented component unit. The Foundation was incorporated on August 22, 1975 under the laws of the State. The purpose of the Foundation is to aid, directly or indirectly, the University in fulfilling its educational purposes. The Foundation is supported primarily through donor contributions. A full copy of the Foundation's financial statements may be obtained from the Western State Colorado University Foundation, 909 East Escalante Drive, P.O. Box 1264, Gunnison, CO 81230.

Basis of Accounting

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

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus* GASB (61) and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, paragraph 47, (GASB 39) the discrete presentation of the Foundation's financial statements appear on separate pages from the University. The Foundation warrants inclusion as part of the financial reporting entity because of the nature and significance of its relationship with the University. Please refer to Note L for additional discussion.

The financial statements of the Foundation are prepared on the accrual basis and follow the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, Not-for-Profit Entities.

The Foundation uses a different GAAP reporting model and following the GASB 39 recommendation, its financial information is not presented on the same page as the University but is reported on separate pages after the University's financial statements. The separate financials include the statements of financial position, and the statements of activities.

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, liabilities, deferred outflows, and deferred inflows and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Investments

Investments are carried at fair value. Fair value is determined using quoted market prices. Investment income consists of interest income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

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

Student Loans Receivable

Student loans receivable consists of amounts due from students related to loans awarded to students through the Federal Perkins Loan program. The University records the current portion of the receivable as the amount of principal their third party service provider has collected in the current year and this approximates the amount estimated to be collected in the following year. Student loans receivable are recorded net of estimated uncollectible amounts. Loan receivables past due greater than two years are 100% allowed for.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Inventories

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

Capital Assets

Capital assets are stated at cost at date of acquisition or fair market value at date of donation. The University capitalizes only those assets with an initial cost or fair market value greater than or equal to \$5,000 for equipment. For renovations and improvements, the University capitalizes only those projects with a value of \$50,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 15 to 70 years for buildings and building improvements and 3 to 10 years for equipment and library materials. State capital construction revenues are recognized only to the extent of current expenditures. Controlled maintenance (corrective repairs or replacements to existing facilities) funded by the state is recorded as state appropriated revenue and the assets are recorded to the extent that expenditures qualify for capitalization.

Unearned Revenue

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

Compensated Absences

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

Deferred Outflows of Resources and Deferred Inflows of Resources

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (GASB 63), defines the five elements that make up a statement of financial position to include:

- Assets – resources with a present service capacity under University control.
- Deferred Outflows of Resources – consumption of net assets by the University that is applicable to a future reporting period.
- Liabilities – present obligations to sacrifice resources.
- Deferred Inflows of Resources – acquisitions of net assets by the University that is applicable to a future reporting period.
- Net Position – residual of all other elements presented in a statement of financial position.

See Notes E and H for detail of the composition of the University's deferred outflows and deferred inflows.

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Classification of Revenue

The University has classified its revenues as either operating revenues, nonoperating revenues, or capital contributions according to the following criteria:

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

Non-operating Revenue – Nonoperating revenue is that revenue that does not meet the definition of operating revenue. Nonoperating revenue includes Federal Pell grants, the Federal Build America Bond interest subsidy, and investment income.

Capital Contributions – Contributions to the University earmarked for capital asset acquisition are classified as capital contributions and are reported separately from operating and nonoperating revenues.

Scholarship Allowances

Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the differences between the stated charge for goods and services provided by the University, 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 revenue in the University's financial statements. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the years ended June 30 were \$9,762,225 (2016) and \$8,699,277 (2015).

Net Position

The University's net position is classified as follows:

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

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

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises, unless otherwise pledged or restricted. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Certain net position is unrestricted but designated by the Board of Trustees for certain purposes.

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Net assets of the Foundation are classified as unrestricted, temporarily restricted, and permanently restricted. Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by a donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Substantially all of the Foundation's unconditional promises to give are due within the next five years.

Application of Restricted and Unrestricted Resources

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

Reconciliation to Other Reports

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

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2016 or 2015.

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

Cumulative Effect of Adoption of Accounting Standard

In fiscal year 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 68 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pensions that are provided to the employees of state and local governmental employers through pension plans (see Note H).

Certain employees of the University are covered by the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note H. In accordance with GASB 68, as a result of the University having employees covered by the SDTF, beginning net position as of July 1, 2014 was adjusted downward by \$17,667,609 for the net effect of recording the University's proportionate share of the SDTF's net pension liability as of December 31, 2013 (SDTF's measurement date) less contributions made by the University to the SDTF subsequent to the December 31, 2013 measurement date and prior to the beginning of the University's current fiscal year (the period of January 1, 2014 through June 30, 2014). The University's proportion of the net pension liability was based on the University's contributions to the SDTF for the calendar year 2013 relative to the total contributions made to the SDTF by participating employers for the calendar year 2013.

At December 31, 2013, the University's proportion of the SDTF's net pension liability was approximately 0.2037 percent. The SDTF's net pension liability as of December 31, 2013 was \$8,907,971,000. The

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University's share of the SDTF's net pension liability, calculated by applying the aforementioned proportion to the SDTF's net pension liability, is \$18,142,966. Contributions made by the University to the SDTF subsequent to the December 31, 2013 measurement date and prior to the beginning of the University's prior fiscal year (the period of January 1, 2014 through June 30, 2014) were \$475,357. Therefore, the cumulative effect of the adoption of GASB 68 is comprised of the following:

University's proportionate share of SDTF's December 31, 2013 net pension liability	\$ 18,142,966
Less: Contributions made by the University to the SDTF for the period of January 1, 2014 through June 30, 2014 (Deferred outflow)	<u>(475,357)</u>
<i>Cumulative effect of adoption of accounting standard</i>	<u><u>\$ 17,667,609</u></u>

The restatement affects the balance of beginning net position for the year ended June 30, 2015 as follows:

Net Position - July 1, 2014 beginning balance	\$ 50,744,844
Cumulative effect of adoption of accounting standard	<u>(17,667,609)</u>
Restatement – see Note O	<u>(5,392,045)</u>
Net Position - July 1, 2014 beginning balance, as restated	<u><u>\$ 27,685,190</u></u>

NOTE B – CASH AND INVESTMENTS

Cash

At June 30, the University had \$16,991,989 (2016) and \$13,712,202 (2015) on deposit with the Colorado State Treasurer (the Treasurer). Detailed information on the State Treasurer's pooled cash and investments is available from the Treasurer's office.

At year-end, cash on hand and in banks consisted of the following:

	2016	2015
Cash on hand	\$ 31,003	\$ 578,492
Cash in checking accounts at bank	<u>390,004</u>	<u>568,203</u>
	<u><u>\$ 421,007</u></u>	<u><u>\$ 1,146,695</u></u>

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned to it. To manage custodial credit risk, deposits with U.S. and foreign financial institutions are made in accordance with University and State policy, including the Public Deposit Protection Act (PDPA). PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under the PDPA are considered to be collateralized with securities held by the pledging institution in the University's name.

The University deposits most of its cash with the Treasurer as required by Colorado Revised Statutes (C.R.S.). The Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2016, the University had cash on deposit with the State Treasurer of \$16,991,989, which represented approximately 0.23 percent of the total \$7,408.5 million fair value of

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deposits in the Treasurer's Pool (Pool). As of June 30, 2015, the University had cash on deposit with the State Treasurer of \$13,712,202, which represented approximately 0.18 percent of the total \$7,661.8 million fair value of deposits in the Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted prices in active markets for identical assets (\$230 million) and significant other observable inputs (\$7,178.5 million) at the fiscal year end. On the basis of the University's participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2016, none of the investments in the Treasurer's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2016, approximately 83.8 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$77,761,610 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2016, the weighted average maturity of investments in the Treasurer's Pool is as follows:

Investment Type	Weighted Average Maturity	Maturity Amount	Percent of Pool
Asset Backed Securities	2.585	\$ 1,025,405,593	13.8
Corporate Bonds	1.985	1,668,441,771	22.5
U.S. Government Securities	1.343	3,633,084,620	49.0
Commercial Paper	0.094	846,606,464	11.4
Money Market Mutual Funds	0.000	230,000,000	3.1
Mortgages	0.000	4,919,040	0.2
TOTAL		\$ 7,408,457,488	100.0

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The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2015-16.

Additional information on investments of the Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2016.

Investments

The University has an investment in U.S. Treasury STRIPS related to a bond sinking fund. This investment is carried at fair value based on quoted prices in active markets for identical assets.

NOTE C – RECEIVABLES AND PAYABLES

At June 30, receivable balances were as follows:

	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
<u>2016</u>			
Student accounts receivable	\$ 811,276	\$ (249,424)	\$ 561,852
Other accounts receivable	\$ 1,307,759	\$ -	\$ 1,307,759
Student loans receivable	\$ 177,627	\$ (65,723)	\$ 111,904
Noncurrent student loans receivable	\$ 1,073,156	\$ (397,113)	\$ 676,043
<u>2015</u>			
Student accounts receivable	\$ 904,392	\$ (241,513)	\$ 662,879
Other accounts receivable	\$ 409,576	\$ -	\$ 409,576
Student loans receivable	\$ 177,952	\$ (58,544)	\$ 119,408
Noncurrent student loans receivable	\$ 1,265,220	\$ (417,426)	\$ 847,794

At June 30, accrued liabilities balances were as follows:

	2016	2015
Accrued payroll	\$ 2,146,264	\$ 2,092,948
Retainage payable	905,617	-
Accrued interest payable	634,459	637,384
<i>Total Accrued liabilities</i>	<u>\$ 3,686,340</u>	<u>\$ 2,730,332</u>

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NOTE D – CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the years ended June 30, 2016 and 2015, respectively.

	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Nondepreciable Capital Assets				
Land	\$ 695,416	\$ -	\$ -	\$ 695,416
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	<u>2,594,746</u>	<u>17,506,284</u>	<u>(1,253,915)</u>	<u>18,847,115</u>
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 5,194,245</u>	<u>\$ 17,506,284</u>	<u>\$ (1,253,915)</u>	<u>\$ 21,446,614</u>
Depreciable Capital Assets				
Land improvements	\$ 603,025	\$ -	\$ -	\$ 603,025
Buildings and improvements	171,529,114	-	1,253,915	172,783,029
Furniture and equipment	7,466,419	405,098	(100,181)	7,771,336
Library materials	<u>5,879,467</u>	<u>49,837</u>	<u>-</u>	<u>5,929,304</u>
<i>Total Depreciable Capital Assets</i>	<u>185,478,025</u>	<u>454,935</u>	<u>1,153,734</u>	<u>187,086,694</u>
Less: Accumulated depreciation				
Land improvements	(286,437)	(30,151)	-	(316,588)
Buildings and improvements	(58,910,293)	(4,790,071)	-	(63,700,364)
Furniture and equipment	(4,471,777)	(1,837,513)	100,181	(6,209,109)
Library materials	<u>(5,541,290)</u>	<u>(92,029)</u>	<u>-</u>	<u>(5,633,319)</u>
<i>Total Accumulated Depreciation</i>	<u>(69,209,797)</u>	<u>(6,749,764)</u>	<u>100,181</u>	<u>(75,859,380)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$ 116,268,228</u>	<u>\$ (6,294,829)</u>	<u>\$ 1,253,915</u>	<u>\$ 111,227,314</u>
	Balance June 30, 2014 Restated	Additions	Deletions/ Transfers	Balance June 30, 2015
Nondepreciable Capital Assets				
Land	\$ 695,416	\$ -	\$ -	\$ 695,416
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	<u>792,525</u>	<u>3,043,585</u>	<u>(1,241,364)</u>	<u>2,594,746</u>
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 3,392,024</u>	<u>\$ 3,043,585</u>	<u>\$ (1,241,364)</u>	<u>\$ 5,194,245</u>
Depreciable Capital Assets				
Land improvements	\$ 603,025	\$ -	\$ -	\$ 603,025
Buildings and improvements	170,287,750	-	1,241,364	171,529,114
Furniture and equipment	7,557,334	75,184	(166,099)	7,466,419
Library materials	<u>5,848,920</u>	<u>30,547</u>	<u>-</u>	<u>5,879,467</u>
<i>Total Depreciable Capital Assets</i>	<u>184,297,029</u>	<u>105,731</u>	<u>1,075,265</u>	<u>185,478,025</u>

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Less: Accumulated depreciation				
Land Improvements	(256,286)	(30,151)	-	(286,437)
Buildings and improvements	(53,651,216)	(5,259,077)	-	(58,910,293)
Furniture and equipment	(2,833,127)	(1,804,749)	166,099	(4,471,777)
Library materials	(5,437,689)	(103,601)	-	(5,541,290)
<i>Total Accumulated Depreciation</i>	<u>(62,178,318)</u>	<u>(7,197,578)</u>	<u>166,099</u>	<u>(69,209,797)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$122,118,711</u>	<u>\$ (7,091,847)</u>	<u>\$ 1,241,364</u>	<u>\$ 116,268,228</u>

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

	<u>2016</u>	<u>2015</u>
Land	\$ 813,225	\$ 813,225
Buildings and improvements	14,434,011	14,434,011
Furniture and equipment	<u>101,484</u>	<u>101,484</u>
	15,348,720	15,348,720
Less: accumulated depreciation	<u>(3,519,983)</u>	<u>(3,159,234)</u>
	<u>\$ 11,828,737</u>	<u>\$ 12,189,486</u>

NOTE E – DEFERRED OUTFLOWS AND DEFERRED INFLOWS

GASB Statement No. 65 defines which items previously reported as assets and liabilities are now required to be reported as either deferred outflows or deferred inflows of resources. Under this statement, the University is reporting \$863,981 (2016) and \$965,626 (2015) of unamortized accounting losses from refunding certain bonds, as deferred outflows. The University also recorded deferred outflows of \$2,355,199 (2016) and \$875,496 (2015) and deferred inflows of \$706,053 (2016) and \$124,041 (2015) related to defined benefit pension plan amounts the University is required to record under GASB 68 due to coverage of certain University employees by the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Notes A and H of the financial statements.

NOTE F – LONG-TERM LIABILITIES

The University's long-term liability activity for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2016</u>	<u>Due within</u> <u>One Year</u>
Bonds and Leases Payable:					
Bonds	\$ 87,820,000	\$ -	\$ 925,000	\$ 86,895,000	\$ 940,000
Premium/Discount	(155,233)	-	(8,847)	(146,386)	-
Total Bonds Payable	<u>87,664,767</u>	-	<u>916,153</u>	<u>86,748,614</u>	<u>940,000</u>
Other Liabilities:					
Compensated Absences	785,687	131,594	108,554	808,727	108,554
Net Pension Liability	<u>18,959,603</u>	<u>1,578,955</u>	-	<u>20,538,558</u>	-
Total Other Liabilities	<u>19,745,290</u>	<u>1,710,549</u>	<u>108,554</u>	<u>21,347,285</u>	<u>108,554</u>
Total Long-Term Liabilities	<u>\$ 107,410,057</u>	<u>\$ 1,710,549</u>	<u>\$ 1,024,707</u>	<u>\$ 108,095,899</u>	<u>\$ 1,048,554</u>

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The University's long-term liability activity for the year ended June 30, 2015 was as follows:

	<u>Balance</u> 6/30/2014	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 6/30/2015	<u>Due within</u> <u>One Year</u>
Bonds and Leases Payable:					
Bonds	\$ 88,720,000	\$ -	\$ 900,000	\$ 87,820,000	\$ 925,000
Premium/Discount	<u>(164,081)</u>	<u>-</u>	<u>(8,848)</u>	<u>(155,233)</u>	<u>-</u>
Total Bonds Payable	88,555,919	-	891,152	87,664,767	925,000
Other Liabilities:					
Compensated Absences	690,013	200,218	104,544	785,687	104,543
Net Pension Liability	<u>-</u>	<u>18,959,603</u>	<u>-</u>	<u>18,959,603</u>	<u>-</u>
Total Other Liabilities	<u>690,013</u>	<u>19,159,821</u>	<u>104,544</u>	<u>19,745,290</u>	<u>104,543</u>
Total Long-Term Liabilities	<u>\$ 89,245,932</u>	<u>\$ 19,159,821</u>	<u>\$ 995,696</u>	<u>\$ 107,410,057</u>	<u>\$ 1,029,543</u>

On May 28, 2009, the University issued \$19,535,000 in Revenue Bonds, Series 2009 with an interest rate of 5.00%. The 2009 bonds begin to mature on May 15, 2025 in increasing amounts through May 15, 2039. The bonds are collateralized by a pledge of certain revenues of the auxiliary facilities system. The bonds were used to finance a portion of the new student center and to terminate the Wells Fargo Lease Purchase Agreement.

On June 29, 2010, the University issued \$9,115,000 in Institutional Enterprise Revenue Bonds (Tax-Exempt), Series 2010A with an average interest rate of 4.017%. The 2010A bonds begin to mature on May 15, 2018 in increasing amounts through May 15, 2026. The bonds are to be paid from Institutional Enterprise Revenues.

Additionally, on June 29, 2010, the University issued \$48,020,000 in Institutional Revenue Enterprise Bonds (Taxable Direct Payment Build America Bonds), Series 2010B with an interest rate of 7% offset by a Build America Bond Federal Direct Payment subsidy equal to 35% of the interest payable on the Series 2010B bonds. The 2010B bonds begin to mature on May 15, 2027 in increasing amounts through May 15, 2045. The bonds are to be paid from Institutional Enterprise Revenues.

Series 2010 A and B bonds were used to finance a new student apartment complex and a new sports complex/field house.

On June 29, 2010, the University issued \$1,635,000 in Institutional Enterprise Bonds (Taxable Direct Payment Qualified Energy Conservation Bonds), Series 2010C with an interest rate of 6.448% offset by a Qualified Energy Conservation Bond Federal Direct Payment subsidy equal to the lesser of 100% of the corresponding interest payable on the Qualified Energy Conservation Bond on the interest payment date and 70% of the amount of the interest which would have been payable on such interest payment date if such rate were determined at the applicable credit rate set by the United States Treasury and in effect on the first day on which there was a binding written contract for the sale of the bonds. The 2010C bonds begin to mature on May 15, 2020 in increasing amounts through May 15, 2027. The bonds are to be paid from Institutional Enterprise Revenues.

On December 13, 2011, the University issued \$6,180,000 in Institutional Enterprise Revenue Refunding Bonds (Tax Exempt) Series 2011A with an average interest rate of 3.228%. The 2011A bonds begin to

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mature on May 15, 2019 in increasing amounts through May 15, 2025. The bonds are paid from Institutional Enterprise Revenues.

On December 13, 2011, the University issued \$6,550,000 in Institutional Enterprise Revenue Refunding Bonds (Taxable) Series 2011B with an average interest rate of 2.764%. The 2011B bonds began to mature on May 15, 2012 in increasing amounts through May 15, 2019. The bonds are paid from Institutional Enterprise Revenues.

The proceeds of the Series 2011 bonds plus the Series 2003 bond debt service reserve fund were used to advance refund the Auxiliary Facilities System Refunding Bonds, Series 2003A and the Auxiliary Facilities System Improvement Bonds, Series 2003B.

The Series 2011 bonds resulted in a cash flow savings of \$318,617 and an economic loss of \$1,321,383.

Additionally, the University has agreements for the rental of copiers all of which are for a period 36 to 48 months and are in effect through March 2020. Total future rental obligations total \$112,489.

Capitalization of Interest

Interest costs are capitalized as part of historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on the proceeds of the University's tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs capitalized in determining the amount to be capitalized. During the years ended June 30, 2016 and 2015, no interest was capitalized. Total interest costs incurred for the years ended June 30, 2016 and 2015 were \$5,206,612 and \$5,227,114, respectively, as reported on the Statements of Revenue, Expenses, and Changes in Net Position.

Principal and interest requirements to maturity are as follows:

Year ending June 30	2009 Series	2010 Series	2011 Series	Total
2017	\$ 976,750	\$ 3,827,095	\$ 1,211,831	\$ 6,015,676
2018	976,750	4,197,095	1,219,816	6,393,661
2019	976,750	4,500,532	1,373,869	6,851,151
2020	976,750	4,983,270	1,071,644	7,031,664
2021	976,750	4,976,166	1,072,031	7,024,947
2022-2026	6,352,500	24,926,791	4,009,438	35,288,729
2027-2031	9,599,500	23,802,458	-	33,401,958
2032-2036	9,605,250	22,510,350	-	32,115,600
2037-2041	5,761,500	23,100,400	-	28,861,900
2042-2046	-	19,287,050	-	19,287,050
<i>Total Principal and Interest</i>	36,202,500	136,111,207	9,958,629	182,272,336
Less Interest	(16,667,500)	(77,341,207)	(1,368,629)	(95,377,336)
<i>Total Principal</i>	<u>\$ 19,535,000</u>	<u>\$ 58,770,000</u>	<u>\$ 8,590,000</u>	<u>\$ 86,895,000</u>

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Long-term liabilities for the Foundation consist of the following as of June 30:

On August 30, 2006, the City of Gunnison issued its Revenue Bond (Western State College Foundation Project) Series 2006 to finance the construction of the Borick Business Building to be owned and operated by the Foundation and utilized by the University. The proceeds of the bond were loaned by the city to the Foundation. The bond was issued in the aggregate principal amount of \$6,000,000 at a 4.5% annual interest rate. On April 30, 2012, the “Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012B” was issued in the aggregate principal amount of \$1,481,069, which refunded the Series 2006 Bond. The initial maturity dates on the Series 2006 bonds remained the same with the “Series 2012 Bonds”; however, the interest rate was reduced to 1.49%. This bond was paid in full on August 15, 2013.

On October 15, 2009, the University issued a Revenue Bond (Series 2009) of \$19,535,000 to finance the construction of a new University Center. The Foundation was included in this issue for a \$6,000,000 bond issue (relating to its share of the project) at a 6.1% annual interest rate, due July 15, 2019. On April 30, 2012, the “Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012A” was issued in the aggregate principal amount of \$6,023,043, which refunded the Series 2009 Bond. The initial maturity dates on the Series 2009 bonds remained the same with the “Series 2012 Bonds”; however, the interest rate was reduced to 2.86%. On June 19, 2015, a bond was issued designated as the “Gunnison County, Colorado Revenue Refunding Bond Series 2012A (2015 Reissuance) in the aggregate principal amount of \$5,157,000, which refunded the “Gunnison County, Colorado Revenue Refunding Bond Series 2012A”. The maturity date of the original bond is now July 15, 2032 with a fixed rate of 3.35% through July 15, 2025. On July 15, 2025, the Foundation will have the option of paying off the bond in full, resetting the interest rate according to market conditions and amending the term over the remaining amortization with the current lender, or refinancing with another lender. The bond has financial covenants that must be met by the Foundation. At June 30, 2015, one of the covenants was not met. The Foundation requested and subsequently received a waiver from the lender.

The future maturities of the bonds are as follows:

<u>Year ending June 30</u>	<u>University Center</u>
2017	\$ 232,654
2018	\$ 241,102
2019	\$ 249,361
2020	\$ 257,902
2021	\$ 266,350
Thereafter	\$ 3,808,967

NOTE G – COMPENSATED ABSENCE LIABILITY FOR ANNUAL AND SICK LEAVE

University employees may accrue annual and sick leave, based on length of service, and subject to certain limitations regarding the amount to be paid upon termination. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2016 is \$808,727. Current expenses include \$23,040 for the increase in the estimated compensated absence liability. The recording of the liability for compensated absences may result in fund-balance deficits, which will be funded by state appropriation, self-supporting funds, or other sources available in future years when the liability is paid.

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NOTE H – EMPLOYEE PENSION PLANS

A. Optional Retirement Plan

On September 10, 1993, the Board of Trustees adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff under the authority of Senate Bill 92-127. The implementation date was May 1, 1994; on that date, eligible employees were offered the choice of remaining in the Colorado Public Employees' Retirement Association (PERA) or participating in the ORP. New faculty and administrative staff members, with appointments of 0.5 FTE and greater, are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire.

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

The University's contributions to the ORP for fiscal years ending June 30, 2016 and 2015 were \$1,341,540 and \$1,211,012, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

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

B. Colorado Public Employees' Retirement Association

1. Summary of Significant Accounting Policies

The University participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Plan Description

Eligible employees of the University are provided with pensions through the State Division Trust Fund (SDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under

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which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. State Troopers whose disability is caused by an on-the-job injury are immediately eligible to apply for disability benefits and do not have to meet the five years of service credit requirement. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the University are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees with the exception of State Troopers are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements for all employees except State Troopers are summarized in the table below:

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	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14	CY15	CY16	CY15	CY16
	7-1-13 to 12-31-13	1-1-14 to 6- 30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12-31-15	1-1-16 to 6-30-16
Employer Contribution Rate ¹	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) ¹	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF ¹	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	3.00%	3.50%	3.50%	4.00%	4.00%	4.50%
Total Employer Contribution Rate to the SDTF ¹	15.53%	16.43%	16.43%	17.33%	17.33%	18.23%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from the University were \$995,975 and \$954,326 for the years ended June 30, 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the University reported liabilities of \$20,538,558 and \$18,959,603, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 for fiscal year ended 2016 and as of December 31, 2014 for fiscal year ended 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation from the preceding December 31. Standard update procedures were used to roll forward the total pension liability to December 31, 2015 and 2014. The University's proportion of the net pension liability was based on the University's contributions to the SDTF for the calendar years 2015 (for fiscal 2016) and 2014 (for fiscal 2015) relative to the total contributions of participating employers to the SDTF.

At December 31, 2015 and 2014, the University's proportion was 0.1950 percent and 0.2016 percent, respectively.

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$681,264 and \$554,090, respectively.

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At June 30, 2016 and 2015 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Difference between expected and actual experience in the measurement of the total pension liability	\$ 299,076	\$ -	\$ 655	\$ 1,405
Changes in assumptions or other inputs	-	-	243,118	-
Net difference between projected and actual earnings on pension plan investments	1,556,955	386,589	-	-
Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the plan) and the employer's proportionate share of contributions	-	-	462,280	122,636
Employer's contributions to the plan subsequent to the measurement date of the collective net pension liability	499,168	488,907	-	-
Total	\$ 2,355,199	\$ 875,496	\$ 706,053	\$ 124,041

The deferred outflows and deferred inflows related to pensions are included with total deferred outflows and total deferred inflows on the statement of net position.

The amounts reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2017	\$ 164,834
2018	\$ 254,990
2019	\$ 413,401
2020	\$ 316,753
2021	-
Thereafter	-

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Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 9.57 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The SDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected

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return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

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- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan’s fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the University’s proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability – 2016	25,947,582	20,538,558	16,014,091
Proportionate share of the net pension liability – 2015	24,310,797	18,959,603	14,458,534

Pension plan fiduciary net position. Detailed information about the SDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

C. Defined Contribution Retirement Plan (DC Plan)

Plan Description – Employees of the State of Colorado that were hired on or after January 1, 2006 and employees of certain community colleges that were hired on or after January 1, 2008 which were eligible to participate in the SDTF, a cost-sharing multiple-employer defined benefit pension plan, have the option to participate in the SDTF or the Defined Contribution Retirement Plan (PERA DC Plan). The PERA DC Plan is an Internal Revenue Code Section 401(a) governmental profit-sharing defined contribution plan. Title 24, Article 51, Part 15 of the C.R.S., as amended, assigns the authority to establish Plan provisions

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to the PERA Board of Trustees. The DC Plan is also included in PERA’s comprehensive annual financial report as referred to above.

Funding Policy – All participating employees in the PERA DC Plan, with the exception of State Troopers, are required to contribute 8.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 10.15 percent of PERA-includable salary on behalf of these employees. All participating State Troopers are required to contribute 10.00 percent of their PERA-includable salary and the State of Colorado is required to contribute 12.85 percent of PERA-includable salary on behalf of these employees. Additionally, the State of Colorado is required to contribute AED and SAED to the SDTF as follows:

	Fiscal Year 2014		Fiscal Year 2015		Fiscal Year 2016	
	CY13	CY14		CY15		CY16
	7-1-13 to 12-31-13	1-1-14 to 6-30-14	7-1-14 to 12-31-14	1-1-15 to 6-30-15	7-1-15 to 12- 31-15	1-1-16 to 6-30-16
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 ¹	3.40%	3.80%	3.80%	4.20%	4.20%	4.60%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51-411 ¹	3.00%	3.50%	3.50%	4.00%	4.00%	4.50%
Total Employer Contribution Rate for AED and SAED ¹	6.40%	7.30%	7.30%	8.20%	8.20%	9.10%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Contribution requirements are established under Title 24, Article 51, Section 1505 of the C.R.S., as amended. Participating employees of the PERA DC Plan are immediately vested in their own contributions and investment earnings and are immediately 50 percent vested in the amount of employer contributions made on their behalf. For each full year of participation, vesting of employer contributions increases by 10 percent. Forfeitures are used to pay expenses of the PERA DC Plan in accordance with PERA Rule 16.08 as adopted by the PERA Board of Trustees in accordance with Title 24, Article 51, Section 204 of the C.R.S. As a result, forfeitures do not reduce pension expense.

D. 401(k) Defined Contribution Plan

Plan Description - Employees of the University that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions.

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E. 457 Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2015, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,000. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$6,000 contribution in 2015, for total contributions of \$24,000. Contributions and earnings are tax deferred. At December 31, 2015, the plan had 17,814 participants.

F. Student-Employees Defined Contribution Plan

Beginning in fiscal year 1993, in accordance with the provisions of CRS 24-54.6-101 through 106 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll upon which the plan contributions were based was \$449,681 (2016) and \$393,604 (2015).

NOTE I – POST-RETIREMENT HEALTH CARE BENEFITS

Health Care Program

The University contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

The University is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the University are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015 and 2014 contributions to the HCTF were \$53,705, \$52,395, and \$53,846, respectively, equal to their required contributions for each year.

NOTE J – RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The University is subject to risks of loss to property (\$10,000 deductible) and from liability from accidents or acts of nature (\$1,000 deductible). Such risks are managed through a policy with Hanover Insurance Company. Worker's compensation insurance is provided by Pinnacol Assurance (\$500 deductible).

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NOTE K – SCHOLARSHIP ALLOWANCE

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

	<u>Tuition and Fees</u>	<u>Sales and Services of Auxiliary Enterprises</u>	<u>Total</u>
<u>2016</u>			
Gross revenue	\$ 29,931,252	\$ 9,704,494	\$ 39,635,746
Scholarship allowances:			
Federal	(2,443,143)	(42,533)	(2,485,676)
State	(966,701)	(16,829)	(983,530)
Private	(612,445)	(10,662)	(623,107)
Institutional	(5,572,893)	(97,019)	(5,669,912)
<i>Total Scholarship Allowances</i>	<u>(9,595,182)</u>	<u>(167,043)</u>	<u>(9,762,225)</u>
<i>Net Revenue</i>	<u>\$ 20,336,070</u>	<u>\$ 9,537,451</u>	<u>\$ 29,873,521</u>
<u>2015</u>			
Gross revenue	\$ 27,375,775	\$ 9,069,815	\$ 36,445,590
Scholarship allowances:			
Federal	(2,514,386)	(34,503)	(2,548,889)
State	(866,734)	(11,893)	(878,627)
Private	(471,984)	(6,477)	(478,461)
Institutional	(4,728,417)	(64,883)	(4,793,300)
<i>Total Scholarship Allowances</i>	<u>(8,581,521)</u>	<u>(117,756)</u>	<u>(8,699,277)</u>
<i>Net Revenue</i>	<u>\$ 18,794,254</u>	<u>\$ 8,952,059</u>	<u>\$ 27,746,313</u>

NOTE L - WESTERN STATE COLORADO UNIVERSITY FOUNDATION

Foundation Investments

Short-term investments are stated at fair market value. At June 30, the Foundation had investments with a cost of \$14,412,088 (2016) and \$13,798,948 (2015) and a fair value of \$15,335,183 (2016) and \$15,215,858 (2015).

Investment returns are as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 428,071	\$ 336,547
Net realized gains	922,610	803,059
Unrealized gain (loss)	(493,816)	(1,062,042)
Fees	(80,189)	(112,503)
Net investment earnings (loss)	<u>\$ 776,676</u>	<u>\$ (34,939)</u>

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Investment earnings (loss) are reported as follows in the Statements of Activities for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 10,972	\$ (30,638)
Temporarily restricted	<u>765,704</u>	<u>(4,301)</u>
Net investment earnings (loss)	<u>\$ 776,676</u>	<u>\$ (34,939)</u>

Fair value measurements for assets reported at fair value on a recurring basis as of June 30, 2016 were determined based on:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-Term Investments				
Cash & Cash Equivalents	\$ 719,761	\$ 719,761	\$ -	\$ -
Fixed Income	2,692,356	2,626,563	-	65,793
Equities	11,923,066	11,923,066	-	-
Other	-	-	-	-
Total Long-Term Investments	\$ 15,335,183	\$ 15,269,390	\$ -	\$ 65,793

Fair value measurements for assets reported at fair value on a recurring basis as of June 30, 2015 were determined based on:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-Term Investments				
Cash & Cash Equivalents	\$ 2,738,844	\$ 2,738,844	\$ -	\$ -
Fixed Income	1,296,829	1,219,640	-	77,189
Equities	10,199,234	10,199,234	-	-
Other	980,951	980,951	-	-
Total Long-Term Investments	\$ 15,215,858	\$ 15,138,669	\$ -	\$ 77,189

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets, which are comprised of private debt funds, for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 77,189	\$ 86,816
Sales proceeds	(17,947)	(40,566)
Unrealized gain	<u>6,551</u>	<u>30,939</u>
Ending balance	<u>\$ 65,793</u>	<u>\$ 77,189</u>

The Foundation recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels for the years ended June 30, 2016 and 2015.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

All long-term investments are reported at fair value on a recurring basis determined by reference to yield curves and quoted prices for similar assets.

Foundation Endowment

The Foundation's endowment consists of approximately 165 individual funds established for providing a future income stream for scholarships for the University students, research, & other uses for certain University departments. Its endowment includes only donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2008 as requiring the assets of an endowment fund be donor restricted until allocated for spending, unless otherwise specifically stated in the gift instrument. As a result of this interpretation, the Foundation classifies permanently restricted net assets as assets that under the terms of the gift instrument, are permanent endowments not wholly expendable by the Foundation on a current basis until a portion is allocated for spending. Based on the interpretation of the investment policy and UPMIFA, the total return of the endowment investment pool including appreciation, depreciation, income, expenses and fees shall be included as part of the temporarily restricted net asset classification.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate and allocate assets for spending of accumulate assets of an endowment fund:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

According to the spending policy, the Foundation is not obliged to allocate for spending a stated percentage of its endowment assets in any given year. However, in order to achieve both reasonable stability in budgeting and a reasonable balance between near-term and distance programmatic priorities, the board has adopted the following spending policy:

The allocation for spending in any given fiscal year shall equal:

- 70% of the inflation rate (three year trailing average), plus,
- 30% of the endowment's investment returns (three year trailing average).

This rate shall be applied to the market value of the endowed account (three year trailing average) not including gifts made in the current fiscal year (to allow those new gifts to accrue interest). The corridor

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

(or parameters) of the distribution from year to year will be between 3.5% and 6.5%, with the caveat that the Foundation Board's distribution committee may, with all available information, have the discretion to adjust slightly the distribution rate for a given year depending on short/long term needs of the University and the anticipated near-term trends in anticipated inflation and investment returns, consistent with the Foundation's Investment/Distribution Goal Statement. The only exception to this policy shall be for endowment distributions tied directly to a faculty member's salary, such as an endowed chair. In this case, every effort will be made to hold these distributions at 5% annually. The spending allocation rate was 3.5% for the years ended June 30, 2016 and 2015 for endowed funds supporting scholarships and programs and 5% for endowed funds associated with salaries as mentioned above.

Total endowment spending allocation distributed for the years ended June 30, 2016 and 2015 was \$489,311 and \$385,264, respectively.

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment Net Assets - Beginning	\$ (3,230,934)	\$ 75,042	\$ 17,551,004	\$ 14,395,112
Contributions	-	-	674,774	674,774
Investment Income	-	383,653	-	383,653
Net Asset Reclassification	(151,949)	166,528	424	15,003
Net Assets Released from Restrictions:				
Amounts Appropriated for Expenditure	-	(489,311)	-	(489,311)
Endowment Net Assets - Ending	\$ (3,382,883)	\$ 135,912	\$ 18,226,202	\$ 14,979,231

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment Net Assets - Beginning	\$ (2,543,495)	\$ 186,604	\$ 17,325,145	\$ 14,968,254
Contributions	-	318,375	322,129	640,504
Investment Income (Loss)	-	(409,983)	-	(409,983)
Net Asset Reclassification	(687,439)	365,310	(96,270)	(418,399)
Net Assets Released from Restrictions:				
Amounts Appropriated for Expenditure	-	(385,264)	-	(385,264)
Endowment Net Assets - Ending	\$ (3,230,934)	\$ 75,042	\$ 17,551,004	\$ 14,395,112

Due to past stock market fluctuations, the fair value of assets associated with individual donor-restricted endowment funds have fallen below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In addition, the ongoing appropriations for certain programs that were deemed prudent by the Board of Directors and in accordance with UPMIFA, caused deficiencies of \$3,382,883 and \$3,230,934 as of June 30, 2016 and 2015, respectively. For financial statement purposes, these deficiencies are reported as part of unrestricted net assets in accordance with generally accepted accounting principles.

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

Promises to Give

Unconditional promises to give at June 30, 2016 consisted of the following:

Restricted for the University Center Project	\$	125,000
Restricted for scholarships or other purposes		620,555
Less allowance for uncollectible contributions receivable		<u>(44,311)</u>
Gross unconditional promises to give		701,244
Less unamortized discount		<u>(7,951)</u>
Net unconditional promises to give	\$	<u>693,293</u>
Receivable in less than one year	\$	545,868
Receivable in one to five years		141,217
Receivables after five years		<u>6,208</u>
Total	\$	<u>693,293</u>

Unconditional promises to give at June 30, 2015 consisted of the following:

Restricted for the University Center Project	\$	164,500
Restricted for scholarships or other purposes		634,150
Less allowance for uncollectible contributions receivable		<u>(53,473)</u>
Gross unconditional promises to give		745,177
Less unamortized discount		<u>(31,086)</u>
Net unconditional promises to give	\$	<u>714,091</u>
Receivable in less than one year	\$	312,177
Receivable in one to five years		391,578
Receivables after five years		<u>10,336</u>
Total	\$	<u>714,091</u>

NOTE M – RELATED PARTY LEASE AGREEMENT

The State of Colorado, acting by and through the Trustees of the University entered into a ground lease on April 1, 2006 with Western State Colorado University Foundation (the Foundation). The lease term is through April 1, 2056 and provides for one dollar (\$1.00) annual rent to be paid by the Foundation. The Foundation agrees to use the land for the purpose of construction and operating an academic building for the University's business related academic programs.

Construction of the building was completed in August 2007 and was financed by approximately six million dollars of donations from outside sources.

NOTE N – LEGISLATIVE APPROPRIATION

Appropriated Funds

The Colorado Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
Years Ended June 30, 2016 and 2015

well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources. For the years ended June 30, funds newly appropriated to the University were \$11,643,992 (2016) and \$37,054,746 (2015). Additionally, for the fiscal year ended June 30, 2016, the University carried over \$24,260,548 in capital appropriations from prior fiscal years. Actual appropriated revenue earned, including capital appropriations, totaled \$29,012,341 (2016) and \$12,715,836 (2015). Actual appropriated expenditures and transfers totaled \$29,012,341 (2016) and \$12,715,836 (2015).

Non-Appropriated Funds

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

NOTE O – RESTATEMENT

During the fiscal year ended June 30, 2016, the University discovered an error in a previously recorded transaction during the fiscal year ended June 30, 2010 related to the University's sale of a portion of the University Center to the Foundation. The University incorrectly recorded the sale as a capital donation. The beginning net position for the fiscal year ended June 30, 2010 was restated to correct this error, which caused a \$5,392,045 decrease to beginning net position. This change in net position was offset by a \$5,392,045 decrease to buildings and improvements, which consists of a \$6,000,000 decrease to gross building assets and a \$607,955 decrease in the accumulated depreciation on building assets. Depreciation expense for the fiscal year ended June 30, 2015 decreased by \$82,954 related to this restatement.

The University also discovered a multi-year grant that was issued in the fiscal year ended June 30, 2014 was not recorded. This grant provided for free use of a valuable software program. The restatement related to the software grant does not impact net position, but causes an increase in both assets and liabilities as of June 30, 2015 of \$2,437,963. Net furniture, equipment, and software increased by \$2,417,558 and other current assets increased by \$20,405. Offsetting these asset increases is an increase in unearned revenue of \$2,437,963. Grant revenue for the fiscal year ended June 30, 2015 increased by \$1,812,640 and expenses increased by an offsetting amount (\$1,592,795 of depreciation expense and \$219,845 of academic support expense).

NOTE P – SUBSEQUENT EVENTS

On September 29, 2016, the University issued \$26,995,000 in Auxiliary Facilities Revenue Refunding Bonds, Series 2016, with an average interest rate of 3.69%. The proceeds of the issue were used to refund the Series 2009 Revenue Bonds and a portion of the Series 2010A Institutional Enterprise Revenue Bonds. The 2016 Refunding bonds begin to mature on May 15, 2017 in increasing amounts through May 15, 2039. The bonds are collateralized by a pledge of certain revenues of the auxiliary facilities system and will result in a loss on refunding of approximately \$2.6 million.

REQUIRED SUPPLEMENTARY INFORMATION

WESTERN STATE COLORADO UNIVERSITY

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY OF THE STATE DIVISION TRUST FUND - A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN ADMINISTERED BY THE COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (THE PLAN)

For the Years Ended June 30,

	<u>2016*</u>	<u>2015</u>
University's proportion of the net pension liability	0.1950%	0.2016%
University's proportionate share of the net pension liability	\$ 20,538,558	\$ 18,959,603
University's covered-employee payroll	\$ 5,695,716	\$ 5,976,704
University's proportionate share of the net pension liability as a percentage of its covered employee payroll	360.60%	317.23%
Plan fiduciary net position as a percentage of the total pension liability	56.10%	56.84%

* The amounts presented for the year shown above were determined as of and for the calendar year ended December 31, 2015 (the Plan's measurement period) occurring within the University's fiscal years ended June 30, 2016 and 2015 in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pension*.

WESTERN STATE COLORADO UNIVERSITY

SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF UNIVERSITY CONTRIBUTIONS TO THE STATE DIVISION TRUST FUND - A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN ADMINISTERED BY THE COLORADO PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,000,951	\$ 954,326
Contributions in relation to the contractually required contribution	\$ (1,000,951)	\$ (954,326)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
University's covered-employee payroll	\$ 5,660,874	\$ 5,884,119
Contributions as a percentage of covered-employee payroll	17.68%	16.22%

SUPPLEMENTAL INFORMATION SECTION

STATE OF COLORADO
WESTERN STATE COLORADO UNIVERSITY
SCHEDULES OF REVENUE AND EXPENSES
FOR ENTERPRISE REVENUE BONDS
For Years Ended June 30, 2016 and 2015

	2016	2015
Revenue		
College Service Fees	\$ 2,866,186	\$ 2,513,854
Extended Studies Tuition	5,000,469	4,242,951
10% of Education and General Fund Tuition	1,995,024	1,875,980
Federal Interest Subsidy	1,154,746	1,147,318
Bookstore Sales	892,874	998,049
Rental Income	4,759,378	4,388,102
Food Service Income	3,100,661	2,810,527
Sales/Service Auxiliaries	1,173,032	913,053
Interest Income	64,374	59,914
<i>Total Revenues</i>	21,006,744	18,949,748
Expenses		
Employee Compensation	3,300,449	2,781,062
Costs of Goods Sold	646,383	682,535
Utilities	467,819	504,307
Rental	23,925	18,745
Contract Food	1,886,016	1,823,216
Travel	256,663	141,902
Supplies	237,371	272,752
Purchased Services	2,879,812	2,227,919
Financial Aid	486,152	194,691
Administrative Cost Allowance	2,267,460	2,082,759
Furniture & Equipment	111,554	67,429
Other Operating Expenses	105,069	94,453
<i>Total Expenses</i>	12,668,673	10,891,770
<i>Net Revenues Before Transfers</i>	8,338,071	8,057,978
Transfer		
Mandatory Transfers	44,080	(4,215,215)
Non-mandatory Transfers	224,730	(251,401)
<i>Total Transfers</i>	268,810	(4,466,616)
<i>Net Revenue</i>	\$ 8,606,881	\$ 3,591,362
Debt Service Charge		
Net Operating Revenue	\$ 8,338,071	\$ 8,057,978
Bond Principal and Interest	(6,024,045)	(6,019,130)
Bond Principal and Interest Paid from Debt service Reserve	297,657	656,383
<i>Excess of Net Operating Revenue Over Debt Service</i>	\$ 2,611,683	\$ 2,695,231
<i>Debt Service Coverage Ratio, Net of Debt Service Reserve</i>	1.46	1.50

See accompanying notes.



DALBY, WENDLAND & CO., P.C.

Grand Junction

CPAs and Business Advisors

464 Main Street • P.O. Box 430 • Grand Junction, CO 81502
Phone: (970) 243-1921 • Fax: (970) 243-9214

**INDEPENDENT AUDITOR'S 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***

Members of the Legislative Audit Committee:
Denver, Colorado

We have audited, in accordance with the 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 business-type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 9, 2017. Our report includes a reference to other auditors who audited the financial statements of the Western State Colorado University Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that reported on separately by those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit, Western State Colorado University Foundation, were not audited in accordance with the *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dalby, Wendland & Co, P.C.

DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado

January 9, 2017



AUDIT COMMITTEE COMMUNICATIONS

Members of the Legislative Audit Committee:
Denver, Colorado

We have audited the financial statements of the business-type activities of Western State Colorado University (the University) an institution of higher education of the State of Colorado, for the year ended June 30, 2016, and have issued our report thereon dated January 9, 2017. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit of the University, and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 9, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the net pension liability is based on the estimate of the University's proportionate share of the net pension liability as of December 31, 2015 of the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note H to the University's financial statements. The University's proportion of the SDTF's net pension liability was based on the University's contributions to the SDTF for the calendar year 2015 relative to the total contributions made to the SDTF by participating employers for the calendar year 2015.

Management's estimate of the collectability of student accounts receivable and student loans is based on historical analysis. We evaluated the key factors and assumptions used to develop the allowance for bad debts in determining that it is reasonable in relation to the financial statements taken as a whole.

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Management's estimate of depreciation expense is based on their evaluation of the useful lives of property and equipment. We evaluated the key factors and assumptions used to determine the useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most significant disclosure affecting the financial statements was:

The disclosure of the prior period adjustment in Note O to the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 9, 2017.

Management 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 University'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.

Other Audit Findings or Issues

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 University's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability of the State Division Trust Fund – a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association and the schedule of University contributions to the State Division Trust Fund – a cost-sharing multiple-

employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the schedules of revenue and expenses for enterprise revenue bonds, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Legislative Audit Committee, Office of the State Auditor of the State of Colorado, and Board of Trustees and management of Western State Colorado University 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.

Sincerely,



DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado

January 9, 2017