

**ADAMS STATE COLLEGE**

**FINANCIAL AND COMPLIANCE AUDIT**  
**Fiscal Years Ended June 30, 2006 and 2005**

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**ADAMS STATE COLLEGE  
FINANCIAL AND COMPLIANCE AUDIT  
REPORT SUMMARY  
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

**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 2006 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 2006.

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, 2006 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, 2006.
- 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, 2006 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 years ended June 30, 2006 and 2005. 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, 2006.

## **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.

We noted that the College did not always refund Title IV funds in the required thirty day timeframe when a student that had received financial aid withdrew from College. We also noted that the student financial aid files did not always contain required documentation for the authorization of the increase of work-study funding.

### **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 four recommendations made in the prior year audit and all of the recommendations have been implemented. A detailed description and the disposition are contained in the disposition of prior year audit recommendations.

## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	5	Adams State College should improve the timeliness of the return of unearned Title IV funds and ensure federal timeframes are met.	Agree	June 30, 2007
2	6	Adams State College should improve controls over additional authorizations of Federal Work Study by implementing the policy currently in place to ensure that appropriate documentation is maintained for requests and authorizations for increases in student work-study funding.	Agree	June 30, 2007

## 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>2004</u>	<u>2005</u>	<u>2006</u>
Resident Students	1,993.2	1,893.9	1,933.2
Nonresident Students	320.0	280.3	245.8
Total Students	<u>2,313.2</u>	<u>2,174.2</u>	<u>2,179.0</u>
Faculty FTEs	154.7	158.0	156.2
Staff FTEs	125.6	124.5	116.8
Total Staff and Faculty FTEs	<u>280.3</u>	<u>282.5</u>	<u>273.0</u>

## **FINDINGS AND RECOMMENDATIONS SECTION**

# **Findings and Recommendations**

## **Financial Aid**

### **Withdrawals and the Return of Title IV Funds**

Adams State College received approximately \$1.7 million during Fiscal Year 2006 for federal student financial assistance programs. The College refunds, on a pro rata basis, tuition, fees, room and meal plans for complete withdrawals initiated up through the eighth week of the semester. A withdrawal occurs when a student goes to Student Affairs to get an "Official Withdrawal Form." The date the student last attended class is the withdrawal date. The student then must take the form around to various departments, such as Records, Business Office, Student Affairs, Computing Services, Housing and Financial Aid, for sign off on the form. After the sheet is completed and all applicable departments have signed off, the form is given to the Financial Aid Office, which then calculates the return of Title IV funds. Federal Student Aid includes all Title IV grant and loan funds that were disbursed or that could have been disbursed to a student for the period of time for which the refund calculation is being performed. The College has 30 days from the date the student withdrew to return all unearned Title IV funds for which it is responsible. Due to the manual process necessary to complete the withdrawal form by obtaining the signatures of the various departments, the College is unable to comply with the 30 day requirement for all instances. For Fiscal Year 2006 we noted that out of the fifteen refunds we tested, five did not comply with the 30 day return of Title IV funds requirement. Three refunds took 33 to 41 days, one refund took 66 days and one refund took 238 days to be processed.

#### **Recommendation No. 1:**

Adams State College should improve the timeliness of the return of unearned Title IV funds and ensure federal timeframes are met.

#### **Adams State College Response:**

Agree. The College will evaluate its current policies and procedures regarding the complete withdrawal of a regular student enrolled in an eligible program of study and the subsequent Return of Title IV Funds. The College will implement a redefined policy and procedures that will address the timeliness and accuracy of the institutional complete withdrawal process as well as the Return of Title IV Refund calculation. The current award year will be closely monitored to ensure the timeliness and accuracy of the calculations. In addition, the College will ensure the new policy and procedure is developed and implemented prior to the 2007 award year and the utilization of current automated withdrawal and Return of Title IV Refund systems in Banner are utilized to their full extent. Implementation date: June 30, 2007.

## **Authorization of Additional Federal Student Work-Study**

The College financial aid office awards Federal Work Study to students who qualify. In rare instances, a student may be able to receive additional work-study funding. The College has a policy in place that dictates the process that should be followed to increase a student's Federal Work Study. If a supervisor feels that a student employee should receive additional funding due to special skills, merit, motivation, and/or experience, the supervisor must request a change in student's wages or number of work hours on a "Request for Additional Authorization" form supporting this request. If the student has remaining unmet financial needs, as determined by the Financial Aid office, and there is funding available, the request may be approved.

Currently, the College is not following this policy. During our testing of seven authorizations for increases in work-study funding, we noted five that did not have the proper documentation to support the increase. No documentation to support the requests or the approved authorizations is maintained. We found that staff used verbal communications for request and approval of these increases.

### **Recommendation No. 2:**

Adams State College should improve controls over additional authorizations of Federal Work Study by implementing the policy currently in place to ensure that appropriate documentation is maintained for requests and authorizations for increases in student work-study funding.

### **Adams State College Response:**

Agree. After careful review and evaluation of the institutional policies and procedures regarding the authorization of additional federal work study funds to students having additional need, it was found that the procedure was not fully adhered to by some staff members. The institution will immediately initiate trainings and workshops to ensure all staff and hiring supervisors are familiar and fully understand the policies and procedures for the authorization of additional federal work study funding for students. Implementation date: June 30, 2007.

# Disposition of Prior Audit Recommendations

Listed below are the recommendations included in the audit report for Adams State College for the year ended June 30, 2005, and their disposition as of October 4, 2006.

<b>Recommendation</b>	<b>Disposition</b>
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.	Implemented.
b. Finalizing a comprehensive policies and procedures manual for the Business Office.	Implemented.
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.	Implemented and ongoing.
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.	Implemented.
3. Adams State College should improve information system processes and controls by:	
a. Developing and testing a disaster/recovery plan.	Implemented.
b. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.	Implemented.
4. Adams State College should rewrite the Trustee Policy Manual to be specific to the College.	Implemented.

**FINANCIAL STATEMENTS SECTION**

## **INDEPENDENT AUDITORS' REPORT**

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business type activities of Adams State College (College), a blended component unit of the State of Colorado, as of June 30, 2006 and 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. We have also audited the financial statements of Adams State College Foundation, a discretely presented component unit of Adams State College, as of June 30, 2006. 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 audits. We did not audit the financial statements of Adams State College Foundation as of June 30, 2005. 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the 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 audits provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the discretely presented component unit of the College as of June 30, 2006 and 2005, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 on our consideration of the 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 audits.

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

Our audits were 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

October 4, 2006

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**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, 2006, with selected comparative information for the years ended June 30, 2005 and June 30, 2004. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes 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, 2006**

The College's total net assets increased by \$0.2 million during fiscal year 2006 compared to a \$3.0 million decrease in net assets during fiscal year 2005.

The College has a ratio of current assets to current liabilities of 2.6. This current ratio demonstrates the liquidity of college assets and the relative availability of working capital to fund current operations.

An operating deficit of \$2.8 million is the result from the College's dependence on Gifts and Donations and Other Non-operating revenue, which under the guidelines established by GASB Statements 34 and 35 is shown as non-operating revenues. The college received no state appropriations, but received \$8.8 million in fee for service contract revenue from the Colorado Commission on Higher Education and \$3.4 million in College Opportunity Fund stipends from the Colorado College Access Network during fiscal year 2006.

**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 during fiscal year 2005.

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**STATEMENTS OF NET ASSETS**

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

A summarized comparison of the College's assets, liabilities and net assets at June 30, 2006, 2005 and 2004 follows:

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
<b>Assets</b>			
Current Assets	\$13,806	\$11,649	\$13,695
Noncurrent Assets	<u>54,534</u>	<u>56,616</u>	<u>57,690</u>
Total Assets	<u>68,340</u>	<u>68,265</u>	<u>71,385</u>
<b>Liabilities</b>			
Current Liabilities	5,337	5,050	4,706
Noncurrent Liabilities	<u>11,114</u>	<u>11,567</u>	<u>12,056</u>
Total Liabilities	<u>16,451</u>	<u>16,617</u>	<u>16,762</u>
<b>Net Assets</b>			
Invested in Capital Assets, net of related debt	42,311	44,225	46,214
Restricted	3,714	3,911	3,928
Unrestricted	<u>5,864</u>	<u>3,512</u>	<u>4,481</u>
Total Net Assets	<u>\$51,889</u>	<u>\$51,648</u>	<u>\$54,623</u>

At June 30, 2006 the College's total assets were \$68.3 million. The largest asset category is the \$53.2 million in capital assets, net of accumulated depreciation of \$32.6 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 2006, the College's current assets of \$13.8 million were sufficient to cover current liabilities of \$5.3 million (producing a current ratio of 2.6). Cash and cash equivalents (bank deposits, certificates of deposits, pooled cash with the State Treasurer) comprised over \$12.2 million in assets per the Statement of Net Assets.

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**STATEMENTS OF NET ASSETS (Continued)**

Capital lease and bonds payables of \$10.9 million represent almost 66% of the College's total liabilities of \$16.5 million. The current portion of the capital lease and bonds payable liability is \$0.56 million.

The College's financial position increased during the fiscal year as evidenced by the increase of \$0.2 million in net assets (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$51.9 million. Net Assets is composed of \$42.3 million invested in capital assets net of related debt, \$3.7 million externally restricted for specific purposes, and \$5.9 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 \$10.1 million of the \$32.3 million in operating revenues. The tuition and fee amount is net of scholarship allowances of \$5.5 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 \$35.1 million. Of that total, \$12.4 million was for instruction, \$1.7 million for academic support, \$3.0 million for student services, \$3.2 million for institutional support, \$2.4 million for operations of plant, \$1.2 million for scholarships and fellowships and \$7.9 million for auxiliary enterprises.

A summarized comparison of the College's revenues, expenses and changes in net assets at June 30, 2006, 2005 and 2004 follows:

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
<b>Operating Revenues</b>			
Tuition and Fees, net	\$10,078	\$7,286	\$6,185
Grants and Contracts	16,062	8,110	7,812
Auxiliary Enterprises	5,768	5,293	5,285
Other	425	532	391
<b>Total Operating Revenues</b>	<u>32,333</u>	<u>21,221</u>	<u>19,673</u>
<b>Operating Expenses</b>	<u>35,099</u>	<u>36,363</u>	<u>32,908</u>
<b>Net operating (Loss)</b>	<u>(2,766)</u>	<u>(15,142)</u>	<u>(13,235)</u>
<b>Nonoperating Revenue(Expense)</b>			
State Appropriations	0	10,317	10,317
Gifts and Donations	1,997	1,630	1,216
Interest Income	200	191	83
Other Nonoperating	685	(569)	(379)
<b>Net Nonoperating Revenue</b>	<u>2,882</u>	<u>11,569</u>	<u>11,237</u>
<b>Income(Loss) Before Other Revenue, Expenses, Gains or Losses</b>	116	(3,573)	(1,998)
State Appropriations, Capital	0	621	516
Other	125	(23)	(28)
<b>Increase(Decrease) In Net Assets</b>	<u>241</u>	<u>(2,975)</u>	<u>(1,510)</u>
<b>Net Assets</b>			
Net Assets-Beginning of Year	51,648	54,623	56,133
Net Assets-End of Year	<u>\$51,889</u>	<u>\$51,648</u>	<u>\$54,623</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, 2006**

A summarized comparison of the College's statement of cash flows at June 30, 2006, 2005 and 2004 follows:

	<u>2006</u>	<u>2005</u> (in thousands)	<u>2004</u>
<b>Net Cash Provided (Used) by:</b>			
Operating Activities	\$1,231	(\$12,142)	(\$9,576)
Non-Capital Financing Activities Capital and Related Financing Activities	3,119	11,978	11,459
Investing Activities	(2,249)	(2,649)	1,621
<b>Net Increase (Decrease) in Cash</b>	<u>205</u>	<u>220</u>	<u>94</u>
	2,306	(2,593)	3,598
<b>Cash &amp; Cash Equivalents:</b>			
Beginning of Year	9,937	12,530	8,932
End of Year	<u>\$12,243</u>	<u>\$9,937</u>	<u>\$12,530</u>

The College's overall liquidity increased during the fiscal year with an increase in cash and cash equivalents of \$2.3 million. The net cash inflow from operating activities was \$1.2 million. The major sources of cash were \$10.1 million in student tuition and fees and \$16.3 million in contracts and grants and \$7.6 million in fee for service contract revenue. Payments to or for employees of \$21.4 million and payments to suppliers of \$8.7 million were the primary uses of funds.

**CAPITAL ASSETS**

At June 30, 2006 the College had approximately \$53.2 million invested in capital assets, net of accumulated depreciation of \$32.6 million. Depreciation charges were \$3.3 million for the current year compared to \$3.3 million in 2005 and \$3.0 million in 2004. Details of these assets for the three years are shown below.

**Capital Assets, Net of Depreciation, at Year End**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land	\$170,210	\$170,210	\$170,210
Land Improvements	2,483,102	2,752,666	3,022,231
Buildings	47,950,429	49,992,671	50,495,022
Construction in Progress	674,391	139,567	213,514
Equipment	1,040,371	1,259,573	1,355,935
Library Materials	851,099	854,890	856,624
<b>Total</b>	<u>\$53,169,602</u>	<u>\$55,169,577</u>	<u>\$56,113,536</u>

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**CAPITAL ASSETS (Continued)**

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

Coronado Hall renovation project, funded by housing system	\$ 225,934
McCurry Complex renovation project, funded by housing system	62,708
College Center remodeling, funded by bond proceeds	57,404
Faculty Drive renovation project, funded by housing system	<u>50,306</u>
	<u>\$396,352</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, 2006, the College had approximately \$10.9 million in debt outstanding compared to \$11.5 million at June 30, 2005 and \$11.9 million at June 30, 2004. The table below summarizes these amounts by type of debt.

**Outstanding Debt, at Year End**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Enterprise Revenue Bonds	\$10,620,830	\$11,107,800	\$11,342,436
Capital Lease	236,731	373,367	501,111
Notes Payable	<u>50,432</u>	<u>54,877</u>	<u>60,709</u>
Total	<u>\$10,907,993</u>	<u>\$11,536,044</u>	<u>\$11,904,256</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, which equaled the previous year's appropriation.

**ADAMS STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

**ECONOMIC OUTLOOK (Continued)**

In 2004, Governor Owens signed Senate Bill 04-189, which created the Colorado Opportunity Fund. This legislation created a first-in-the-nation funding mechanism for higher education. The bill provides a stipend, calculated on a per-hour credit rate, to undergraduate resident students attending public and qualifying private higher education institutions. In addition, the bill provides higher education institutions the opportunity to become enterprises under TABOR. Because funding is provided to students through the stipends and to the institutions through fee-for-service arrangements, the bill allows all qualifying public institutions to be designated as "enterprises" if approved by the Legislative Audit Committee. The Legislative Audit Committee approved the designation of the College as an enterprise for fiscal year 2006.

This has had 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 years 2007 and 2006, the stipend is \$2,580 and \$2,400, respectively, for a full-time student, based on 15 credit hours per semester, attending a public institution.

The college has budgeted for \$3.9 million in College Opportunity Fund stipends for fiscal year 2007. The college received \$3.4 million in COF stipends in fiscal year 2006. In fiscal year 2007 \$8.7 million will be billed through a fee for service contract with the Commission on Higher Education (CCHE). The college received \$8.8 million in fee for service revenue in fiscal year 2006. 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, 2006 and June 30, 2005**

	<b>FY 2006</b>	<b>FY 2005</b>
	<b>TOTAL</b>	<b>TOTAL</b>
<b>Assets:</b>		
<u>Current Assets</u>		
Cash & cash equivalents	\$ 11,914,355	\$ 9,608,271
Student accounts receivable, net	668,862	631,230
Other accounts receivable	490,946	751,882
Student loans receivable, net	212,031	207,233
Inventories	490,253	417,007
Prepaid expenses	25,497	28,913
Other current assets	4,500	4,500
Total current assets	13,806,444	11,649,036
<u>Noncurrent Assets</u>		
Restricted cash & cash equivalents	328,250	328,250
Student loans receivable, net	701,211	764,623
Deferred charges-bond issuance costs	334,578	353,562
	1,364,039	1,446,435
Non-depreciable capital assets:		
Land	170,210	170,210
Construction in progress	674,391	139,567
Total non-depreciable capital assets	844,601	309,777
Depreciable capital assets, net:		
Buildings	47,950,429	49,992,671
Land improvements	2,483,102	2,752,666
Furniture & equipment	1,040,371	1,259,573
Library books	851,099	854,890
Total depreciable capital assets, net	52,325,001	54,859,800
Total noncurrent assets	54,533,641	56,616,012
Total Assets	68,340,085	68,265,048
<b>Liabilities:</b>		
<u>Current Liabilities</u>		
Accounts payable	609,936	401,048
Accrued liabilities	3,336,776	3,255,341
Deferred revenue	338,596	249,366
Deposits held for others	402,329	405,927
Bonds payable, current	425,000	500,000
Notes payable, current	11,960	11,960
Capital leases payable, current	137,072	136,637
Compensated absences liability	75,273	89,839
Total current liabilities	5,336,942	5,050,118
<u>Noncurrent Liabilities</u>		
Compensated absences liability	780,455	679,465
Notes payable	38,472	42,917
Capital leases payable	99,659	236,730
Bonds payable	10,195,830	10,607,800
Total noncurrent liabilities	11,114,416	11,566,912
Total Liabilities	16,451,358	16,617,030

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE**  
**Statements of Net Assets (Continued)**  
**As of June 30, 2006 and June 30, 2005**

<b>Net Assets:</b>		
Invested in capital assets, net of related debt	42,310,918	44,224,391
Restricted for	<u>28,250</u>	<u>28,250</u>
Non-expendable Endowments	28,250	28,250
Expendable		
Endowments	35,314	34,262
Loans	1,138,213	1,184,110
Capital Projects	300,000	300,000
Other Purposes	2,211,881	2,364,785
Total Restricted	<u>3,713,658</u>	<u>3,911,407</u>
Unrestricted	5,864,151	3,512,220
Total Net Assets	<u>\$ 51,888,727</u>	<u>\$ 51,648,018</u>

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE FOUNDATION**  
**Statements of Financial Position**  
**Discretely Presented Component Unit**  
**June 30, 2006 and 2005**

**ASSETS**

	<u>2006</u>	<u>2005</u>
Cash	\$ 16,866	\$ 14,432
Certificates of deposit	698,208	698,208
Investments, at fair value	6,903,872	6,196,959
Notes receivable, net of allowance of \$-0-	262,986	269,775
Pledges receivable net of allowance of \$2,500	5,170	-
Inventories	13,640	13,640
Land – available for sale	115,650	115,650
Art collection	220,750	220,750
	Total Assets	Total Assets
	\$ 8,237,142	\$ 7,529,414

**NET ASSETS**

Net assets		
Unrestricted		
Unreserved	\$ 1,952,732	\$ 2,593,052
Board designated	21,800	925,738
	1,974,532	3,518,790
Temporarily restricted net assets	1,745,942	1,040,622
Permanently restricted net assets	4,516,668	2,970,002
	Total net assets	Total net assets
	\$ 8,237,142	\$ 7,529,414

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, 2006 and 2005**

	<b>FY 2006 TOTAL</b>	<b>FY 2005 TOTAL</b>
<b>Operating Revenues:</b>		
Tuition & fees (including \$588,179 and \$533,055, respectively of revenues pledged for bonds and net of scholarship allowances of \$5,473,910 and \$3,142,873 respectively)	\$10,077,872	\$7,285,690
Sales & services of auxiliary enterprises (including \$5,781,365 and \$5,436,399, respectively of revenues pledged for bonds and net of scholarship allowances of \$469,970 and \$654,025, respectively)	5,768,235	5,292,922
Fee for Service Contract Revenue	7,585,859	-
Federal grants and contracts	6,774,578	6,518,304
State grants and contracts	1,701,244	1,591,934
Other operating revenues (including \$18,912 and \$69,257, respectively of revenues pledged for bonds)	424,766	532,447
<b>Total operating revenues</b>	<b>32,332,554</b>	<b>21,221,297</b>
<b>Operating Expenses:</b>		
Instruction	12,363,341	12,207,781
Academic support	1,707,441	1,426,846
Student services	3,039,812	3,981,799
Institutional support	3,237,928	2,916,349
Operation of plant	2,402,982	2,634,256
Scholarships and fellowships	1,153,737	3,106,998
Auxiliary enterprises expenditures	7,904,404	6,814,664
Depreciation	3,289,357	3,274,676
<b>Total operating expenses</b>	<b>35,099,002</b>	<b>36,363,369</b>
<b>Operating Income (Loss)</b>	<b>(2,766,448)</b>	<b>(15,142,072)</b>
<b>Nonoperating Revenues (Expenses):</b>		
State appropriation, noncapital	-	10,316,691
Gifts and Donations	1,996,586	1,629,703
Investment & interest income (including \$37,386 and \$35,211, respectively of revenue pledged for bonds)	200,446	191,172
Interest on capital debt	(501,503)	(568,263)
Gain or Loss on Disposal of Assets	(359)	(241)
Other Non-operating Revenues	1,187,473	-
<b>Net nonoperating revenue (expenses)</b>	<b>2,882,643</b>	<b>11,569,062</b>
<b>Income (Loss) before other revenues, expenses, gains, losses or transfers</b>	<b>116,195</b>	<b>(3,573,010)</b>
<b>Other Revenues, Expenses, Gains, Losses or Transfers:</b>		
State appropriation, capital	-	621,047
Federal Grant - Capital	155,896	7,045
Transfers to Other Institutions	(31,382)	(30,523)
<b>Increase (Decrease) in Net Assets</b>	<b>240,709</b>	<b>(2,975,441)</b>
Net Assets at Beginning of Year	51,648,018	54,623,459
<b>Net Assets at End of Year</b>	<b>\$51,888,727</b>	<b>\$51,648,018</b>

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE FOUNDATION**  
**Statement of Activities**  
**Discretely Presented Component Unit**  
**Year ended June 30, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, GAINS AND OTHER SUPPORT</b>				
Contributions	\$ 154,956	\$ 1,147,518	\$ 950,913	\$ 2,253,387
Investment income	229,239	-	-	229,239
Realized and unrealized gains on investments	282,699	-	-	282,699
Net assets released from restriction	781,377	(781,377)	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>1,448,271</b>	<b>366,141</b>	<b>950,913</b>	<b>2,765,325</b>
<b>EXPENSES</b>				
Program services	1,577,043	-	-	1,577,043
Supporting services				
Advertising	339	-	-	339
Professional fees and consulting	105,996	-	-	105,996
Insurance	3,235	-	-	3,235
General administration	12,099	-	-	12,099
Meetings	2,587	-	-	2,587
Real estate taxes	83	-	-	83
Salaries	77,859	-	-	77,859
Printing and postage	36,599	-	-	36,599
Alumni	158,171	-	-	158,171
Fundraising	66,744	-	-	66,744
Support and maintenance	16,842	-	-	16,842
<b>TOTAL EXPENSES</b>	<b>2,057,597</b>	<b>-</b>	<b>-</b>	<b>2,057,597</b>
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>				
	(609,326)	366,141	950,913	707,728
<b>TRANSFERS</b>				
Transfers in	20,030	370,879	595,753	986,662
Transfers out	(954,962)	(31,700)	-	(986,662)
<b>CHANGE IN NET ASSETS</b>	<b>(1,544,258)</b>	<b>705,320</b>	<b>1,546,666</b>	<b>707,728</b>
Net assets, beginning of year	3,518,790	1,040,622	2,970,002	7,529,414
Net assets, end of year	<u>\$ 1,974,532</u>	<u>\$ 1,745,942</u>	<u>\$ 4,516,668</u>	<u>\$ 8,237,142</u>

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE FOUNDATION**  
**Statement of Activities**  
**Discretely Presented Component Unit**  
**Year ended June 30, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, GAINS AND OTHER</b>				
<b>SUPPORT</b>				
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)	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>1,004,782</b>	<b>15,030</b>	<b>225,017</b>	<b>1,244,829</b>
<b>EXPENSES</b>				
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
<b>TOTAL EXPENSES</b>	<b>1,633,159</b>	<b>-</b>	<b>-</b>	<b>1,633,159</b>
<b>CHANGE IN NET ASSETS</b>				
<b>BEFORE TRANSFERS</b>	<b>(628,377)</b>	<b>15,030</b>	<b>225,017</b>	<b>(388,330)</b>
<b>TRANSFERS</b>				
Transfers in	310,385	311,247	50,220	671,852
Transfers out	(305,454)	(366,398)	-	(671,852)
<b>CHANGE IN NET ASSETS</b>	<b>(623,446)</b>	<b>(40,121)</b>	<b>275,237</b>	<b>(388,330)</b>
Net assets, beginning of year	4,142,236	1,080,743	2,694,765	7,917,744
Net assets, end of year	<u>\$ 3,518,790</u>	<u>\$ 1,040,622</u>	<u>\$ 2,970,002</u>	<u>\$ 7,529,414</u>

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE**  
**Statements of Cash Flows**  
**For the Years Ending June 30, 2006 and 2005**

	<b>FY 2006</b>	<b>FY 2005</b>
	<b>TOTAL</b>	<b>TOTAL</b>
<b>Cash Flows from Operating Activities:</b>		
<u>Cash Received:</u>		
Tuition and fees	\$ 10,114,020	\$ 7,242,944
Fee for Service Contract Revenue	7,580,249	-
Sales of services	4,270,672	3,751,764
Sales of products	1,347,119	1,379,232
Grants and contracts	8,706,023	7,791,777
Student loans collected	429,206	245,654
Other receipts	451,278	432,033
<u>Cash Payments:</u>		
Payments to or for employees	(21,364,945)	(20,342,546)
Payments to suppliers	(8,732,538)	(9,323,269)
Scholarships disbursed	(1,153,737)	(3,106,998)
Student loans disbursed	(416,412)	(213,182)
Net cash provided (used) by operating activities	1,230,935	(12,142,591)
<b>Cash Flows from Noncapital Financing Activities:</b>		
State appropriations, noncapital	-	10,316,691
Gifts/Grants for Other than Capital Purposes	1,996,586	1,629,703
Change in funds held for others	(460)	-
Other NonCapital Revenues	1,187,473	-
Agency Receipts	14,413,066	11,766,246
Agency Payments	(14,446,165)	(11,703,683)
Transfers from (to) other Institutions	(31,382)	(30,523)
Net cash provided (used) by noncapital financing activities	3,119,118	11,978,434
<b>Cash Flows from Capital &amp; Related Financing Activities:</b>		
State appropriations, capital	-	621,047
Capital grants, contracts & gifts	155,896	7,045
Acquisition or construction of capital assets	(1,284,645)	(2,238,768)
Principal paid on capital debt	(628,052)	(368,211)
Interest paid on capital debt	(492,614)	(670,172)
Net cash provided (used) by capital & related financing activities	(2,249,415)	(2,649,059)
<b>Cash Flows from Investing Activities:</b>		
Investment earnings	205,446	219,873
Net cash provided (used) by investing activities	205,446	219,873
<b>Net Increase (Decrease) in Cash</b>	2,306,084	(2,593,343)
Beginning cash balance	9,936,521	12,529,864
Ending cash balance	\$ 12,242,605	\$ 9,936,521

The accompanying notes are an integral part of this statement.

**ADAMS STATE COLLEGE**  
**Statements of Cash Flows (Continued)**  
**For the Years Ending June 30, 2006 and 2005**

**Reconciliation of net operating revenues (expenditures)  
to net cash provided (used) by operating activities:**

Operating income (loss)	\$ (2,766,448)	\$ (15,142,072)
Adjustments to reconcile:		
Depreciation expense	3,289,357	3,274,676
Decrease (increase) in assets:		
Receivables, net	281,918	(442,883)
Inventories & prepaids	(69,830)	6,246
Increase (decrease) in liabilities:		
Accounts payable	208,888	(28,086)
Accrued liabilities	81,435	150,309
Deferred revenues	89,230	5,070
Student deposits	29,961	(1,296)
Compensated absences	86,424	35,445
Net cash provided (used) by operating activities	<u>\$ 1,230,935</u>	<u>\$ (12,142,591)</u>

**Noncash Investing, Capital, and Financing Activities:**

State Capital Contributions	\$ -	\$ 621,047
Loss on Capital Asset Deletions	405	5,295
Amortization of Capital Prem/Disc and Capital Loss	49,165	181,498

The accompanying notes are an integral part of this statement.

**STATE OF COLORADO  
ADAMS STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2006 and 2005**

**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.

The College has determined that the Adams State College Foundation meets the GASB Statement No. 39 criteria for inclusion in the College's financial statements. The Foundation's financial information is presented on separate pages with the financial statements of the College for fiscal year June 30, 2006 and 2005. 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 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 relationship 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, 2006 and 2005**

**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, 2006 and 2005 was \$5,096 and \$92,190, 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, 2006 and 2005**

**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. Restricted expendable net assets are classified as expendable for loans, debt service, capital projects and other purposes. For the College, restricted net assets expendable for other purposes includes net assets of its bonded auxiliaries.
- *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.

Enterprise Designation

In 2004, Governor Owens signed Senate Bill 04-189, which provides higher education institutions the opportunity to become designated enterprises under Section 20, Article X of the State Constitution (The Taxpayer's Bill of Rights) so long as the governing board of the institution has the authority to issue revenue bonds and the institution receives less than ten percent of its revenue from Colorado State and Local Governments. This designation must be approved by the State Legislative Audit Committee. The Legislative Audit Committee approved the designation of the College as an enterprise in fiscal year 2006.

Reclassifications

Certain reclassifications were made to the fiscal year 2005 financial statements presentation in order to conform to the fiscal year 2006 financial statements presentation.

**STATE OF COLORADO  
ADAMS STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
Years Ended June 30, 2006 and 2005**

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

For an investment, custodial credit risk is the risk that in the event of a bank failure, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College does not have a deposit policy for custodial credit risk.

At June 30, 2006, the College had \$8,842,729, including unrealized losses of \$(117,257), 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	\$ 12,531
Cash in checking accounts at bank	2,086,091
Certificate of Deposits	1,301,253
Total cash	<u>\$3,399,875</u>

The carrying amount of the college's cash on deposit was \$3,387,344. The bank balance of these deposits was \$3,781,772, of which \$363,564 was covered by federal depository insurance and \$3,418,208 was collateralized by securities held in single institution collateral pools as provided by the Colorado Public Deposit Protection Act.

At June 30, 2005 the College had \$6,671,736, including unrealized losses of \$(16,784), on deposit with the State Treasurer. At year-end, cash on hand and in banks consisted of the following:

Cash on hand	\$ 9,930
Cash in checking accounts at bank	1,205,918
Certificate of Deposits	2,048,721
Total cash	<u>\$3,264,569</u>

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.

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, 2006. 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, 2006 and June 30, 2005 the College had unrealized losses of \$(117,257) and \$(16,784), respectively. Additional information on the Treasurer's pool may be obtained from the State of Colorado's Comprehensive Annual Financial Report.

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

ASC Foundation Investments and Concentration of Risk

Investments recorded at fair value are comprised of the following:

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Fund	<u>6,873,935</u>	<u>6,903,872</u>	<u>\$5,997,175</u>	<u>\$6,196,959</u>

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

	<u>June 30, 2006</u>		<u>June 30, 2005</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>115,650</u>	<u>115,650</u>
	<u>\$ 336,400</u>	<u>\$ 336,400</u>	<u>\$ 336,400</u>	<u>\$336,400</u>

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

As of June 30, 2006 and 2005 the Foundation had bank deposits in two financial institutions that exceeded insurance coverage by a total of \$290,986 and \$161,705, 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, 2006 and 2005, accounts receivable were as follows:

	<u>2006</u>	<u>2005</u>
Student Accounts Receivable	\$997,971	\$807,295
Less: Allowance for Doubtful Accounts	(329,109)	(176,065)
Student Accounts Receivable, net	<u>668,862</u>	<u>631,230</u>
Other Accounts Receivable	<u>490,946</u>	<u>751,882</u>
Student Loans Receivable	1,084,545	1,125,951
Less: Allowance for Doubtful Accounts	(171,303)	(154,095)
Student Loans Receivable, net	<u>913,242</u>	<u>971,856</u>
Total Receivables	<u>\$2,073,050</u>	<u>\$2,354,968</u>

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**NOTE 4: CAPITAL ASSETS**

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2006.

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>
<b>Nondepreciable Capital Assets</b>				
Land	\$ 170,210	\$ -0-	\$ -0-	\$ 170,210
Construction in Progress	<u>139,567</u>	<u>1,001,861</u>	<u>467,037</u>	<u>674,391</u>
Total Nondepreciable Capital Assets	<u>\$309,777</u>	<u>\$1,001,861</u>	<u>\$467,037</u>	<u>\$844,601</u>
<b>Depreciable Capital Assets</b>				
Land Improvements	\$ 5,211,398	\$ -0-	\$ -0-	\$ 5,211,398
Buildings and Improvements	71,399,138	467,038	-0-	71,866,176
Equipment	3,647,565	121,449	51,521	3,717,493
Library Materials	<u>4,209,337</u>	<u>166,837</u>	<u>198,130</u>	<u>4,178,044</u>
Total Depreciable Capital Assets	<u>84,467,438</u>	<u>755,324</u>	<u>249,651</u>	<u>84,973,111</u>
<b>Less: Accumulated Depreciation</b>				
Land Improvements	2,458,732	269,564	-0-	2,728,296
Buildings and Improvements	21,406,467	2,509,280	-0-	23,915,747
Equipment	2,387,992	339,886	50,756	2,677,122
Library Materials	<u>3,354,447</u>	<u>170,628</u>	<u>198,130</u>	<u>3,326,945</u>
Total Accumulated Depreciation	<u>29,607,638</u>	<u>3,289,358</u>	<u>248,886</u>	<u>32,648,110</u>
Net Depreciable Capital Assets	<u>\$54,859,800</u>	<u>(\$2,534,034)</u>	<u>\$765</u>	<u>\$52,325,001</u>

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

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>
<b>Nondepreciable Capital Assets</b>				
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>
<b>Depreciable Capital Assets</b>				
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>
<b>Less: Accumulated Depreciation</b>				
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>

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**NOTE 5: LONG-TERM LIABILITIES**

The College's Long-Term Liability activity for the year ended June 30, 2006 was as follows:

	Balance 6/30/2005	Additions	Reductions	Balance 6/30/2006	Current Portion
<b>Bond and Leases Payable:</b>					
Enterprise Revenue Bonds	\$ 11,195,000	\$ -	\$ 500,000	\$ 10,695,000	\$ 425,000
Add: Unamortized Premium	336,503	-	18,068	318,435	-
Less: Refunding Gain/(Loss)	(423,703)	-	(31,098)	(392,605)	-
Capital Lease Obligation	373,368	-	136,637	236,731	137,072
<b>Total Bonds and Leases Payable</b>	<b>11,481,168</b>	<b>-</b>	<b>623,607</b>	<b>10,857,561</b>	<b>562,072</b>
<b>Other Liabilities:</b>					
Compensated Absences	769,304	86,424	-	855,728	75,273
Other	54,877	-	4,445	50,432	11,960
<b>Total Other Liabilities</b>	<b>824,181</b>	<b>86,424</b>	<b>4,445</b>	<b>906,160</b>	<b>87,233</b>
<b>Total Long-Term Liabilities</b>	<b>\$ 12,305,349</b>	<b>\$ 86,424</b>	<b>\$ 628,052</b>	<b>\$ 11,763,721</b>	<b>\$ 649,305</b>

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

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**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>	
2007	\$148,610
2008	<u>103,340</u>
	251,950
Less amount representing interest	<u>(15,219)</u>
Principal outstanding	<u>\$236,731</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 is obtained.

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

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

**Debt Service Reserve Requirement**

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

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**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, 2006 the College had a Repair and Replacement Reserve balance of \$313,173. Principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 425,000	\$ 459,628
2008	440,000	449,002
2009	450,000	436,902
2010	475,000	423,402
2011	475,000	407,965
2012-2016	2,680,000	1,756,610
2016-2020	3,315,000	1,155,437
2021-2025	<u>2,435,000</u>	<u>260,139</u>
	\$10,695,000	<u>\$5,349,085</u>
Less unamortized Premium/ Discount and Refunding Loss	<u>(74,170)</u>	
Bonds Payable	<u>\$10,620,830</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, 2006.

**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, 2006, and June 30, 2005, are estimated as \$75,273 and \$89,839 respectively. The estimated costs of non-current compensated absences for which employees are vested for the years ended June 30, 2006, and June 30, 2005, are estimated as \$780,455 and \$679,465 respectively. Current expenses include a decrease of \$14,566 for the estimated compensated absence liability. None of the liability relates to the current restricted fund.

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**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-CREF 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, 2006, 2005, and 2004 were \$750,702, \$679,443 and \$600,235 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 Employee's Retirement Association of Colorado (PERA), the remainder participates in the ORP.

**A. PERA Plan Description**

Many of the College's employees participate in a defined benefit pension plan. The 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 PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting [www.copera.org](http://www.copera.org).

Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Employees hired by the state after January 1, 2006, are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the state's Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed another 60 days to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan. PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

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**NOTE 10: PENSION PLAN OBLIGATIONS (Continued)**

Defined benefit plan members vest after five years of service and if they were hired before July 1, 2005, most 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. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at 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. 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 eligible children under the age of 18 (23 if a full-time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents will receive a survivor's benefit.

**B. Funding Policy**

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is 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.

Most employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005 to December 31, 2005, the state contributed 10.15 percent of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2005-06, 1.02 percent of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional .5 percent of salary beginning January 1, 2006, another .5 percent of salary in 2007, and subsequent year increases of .4 percent of salary until the additional payment reaches 3.0 percent in 2012.

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**NOTE 10: PENSION PLAN OBLIGATIONS (Continued)**

In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100 percent funding. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The College's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005 and 2004 were \$933,618, \$837,917 and \$782,852 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 current year payroll covered by the plan, for Adams State College was \$175,688. 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) plans.

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

**Health Care Program**

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; the program was converted to a trust fund in 1999. 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 Fiscal Year 2005-06, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 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 an employer's contribution as discussed above in Note 10.

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

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

**Life Insurance Program**

During Fiscal Year 2005-06, PERA provided its members access to a group decreasing term life insurance plan offered by UnumProvident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

**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, 2006 and 2005 were as follows:

	<u>Tuition &amp; Fees</u>	<u>Auxiliary Revenue</u>	<u>2006 Total</u>	<u>2005 Total</u>
Gross Revenue	<u>\$15,551,782</u>	<u>\$6,238,205</u>	<u>\$21,789,987</u>	<u>\$16,375,510</u>
<b><u>Scholarship Allowances:</u></b>				
Federal	2,933,430	251,855	3,185,285	2,122,906
State	1,114,880	95,719	1,210,599	904,084
Private	574,116	49,291	623,407	675,055
Institutional	851,484	73,105	924,589	94,853
Total Allowances	<u>5,473,910</u>	<u>469,970</u>	<u>5,943,880</u>	<u>3,796,898</u>
Net Revenue	<u>\$10,077,872</u>	<u>\$5,768,235</u>	<u>\$15,846,107</u>	<u>\$12,578,612</u>

**NOTE 14: COLLEGE FOUNDATION**

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

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**NOTE 14: COLLEGE FOUNDATION (Continued)**

During the year ended June 30, 2006 and 2005, the College received funds totaling \$1,657,072 and \$1,068,067, 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 year ended June 30, 2006 and 2005, 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, 2006 and June 30, 2005 of \$1,542,085 and \$1,551,657, 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 against the College Board of Trustees and each Trustee individually in the United State 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 assessing any potential liability of the College, is not now possible. Therefore, no provision for a loss was recorded in the financial statements.

**NOTE 18: LONG BILL BUDGET, ACTUAL REVENUE AND ACTUAL EXPENSES**

The budget, actual revenue and actual expenses related to the amounts shown in the State of Colorado Long Bill for tuition, academic fees, stipends and fee for service contracts for fiscal year 2006 are as follows:

Budget	\$18,429,094
Actual Revenues	18,373,243
Actual Expenses	17,746,900

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

**ADAMS STATE COLLEGE**  
**Schedule of Revenues and Expenses**  
**for Enterprise Revenue Bonds**  
**For Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
College Service Fees	\$ 588,144	\$ 533,056
Traffic Control Fees	35,569	40,011
Rental Income	2,934,970	2,824,540
Food Service Income	1,352,295	1,126,864
Sales/Services Auxiliaries	1,379,955	1,383,543
Interest Income	37,386	35,211
Other Income	97,490	130,696
<b>Total Revenue</b>	<u>6,425,809</u>	<u>6,073,921</u>
<b>Expenses</b>		
Salaries & Benefits	1,272,844	1,301,721
Costs of Goods	935,107	1,006,092
Utilities Expense	496,887	418,882
Rental Expense	183,817	183,058
Contract Food Services	836,713	736,677
Travel	18,801	17,462
Supplies	148,417	172,051
Other Operating Expenses	242,959	194,889
Purchased Services-Personal	1,187	3,267
Financial Aid	100,970	223,271
Administrative Cost Allowance	555,053	316,948
Furniture & Equipment	36,133	50,363
Other Capital Expenditures	125,728	120,729
Other Expenses	205,731	103,836
<b>Total Expenses</b>	<u>5,160,347</u>	<u>4,849,246</u>
<b>Net Revenue before Transfers</b>	<u>1,265,462</u>	<u>1,224,675</u>
<b>Transfers</b>		
Mandatory Transfers	901,564	1,024,854
Nonmandatory Transfers	448,373	176,203
<b>Total Transfers</b>	<u>1,349,937</u>	<u>1,201,057</u>
<b>Net Revenue (Loss)</b>	<u>\$ (84,475)</u>	<u>\$ 23,618</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 basic financial statements of Adams State College, a blended component unit of the State of Colorado, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated October 4, 2006. We have also audited the financial statements of Adams State College Foundation, a discretely presented component unit of Adams State College, as of June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit, Adams State College Foundation, were not audited in accordance with the Government Auditing Standards. We did not audit the financial statements of Adams State College Foundation as of June 30, 2005. Those statements were audited by other auditors whose reports have been furnished to us, and in our opinion insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

**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 an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its 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.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Wall, Smith, Bateman and Associates, Inc.*

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

October 4, 2006

Members of the Legislative Audit Committee:

We have audited the financial statements of Adams State College for the year ended June 30, 2006 and 2005, and have issued our report thereon dated October 4, 2006. 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 10, 2006, 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. 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

October 4, 2006

**STATE-FUNDED STUDENT ASSISTANCE  
PROGRAMS SECTION**

**ADAMS STATE COLLEGE**  
**STATE-FUNDED STUDENT ASSISTANCE PROGRAMS**  
**For the Year Ended June 30, 2006**

**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, 2006, 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, 2006.

**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 \$1,705,000 and \$1,711,000 for the fiscal years ended 2006 and 2005, respectively. In addition, total state-funded matching funds of \$0 during fiscal year 2006 and \$2,366 for fiscal year 2005 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 \$3,446,000 in the Pell Grant Program, \$145,000 in the Supplemental Educational Opportunity Grant Program and \$262,000 in the College Work-Study Program.

During the audit period, Adams State College obtained authorizations to award Colorado student financial aid funds of \$244,000 in the CLEAP and SLEAP Programs, \$839,000 in the Student Grant Program, \$342,000 in the Colorado Work Study Program, \$22,000 in the Merit Award Program, and \$257,000 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, 2006. 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), 2006 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, 2006, in conformity with the provisions of the Colorado Commission of Higher Education's *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006 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

October 4, 2006

STATE OF COLORADO  
ADAMS STATE COLLEGE  
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS  
STATEMENT OF APPROPRIATIONS  
EXPENDITURES AND REVERSIONS  
YEAR ENDED JUNE 30, 2006

	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	\$ 1,593,434	\$ 45,039	\$ 138,487	\$ 791,842	\$ 342,492	\$ 22,186	\$ -	\$ 253,388
SUPPLEMENTAL	112,178	366	60,736	47,600	-	-	-	3,476
TRANSFERS	-	-	-	-	-	-	-	-
RETURNED TO CCHE	-	-	-	-	-	-	-	-
TOTAL	1,705,612	45,405	199,223	839,442	342,492	22,186	-	256,864
EXPENDITURES	1,705,612	45,405	199,223	839,442	342,492	22,186	-	256,864
REVERSIONS TO STATE GENERAL FUND	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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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