

ADAMS STATE COLLEGE

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2005 and 2004

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TABLE OF CONTENTS

	<u>Page</u>
Report Summary	1
Recommendation Locator	4
Description of Adams State College.....	5
Findings and Recommendations Section	
Findings and Recommendations	6
Disposition of Prior Year Audit Recommendations	10
 FINANCIAL STATEMENTS SECTION	
Independent Auditors' Report.....	12
Management's Discussion and Analysis	14
Statements of Net Assets	21
Adams State College Foundation Statements of Financial Position.....	22
Statements of Revenues, Expenses, and Changes in Net Assets	23
Adams State College Foundation Statement of Activities	
June 30, 2005.....	24
June 30, 2004.....	25
Statements of Cash Flows.....	26
Notes to the Financial Statements.....	28
 Schedule of Revenues and Expenses for Enterprise Revenue Bonds.....	41
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	42
Audit Committee Communications	43
 STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION	
State-Funded Student Assistance Programs.....	45
Independent Auditors' Report on Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs.....	46

TABLE OF CONTENTS (Continued)

Statement of Appropriations, Expenditures, Transfers and Reversions	48
Notes to Statement	49

**ADAMS STATE COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2005 AND 2004**

Authority, Purpose and Scope

The audit of Adams State College was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2005 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was made in accordance with audit standards generally accepted in the United States of America. Audit work was performed June through September 2005.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of Adams State College for the year ended June 30, 2005 and to express an opinion on the financial statements. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws and regulations governing the expenditures of federal and State funds.
- Express an opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2005.
- Evaluate progress in implementing prior audit recommendations.
- The Schedule of Expenditures of Federal Awards for Adams State College and applicable audit opinions are included in the June 30, 2005 Statewide Single Audit Report issued by the Office of the State Auditor under a separate cover.

Audit Results and Summary of Major Audit Findings

Wall, Smith, Bateman and Associates, Inc. expressed an unqualified opinion on the financial statements for the year ended June 30, 2005 and 2004. Wall, Smith, Bateman and Associates, Inc. also expressed an unqualified opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2005.

Required Auditor Communications to the Legislative Audit Committee

An independent auditor is required to communicate to the Audit Committee certain matters related to the conduct of the audit and to ensure that the Audit Committee receives additional information regarding the scope and results of the audit that may assist the Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items, that no audit adjustments were required and that there were no difficulties encountered in performing the audit.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

During our fiscal year 2005 audit, we noted that the Trustee Policy Manual is not tailored to Adams State College. The Policy Manual in use is the Trustee Policy Manual for the State Colleges in Colorado, which was the governing organization for Adams State College up until June 30, 2003.

During fiscal year 2005, the financial condition of the College has deteriorated and the Board of Trustees was faced with a budget deficit that approximated \$700,000. The majority of the deficit was caused by personnel and operating expenditures that were not included in the budget.

During our fiscal year 2003 and 2004 audits, we noted several improvements were needed in accounting procedures and controls. We addressed the status of the recommendations during the fiscal year 2005 audit and found that management had addressed some areas but one area can still be improved upon. During fiscal year 2005, management had developed desk manuals that outline specific tasks, however there is still a need to develop a comprehensive written policy and procedures manual.

During our fiscal year 2005, 2004 and 2003 audits, we noted that the authorization process for drawing down Federal funds was not adequate and did not allow for the necessary amounts to be drawn in a timely manner. Therefore, the College unnecessarily used State funds instead of Federal funds for cash flow purposes.

The College is highly dependent on technology to deliver many of its student and business services. The fiscal year 2002 audit of the College noted several information system procedures and controls that could be improved. The College implemented changes in three areas of the recommendation and has two more areas to address. We believe the remaining two issues are still important including the need for developing and testing a disaster/contingency plan, and requiring users to change passwords periodically.

Recommendations and College Responses

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

Summary of Progress in Implementing Prior Audit Findings

There were 2 recommendations made in the prior year audit. One recommendation was partially implemented and the other recommendation was not implemented. A detail description and the disposition is contained in the disposition of prior year audit recommendations.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	6	<p>Adams State College should improve its internal controls over operations by:</p> <ul style="list-style-type: none"> a. Developing and updating existing policies and procedures to insure that the hiring of personnel and approval of expenses are subjected to an approval process to prevent unauthorized spending and budget overruns. b. Finalizing a comprehensive policies and procedures manual for the Business Office. 	<p>Agree</p> <p>Agree</p>	<p>June 30, 2006</p> <p>June 30, 2006</p>
2	7	<p>Adams State College should improve controls over federal funds by:</p> <ul style="list-style-type: none"> a. Identifying and correcting financial aid data errors timely and improving the authorization process so that federal funds drawn down are adequate to meet the cash flow demands for related expenses. b. Evaluating the Financial Aid office staffing needs and continuing to cross train personnel and developing a comprehensive instruction manual in the Financial Aid Department to minimize disruption when personnel are absent. 	<p>Agree</p> <p>Agree</p>	<p>June 30, 2006</p> <p>June 30, 2006</p>
3	8	<p>Adams State College should improve information processes and controls by:</p> <ul style="list-style-type: none"> a. Developing and testing a disaster/recovery plan. b. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals. 	<p>Agree</p> <p>Agree</p>	<p>June 30, 2006</p> <p>January 31, 2006</p>
4	9	<p>Adams State College should rewrite the Trustee Policy Manual to be specific to the College.</p>	<p>Agree</p>	<p>June 30, 2006</p>

Description of Adams State College

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

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

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

Adams State College is a liberal arts college with graduate programs in Teacher Education, Counseling, and Art. Section 23-51-101, C.R.S., provides that Adams State College shall be a general baccalaureate institution with moderately selective admission standards. Adams State College is a regional educational provider approved to offer limited professional programs, Hispanic programs, undergraduate education degrees, masters' level programs, and two-year transfer programs with a community college role and mission, except for vocational education programs.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Resident Students	1,965.9	1,993.2	1,893.9
Nonresident Students	<u>355.7</u>	<u>320.0</u>	<u>280.3</u>
Total Students	<u>2,321.6</u>	<u>2,313.2</u>	<u>2,174.2</u>
Faculty FTEs	157.6	154.7	158.0
Staff FTEs	<u>124.3</u>	<u>125.6</u>	<u>124.5</u>
Total Staff and Faculty FTEs	<u>281.9</u>	<u>280.3</u>	<u>282.5</u>

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FINDINGS AND RECOMMENDATIONS SECTION

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Findings and Recommendations

Weaknesses in Internal Accounting Controls

During our audit, we noted the following areas in which internal accounting controls are weak and need to be strengthened.

- We noted that the budget controls over the hiring process were not effective and the hiring process had become very informal. In several instances the budget director was bypassed in the initial stages of the hiring process and hiring decisions were made prior to the paperwork and authorizations being complete. As a result there were instances in which personnel were hired without ensuring funds were budgeted for these positions.
- During the fiscal year 2004 audit, we found that the Business Office does not have a comprehensive written policy and procedures manual. Such a manual is necessary for documenting the College's policies and procedures, providing consistent guidance and reinforcement of job duties to current employees, and training new employees on procedures to be followed. During fiscal year 2005, the Business Office prepared desk manuals that contain detail steps to complete various tasks, however they do not address the overall organization of the business office or important internal control matters such as segregation of duties and assignment of responsibilities. Management is restructuring the policies and procedures along with documenting the current and new policies and procedures. This finding was first reported in the fiscal year 2003 audit, and as of June 30, 2005, has not been adequately addressed.

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

Recommendation No. 1:

Adams State College should improve its internal controls over operations by:

- a. Developing and updating existing policies and procedures to ensure that the hiring of personnel and approval of expenses are subjected to an approval process to prevent unauthorized spending and budget overruns.
- b. Finalizing a comprehensive policies and procedures manual for the Business Office.

Adams State College Response:

- a. Agree. The vice president of finance and administration will be responsible for developing this policy through coordinated efforts with the ASC budget director, ASC human resources director, and the ASC affirmative action office. After presidential approval, the vice president of finance shall insure that the new policy is properly communicated to the campus community. Implementation date: June 30, 2006.
- b. Agree. Adams State College is in the process of developing a comprehensive policies and procedures website which will house all of the institution's policies, including the Business Office. When completed, the policy site will be accessible through the internet and a policy review procedure will be implemented to ensure that the institution's policies are updated upon a regular basis. Implementation date: June 30, 2006.

Other Matters Regarding Internal Accounting Controls

Federal Funds Draw Procedures

Adams State College received approximately \$3.2 million during fiscal year 2005 for federal student financial assistance programs. The College obtains reimbursement of federal expenditures by drawing funds on a federal letter of credit. Financial Aid office personnel originate a disbursement record, which ultimately results in an authorization of a designated amount of money to be drawn on the federal letter of credit. The disbursement record contains student financial aid information and is submitted electronically to the U.S. Department of Education. The Department of Education verifies the data and authorizes the amount to be drawn on the federal letter of credit. However, if there are errors in the data, the amount drawn is limited to the valid data. For the 2005 fiscal year the authorization was not always timely and the amount authorized was never enough to replenish the cash used. For example, on January 31, 2005 the necessary amount to draw down was \$205,756. However, an authorization was not made until February 4, 2005 and the amount authorized was \$16,412, which was \$170,639 short of replenishing the cash.

A finding was noted in the fiscal year 2003 audit regarding the federal draw down process not being performed timely due to turnover in personnel and because other employees had not been trained to perform this function. During the fiscal year 2004 audits it became more apparent that a cross training program needs to be established to ensure enough people are sufficiently trained in the draw down process. During fiscal year 2005 the business office accomplished a cross training program and developed a comprehensive instruction manual on the draw down process. The Financial Aid office hired a new person during fiscal year 2005, however they also lost a person and appear to be understaffed. The Financial Aid office needs to reevaluate their staffing needs and continue to work on a cross training program and develop a comprehensive instruction manual. This way, in the event financial aid personnel are absent, processes can continue without interruption.

Not drawing the full amount of federal funds on a timely basis results in the use of state funds for federal programs and lost interest income to the State. The authorization process can be improved by performing a reconciliation of the PELL request to the common origination and disbursement at the Department of Education immediately after each batch transmission. Any errors found in the reconciliation process should be cleared in a timely manner.

Recommendation No. 2:

Adams State College should improve controls over federal funds by:

- a. Identifying and correcting financial aid data errors timely and improving the authorization process so that federal funds drawn are adequate to meet the cash flow demands for related expenses.
- b. Evaluating the Financial Aid office staffing needs and continuing to cross train personnel and developing a comprehensive instruction manual in the Financial Aid Department to minimize disruption when personnel are absent.

Adams State College Response:

- a. Agree. The Office of Student Financial Aid will continue to evaluate its policies and procedures for identifying and correcting of student financial aid data and ensure timely and accurate submission of electronic files and information to the U.S. Department of Education for authorization to draw down funds. Implementation date: June 30, 2006.

- b. Agree. The Office of Financial Aid will continue to evaluate and document its procedures and establish a program of cross training of staff to ensure processes and procedures are timely and uninterrupted. Implementation date: June 30, 2006.

Information System Processes and Controls

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

Disaster Recovery Plan

The College is highly dependent on technology to deliver many of its student and business services, such as maintaining student records that track student transcripts, student financial aid, student accounts and the College's accounting records. Because of this, it is very important that a disaster/contingency plan be developed for every database and application.

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

The College took no action to develop a disaster/contingency plan during fiscal years 2003 or 2004 due to various personnel changes. The process of developing a disaster/contingency plan was started during fiscal year 2005, however it was not complete as of the audit date.

Passwords

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

The College did not require users to change passwords during fiscal years 2003 and 2004, but said it intends to install software in the future that will require passwords to be changed on a regular basis. The software was purchased during fiscal year 2004, however it was not implemented during fiscal year 2005.

Recommendation No. 3:

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

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

Adams State College Response:

- a. Adams State College initiated development of a Disaster Preparedness Plan in January 2005. The plan approach and structure was finalized in February 2005. This was followed by a detailed six-month IT risk assessment which completed in August 2005. Initial draft inputs to the plan, based upon the risk of the Plan is currently in work and will be finished by month-end January 2006. This will be followed by an IT department review during February 2006. A final draft of the plan will be approved; the plan will remain a living document. It will be reviewed annually and updated, as required. Implementation date: June 30, 2006.

Also, during 2005, additional hardware servers were put in-place to provide disaster failover capability for ASC's key Banner administrative system. A new tape backup system was purchased, as well, for the Banner system to provide more efficient and reliable disaster recovery backup capability. The ability to restore from the backup system was tested successfully using a test database in a number of occasions.

- b. An automated password change process for the Banner system was in use during the time of the audit, but had not been turned on for all employees. It is now fully implemented for all employees with Banner access. This process forces users to change their password every 90 days and has specific rule sets to preclude reuse of passwords, as well as, other options to and improve the quality of passwords that are chosen. Implementation date: January 31, 2006.

Trustee Policy Manual

House Bill 03-1093 authorized independent governance for Adams State College effective July 1, 2003, and a new Board of Trustees was appointed to govern the College. Previous to this, Adams State College was a part of the State Colleges in Colorado, which had authority and responsibility for the control and governance of four State Colleges. During our audit, we noted that the Trustee Policy Manual in effect for Adams State College was the same policy manual that was used for the State Colleges in Colorado. The Trustee Policy Manual being used incorporates all policy actions noted in the Minutes of meetings of the Board of Trustees of the State Colleges in Colorado since 1965, with appropriate editorial and substantive changes to assure currency with statutes and the organization of higher education in Colorado. The manual has neither been tailored to Adams State College nor has it been updated since June 2003. The manual contains a chapter titled "Business/Finance and Physical Plant" and an example of the out of date contents is the referencing of the College submitting a recommended tuition and fee schedule for the upcoming year to the Office of State Colleges for review as part of the operating budget setting process. Another example is a section titled "Delegation of Authority for Budget Administration-President of the State Colleges in Colorado".

Recommendation No. 4:

Adams State College should rewrite the Trustee Policy Manual to be specific to the College.

Adams State College Response:

Agree. Adams State College is in the process of rewriting the Trustee policy Manual to be specific to the college. Implementation date: June 30, 2006.

Disposition of Prior Audit Recommendations

Listed below are the recommendations included in the State Colleges in Colorado audit report for Adams State College for the year ended June 30, 2004, and their disposition as of September 30, 2005.

Recommendation	Disposition
1. Adams State College should improve its accounting policies and procedures by:	
a. Continuing the process of developing a comprehensive policies and procedures manual for every area of the Business Office.	Not implemented. See current year recommendation No. 1.
b. Evaluating how duties performed by the Controller can be delegated to other individuals, and having other individuals review accounting functions performed by the Controller.	Implemented.
c. Identifying and correcting financial aid data errors timely and improving the authorization process so that federal funds drawn are adequate to meet the cash flow demands for related expenses.	Not implemented. See current year recommendation No. 2.
d. Cross training other personnel in the Financial Aid Department and the business office to minimize disruption when personnel are absent.	Partially implemented. See current year recommendation No. 2.
2. Adams State College should improve information system processes and controls by:	
a. Developing and testing a disaster/recovery plan.	Not implemented. See current year recommendation No. 3.
b. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.	Not implemented. See current year recommendation No. 3.

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FINANCIAL STATEMENTS SECTION

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INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of Adams State College, a blended component unit of the State of Colorado, as of June 30, 2005 and 2004. These financial statements are the responsibility of the management of Adams State College. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Adams State College Foundation, which represents total assets of \$7.5 million and \$7.9 million as of June 30, 2005 and 2004 and total revenues, gains and other support of \$1.2 million and \$1.6 million for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Adams State College Foundation were not audited in accordance with the *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Adams State College as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 on our consideration of Adams State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and should be read in conjunction with this report in considering the results of our audit.

Members of the Legislative Audit Committee

Page 2

Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Wall, Smith, Bateman and Associates, Inc.

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

December 22, 2005

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the financial report presents a discussion and analysis of the financial performance of Adams State College for the fiscal year ended June 30, 2005, with selected comparative information for the years ended June 30, 2004 and June 30, 2003. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes for the reporting entity of the College that includes Adams State College and the Adams State College Foundation, a discretely presented component unit. (See Note 1 for additional information on the reporting entity.)

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2005

The College's total net assets decreased by \$3.0 million during fiscal year 2005 compared to a \$1.5 million decrease in net assets during fiscal year 2004.

The College had a ratio of current assets to current liabilities of 2.3. This current ratio demonstrates the liquidity of college assets and the relative availability of working capital to fund current operations.

Operating revenues were not sufficient to cover operating expenses, resulting in an operating deficit of \$15.1 million. State appropriations, including capital appropriations were \$10.9 million.

Year Ended June 30, 2004

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

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

Operating revenues were not sufficient to cover operating expenses, resulting in an operating deficit of \$13.2 million. State appropriations, including capital appropriations were \$10.8 million.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

STATEMENTS OF NET ASSETS

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when services are received, regardless of when cash is exchanged. Over time, increases and decreases in net assets (the difference between assets and liabilities) is one indicator of the College's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

A summarized comparison of the College's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 follows:

	<u>2005</u>	<u>2004</u> (in thousands)	<u>2003</u>
Assets			
Current Assets	\$11,649	\$13,695	\$10,278
Noncurrent Assets	<u>56,616</u>	<u>57,690</u>	<u>59,948</u>
Total Assets	<u>68,265</u>	<u>71,385</u>	<u>70,226</u>
Liabilities			
Current Liabilities	5,050	4,706	4,331
Noncurrent Liabilities	<u>11,567</u>	<u>12,056</u>	<u>9,762</u>
Total Liabilities	<u>16,617</u>	<u>16,762</u>	<u>14,093</u>
Net Assets			
Invested in Capital Assets, net of related debt	44,225	46,214	48,943
Restricted	3,911	3,928	3,102
Unrestricted	<u>3,512</u>	<u>4,481</u>	<u>4,088</u>
Total Net Assets	<u>\$51,648</u>	<u>\$54,623</u>	<u>\$56,133</u>

At June 30, 2005 the College's total assets were \$68.3 million. The largest asset category is the \$55.2 million in capital assets, net of accumulated depreciation of \$29.6 million. These assets include land, buildings, equipment, library holdings, and construction in process. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In fiscal year 2005, the College's current assets of \$11.6 million were sufficient to cover current liabilities of \$5.0 million (producing a current ratio of 2.3). Cash and cash equivalents (bank deposits, certificates of deposits, pooled cash with the State Treasurer) comprised over \$9.9 million in assets per the Statement of Net Assets.

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

STATEMENTS OF NET ASSETS (Continued)

Capital lease and bonds payable of \$11.5 million represent almost 69% of the College's total liabilities of \$16.6 million. The current portion of the capital lease and bonds payable liability is \$0.64 million.

The College's financial position decreased during the fiscal year as evidenced by the decrease of \$3.0 million in net assets (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$51.6 million. Net Assets is composed of \$44.2 million invested in capital assets net of related debt, \$3.9 million externally restricted for specific purposes, and \$3.5 million unrestricted and available for any lawful purpose of the College.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets present the result of operations during the year. Activities are reported as either operating or non-operating. Operating revenues and expenses generally result from providing goods and services for instruction, public service, and related support services to an individual or entity separate from the College. Non-operating revenues and expenses are those other than operating and include, but are not limited to: State appropriations, investment income, interest expense on capital debt, gain/loss on disposal of assets, State capital construction and controlled maintenance appropriations, transfers and other non-operating revenue.

Tuition and fee revenues accounted for \$7.3 million of the \$21.2 million in operating revenues. The tuition and fee amount is net of scholarship allowances of \$3.1 million. Scholarship allowances are defined as the financial aid awarded to students by the College that is used to pay College charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense.

Operating expenses totaled \$36.4 million. Of that total, \$12.2 million was for instruction, \$1.4 million for academic support, \$4.0 million for student services, \$2.9 million for institutional support, \$2.6 million for operations of plant and \$6.8 million for auxiliary enterprises.

State noncapital appropriations are reflected as nonoperating revenues and state capital appropriations are reflected as other revenues in the statements of revenue, expenses and changes in net assets. Because operating revenues are not sufficient to cover operating expenses, the College experiences an operating deficit, which was \$15.1 million for fiscal year 2005.

A summarized comparison of the College's revenues, expenses and changes in net asset at June 30, 2005, 2004 and 2003 follows:

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

	2005	2004	2003
		(in thousands)	
Operating Revenues			
Tuition and Fees, net	\$7,286	\$6,185	\$5,510
Grants and Contracts	8,110	7,812	7,804
Auxiliary Enterprises	5,293	5,285	5,571
Other	532	391	278
Total Operating Revenues	<u>21,221</u>	<u>19,673</u>	<u>19,163</u>
Operating Expenses	36,363	32,908	30,581
Net operating (Loss)	<u>(15,142)</u>	<u>(13,235)</u>	<u>(11,418)</u>
Nonoperating Revenue(Expense)			
State Appropriations	10,317	10,317	9,609
Gifts and Donations	1,630	1,216	1,045
Interest Income	191	83	431
Other Nonoperating	(569)	(379)	(432)
Net Nonoperating Revenue	<u>11,569</u>	<u>11,237</u>	<u>10,653</u>
Income(Loss) Before Other Revenue, Expenses, Gains or Losses	(3,573)	(1,998)	(765)
State Appropriations, Capital	621	516	2,688
Other	(23)	(28)	166
Increase(Decrease) In Net Assets	(2,975)	(1,510)	2,089
Net Assets-Beginning of Year	54,623	56,133	54,044
Net Assets-End of Year	<u>\$51,648</u>	<u>\$54,623</u>	<u>\$56,133</u>

STATEMENTS OF CASH FLOWS

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

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

A summarized comparison of the College's statement of cash flows at June 30, 2005, 2004 and 2003 follows:

	2005	2004	2003
		(in thousands)	
Net Cash Provided (Used) by:			
Operating Activities	(\$12,143)	(\$9,576)	(\$7,177)
Non-Capital Financing Activities	11,979	11,459	11,002
Capital and Related			
Financing Activities	(2,649)	1,621	(1,074)
Investing Activities	220	94	431
Net Increase (Decrease)			
in Cash	(2,593)	3,598	3,182
Cash & Cash Equivalents:			
Beginning of Year	12,530	8,932	5,750
End of Year	\$9,937	\$12,530	\$8,932

The College's overall liquidity decreased during the fiscal year with a decrease in cash and cash equivalents of \$2.6 million. The net cash outflow from operating activities was \$12.1 million. The major sources of cash were \$7.2 million in student tuition and fees and \$7.8 million in contracts and grants. Payments to or for employees of \$20.3 million and payments to suppliers of \$9.3 million were the primary uses of funds.

CAPITAL ASSETS

At June 30, 2005 the College had approximately \$55.2 million invested in capital assets, net of accumulated depreciation of \$29.6 million. Depreciation charges were \$3.3 million for the current year compared to \$3.0 million in 2004 and \$2.7 million in 2003. Details of these assets for the three years are shown below.

Capital Assets, Net of Depreciation, at Year End

	2005	2004	2003
Land	\$170,210	\$170,210	\$170,210
Land Improvements	2,752,666	3,022,231	3,291,795
Buildings	49,992,671	50,495,022	48,045,078
Construction in Progress	139,567	213,514	4,902,218
Equipment	1,259,573	1,355,935	1,350,630
Library Materials	854,890	856,624	847,494
Total	\$55,169,577	\$56,113,536	\$58,607,425

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

CAPITAL ASSETS (Continued)

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

College Center Remodeling project, funded by bond proceeds	\$1,219,070
Housing Door Package project, funded by bond proceeds	<u>339,574</u>
	<u>\$1,558,644</u>

DEBT

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

At June 30, 2005, the College had approximately \$11.5 million in debt outstanding compared to \$11.9 million at June 30, 2004 and \$9.7 million at June 30, 2003. The table below summarizes these amounts by type of debt.

Outstanding Debt, at Year End

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Enterprise Revenue Bonds	\$11,107,800	\$11,342,436	\$8,976,553
Capital Lease	373,367	501,111	620,538
Notes Payable	<u>54,877</u>	<u>60,709</u>	<u>67,858</u>
Total	<u>\$11,536,044</u>	<u>\$11,904,256</u>	<u>\$9,664,949</u>

ECONOMIC OUTLOOK

The economic position of the College is closely tied to that of the State. For fiscal year 2005, the General Assembly appropriated the College \$10.3 million in General Fund.

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

**ADAMS STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

ECONOMIC OUTLOOK (Continued)

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

The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. For fiscal year 2006, the stipend is \$2,400 for a full-time student attending a public institution.

The college has budgeted for \$3.5 million in College Opportunity Fund stipends for fiscal year 2006. \$7.6 million will be billed through a fee for service contract with the Commission on Higher Education (CCHE). The bill institutes fee-for-service contract arrangements between each institution and the CCHE to provide graduate education, rural education, economic development, and basic education services to the State. These fee-for-service contracts must be negotiated annually with the CCHE.

Adams State College has restructured its tuition rate structure to align with the stipend reimbursement model.

ADAMS STATE COLLEGE
Statements of Net Assets
As of June 30, 2005 and 2004

	FY 2005 TOTAL	FY 2004 TOTAL
Assets:		
<u>Current Assets</u>		
Cash & cash equivalents	\$9,608,271	\$12,201,614
Student accounts receivable, net	631,230	496,183
Other accounts receivable	751,882	351,856
Student loans receivable, net	207,233	188,637
Inventories	417,007	434,081
Prepaid expenses	28,913	18,085
Other current assets	4,500	4,500
Total current assets	<u>11,649,036</u>	<u>13,694,956</u>
<u>Noncurrent Assets</u>		
Restricted cash & cash equivalents	328,250	328,250
Student loans receivable, net	764,623	875,409
Deferred charges-bond issuance costs	353,562	372,545
	<u>1,446,435</u>	<u>1,576,204</u>
Non-depreciable capital assets:		
Land	170,210	170,210
Construction in progress	139,567	213,514
Total non-depreciable capital assets	<u>309,777</u>	<u>383,724</u>
Depreciable capital assets, net:		
Buildings	49,992,671	50,495,022
Land improvements	2,752,666	3,022,231
Furniture & equipment	1,259,573	1,355,935
Library books	854,890	856,624
Total depreciable capital assets, net	<u>54,859,800</u>	<u>55,729,812</u>
Total noncurrent assets	<u>56,616,012</u>	<u>57,689,740</u>
Total Assets	<u>68,265,048</u>	<u>71,384,696</u>
Liabilities:		
<u>Current Liabilities</u>		
Accounts payable	401,048	429,134
Accrued liabilities	3,255,341	3,105,032
Deferred revenue	249,366	244,296
Deposits held for others	405,927	344,660
Bonds payable, current	500,000	380,000
Notes payable, current	11,960	11,960
Capital leases payable, current	136,637	127,743
Compensated absences liability	89,839	62,606
Total current liabilities	<u>5,050,118</u>	<u>4,705,431</u>
<u>Noncurrent Liabilities</u>		
Compensated absences liability	679,465	671,253
Notes payable	42,917	48,749
Capital leases payable	236,730	373,368
Bonds payable	10,607,800	10,962,436
Total noncurrent liabilities	<u>11,566,912</u>	<u>12,055,806</u>
Total Liabilities	<u>16,617,030</u>	<u>16,761,237</u>
Net Assets:		
Invested in capital assets, net of related debt	44,224,391	46,213,462
Restricted for		
Non-expendable Endowments	28,250	28,250
Expendable		
Endowments	34,262	33,112
Loans	1,184,110	1,204,526
Capital Projects	300,000	300,000
Other Purposes	2,364,785	2,362,796
Total Restricted	<u>3,911,407</u>	<u>3,928,684</u>
Unrestricted	<u>3,512,220</u>	<u>4,481,313</u>
Total Net Assets	<u>\$51,648,018</u>	<u>\$54,623,459</u>

The accompanying notes are an integral part of this statement

ADAMS STATE COLLEGE FOUNDATION
Statements of Financial Position
June 30, 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Cash	\$ 14,432	\$ 20,194
Certificates of deposit	698,208	698,208
Investments, at fair value	6,196,959	6,509,039
Notes receivable	269,775	275,503
Inventories	13,640	12,400
Land – available for sale	115,650	181,650
Art collection	220,750	220,750
	Total Assets	Total Assets
	\$ 7,529,414	\$ 7,917,744

NET ASSETS

Net assets		
Unrestricted		
Unreserved	\$ 2,593,052	\$ 3,472,493
Board designated	925,738	669,743
	3,518,790	4,142,236
Temporarily restricted net assets	1,040,622	1,080,743
Permanently restricted net assets	2,970,002	2,694,765
	Total net assets	Total net assets
	\$ 7,529,414	\$ 7,917,744

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ending June 30, 2005 and 2004

	FY 2005 TOTAL	FY 2004 TOTAL
Operating Revenues:		
Tuition & fees (including \$533,055 and \$530,463, respectively of revenues pledged for bonds and net of scholarship allowances of \$3,142,873 and \$3,104,985, respectively)	\$7,285,690	\$6,185,408
Sales & services of auxiliary enterprises (including \$5,436,399 and \$5,714,807, respectively of revenues pledged for bonds and net of scholarship allowances of \$654,025 and \$644,337, respectively)	5,292,922	5,284,683
Federal grants and contracts	6,518,304	6,011,165
State grants and contracts	1,591,934	1,800,817
Other operating revenues (including \$69,257 and \$19,814, respectively of revenues pledged for bonds)	532,447	390,631
Total operating revenues	21,221,297	19,672,704
Operating Expenses:		
Instruction	12,207,781	10,706,526
Academic support	1,426,846	1,345,920
Student services	3,981,799	3,586,401
Institutional support	2,916,349	2,718,917
Operation of plant	2,634,256	2,830,857
Scholarships and fellowships	3,106,998	2,580,231
Auxiliary enterprises expenditures	6,814,664	6,147,186
Depreciation	3,274,676	2,991,765
Total operating expenses	36,363,369	32,907,803
Operating Income (Loss)	(15,142,072)	(13,235,099)
Nonoperating Revenues (Expenses):		
State appropriation, noncapital	10,316,691	10,316,691
Gifts and Donations	1,629,703	1,216,330
Investment & interest income (including \$35,211 and \$22,582, respectively of revenue pledged for bonds)	191,172	83,421
Interest on capital debt	(568,263)	(398,547)
Gain or Loss on Disposal of Assets	(241)	(46)
Other Non-operating Revenues	0	19,904
Net nonoperating revenue (expenses)	11,569,062	11,237,753
Income (Loss) before other revenues, expenses, gains, losses or transfers	(3,573,010)	(1,997,346)
Other Revenues, Expenses, Gains, Losses or Transfers:		
State appropriation, capital	621,047	516,198
Federal Grant - Capital	7,045	8,468
Transfers (to)/from Other Institutions	(30,523)	(36,616)
Increase (Decrease) in Net Assets	(2,975,441)	(1,509,296)
Net Assets at Beginning of Year	54,623,459	56,132,755
Net Assets at End of Year	\$51,648,018	\$54,623,459

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE FOUNDATION
Statement of Activities
Year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER				
SUPPORT				
Contributions	\$ 159,921	\$ 375,042	\$ 225,017	\$ 759,980
Income on investments	156,298	-	-	156,298
Realized and unrealized gains on investments	328,551	-	-	328,551
Net assets released from restrictions:				
Satisfaction of program restrictions	360,012	(360,012)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	1,004,782	15,030	225,017	1,244,829
EXPENSES				
Program services	1,418,120	-	-	1,418,120
Supporting services				
Advertising	609	-	-	609
Audit and professional fees	104,310	-	-	104,310
Insurance	3,313	-	-	3,313
General administration	3,475	-	-	3,475
Meetings	4,141	-	-	4,141
Real estate taxes	674	-	-	674
Salaries	40,800	-	-	40,800
Printing	3,364	-	-	3,364
Investment fees	10,451	-	-	10,451
Fundraising	29,158	-	-	29,158
Japanese Garden	8,682	-	-	8,682
Support and maintenance	6,062	-	-	6,062
TOTAL EXPENSES	1,633,159	-	-	1,633,159
CHANGE IN NET ASSETS				
BEFORE TRANSFERS	(628,377)	15,030	225,017	(388,330)
TRANSFERS				
Transfers in	310,385	311,247	50,220	671,852
Transfers out	(305,454)	(366,398)	-	(671,852)
CHANGE IN NET ASSETS	(623,446)	(40,121)	275,237	(388,330)
Net assets, beginning of year	4,142,236	1,080,743	2,694,765	7,917,744
Net assets, end of year	\$ 3,518,790	\$ 1,040,622	\$ 2,970,002	\$ 7,529,414

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE FOUNDATION

Statement of Activities

Year ended June 30, 2004

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

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Cash Flows
For the Years Ending June 30, 2005 and 2004

	FY 2005 TOTAL	FY 2004 TOTAL
Cash Flows from Operating Activities:		
<u>Cash Received:</u>		
Tuition and fees	\$7,242,944	\$6,296,823
Sales of services	3,751,764	3,807,692
Sales of products	1,379,232	1,344,466
Grants and contracts	7,791,777	7,884,021
Student loans collected	245,654	177,998
Other receipts	432,033	376,678
<u>Cash Payments:</u>		
Payments to or for employees	(20,342,546)	(18,354,268)
Payments to suppliers	(9,323,269)	(8,318,842)
Scholarships disbursed	(3,106,998)	(2,580,231)
Student loans disbursed	(213,182)	(210,834)
Net cash provided (used) by operating activities	<u>(12,142,591)</u>	<u>(9,576,497)</u>
Cash Flows from Noncapital Financing Activities:		
State appropriations, noncapital	10,316,691	10,316,691
Gifts/Grants for Other than Capital Purposes	1,629,703	1,216,330
Change in funds held for others	62,563	(57,073)
Other NonCapital Revenues	0	19,904
Transfers from (to) other Institutions	(30,523)	(36,616)
Net cash provided by noncapital financing activities	<u>11,978,434</u>	<u>11,459,236</u>
Cash Flows from Capital & Related Financing Activities:		
State appropriations, capital	621,047	516,198
Proceeds from capital debt	0	2,103,880
Capital grants, contracts & gifts	7,045	8,468
Acquisition or construction of capital assets	(2,238,768)	(475,110)
Principal paid on capital debt	(368,212)	(126,576)
Interest paid on capital debt	(670,171)	(405,559)
Net cash provided (used) by capital & related financing activities	<u>(2,649,059)</u>	<u>1,621,301</u>
Cash Flows from Investing Activities:		
Investment earnings	219,873	93,564
Net cash provided by investing activities	<u>219,873</u>	<u>93,564</u>
Net Increase (Decrease) in Cash	<u>(2,593,343)</u>	<u>3,597,604</u>
Beginning cash balance	12,529,864	8,932,260
Ending cash balance	<u>\$9,936,521</u>	<u>\$12,529,864</u>
Reconciliation of net operating revenues (expenditures) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$15,142,072)	(\$13,235,099)
Adjustments to reconcile:		
Depreciation expense	3,274,676	2,991,765
Decrease (increase) in assets:		
Receivables, net	(442,883)	150,775
Inventories & prepaids	6,246	30,241
Increase (decrease) in liabilities:		
Accounts payable	(28,086)	106,228
Accrued liabilities	150,309	391,450
Deferred revenues	5,070	(17,225)
Student deposits	(1,296)	(23,840)
Compensated absences	35,445	29,208
Net cash provided (used) by operating activities	<u>(\$12,142,591)</u>	<u>(\$9,576,497)</u>

The accompanying notes are an integral part of this statement.

ADAMS STATE COLLEGE
Statements of Cash Flows
For the Years Ending June 30, 2005 and 2004
(Continued)

	FY 2005	FY 2004
	TOTAL	TOTAL
Noncash Investing, Capital, and Financing Activities:		
State Capital Contributions	\$621,047	\$516,198
Loss on Capital Asset Deletions	\$5,295	\$0
Amortization of Capital Prem/Disc and Capital Loss	\$181,498	\$14,726
Capital Loss on Bond Refunding	\$0	\$602,189

The accompanying notes are an integral part of this statement

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governance

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

Reporting Entity

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

During fiscal year 2004, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the College's financial reporting entity. The College has determined that the Adams State College Foundation meets the GASB Statement No. 39 criteria for inclusion in the College's financial statements. The Foundation's financial information is presented on separate pages from the financial statements of the College for fiscal year June 30, 2005 and 2004. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. Complete financial statements for the Foundation can be obtained from the Controller's Office at the College. See note 14 for a description of the Adams State College Foundation.

As defined by, GASB Statement No. 14, *The Financial Reporting Entity*, the College is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relation with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

Basis of Accounting

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

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

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Investments

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

Inventory

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

Capital Assets

Physical plant and equipment are stated at cost at date of acquisition, or fair market value at date of donation. A physical inventory of all plant assets is taken annually with appropriate adjustments made to the financial records. Annual revisions of statement of values for insurance purposes are performed. The College follows the policy of capitalizing only those plant assets with an initial cost or fair value equal to or greater than \$5,000.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are determined as 40 years for buildings, 15-20 years for building improvements, 10-20 years for improvements other than buildings, 5-30 years for equipment, and 10 years for library materials.

The college capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized during the years ended June 30, 2005 and 2004 was \$92,190 and \$22,812, respectively.

Classification of Revenue

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

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

Application of Restricted and Unrestricted Resources

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

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absence Liabilities

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as compensated absence liabilities in the Statement of Net Assets and as a component of appropriate functional expense categories in the Statement of Revenues, Expenses, and Changes in Net Assets. The current portion of this liability is estimated based on historical trends.

Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of this category.
- *Restricted Net Assets, Nonexpendable* – This category consists of endowment funds that are required to be retained in perpetuity.
- *Restricted Net Assets, Expendable* – This category includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- *Unrestricted Net Assets* – Unrestricted Net Assets are those that do not meet the definition of "Restricted" or "Invested in Capital Assets, Net of Related Debt" as described above. Generally, these resources will be derived from student tuition and fees, state appropriations, sales and services of educational activities, and sales and services of certain auxiliary and self-funded activities.

Reclassifications

Certain reclassifications were made to the fiscal year 2004 financial statements presentation in order to conform to the fiscal year 2005 financial statements presentation.

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

At June 30, 2005, the College had \$6,688,736, including unrealized losses of \$(16,784), on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

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

Cash on hand	\$ 9,930
Cash in checking accounts at bank	1,205,917
Certificate of Deposits	2,048,722
Total cash	\$3,264,569

The carrying amount of the college's cash on deposit was \$3,254,639. The bank balance of these deposits was \$3,981,386, of which \$297,527 was covered by federal depository insurance and \$3,683,859 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

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

At June 30, 2004, the College had \$7,321,530, including unrealized gains of \$42,926 on deposit with the State Treasurer. At year-end, cash on hand and in banks consisted of the following:

Cash on hand	\$ 9,580
Cash in checking accounts at bank	1,759,722
Certificate of Deposits	3,396,106
Total cash	<u>\$5,165,408</u>

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

The College deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The College reports its share of the Treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2005. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. For the years ended June 30, 2005 and June 30, 2004 the College had unrealized gains (losses) of (\$16,784) and \$42,926, respectively. Additional information on the Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

ASC Foundation Investments and Concentration of Risk

Investments recorded at fair value are comprised of the following:

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Fund	<u>\$5,997,175</u>	<u>\$6,196,959</u>	<u>\$6,597,429</u>	<u>\$6,509,039</u>

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

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Value at Contribution</u>	<u>Carrying Value</u>	<u>Value at Contribution</u>	<u>Carrying Value</u>
Art collection	\$ 220,750	\$ 220,750	\$ 220,750	\$220,750
Land-available for sale	<u>115,650</u>	<u>115,650</u>	<u>181,650</u>	<u>181,650</u>
	<u>\$ 336,400</u>	<u>\$ 336,400</u>	<u>\$ 402,400</u>	<u>\$402,400</u>

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

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

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

As of June 30, 2005 and 2004 the Foundation had bank deposits in two financial institutions that exceeded insurance coverage by a total of \$161,705 and \$135,155, respectively.

NOTE 3: ACCOUNTS AND LOANS RECEIVABLE

Account receivable balances are presented net of estimated allowance for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2005 and 2004, accounts receivable were as follows:

	<u>2005</u>	<u>2004</u>
Student Accounts Receivable	\$807,295	\$654,357
Less: Allowance for Doubtful Accounts	<u>(176,065)</u>	<u>(158,174)</u>
Student Accounts Receivable, net	631,230	496,183
Other Accounts Receivable	<u>751,882</u>	<u>351,856</u>
Student Loans Receivable	1,125,951	1,225,678
Less: Allowance for Doubtful Accounts	<u>(154,095)</u>	<u>(161,632)</u>
Student Loans Receivable, net	971,856	1,064,046
Total Receivables	<u><u>\$2,354,968</u></u>	<u><u>\$1,912,085</u></u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 4: CAPITAL ASSETS

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

	Balance <u>June 30, 2004</u>	Additions	Retirements	Balance <u>June 30, 2005</u>
Nondepreciable Capital Assets				
Land	\$ 170,210	\$ 0-	\$ -0-	\$ 170,210
Construction in Progress	<u>213,514</u>	<u>1,959,189</u>	<u>2,033,136</u>	<u>139,567</u>
Total Nondepreciable Capital Assets	<u>\$383,724</u>	<u>\$1,959,189</u>	<u>\$2,033,136</u>	<u>\$309,777</u>
Depreciable Capital Assets				
Land Improvements	\$ 5,211,398	\$ 0	\$ 0	\$ 5,211,398
Buildings and Improvements	69,415,563	1,983,575	0	71,399,138
Equipment	3,453,836	259,652	65,923	3,647,565
Library Materials	<u>4,117,259</u>	<u>166,974</u>	<u>74,896</u>	<u>4,209,337</u>
Total Depreciable Capital Assets	<u>82,198,056</u>	<u>2,410,201</u>	<u>140,819</u>	<u>84,467,438</u>
Less: Accumulated Depreciation				
Land Improvements	2,189,167	269,565	0	2,458,732
Buildings and Improvements	18,920,541	2,485,926	0	21,406,467
Equipment	2,097,901	350,477	60,386	2,387,992
Library Materials	<u>3,260,635</u>	<u>168,708</u>	<u>74,896</u>	<u>3,354,447</u>
Total Accumulated Depreciation	<u>26,468,244</u>	<u>3,274,676</u>	<u>135,282</u>	<u>29,607,638</u>
Net Depreciable Capital Assets	<u>\$55,729,812</u>	<u>(\$864,475)</u>	<u>\$5,537</u>	<u>\$54,859,800</u>

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

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

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 5: LONG-TERM LIABILITIES

The College's Long-Term Liability activity for the year ended June 30, 2005 was as follows:

	Balance 6/30/2004	Additions	Reductions	Balance 6/30/2005	Current Portion
Bond and Leases Payable:					
Enterprise Revenue Bonds	\$11,575,000	\$0	\$380,000	\$11,195,000	\$500,000
Add: Unamortized Premium	354,570	0	18,067	336,503	0
Less: Refunding Gain/(Loss)	(587,134)	0	(163,431)	(423,703)	0
Capital Lease Obligation	501,111	0	127,743	373,368	136,637
Total Bonds and Leases Payable	<u>11,843,547</u>	<u>0</u>	<u>362,379</u>	<u>11,481,168</u>	<u>636,637</u>
Other Liabilities:					
Compensated Absences	733,859	35,445	0	769,304	89,839
Notes Payable	60,709	0	5,832	54,877	11,960
Total Other Liabilities	<u>794,568</u>	<u>35,445</u>	<u>5,832</u>	<u>824,181</u>	<u>101,799</u>
Total Long-Term Liabilities	<u>\$12,638,115</u>	<u>\$35,445</u>	<u>\$368,211</u>	<u>\$12,305,349</u>	<u>\$738,436</u>

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

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

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 6: LEASE OBLIGATIONS

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

Principal and Interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	
2006	\$157,664
2007	148,610
2008	<u>103,340</u>
	409,614
Less amount representing interest	<u>(36,247)</u>
Principal outstanding	<u>\$373,367</u>

NOTE 7: BONDS PAYABLE

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

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$466,462. This refunding loss is being amortized over a 15-year period. An additional cash flow requirement of \$951,996 is required to service the Series 2004A Bonds and an economic gain (difference between the present values of the old and new debt service payments) of \$472,524 was obtained.

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

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

Debt Service Reserve Requirement

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

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 7: BONDS PAYABLE (continued)

Under the terms of the bond resolution, the Repair and Replacement Reserve Requirement is in an amount of not less than \$300,000. As of June 30, 2005, the College had a Repair and Replacement Reserve balance of \$605,497. Principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 500,000	\$ 479,628
2007	425,000	459,628
2008	440,000	449,002
2009	450,000	436,902
2010	475,000	423,402
2011-2015	2,575,000	1,854,875
2016-2020	3,160,000	1,298,712
2021-2025	<u>3,170,000</u>	<u>426,564</u>
	\$11,195,000	<u>\$5,828,713</u>
Less unamortized Premium/ Discount and Refunding Loss	<u>(87,200)</u>	
Bonds Payable	<u>\$11,107,800</u>	

NOTE 8: COMMITMENTS AND CONTINGENCIES

Amounts expended under the terms of certain grants and contracts are subjected to audit and possible adjustment by governmental agencies. In the opinion of management, any adjustments will not have a material or adverse effect on the accompanying financial statements.

The College receives significant amounts from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed amounts resulting from such audits could become a liability of the College. However, College management believes that any such disallowed amounts will not have a material adverse effect on any of the financial statements or on the overall financial position of the College at June 30, 2005

NOTE 9: COMPENSATED ABSENCES

Employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount, which will be paid upon termination. The estimated costs of current compensated absences for which employees are vested for the years ended June 30, 2005, and June 30, 2004, are estimated as \$89,839 and \$62,606 respectively. The estimated costs of non-current compensated absences for which employees are vested for the years ended June 30, 2005, and June 30, 2004, are estimated as \$679,465 and \$671,253 respectively. Current expenses include an increase of \$35,445 for the estimated compensated absence liability. None of the liability relates to the current restricted fund.

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 10: PENSION PLAN OBLIGATIONS

On September 10, 1993 the Board of Trustees of the State Colleges adopted an Optional Retirement Plan (ORP) for faculty and exempt-administrative staff, under the authority of Senate Bill 92-127. The implementation date was May 1, 1994; eligible employees were offered the choice of remaining in PERA or participating in the ORP. New faculty and administrative staff members are required to enroll in the ORP unless they have one year or more service credit with PERA at the date of hire. On July 1, 2003 the Board of Trustees for Adams State College has elected to continue with the Optional Retirement Plan (ORP).

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

The College's contributions to the ORP for the fiscal years ending June 30, 2005, 2004, and 2003 were \$679,443, \$600,235 and \$554,920 respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately vested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and decisions made by participants for their individual investment accounts.

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

A. PERA Plan Description

Many of the College's employees participate in a defined benefit pension plan. The PERA plan's purpose is to provide income to members and their families at retirement or in the case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, and other divisions' plans, are included in PERA's financial statements, which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, by calling PERA at 303-832-9550 or 1-800-729-PERA, or by visiting www.copera.org.

Plan members vest after five years of service and are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

NOTE 10: PENSION PLAN OBLIGATIONS (Continued)

B. Funding Policy

Most employees contribute 8 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. During FY04-05, the state contributed 10.15 percent of the employee's gross covered wages. Effective July 1, 2004, 1.02 percent of the total contribution was allocated to the Health Care Trust Fund.

The annual gross covered wages subject to PERA are the gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code. The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly.

The College's contributions to three programs described above for the fiscal years ending June 30, 2005, 2004 and 2003 were \$837,917, \$782,852 and \$773,253 respectively. These contributions were equal to the required contributions for each year.

Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of Section 24-54.6-101, Colorado Revised Statute (C.R.S.), and as provided in section 403 (b) of the Internal Revenue Code, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees not currently attending classes are required to participate. The plan requires a 7.5 percent contribution on the employee's part with no employer contribution. Total payroll covered by the plan for 2005, 2004 and 2003, for Adams State College was \$195,976, \$144,554 and \$118,096 respectively. Employee contributions were 7.5 percent of covered payroll.

NOTE 11: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403b or 401(a) plan. Members who contribute to any of their plans also receive the state match, when available.

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. For calendar year 2004 through May 31, 2004, the match was 100 percent of up to 1 percent of employee's gross covered wages paid during the month. The PERA Board sets the level of the match with two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in Fiscal year 2003-04, the maximum one-year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 2 percent to 1 percent on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities. This condition was not met during Fiscal Year 2004-05.

STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004

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

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the FY04-05, the subsidy was \$115.00 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans and with health maintenance organizations providing services within Colorado. As of December 31, 2004 there were 39,668 enrollees in the plan.

Life Insurance Program

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

Other Programs

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

NOTE 13: SCHOLARSHIP ALLOWANCES

Tuition, fee and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2005 and 2004 were as follows:

	Tuition & Fees	Auxiliary Revenue	2005 Total	2004 Total
Gross Revenue	<u>\$10,428,563</u>	<u>\$5,946,947</u>	<u>\$16,375,510</u>	<u>\$15,219,413</u>
Scholarship Allowances:				
Federal	1,757,231	365,675	2,122,906	2,031,757
State	748,353	155,731	904,084	968,075
Private	558,775	116,280	675,055	705,248
Institutional	78,514	16,339	94,853	44,242
Total Allowances	<u>3,142,873</u>	<u>654,025</u>	<u>3,796,898</u>	<u>3,749,322</u>
Net Revenue	<u>\$7,285,690</u>	<u>\$5,292,922</u>	<u>\$12,578,612</u>	<u>\$11,470,091</u>

**STATE OF COLORADO
ADAMS STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2005 and 2004**

NOTE 14: COLLEGE FOUNDATION

The Adams State College Foundation was formed and incorporated on January 23, 1962, as a non-profit corporation for the purpose of receiving gifts, legacies and grants of money and property and to administer these exclusively for educational purposes entirely within the Adams State College area in the State of Colorado, and for the purpose of promoting and furthering the interests, objectives and purposes of Adams State College in such other ways and manners as the corporation may from time to time determine.

During the years ended June 30, 2005 and 2004, the College received funds totaling \$1,068,067 and \$727,805, respectively, from the Foundation for scholarships, work-study and grants-in-aid. These funds are appropriately accounted for and reported in the financial statements. In addition, the Foundation has expended funds for the purchase of an insignificant quantity of supplies and other services from the College.

For years ended June 30, 2005 and 2004, the College is discretely presenting the Adams State College Foundation's Statement of Financial Position and Statement of Activities as required by GASB 39. The Foundation's note on Investments is included in Note 2 above.

NOTE 15: ACCRUED PAYROLL

Prior to fiscal year 2003, salaries and wages earned through the end of the fiscal year were paid to employees on June 30. Senate Bill 03-197 requires that monthly salaries for June that were normally paid on June 30 are to be paid on July 1. This created an accrual for June 30, 2005 and June 30, 2004 of \$1,551,657 and \$1,345,952, respectively.

NOTE 16: RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

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

NOTE 17: CONTINGENCIES

The former president of the College filed a lawsuit late last year against the College Board of Trustees and each Trustee individually in the United States District Court, District of Colorado. The former president alleges that his constitutional rights were violated by his termination and further that his termination was a breach of his employment contract with the College. He seeks consequential and punitive damages. The lawsuit will be contested vigorously and since the lawsuit was only filed recently, assessing any potential liability of the College, is not now possible. Therefore, no provision for a loss was recorded in the financial statements.

The College is currently the defendant in one other lawsuit arising principally in the normal course of operations. The College denies the claim and is vigorously defending the lawsuit. In the opinion of legal counsel, any potential loss is likely to be paid in whole or in substantial part from the state risk management fund and accordingly, no provision for a loss has been recorded in the financial statements.

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SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND EXPENSES FOR
ENTERPRISE REVENUE BONDS

**Schedules of Revenues and Expenses
for Enterprise Revenue Bonds
Adams State College
For Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Revenue		
College Service Fees	\$ 533,056	\$ 530,463
Traffic Control Fees	40,011	50,108
Rental Income	2,824,540	2,962,291
Food Service Income	1,126,864	1,239,398
Sales/Services Auxiliaries	1,383,543	1,373,972
Interest Income	35,211	22,582
Other Income	130,696	108,852
Total Revenue	<u>6,073,921</u>	<u>6,287,666</u>
Expenses		
Salaries & Benefits	1,301,721	1,323,655
Costs of Goods	1,006,092	928,616
Utilities Expense	418,882	387,507
Rental Expense	183,058	180,105
Contract Food Services	736,677	734,787
Travel	17,462	17,559
Supplies	172,051	134,654
Other Operating Expenses	194,889	355,843
Purchased Services-Personal	3,267	10,693
Financial Aid	223,271	214,560
Administrative Cost Allowance	316,948	528,351
Furniture & Equipment	50,363	52,546
Other Capital Expenditures	120,729	120,729
Other Expenses	103,836	70,068
Total Expenses	<u>4,849,246</u>	<u>5,059,673</u>
Net Revenue before Transfers	<u>1,224,675</u>	<u>1,227,993</u>
Transfers		
Mandatory Transfers	1,024,854	465,902
Nonmandatory Transfers	176,203	19,148
Total Transfers	<u>1,201,057</u>	<u>485,050</u>
Net Revenue	<u>\$ 23,618</u>	<u>\$ 742,943</u>

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

Members of the Legislative Audit Committee:

We have audited the financial statements of Adams State College, a blended component unit of the State of Colorado, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. We did not audit the financial statements of Adams State College Foundation, which represents total assets of \$7.5 million and \$7.9 million as of June 30, 2005 and 2004 and total revenues, gains and other support of \$1.2 million and \$1.6 million for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Adams State College Foundation were not audited in accordance with the *Government Auditing Standards*.

Compliance

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

Internal Control Over Financial Reporting

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

Wall, Smith, Bateman and Associates, Inc.

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

December 22, 2005

Members of the Legislative Audit Committee:

We have audited the financial statements of Adams State College for the year ended June 30, 2005, and have issued our report thereon dated December 22, 2005. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our contract dated May 25, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Adams State College are described in Note 1 to the financial statements. For the fiscal years ended June 30, 2005 and 2004 the College appropriately implemented GASB 39, *Determining Whether Certain Organizations are Component Units*. We noted no transactions entered into by Adams State College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

For purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates the proposed adjustment and records the adjustment if it is necessary to prevent the financial statements from being materially misstated. There were no proposed adjustments or any other adjustments based on our audit.

Disagreements with Management

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

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

Wall, Smith, Bateman and Associates, Inc.

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

December 22, 2005

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STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION

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ADAMS STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2005

Introduction

Adams State College is a state-supported institution of higher education located in Alamosa, Colorado.

The financial and compliance examination of the various state-funded student assistance programs at the College for the year ended June 30, 2005, was directed toward the objectives and criteria set forth in the Colorado Handbook for State-Funded Student Assistance Programs, issued by the Colorado Commission on Higher Education (CCHE). The State student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2005.

State-Funded Student Assistance Programs

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

The state-funded student assistance awards made by the College were approximately \$1,711,000 and \$1,724,000 for the fiscal years ended 2005 and 2004, respectively. In addition, total state-funded matching funds of \$2,366 during fiscal year 2005 and \$2,082 for fiscal year 2004 were transferred to the Perkins Student Loan Fund.

The Director of Financial Aid is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the College in federal and state financial aid programs. The College Controller is responsible for the programs' financial management, general ledger accounting, payments, and collections.

During the audit period, Adams State College obtained authorizations to award federal student financial aid funds of \$3,075,000 in the Pell Grant Program, \$145,000 in the Supplemental Educational Opportunity Grant Program, \$289,000 in the College Work-Study Program and \$7,098 in the Perkins Student Loan Program.

During the audit period, Adams State College obtained authorizations to award Colorado student financial aid funds of \$218,000 in the CLEAP and SLEAP Programs, \$788,000 in the Student Grant Program, \$340,000 in the Colorado Work Study Program, \$94,000 in the Merit Award Program, and \$266,000 in the Governor's Opportunity Scholarship.

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

Members of the Legislative Audit Committee:

We have audited the accompanying Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Adams State College for the year ended June 30, 2005. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The statements were prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2005 revision. The statements are a summary of cash activity of the state-funded student financial assistance programs with the exception of the College Work-Study Program and the Perkins Loan Program, and do not present certain transactions that would be included in the statements of the state-funded student financial assistance programs if presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statements are not intended to present the financial position or changes in financial position of Adams State College in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly the appropriations, expenditures, transfers, and reversions of the state-funded student assistance programs of Adams State College, in all material respects, for the year ended June 30, 2005, in conformity with the provisions of the Colorado Commission of Higher Education's *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

Legislative Audit Committee

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005 on our consideration of Adams State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Wall, Smith, Bateman and Associates, Inc.

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

December 22, 2005

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

	TOTAL STATE- FUNDED STUDENT ASSISTANCE	CLEAP PROGRAM	SLEAP PROGRAM	STUDENT GRANT PROGRAM	WORK STUDY PROGRAM	COLORADO MERIT SCHOLARSHIP	PERKINS LOAN MATCH	GOVERNOR'S OPPORTUNITY SCHOLARSHIP
ORIGINAL	\$ 1,668,487	\$ 45,039	\$ 138,487	\$ 791,842	\$ 342,492	\$ 95,157	\$ 2,082	\$ 253,388
SUPPLEMENTAL	51,210		36,098				284	14,828
TRANSFERS	0							
RETURNED TO CCHE	<u>(8,331)</u>	<u>(212)</u>	<u>(651)</u>	<u>(3,722)</u>	<u>(1,610)</u>	<u>(447)</u>		<u>(1,689)</u>
TOTAL	1,711,366	44,827	173,934	788,120	340,882	94,710	2,366	266,527
EXPENDITURES	1,711,366	44,827	173,934	788,120	340,882	94,710	2,366	266,527
REVERSIONS TO STATE GENERAL FUND	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

APPROPRIATIONS:

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

Basis of Accounting

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

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

Note A

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

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the Office of the State Auditor
www.state.co.us/auditor

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