

**WESTERN STATE COLORADO UNIVERSITY**

FINANCIAL AND COMPLIANCE AUDIT

Fiscal Years Ended June 30, 2018 and 2017



**DALBY, WENDLAND & CO., P.C.**  
*CPAs and Business Advisors*

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**WESTERN STATE COLORADO UNIVERSITY**

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**WESTERN STATE COLORADO UNIVERSITY**  
**FINANCIAL AND COMPLIANCE AUDIT**  
**REPORT SUMMARY**

As of and for the Years Ended June 30, 2018 and 2017

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**Authority, Purpose and Scope**

The Office of the State Auditor of the State of Colorado engaged Dalby, Wendland, & Co., P.C. (DWC) to conduct a financial and compliance audit of Western State Colorado University (the University) for the year ended June 30, 2018. DWC performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. We conducted our fieldwork from June through September 2018.

The purposes and scope of the audit were to:

- Express an opinion on the financial statements of the University as of and for the years ended June 30, 2018 and 2017. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with Government Auditing Standards.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the progress in implementing prior audit findings and recommendations, if any.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in the Fiscal Year 2018 Statewide Single Audit Report issued under separate cover.

**Audit Opinion and Reports Summary**

We expressed an unmodified opinion on the University's financial statements as of and for the years ended June 30, 2018 and 2017.

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

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

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

### **Summary of Findings and Recommendations**

There were no reported findings or recommendations resulting from the audit of the University for the year ended June 30, 2018.

### **Summary of Progress in Implementing Prior Audit Findings**

The University's audit report for the year ended June 30, 2017 did not include any findings or recommendations that were required to be implemented during the year ended June 30, 2018.

## WESTERN STATE COLORADO UNIVERSITY

### DESCRIPTION OF WESTERN STATE COLORADO UNIVERSITY

For the Years Ended June 30, 2018 and 2017

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#### Description of Western State Colorado University

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

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

Full-time equivalent (FTE) students reportable for state support purposes (both College Opportunity Fund and Fee for Service allocations), faculty, and staff reported by the University for the last three fiscal years were as follows:

	2016	2017	2018
Resident Students	1,533.9	1,630.3	1,528.2
Nonresident Students	564.6	566.1	590.9
Total Students	<u>2,098.5</u>	<u>2,196.4</u>	<u>2,119.1</u>
Faculty FTEs	147.4	154.3	156.9
Staff FTEs	187.5	190.5	203.5
Total Staff and Faculty FTEs	<u>334.9</u>	<u>344.8</u>	<u>360.4</u>

#### Description of Western State Colorado University Foundation

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

FINANCIAL STATEMENTS SECTION



DALBY, WENDLAND & CO., P.C.

Grand Junction

*CPAs and Business Advisors*

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## INDEPENDENT AUDITOR'S REPORT

Members of the Legislative Audit Committee:  
Denver, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education, State of Colorado, as of and for the years ended June 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit, discussed in Note A to the basic financial statements, which represents 100 percent of total assets, total revenues, and net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2018 and 2017, respectively. Those financial statements were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Western State Colorado University Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

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## **Opinions**

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, an institution of higher education, State of Colorado, as of June 30, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Notes A and I to the financial statements, during the year ended June 30, 2018, the University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75). Our opinion is not modified with respect to this matter.

As discussed in Note A, the financial statements of the University, an institution of higher education, State of Colorado are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and the discretely presented component unit of the State that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2018 and 2017, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 17 be presented to supplement the basic financial statements. Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires that the Schedule of the University's Proportionate Share of the public employees' retirement association (PERA) Net Pension Liability and the Schedule of University Contributions to the PERA Defined Benefit Pension Plan on pages 60 through 61 be presented to supplement the basic financial statements. GASB 75, requires that the Schedule of the University's Proportionate Share of the other post-employment benefits (OPEB) Liability and the Schedule of University Contributions to the OPEB plan on pages 62 through 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

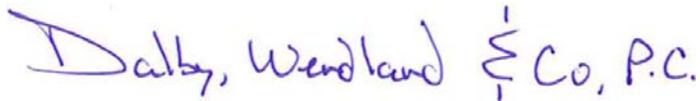
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedules of Revenue and Expenses for Enterprise Revenue Bonds for the years ended June 30, 2018 and 2017 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the University.

The Schedules of Revenue and Expenses for Enterprise Revenue Bonds for the years ended June 30, 2018 and 2017 are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare

the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Dalby, Wendland & Co, P.C." The signature is written in a cursive, flowing style.

DALBY, WENDLAND & CO., P.C.

Grand Junction, Colorado

December 3, 2018

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

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This section of Western State Colorado University's (the University) financial report presents management's discussion and analysis of the University's financial position and results of operations as of and for the years ended June 30, 2018 and 2017, with comparative information presented for the year ended June 30, 2016. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

Certain amounts in the 2017 and 2016 financial statements have been reclassified for comparative purposes to conform to the current year financial statement presentation. These reclassifications had no effect on previously reported net position or change in net position.

**Understanding the Financial Statements**

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

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

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

The financial statements prescribed by GASB 35 as amended by GASB 63 (the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows) present financial information in a format more comparable to that used by for-profit colleges and universities. The statements are prepared under the accrual basis of accounting. Revenues and assets are recognized when service is provided, and expenses and liabilities are recognized when others provide the goods or service, regardless of when cash is exchanged.

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

**Statements of Net Position**

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at a point in time (June 30, 2018 and 2017). Their purpose is to present a

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

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financial snapshot of the University. They aid readers in determining the assets available to continue the University's operations; how much the University owes to employees, vendors, etc.; and a picture of net position and the availability of assets for expenditure by the University.

During the year ended June 30, 2018, the University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions* (GASB 75), related to the Health Care Trust Fund administered by the Colorado Public Employees' Retirement Association, which provides post-retirement healthcare subsidies to eligible employees of the University. GASB 75 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for post-employment benefits other than pensions that are provided to the employees of state and local governmental employers. GASB 75 was implemented prospectively and resulted in the beginning balance of net position being restated for the year ended June 30, 2018 to reflect the implementation of GASB 75. GASB 75 was not required to be implemented as of and for the years ended June 30, 2017 and 2016 and therefore, the financial statements as of and for those years do not reflect the effects of GASB 75. This should be considered when comparing the University's fiscal year ended June 30, 2018 financial statements to prior years.

**Statements of Revenues, Expenses, and Changes in Net Position**

The statements of revenues, expenses, and changes in net position present the total revenues and expenses of the University for operating, nonoperating, and other capital related purposes during the fiscal years ended June 30, 2018 and 2017. Their purpose is to assess the University's operating and nonoperating activities.

**Statements of Cash Flows**

The statements of cash flows present cash receipts and payments of the University during the fiscal years ended June 30, 2018 and 2017. Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

**Notes to Financial Statements**

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

**Required Supplementary Information (RSI)**

The RSI presents additional information that differs from the basic financial statements in that the auditor applies certain limited procedures in reviewing the information. In this report, RSI includes the management's discussion and analysis as well as certain RSI required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and GASB 75 including the:

- Schedule of the University's Proportionate Share of the Net Pension Liability
- Schedule of University Contributions to PERA Defined Benefit Pension Plan Schedule of the University's Proportionate Share of the Net Other Post-employment Benefit Liability
- Schedule of University Contributions to PERA Defined Other Post-Employment Benefit Plan

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

The financial statements of the University include all of the integral parts of the University's operations. The University applied required criteria to determine whether any organization should be included in the University's reporting entity. Management of the University has considered the criteria described in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, paragraph 47, and management of the University has determined that the Western State Colorado University Foundation (the Foundation) meets the criteria to be included in the University's financial statements as a discretely presented component unit. The Foundation was incorporated on August 22, 1975 under the laws of the State of Colorado. The purpose of the Foundation is to aid, directly or indirectly, the University in fulfilling its educational purposes. The Foundation is supported primarily through donor contributions. A full copy of the Foundation's financial statements may be obtained from the Western State Colorado University Foundation, 909 East Escalante Drive, P.O. Box 1264, Gunnison, CO 81230.

**Financial Highlights**

The University's financial net position decreased by \$8.2 million during the fiscal year ended June 30, 2018, from \$40.5 million at June 30, 2017, to \$32.3 million at June 30, 2018. The decrease in net position relates primarily to expense recognized under GASB 68 and GASB 75 of \$7.8 million. In fiscal year 2017, net position increased by \$0.8 million from \$39.7 million at June 30, 2016.

The University's current assets of \$20.7 million (2018), \$20.8 million (2017) and \$20.0 million (2016) were sufficient to cover current liabilities of \$7.3 million (2018), \$6.9 million (2017) and \$8.3 million (2016). The current ratio of 2.83 (2018), 3.01 (2017) and 2.41 (2016) demonstrates the liquidity of University assets and the relative availability of working capital to fund current operations.

An operating deficit of \$8.5 million (2018), \$5.3 million (2017) and \$1.6 million (2016) resulted primarily from non-cash pension and other post-employment benefit expense of \$7.8 million (2018), \$5.4 million (2017), and \$0.7 million (2016). The operating deficits also result partly from the University's dependence on state appropriations for controlled maintenance and Federal Pell grants for operations. The financial reporting model classifies certain grants and contracts and state appropriations as non-operating revenues. Additionally, depreciation is an expense for which Colorado higher education has not historically been funded.

**Statements of Net Position**

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

<b>Condensed Statements of Net Position</b>			
<b>June 30, 2018, 2017 and 2016</b>			
<b>(in thousands)</b>			
	2018	2017	2016
<b>Assets</b>			
Current Assets	\$ 20,672	\$ 20,784	\$ 19,962
Noncurrent Assets	135,066	135,805	132,529
<i>Total Assets</i>	155,738	156,589	152,491
<i>Total Deferred Outflows</i>	12,188	14,397	3,219

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

<b>Liabilities</b>			
Current Liabilities	7,312	6,913	8,271
Noncurrent Liabilities	126,563	122,761	107,047
<i>Total Liabilities</i>	<u>133,875</u>	<u>129,674</u>	<u>115,318</u>
<i>Total Deferred Inflows</i>	<u>1,733</u>	<u>843</u>	<u>706</u>
<b>Net Position</b>			
Net investment in capital assets	50,389	49,923	45,969
Restricted	6,580	6,458	4,725
Unrestricted			
General unrestricted	7,546	7,757	7,340
Effect of GASB 68 and GASB 75 on unrestricted net position (see Notes H & I)	(32,905)	(24,289)	(18,889)
Designated by the Board	708	620	541
<i>Total Net Position</i>	<u>\$ 32,318</u>	<u>\$ 40,469</u>	<u>\$ 39,686</u>

At June 30, the University's total assets were \$155.7 million (2018), \$156.6 million (2017) and \$152.5 million (2016). The largest asset category is the \$134.6 million (2018), \$135.3 million (2017) and \$131.9 million (2016) in capital assets, net of depreciation, which includes land, buildings, equipment, library holdings, and construction in progress.

Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised \$18.0 million (2018), \$18.3 million (2017) and \$17.4 million (2016) of total assets.

GASB Statement No. 65 defines certain elements of the financial statements previously reported as assets or liabilities as deferred outflows or deferred inflows of resources. Assets and liabilities are resources and obligations with present service capacities and present obligations, while deferred outflows and inflows of resources are acquisitions and uses of net assets that relate to a future period. Unamortized book losses on certain bond refinancing transactions of \$3.5 million (2018), \$3.7 million (2017), and \$0.9 million (2016) are recognized as deferred outflows. The increase in fiscal year 2017 related to the September 2016 advanced refunding of bonds discussed in Note F. The University also has both deferred outflows and inflows related to amounts recognized on our defined benefit pension plan and defined benefit other post-employment benefit plan in accordance with GASB 68 and GASB 75. Pension and other post-employment benefit related deferred outflows were \$8.7 million (2018), \$10.7 million (2017), and \$2.4 million (2016). The large increase in fiscal year 2017 relates to significant changes in assumptions during that year. The decrease in fiscal year 2018 primarily relates to the amortization of prior year deferred outflows. Pension and other post-employment benefit related deferred inflows were \$1.7 million (2018), \$0.8 million (2017), and \$0.7 million (2016). See Notes E, H, and I to the financial statements for additional information on the composition of the University's deferred outflows and deferred inflows.

Bonds and notes payable of \$87.6 million (2018), \$89.2 million (2017) and \$86.7 million (2016) represent 65.5 percent (2018), 68.8 percent (2017) and 75.2 percent (2016) of the University's total liabilities of \$133.9 million (2018), \$129.7 million (2017) and \$115.3 million (2016). The University's debt is discussed in detail in Note F. The decrease in the bonds and notes payable liability in fiscal year 2018 primarily relates to the payment of bond principal during the year. During fiscal year 2017, the University issued \$27.0 million in Series 2016 Refunding Bonds, which were used to refund all the outstanding Series 2009 Bonds and a portion of the Series 2010A Bonds. The refunding created significant interest savings for the University, but resulted in an accounting loss of \$3.0 million, recorded

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

as a deferred outflow. Additionally, the University recognized a \$3.2 million bond premium on the refunding, which increased the reported bond liability in fiscal year 2017. The current portion of bonds and notes payable is \$1.9 million (2018), \$1.4 million (2017), and \$0.9 million (2016).

The next largest component of liabilities relates to the University's recognition of its proportionate share of the unfunded pension and other post-employment benefit liabilities for the cost-sharing multiple-employer defined benefit plans administered by PERA, as discussed in Note H and I. The University's net pension and other post-employment liabilities of \$39.9 million (2018), \$34.2 million (2017) and \$20.5 million (2016) represents 29.8 percent (2018), 26.3 percent (2017) and 17.8 percent (2016) of the University's total liabilities. While the University is required to record this liability, the University is under no obligation to fund the liability. In fiscal year 2018, the University adopted GASB 75, which increased this liability by \$0.9 million. In fiscal year 2017, PERA changed certain significant assumptions in its calculation of the liability, which resulted in a 66 percent increase in the recorded liability. As discussed in Note H, significant legislation was passed in early 2018 that will likely decrease the pension related liability in future years.

Net position consisted of \$50.4 million (2018), \$49.9 million (2017) and \$46.0 million (2016) in net investment in capital assets. In addition, \$6.6 million (2018), \$6.5 million (2017) and \$4.7 million (2016) is externally restricted for specific purposes, and (\$24.7) million (2018), (\$15.9) million (2017) and (\$11.0) million (2016) is unrestricted and available for any lawful purpose of the University. Unrestricted net position is significantly impacted by the recognition of the PERA unfunded pension and other post-employment benefit liabilities, with reductions to unrestricted net position of \$32.9 million (2018), \$24.3 million in (2017), and \$18.9 million (2016). Excluding the PERA portion, unrestricted net position is \$8.2 million (2018), \$8.4 million (2017), and \$7.9 million (2016).

**Reconciliation of Net Position, excluding the impact of GASB 68 & GASB 75**  
**June 30, 2018, 2017 and 2016**  
(in thousands)

	2018	2017	2016
Net Position (GAAP Basis)	\$ 32,318	\$ 40,469	\$ 39,686
Remove:			
GASB 68 Impact – Pension	32,094	24,290	18,890
GASB 75 Impact – OPEB	810	-	-
Net Position, excluding the impact of GASB 68 & GASB 75	\$ 65,222	\$ 64,759	\$ 58,576

**Statements of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses and Changes in Net Position present the results of operations during the year. Revenues are distinguished between operating revenues, nonoperating revenues, and revenues from capital contributions. Operating revenues and expenses generally result from providing goods and services for instruction, research, public service and related support services to an individual or entity separate from the University. Nonoperating revenues and expenses are those other than operating and include, but are not limited to: funding received or receivable for Federal Pell grants awarded to students, Federal interest subsidies, investment income and expenses, and interest expense on capital debt. Revenues from capital contributions and gifts consist of capital construction and controlled maintenance appropriations from the State of Colorado and gifts of capital funding or assets from other donors.

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

Gross tuition and fee revenue for fiscal year 2018 increased 1.7 percent from fiscal year 2017. The University increased tuition rates in fiscal year 2018, but also experienced a 3.5 percent decrease in FTE enrollment and the slight increase in gross tuition and fee revenue is a result of these offsetting factors. Tuition and fee related scholarship allowances of \$10.6 million (2018) were an increase from the two previous fiscal years of \$10.2 million (2017) and \$9.6 million (2016). Scholarship allowances are defined as the financial aid awarded to students by the University that is used to pay University charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense. Net tuition and fee revenues for the year ending June 30, 2018 were \$23.8 million, a \$0.2 million increase from 2017. Net tuition and fee revenue in 2017 was \$23.6 million, a \$3.3 million increase from 2016 due to an approximate 8 percent increase in resident tuition rates, and approximate 4.6 percent increase in non-resident tuition rates, and increases in enrollment.

An operating deficit of \$8.5 million in fiscal year 2018, \$5.3 million in fiscal year 2017, and \$1.6 million in fiscal year 2016 was partially offset by Federal Pell grants and capital contributions from the State of Colorado because the financial reporting model classifies these separately from operating revenues. The University's net position decreased by \$7.4 million in fiscal year 2018 due primarily to the recognition of \$7.8 million of non-cash expense related to GASB 68 and GASB 75. Net position increased slightly in fiscal year 2017 due to State capital contributions, which were mostly offset by \$5.4 million on non-cash expense related to GASB 68.

**Condensed Statements of Revenue, Expenses, and Changes in Net Position**  
**June 30, 2018, 2017 and 2016**  
(in thousands)

	2018	2017	2016
<b>Operating Revenue</b>			
Tuition and fees, net	\$ 23,771	\$ 23,604	\$ 20,336
Federal, state, and private grants and contracts	5,643	5,230	5,255
Fee for service revenue	8,828	8,535	8,628
Sales and services of auxiliary enterprises, net	11,117	10,958	10,347
Other operating revenue	675	654	717
Total Operating Revenue	50,034	48,981	45,283
<b>Operating Expenses</b>			
Instruction	20,468	19,461	16,142
Academic support	3,316	3,094	2,690
Student services	5,334	5,347	5,104
Institutional support	5,977	4,983	4,485
Operation and maintenance of plant	5,467	4,131	2,485
Auxiliary enterprises	11,280	10,906	10,241
Depreciation	5,574	5,584	5,152
Other	1,141	765	629
Total Operating Expenses	58,557	54,271	46,928
Net Operating Loss	(8,523)	(5,290)	(1,645)

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

**Nonoperating Revenue (Expenses)**

Federal Pell grants and interest subsidy	3,675	3,590	3,576
Investment and interest income	148	85	222
Interest expense on capital debt	(4,931)	(5,024)	(5,207)
Other nonoperating expenses	(106)	(600)	(275)
Net Nonoperating Expense	(1,214)	(1,949)	(1,684)
Loss before Capital Contributions	(9,737)	(7,239)	(3,329)

**Capital Contributions and Gifts**

State appropriations and capital gifts	2,376	8,022	17,368
<b>Increase (Decrease) in Net Position</b>	(7,361)	783	14,039

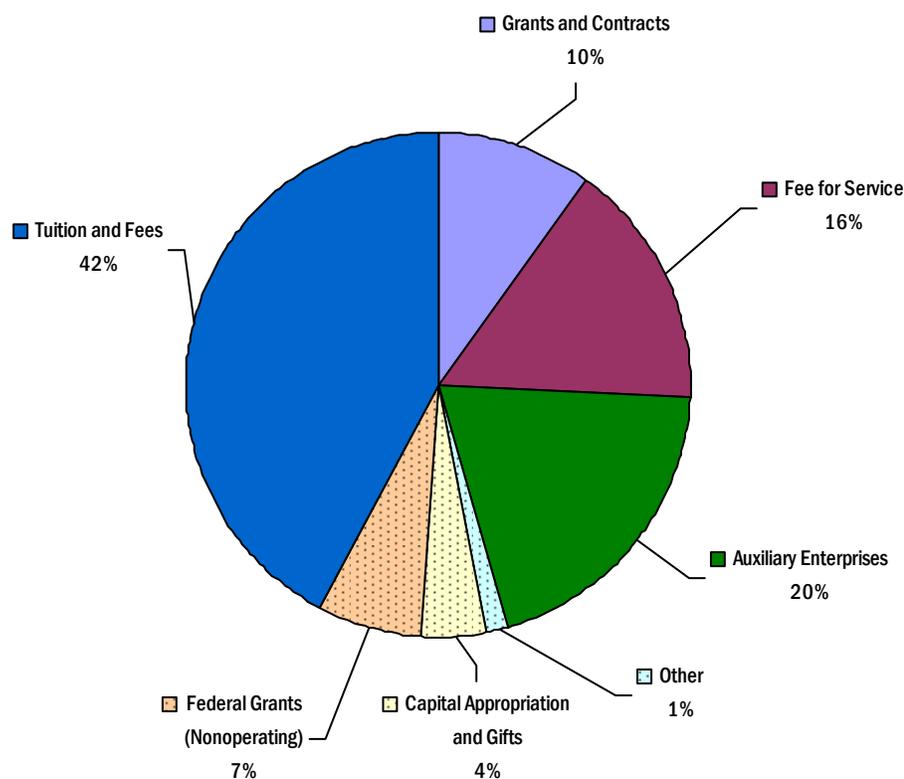
**Net Position:**

Net Position, beginning of year	40,469	39,686	25,647
Cumulative effect of adoption of new accounting standard	(790)	-	-
Net Position, beginning of year, as restated	39,679	39,686	25,647
Net Position, end of year	\$ 32,318	\$ 40,469	\$ 39,686

**Revenue by Source**

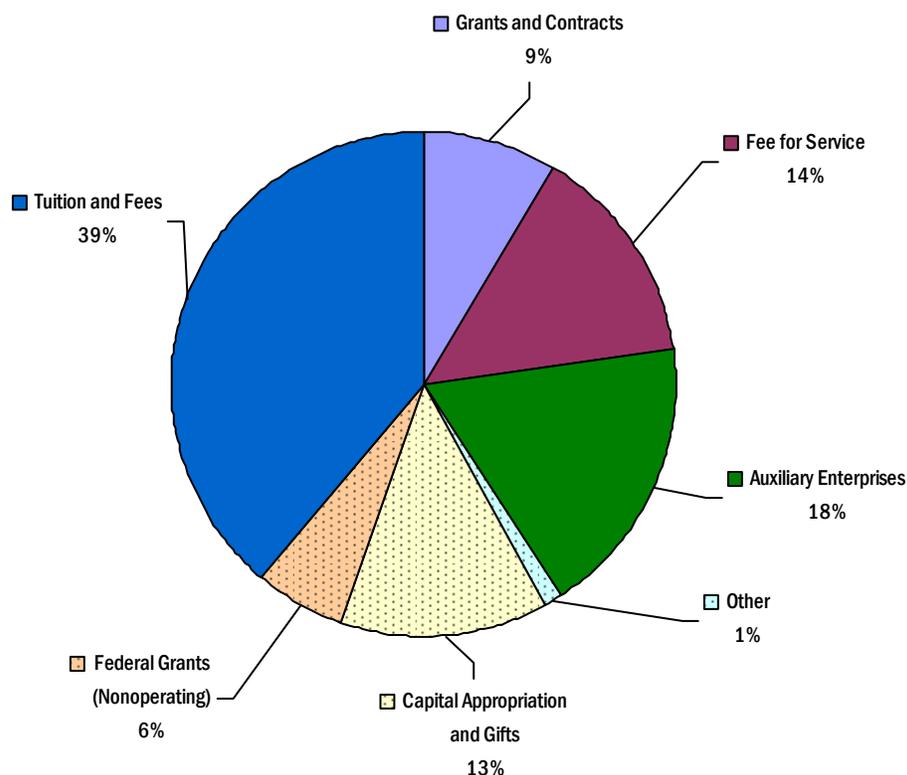
The following is a graphic illustration of total revenue by source for the University. Each major revenue component is displayed relative to its proportionate share of total revenues.

**Operating and Nonoperating Revenues – Fiscal Year 2018**



**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

**Operating and Nonoperating Revenues – Fiscal Year 2017**



**Capital Assets**

At June 30, 2018, the University had approximately \$134.6 million invested in capital assets, net of accumulated depreciation of \$82.6 million. Depreciation charges were \$5.6 million for the year ended June 30, 2018. At June 30, 2017, the University had approximately \$135.3 million invested in capital assets, net of accumulated depreciation of \$77.2 million. Depreciation charges were \$5.6 million for the year ended June 30, 2017. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets. Details of capital asset balances are shown below.

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

	June 30, 2018	June 30, 2017	June 30, 2016
Land and Improvements	\$ 4,408	\$ 4,408	\$ 2,599
Construction in Progress	1,810	464	18,847
Land Improvements, Net	336	379	287
Buildings and Improvements, Net	126,613	128,497	109,083
Furniture and Equipment, Net	1,205	1,241	742
Library Materials, Net	237	262	296
<b>Total</b>	<b>\$ 134,609</b>	<b>\$ 135,251</b>	<b>\$ 131,854</b>

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
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The following significant capital projects were in progress at June 30, 2018 (in thousands):

Paul Wright Gym Heating System Improvements	\$ 1,257
Escalante Hall Piping Improvements	434
Residence Hall Window Replacement	119
	<u>\$ 1,810</u>

The following significant capital projects were in progress at June 30, 2017 (in thousands):

Hurst Hall HV AC replacement	\$ 408
Kelly Hall remodel	56
	<u>\$ 464</u>

**Debt**

At June 30, 2018, the University had \$87.6 million in debt outstanding, a decrease of \$1.4 million from the debt outstanding of \$89.2 million as of June 30, 2017. The decrease primarily relates to principal payments made on our borrowings. At June 30, 2017, the University had \$89.2 million in debt outstanding, an increase of \$2.5 million from the debt outstanding of \$86.7 million as of June 30, 2016, which primarily related to the bond premium on the University's 2016 Bond Refunding. The table below summarizes the amounts by type of debt.

**Outstanding Debt at Year-End (in thousands)**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Auxiliary Revenue Bonds	\$ 87,518	\$ 89,002	\$ 86,749
Notes Payable	125	150	-
Total	<u>\$ 87,643</u>	<u>\$ 89,152</u>	<u>\$ 86,749</u>

**Economic Outlook**

The University's ability to carry out its mission, maintain and improve academic offerings, meet operational costs, and maintain facilities is influenced by a variety of factors. The largest drivers are state funding, enrollment and tuition revenues/rates, compensation costs, and debt service.

*State Funding*

State operating support comes in two forms: Fee for Service payments and Student Stipends funded by the College Opportunity Fund. In fiscal year 2019, the University has been appropriated \$14.0 million in state operating support, an increase of 18.8 percent over fiscal year 2018. The stability of state funding is uncertain in the long-term due to potential challenges in State finances and constitutional limitations inherent in TABOR, the Colorado Taxpayer's Bill of Rights.

State capital funding plays an important role in the University's ability to maintain its facilities. The University received capital funding in fiscal year 2017 devoted to completing the renovation of Quigley Hall, which houses the arts and music programs, and in fiscal year 2018 to support heating system improvements in Hurst Hall and Paul Wright Gym. The University has been appropriated \$3.5 million in

**WESTERN STATE COLORADO UNIVERSITY**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
As of and for the Years Ended June 30, 2018 and 2017

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state capital funding in fiscal year 2019 for a new Maintenance Garage for our Mountain Search and Rescue program and \$1.4 million for controlled maintenance projects. In spite of recent State funding, the University has additional deferred maintenance needs and will look to meet those needs through future State funding, donations, and revenue generated by the student facility fee.

*Enrollment and Tuition Revenues/Rates*

FTE enrollment in fiscal year 2018 was 2,119, a 3.5 percent decrease over fiscal year 2017. As a response to enrollment declines, the University created a committee to identify potential solutions to enrollment and retention challenges and provided new scholarship opportunities to attract additional high achieving students to the University. Although those are long-term initiatives, the University has seen improvement in enrollment and based on initial Fall 2018 enrollment data, the University anticipates a 3 percent increase in enrollment for fiscal year 2019.

After consideration of increased state funding and the competitive higher education market in Colorado, the University did not increase tuition rates for fiscal year 2019. However, in the last decade, State operating support has declined shifting more of the tuition burden to students. In spite of this, the University remains one of the best values in the State and the University will continue to control tuition increases and balance them with enhanced financial support for students.

Based on the anticipated increase in enrollment and certain student fee increases, the University anticipates increased tuition and fee revenues in fiscal year 2019 versus 2018.

*Compensation Costs*

Consistent with most institutions of higher education, the University spends over 60 percent of its education and general budget on salaries and benefits. Although the University spends the majority of its budget on personnel costs, Western salaries lag peers in several categories. The University has prioritized salary enhancement as a goal and provided a 3.4 percent salary increase pool to faculty and administrators for fiscal year 2019. Salary and benefits will continue to be a significant driver of operating costs as benefits costs are expected to continue to increase in the future. The University continues to work actively with benefit providers to control costs while still providing quality, competitive benefit packages for employees.

*Debt Service*

In order to improve and maintain facilities, the University has increased its debt burden significantly over the last decade. In fiscal year 2018, the University paid \$6.2 million in debt service and anticipates \$6.6 million in debt service in fiscal year 2019. The University uses a combination of student fees and auxiliary revenues to meet its debt service burden. The University also maintains a debt service reserve, which can be used to meet debt service needs in the case of an unanticipated decrease in operating income. The University added \$0.7 million to that reserve in fiscal year 2018, bringing the reserve balance to \$2.4 million.

*New Paul M. Rady School of Computer Science and Engineering Supported by \$80 Million Donation*

On September 6, 2018, the University announced the creation of the Paul M. Rady School of Computer Science and Engineering in partnership with the University of Colorado Boulder. The new school is made possible by an \$80 million gift from a private donor. The gift will fund a new 75,000 square foot building on the University's campus and also support future operational needs of the school. The partnership with the University of Colorado Boulder will allow students to complete their first two years of coursework as

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2018 and 2017

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Western State Colorado University students and the balance of their education as University of Colorado Boulder students, all while remaining on the University's campus in Gunnison. The partnership will allow the University to play a key role in addressing the shortage of technologically skilled workers in the State Colorado.

**Requests for Information**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
As of June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 17,955,634	\$ 18,334,774
Investments	118,290	120,341
Student accounts receivable, net	776,238	791,801
Other accounts receivable, net	1,094,867	959,281
Student loans receivable, net	59,774	82,375
Inventories	448,522	410,415
Other current assets	218,821	85,000
<i>Total Current Assets</i>	<b>20,672,146</b>	<b>20,783,987</b>
<b>Noncurrent Assets</b>		
Noncapital Noncurrent Assets		
Student loans receivable, net	456,298	553,931
<i>Total Noncapital Noncurrent Assets</i>	<b>456,298</b>	<b>553,931</b>
Nondepreciable Capital Assets		
Land	2,503,736	2,503,736
Land improvements	1,904,083	1,904,083
Construction in progress	1,810,469	463,939
<i>Total Nondepreciable Capital Assets</i>	<b>6,218,288</b>	<b>4,871,758</b>
Depreciable Capital Assets, Net		
Land improvements, less accumulated depreciation of \$396,320 (2018) and \$353,216 (2017)	336,235	379,339
Buildings and improvements, less accumulated depreciation of \$73,947,798 (2018) and \$68,844,433 (2017)	126,613,493	128,496,666
Furniture, equipment and software, less accumulated depreciation of \$2,466,157 (2018) and \$2,310,736 (2017)	1,204,609	1,240,634
Library materials, less accumulated depreciation of \$5,782,200 (2018) and \$5,714,332 (2017)	236,577	262,119
<i>Total Depreciable Capital Assets, Net</i>	<b>128,390,914</b>	<b>130,378,758</b>
<i>Total Noncurrent Assets</i>	<b>135,065,500</b>	<b>135,804,447</b>
<b>Total Assets</b>	<b>155,737,646</b>	<b>156,588,434</b>
<b>DEFERRED OUTFLOWS</b>		
Loss on bond refundings	3,451,299	3,685,830
Pension related (See Note H)	8,671,647	10,711,431
Other post-employment benefit related (See Note I)	65,200	-
<i>Total Deferred Outflows</i>	<b>12,188,146</b>	<b>14,397,261</b>

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**

**STATEMENTS OF NET POSITION**

As of June 30, 2018 and 2017

	2018	2017
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	1,492,628	851,005
Accrued liabilities	1,854,206	3,358,620
Unearned revenue	1,302,838	825,235
Student deposits	675,102	390,352
Bonds and notes payable, current portion	1,870,000	1,370,000
Compensated absence liabilities, current portion	117,421	117,991
<i>Total Current Liabilities</i>	<b>7,312,195</b>	<b>6,913,203</b>
<b>Long-term Liabilities</b>		
Bonds and notes payable	85,772,546	87,782,033
Compensated absence liabilities	882,034	820,329
Net pension liability (See Note H)	39,047,629	34,158,370
Net other post-employment benefit liability (See Note I)	860,775	-
<i>Total Long-term Liabilities</i>	<b>126,562,984</b>	<b>122,760,732</b>
<b>Total Liabilities</b>	<b>133,875,179</b>	<b>129,673,935</b>
<b>DEFERRED INFLOWS</b>		
Pension related (See Note H)	1,718,592	842,892
Other post-employment benefit related (See Note I)	14,622	-
<i>Total Deferred Inflows</i>	<b>1,733,214</b>	<b>842,892</b>
<b>NET POSITION</b>		
Net investment in capital assets	50,388,855	49,923,159
Restricted for:		
Loans	564,171	691,744
Debt service	6,015,372	5,766,564
Unrestricted	(24,650,999)	(15,912,599)
<b>Total Net Position</b>	<b>\$ 32,317,399</b>	<b>\$ 40,468,868</b>

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents.....	\$ 847,041	\$ 317,427
Accounts receivable .....	23,946	17,167
Contributions receivable, net of allowance of \$5,774 (2018) and \$10,616 (2017).....	265,065	493,053
Investments .....	19,512,039	16,552,773
Other assets .....	446,102	446,902
Debt issuance costs, net.....	98,629	105,653
Property and equipment, net of accumulated depreciation.....	<u>11,107,242</u>	<u>11,467,990</u>
<b>Total Assets</b>	<b><u>\$ 32,300,064</u></b>	<b><u>\$ 29,400,965</u></b>
<b>Liabilities</b>		
Accounts payable .....	\$ 30,617	\$ 35,846
Accrued compensated absences .....	224,521	30,741
Accrued interest .....	70,763	74,455
Charitable gift annuities payable.....	128,279	86,406
Bonds payable.....	<u>4,582,580</u>	<u>4,823,682</u>
<b>Total Liabilities</b>	<b><u>5,036,760</u></b>	<b><u>5,051,130</u></b>
<b>Net Assets</b>		
Endowment asset deficiencies.....	(3,265,666)	(3,329,364)
Operating unrestricted .....	<u>1,334,275</u>	<u>1,275,000</u>
Net Unrestricted.....	(1,931,391)	(2,054,364)
Temporarily restricted.....	8,747,909	7,865,976
Permanently restricted.....	<u>20,446,786</u>	<u>18,538,223</u>
<b>Total Net Assets</b>	<b><u>27,263,304</u></b>	<b><u>24,349,835</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 32,300,064</u></b>	<b><u>\$ 29,400,965</u></b>

The accompanying notes are an integral part of these statements.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating Revenue</b>		
Tuition and fees, including \$12,036,087 (2018) and \$11,894,268 (2017) pledged for bonds	\$ 34,378,925	\$ 33,801,159
Less: scholarship allowances	<u>(10,608,089)</u>	<u>(10,197,692)</u>
<i>Net Tuition and Fees</i>	23,770,836	23,603,467
Federal, state, and private grants and contracts, including \$178,444 (2018) and \$92,165 (2017) pledged for bonds	5,642,670	5,230,056
Fee for service revenue	8,828,341	8,535,039
Sales and services of auxiliary enterprises, including \$10,485,265 (2018) and \$10,181,221 (2017) pledged for bonds	11,310,583	11,094,958
Less: scholarship allowances	<u>(193,092)</u>	<u>(136,720)</u>
<i>Net Sales and Services of Auxiliary Enterprises</i>	11,117,491	10,958,238
Other operating revenue, including \$45,047 (2018) and \$74,725 (2017) pledged for bonds	674,724	654,185
<i>Total Operating Revenue</i>	<u>50,034,062</u>	<u>48,980,985</u>
<b>Operating Expenses</b>		
Instruction	20,467,718	19,461,059
Research	393,026	185,903
Public service	502,133	301,897
Academic support	3,315,640	3,094,300
Student services	5,334,406	5,346,760
Institutional support	5,976,572	4,982,881
Operation and maintenance of plant	5,466,960	4,131,073
Scholarships and fellowships	246,067	276,806
Auxiliary enterprises	11,280,521	10,906,041
Depreciation	<u>5,574,031</u>	<u>5,584,294</u>
<i>Total Operating Expenses</i>	<u>58,557,074</u>	<u>54,271,014</u>
<i>Operating Loss</i>	<u>(8,523,012)</u>	<u>(5,290,029)</u>
<b>Nonoperating Revenue (Expenses)</b>		
Federal Pell grants	2,520,605	2,437,657
Federal interest subsidy, including \$1,153,972 (2018) and \$1,152,734 (2017) pledged for bonds	1,153,972	1,152,734
Investment and interest income, including \$154,804 (2018) and \$82,516 (2017) pledged for bonds	148,166	84,897
Interest expense on capital debt	<u>(4,930,471)</u>	<u>(5,024,236)</u>
Other nonoperating expenses	<u>(105,842)</u>	<u>(600,189)</u>
<i>Net Nonoperating Expenses</i>	<u>(1,213,570)</u>	<u>(1,949,137)</u>
<i>Loss Before Capital Contributions</i>	<u>(9,736,582)</u>	<u>(7,239,166)</u>
<b>Capital Contributions</b>		
State appropriation, capital	2,153,149	6,191,601
Other capital gifts	<u>222,125</u>	<u>1,830,000</u>
<i>Increase (Decrease) in Net Position</i>	<u>(7,361,308)</u>	<u>782,435</u>
<b>Net Position - beginning of year</b>	40,468,868	39,686,433
Cumulative effect of adoption of new accounting standard	<u>(790,161)</u>	<u>-</u>
<b>Net Position - beginning of year, as restated</b>	<u>39,678,707</u>	<u>39,686,433</u>
<b>Net Position - end of year</b>	<u>\$ 32,317,399</u>	<u>\$ 40,468,868</u>

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY FOUNDATION**

**STATEMENTS OF ACTIVITIES**

**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Changes in Unrestricted Net Assets</b>		
Revenues, gains and other support:		
Contributions.....	\$ 324,803	\$ 297,889
Investment income.....	99,258	264,393
Rental Income.....	-	2,414
	424,061	564,696
Net assets released from restrictions:		
Satisfaction of program restrictions.....	4,592,863	5,851,738
Change in endowment asset deficiencies.....	63,698	53,518
Transfers.....	205,418	44,836
	5,286,040	6,514,788
Expenses:		
Programs.....	4,240,470	5,323,314
Management and general.....	408,878	317,245
Fund-raising.....	513,719	575,241
	5,163,067	6,212,800
<b>Increase in Unrestricted Net Assets</b>	122,973	301,988
<b>Changes in Temporarily Restricted Net Assets</b>		
Revenues and gains:		
Contributions.....	4,152,258	2,160,199
Fundraising.....	363,608	489,138
In-kind contributions.....	133,498	2,196,381
Investment income.....	1,095,953	988,214
Royalties.....	38,727	35,793
	5,784,044	5,869,725
Net assets released from restrictions:		
Satisfaction of program restrictions.....	(4,592,863)	(5,851,738)
Change in endowment asset deficiencies.....	(63,698)	(53,518)
Transfers.....	(245,550)	127,083
	(5,102,111)	(6,128,173)
<b>Increase in Temporarily Restricted Net Assets</b>	881,933	91,552
<b>Changes in Permanently Restricted Net Assets</b>		
Revenues and gains:		
Contributions.....	1,868,431	483,940
Transfers.....	40,132	(171,919)
	1,908,563	312,021
<b>Increase in Permanently Restricted Net Assets</b>	1,908,563	312,021
<b>Increase in Net Assets</b>	2,913,469	705,561
<b>Net Assets - July 1</b> .....	24,349,835	23,644,274
<b>Net Assets - June 30</b> .....	\$ 27,263,304	\$ 24,349,835

The accompanying notes are an integral part of these statements.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
<b>Cash Received</b>		
Tuition and fees	\$ 24,047,038	\$ 23,514,647
Sales of services	19,068,392	19,220,635
Sales of product	780,088	881,326
Grants, contracts and gifts	4,881,100	4,135,258
Student loans collected	115,767	148,259
Other operating receipts	683,758	660,477
<b>Cash Payments</b>		
Payments to or for employees	(29,948,759)	(26,296,766)
Payments to suppliers	(15,305,018)	(15,113,234)
Scholarships disbursed	(246,067)	(276,806)
<i>Net Cash Provided by Operating Activities</i>	4,076,299	6,873,796
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal, state, private grants & contracts	3,664,093	3,590,320
Other agency outflows	(20,854)	(438,892)
<i>Net Cash Provided by Noncapital Financing Activities</i>	3,643,239	3,151,428
<b>Cash Flows from Capital and Related Financing Activities</b>		
State appropriations, capital	2,153,149	6,191,601
Capital gifts & grants	222,125	-
Acquisition or construction of capital assets	(4,438,430)	(9,497,250)
Principal paid on capital debt	(1,345,000)	(1,420,000)
Interest on capital debt	(4,840,741)	(4,469,323)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(8,248,897)	(9,194,972)
<b>Cash Flows from Investing Activities</b>		
Investment earnings	150,219	91,526
<i>Net Cash Provided by Investing Activities</i>	150,219	91,526
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(379,140)	921,778
<b>Cash and Cash Equivalents - beginning of year</b>	18,334,774	17,412,996
<b>Cash and Cash Equivalents - end of year</b>	\$ 17,955,634	\$ 18,334,774

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (8,523,012)	\$ (5,290,029)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	5,574,031	5,584,294
Provision for uncollectable accounts	78,873	105,958
Compensated absences adjustment	61,135	129,593
Non-cash pension & OPEB expense (See Notes H & I)	7,824,777	5,400,419
Changes in assets and liabilities:		
Receivables	(205,162)	121,161
Inventories	(38,107)	(647)
Other assets	(83,966)	(54,287)
Student loans	113,936	142,495
Accounts payable	174,669	92,733
Accrued liabilities	(1,606,033)	575,233
Unearned revenue	477,603	110,023
Deposits held for others	227,555	(43,150)
<b><i>Net Cash Provided by Operating Activities</i></b>	<b>\$ 4,076,299</b>	<b>\$ 6,873,796</b>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Increase (decrease) in accounts payable and accrued liabilities related to capital assets	\$ 573,885	\$ (2,495,969)
Unrealized (gain) loss on investments	2,051	6,629
Amortization of deferred bond refunding loss	234,531	201,309
Amortization of bond discount (premium)	(139,487)	(102,404)
Capital assets donated	-	1,830,000

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

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

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

**Governance**

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

**Reporting Entity**

The accompanying financial statements reflect the financial activities of the University for the fiscal years ended June 30, 2018 and 2017. The University is an institution of higher education of the State. Thus, for financial reporting purposes, the University is included as part of the State's primary government. A copy of the State's Comprehensive Annual Financial Report may be obtained from the Colorado Office of the State Controller (OSC), Department of Personnel and Administration (DPA), Denver, Colorado.

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

**Basis of Accounting**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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

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

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Investments**

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

**Accounts Receivable**

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

**Student Loans Receivable**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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**Inventories**

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

**Capital Assets**

Capital assets are stated at cost at date of acquisition or fair market value at date of donation. The University capitalizes only those assets with an initial cost or fair market value greater than or equal to \$5,000 for equipment. For renovations and improvements, the University capitalizes only those projects with a value of \$50,000 or more. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 10 to 70 years for buildings and building improvements, 3 to 10 years for equipment and library materials, and 10 to 20 years for depreciable land improvements. State capital construction revenues are recognized only to the extent of current expenditures. Controlled maintenance (corrective repairs or replacements to existing facilities) funded by the State is recorded as state appropriated revenue and the assets are recorded to the extent that expenditures qualify for capitalization.

**Donated Software**

The University receives certain software used in its academic programs as donations from software providers. These software providers sell their products to for-profit entities operating in the petroleum geology and geospatial analytics industries, but provide the software to higher education institutions as no-cost grants for academic use only over specified time periods. The University does not recognize a donation value for these software grants in its financial statements because there is no estimated fair value due to the fact that the use of the software is restricted and non-transferable.

**Unearned Revenue**

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

**Compensated Absences**

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

**Deferred Outflows of Resources and Deferred Inflows of Resources**

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

- Assets – resources with a present service capacity under University control.
- Deferred Outflows of Resources – consumption of net assets by the University that is applicable to a future reporting period.
- Liabilities – present obligations to sacrifice resources.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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- Deferred Inflows of Resources – acquisitions of net assets by the University that is applicable to a future reporting period.
- Net Position – residual of all other elements presented in a statement of financial position.

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

**Classification of Revenue**

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

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

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

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

**Scholarship Allowances**

Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the differences between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenue in the University's financial statements. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition, fees and housing for the years ended June 30 were \$10,801,181 (2018) and \$10,334,412 (2017).

**Net Position**

The University's net position is classified as follows:

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

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

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

Certain net position is unrestricted but designated by the Trustees for specific purposes.

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

**Application of Restricted and Unrestricted Resources**

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

**Reconciliation to Other Reports**

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

**Income Taxes**

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2018 or 2017.

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

**Reclassifications**

Certain amounts in the 2017 financial statements have been reclassified for comparative purposes to conform to the current year financial statement presentation. These reclassifications had no effect on previously reported net position or change in net position.

**Cumulative Effect of Adoption of New Accounting Standard**

The University adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions* (GASB 75). GASB 75 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for other post-employment benefit (OPEB) that are provided to the employees of state and local governmental employers (see Note I).

**WESTERN STATE COLORADO UNIVERSITY**  
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Certain employees of the University are covered by the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note I. In accordance with GASB 75, as a result of the University having employees covered by the HCTF, beginning net position as of July 1, 2017 has been adjusted downward by \$790,161 for the net effect of recording the University's proportionate share of the HCTF's net OPEB liability as of December 31, 2016 (the HCTF's measurement date) less contributions made by the University to the HCTF subsequent to the December 31, 2016 measurement date and prior to the beginning of the University's current fiscal year (the period of January 1, 2017 through June 30, 2017). The University's proportion of the net OPEB liability was based on the University's contributions to the HCTF for the calendar year 2016 relative to the total contributions made to the HCTF by participating employers for the calendar year 2016.

At December 31, 2016, the University's proportion of the HCTF's net OPEB liability was approximately 0.0631 percent. The HCTF's net OPEB liability as of December 31, 2016 was \$1,296,534,000. The University's share of the HCTF's net OPEB liability calculated by applying the aforementioned proportion to the HCTF's net OPEB liability is \$817,736. Contributions made by the University to the HCTF subsequent to the December 31, 2016 measurement date and prior to the beginning of the University's current fiscal year (the period of January 1, 2017 through June 30, 2017) were \$27,575. Therefore, the cumulative effect of the adoption of GASB 75 is comprised of the following:

University's proportionate share of HCTF's December 31, 2016 net OPEB liability	\$ 817,736
Less: Contributions made by the University to the HCTF for the period January 1, 2017 through June 30, 2017 (Deferred Outflow)	<u>(27,575)</u>
<i>Cumulative effect of adoption of new accounting standard</i>	<u>\$ 790,161</u>

The restatement affects the balance of beginning net position for the year ended June 30, 2018 as follows:

Net position – July 1, 2017 beginning balance	\$ 40,468,868
Cumulative effect of adoption of new accounting standard	<u>(790,161)</u>
Net Position – July 1, 2017 beginning balance, as restated	<u>\$ 39,678,707</u>

The financial statements as of and for the year ended June 30, 2017 have not been restated based on the fact that it is not practical for the University to determine the amounts of all deferred inflows and deferred outflows of resources related to the University's participation in the HCTF that would affect beginning net position for the year ended June 30, 2017. This should be considered when comparing the University's June 30, 2017 financial statements to the University's June 30, 2018 financial statements and the University's financial statements for all years prior to the year ended June 30, 2017.

The effect of GASB 75 on ending net position as of June 30, 2018 is shown as a component of unrestricted net position on the statement of net position and is comprised of the following defined benefit OPEB related balances:

Deferred Outflows (See Note I)	\$ 65,200
Deferred Inflows (See Note I)	(14,622)
Net OPEB Liability (See Note I)	<u>(860,775)</u>
<i>Effect of GASB 75 on Ending Unrestricted Net Position</i>	<u>\$ (810,197)</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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**NOTE B – CASH AND INVESTMENTS**

**Cash on Hand and in Local Banks**

At June 30, cash on hand and in local banks consisted of the following:

	2018	2017
Cash on hand	\$ 64,359	\$ 152,410
Cash in local banks	1,770,965	604,850
	\$ 1,835,324	\$ 757,260

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

**State Treasurer’s Pooled Cash and Investments**

The University deposits most of its cash with the Treasurer as required by the C.R.S. The Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury (the Treasury) acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2018, the University had cash on deposit with the Treasurer of \$16,120,310, which represented approximately 0.21 percent of the total \$7,635.8 million fair value of deposits in the Treasurer’s Pool (the Pool). As of June 30, 2017, the University had cash on deposit with the Treasurer of \$17,577,514, which represented approximately 0.26 percent of the total \$6,770.2 million fair value of deposits in the Pool.

On the basis of the University’s participation in the Pool, the University reports as an increase or decrease in cash for its share of the Treasurer’s unrealized gains and losses on the Pool’s underlying investments. The Treasurer does not invest any of the Pool’s resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Additional information on the investments of the Pool may be obtained in the State’s Comprehensive Annual Financial Report for the year ended June 30, 2018.

**Investments**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

**NOTE C – RECEIVABLES AND PAYABLES**

At June 30, receivable balances were as follows:

	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
<u>2018</u>			
Student accounts receivable	\$ 1,195,821	\$ (419,583)	\$ 776,238
Other accounts receivable	1,094,867	-	1,094,867
Student loans receivable	113,936	(54,162)	59,774
Noncurrent student loans receivable	873,107	(416,809)	456,298
<u>2017</u>			
Student accounts receivable	\$ 1,125,169	\$ (333,368)	\$ 791,801
Other accounts receivable	959,281	-	959,281
Student loans receivable	142,495	(60,120)	82,375
Noncurrent student loans receivable	959,860	(405,929)	553,931

At June 30, accrued liabilities balances were as follows:

	2018	2017
Accrued payroll and benefits	\$ 1,115,464	\$ 2,721,497
Retainage payable	138,963	32,031
Accrued interest payable	599,779	605,092
<i>Total Accrued Liabilities</i>	<u>\$ 1,854,206</u>	<u>\$ 3,358,620</u>

**NOTE D – CAPITAL ASSETS**

The following presents changes in capital assets and accumulated depreciation for the years ended June 30, 2018 and 2017.

	Balance June 30, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
<b>Nondepreciable Capital Assets</b>				
Land	\$ 2,503,736	\$ -	\$ -	\$ 2,503,736
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	463,939	4,566,722	(3,220,192)	1,810,469
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 4,871,758</u>	<u>\$ 4,566,722</u>	<u>\$ (3,220,192)</u>	<u>\$ 6,218,288</u>
<b>Depreciable Capital Assets</b>				
Land improvements	\$ 732,555	\$ -	\$ -	\$ 732,555
Buildings and improvements	197,341,099	-	3,220,192	200,561,291
Furniture and equipment	3,551,370	328,412	(209,016)	3,670,766
Library materials	5,976,451	42,326	-	6,018,777
<i>Total Depreciable Capital Assets</i>	<u>207,601,475</u>	<u>370,738</u>	<u>3,011,176</u>	<u>210,983,389</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

Less: Accumulated depreciation				
Land improvements	(353,216)	(43,104)	-	(396,320)
Buildings and improvements	(68,844,433)	(5,103,365)	-	(73,947,798)
Furniture and equipment	(2,310,736)	(359,694)	204,273	(2,466,157)
Library materials	<u>(5,714,332)</u>	<u>(67,868)</u>	<u>-</u>	<u>(5,782,200)</u>
<i>Total Accumulated Depreciation</i>	<u>(77,222,717)</u>	<u>(5,574,031)</u>	<u>204,273</u>	<u>(82,592,475)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$ 130,378,758</u>	<u>\$ (5,203,293)</u>	<u>\$ 3,215,449</u>	<u>\$ 128,390,914</u>

	Balance June 30, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
<b>Nondepreciable Capital Assets</b>				
Land	\$ 695,416	\$ 1,808,320	\$ -	\$ 2,503,736
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	<u>18,847,115</u>	<u>6,133,689</u>	<u>(24,516,865)</u>	<u>463,939</u>
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 21,446,614</u>	<u>\$ 7,942,009</u>	<u>\$ (24,516,865)</u>	<u>\$ 4,871,758</u>

<b>Depreciable Capital Assets</b>				
Land improvements	\$ 603,025	\$ -	\$ 129,530	\$ 732,555
Buildings and improvements	172,783,029	170,735	24,387,335	197,341,099
Furniture and equipment	2,988,586	821,390	(258,606)	3,551,370
Library materials	<u>5,929,304</u>	<u>47,147</u>	<u>-</u>	<u>5,976,451</u>
<i>Total Depreciable Capital Assets</i>	<u>182,303,944</u>	<u>1,039,272</u>	<u>24,258,259</u>	<u>207,601,475</u>

Less: Accumulated depreciation				
Land improvements	(316,588)	(36,628)	-	(353,216)
Buildings and improvements	(63,700,364)	(5,144,069)	-	(68,844,433)
Furniture and equipment	(2,246,758)	(322,584)	258,606	(2,310,736)
Library materials	<u>(5,633,319)</u>	<u>(81,013)</u>	<u>-</u>	<u>(5,714,332)</u>
<i>Total Accumulated Depreciation</i>	<u>(71,897,029)</u>	<u>(5,584,294)</u>	<u>258,606</u>	<u>(77,222,717)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$ 110,406,915</u>	<u>\$ (4,545,022)</u>	<u>\$ 24,516,865</u>	<u>\$ 130,378,758</u>

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

	2018	2017
Land	\$ 813,225	\$ 813,225
Buildings and improvements	14,437,834	14,437,834
Furniture and equipment	<u>101,484</u>	<u>101,484</u>
	15,352,543	15,352,543
Less: Accumulated depreciation	<u>(4,245,301)</u>	<u>(3,884,553)</u>
	<u>\$ 11,107,242</u>	<u>\$ 11,467,990</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**NOTE E – DEFERRED OUTFLOWS AND DEFERRED INFLOWS**

GASB Statement No. 65 defines items required to be reported as either deferred outflows or deferred inflows of resources. The details of the University's deferred outflows and inflows as of June 30 are shown below.

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Loss on bond refunding	\$ 3,451,299	\$ 3,685,830	\$ -	\$ -
Pension Related (See Note H)	8,671,647	10,711,431	1,718,592	842,892
Other Post-employment Benefit Related (See Note I)	65,200	-	14,622	-
Total	<u>\$ 12,188,146</u>	<u>\$ 14,397,261</u>	<u>\$ 1,733,214</u>	<u>\$ 842,892</u>

**NOTE F – LONG-TERM LIABILITIES**

The University's long-term liability activity for the years ended June 30, 2018 and 2017 was as follows:

	Balance 6/30/2017	Additions	Reductions	Balance 6/30/2018	Due within One Year
<b>Bonds and Notes Payable:</b>					
Bonds	\$ 85,880,000	\$ -	\$ 1,345,000	\$ 84,535,000	\$ 1,845,000
Bond Premium	3,122,033	-	139,487	2,982,546	-
Notes Payable	<u>150,000</u>	<u>-</u>	<u>25,000</u>	<u>125,000</u>	<u>25,000</u>
Total Bonds & Notes Payable	89,152,033	-	1,509,487	87,642,546	1,870,000
<b>Other Liabilities:</b>					
Compensated Absences	938,320	178,556	117,421	999,455	117,421
Other Post-Employment Benefits Liability	-	860,775	-	860,775	-
Net Pension Liability	<u>34,158,370</u>	<u>4,889,259</u>	<u>-</u>	<u>39,047,629</u>	<u>-</u>
Total Other Liabilities	<u>35,096,690</u>	<u>5,928,590</u>	<u>117,421</u>	<u>40,907,859</u>	<u>117,421</u>
Total Long-Term Liabilities	<u>\$ 124,248,723</u>	<u>\$ 5,928,590</u>	<u>\$ 1,626,908</u>	<u>\$ 128,550,405</u>	<u>\$ 1,987,421</u>
	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Due within One Year
<b>Bonds and Notes Payable:</b>					
Bonds	\$ 86,895,000	\$ 26,995,000	\$ 28,010,000	\$ 85,880,000	\$ 1,345,000
Bond Premium/(Discount)	(146,386)	3,249,337	(19,082)	3,122,033	-
Notes Payable	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>	<u>25,000</u>
Total Bonds & Notes Payable	86,748,614	30,394,337	27,990,918	89,152,033	1,370,000
<b>Other Liabilities:</b>					
Compensated Absences	808,727	247,584	117,991	938,320	117,991
Net Pension Liability	<u>20,538,558</u>	<u>13,619,812</u>	<u>-</u>	<u>34,158,370</u>	<u>-</u>
Total Other Liabilities	<u>21,347,285</u>	<u>13,867,396</u>	<u>117,991</u>	<u>35,096,690</u>	<u>117,991</u>
Total Long-Term Liabilities	<u>\$ 108,095,899</u>	<u>\$ 44,261,733</u>	<u>\$ 28,108,909</u>	<u>\$ 124,248,723</u>	<u>\$ 1,487,991</u>

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On May 28, 2009, the University issued \$19,535,000 in Revenue Bonds, Series 2009 with an interest rate of 5.00%. The Series 2009 Revenue Bonds were advance refunded on September 29, 2016. The 2009 bonds were to begin maturing on May 15, 2025 in increasing amounts through May 15, 2039. The bonds were collateralized by a pledge of certain revenues of the auxiliary facilities system. The bonds were used to finance a portion of the new student center and to terminate the Wells Fargo Lease Purchase Agreement.

On June 29, 2010, the University issued \$9,115,000 in Institutional Enterprise Revenue Bonds (Tax-Exempt), Series 2010A with an average interest rate of 4.017%. \$7,055,000 of the Series 2010A Bonds were advance refunded on September 29, 2016. The remaining 2010A bonds began to mature on May 15, 2018 and continue to mature in increasing amounts through May 15, 2020. The bonds are to be paid from Institutional Enterprise Revenues.

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

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

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

On December 13, 2011, the University issued \$6,180,000 in Institutional Enterprise Revenue Refunding Bonds (Tax Exempt) Series 2011A with an average interest rate of 3.228%. The 2011A bonds begin to mature on May 15, 2019 in increasing amounts through May 15, 2025. The bonds are paid from Institutional Enterprise Revenues.

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

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

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

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On September 29, 2016, the University issued \$26,995,000 in Auxiliary Facility Revenue Refunding Bonds (Tax-Exempt) Series 2016 with an average interest rate of 3.688%. The 2016 bonds began maturing on May 15, 2017 and continue to mature in increasing amounts through May 15, 2039. Interest rates range from 2.00% on bonds that matured May 15, 2017 to 5.00% on bonds maturing May 15, 2021 through May 15, 2027. The 2016 bonds are collateralized by a pledge of net Institutional Enterprise Revenues. The proceeds of the Series 2016 Bonds were deposited in an irrevocable escrow account to provide for all future debt service payments on the Series 2009 Bonds and a portion of the Series 2010A Bonds.

The 2016 advance refunding resulted in the recognition of a \$3.0 million accounting loss, which will be recognized over the term of the debt, however, the University reduced its aggregate debt service payments by \$4.7 million over the next 22 years and obtained an economic gain of \$3.6 million.

At June 30, 2018, bond principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,845,000	\$ 4,798,232	\$ 6,643,232
2020	2,085,000	4,738,743	6,823,743
2021	2,145,000	4,667,027	6,812,027
2022	2,235,000	4,575,426	6,810,426
2023	2,325,000	4,478,665	6,803,665
2024-2028	12,840,000	20,666,047	33,506,047
2029-2033	15,020,000	16,865,100	31,885,100
2034-2038	18,405,000	12,347,450	30,752,450
2039-2043	19,090,000	6,936,750	26,026,750
2044-2045	8,545,000	904,050	9,449,050
<i>Total Debt Service</i>	<u>\$ 84,535,000</u>	<u>\$ 80,977,490</u>	<u>\$ 165,512,490</u>

On January 3, 2017 the University incurred a \$150,000, zero-interest note payable. The University is required to pay six annual installments of \$25,000 beginning on January 3, 2018 with the final payment occurring on January 3, 2023. The proceeds of the note payable were used to finance a portion of the University's acquisition of a property near campus.

Additionally, the University has agreements for the rental of copiers all of which are for a period 12 to 48 months and are in effect through January 2022. Total future rental obligations total \$100,874.

**Capitalization of Interest**

Interest costs are capitalized as part of historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on the proceeds of the University's tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs capitalized in determining the amount to be capitalized. During the years ended June 30, 2018 and 2017, no interest was capitalized.

**Foundation Long-Term Liabilities**

On October 15, 2009, the University issued a Revenue Bond Series 2009 of \$19,535,000 to finance the construction of a new University Center. The Foundation was included in this issue for a \$6,000,000 bond

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issue (relating to its share of the project) at a 6.1% annual interest rate, due July 15, 2019. On April 30, 2012, the “Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012A” was issued in the aggregate principal amount of \$6,023,043, which refunded the Series 2009 Bond. The initial maturity dates on the Series 2009 bonds remained the same with the “Series 2012 Bonds”; however, the interest rate was reduced to 2.86%. On June 19, 2015, a bond was issued designated as the “Gunnison County, Colorado Revenue Refunding Bond Series 2012A” (2015 Reissuance) in the aggregate principal amount of \$5,157,000, which refunded the “Gunnison County, Colorado Revenue Refunding Bond Series 2012A”. The maturity date of the original bond is now July 15, 2032 with a fixed rate of 3.35% through July 15, 2025. On July 15, 2025, the Foundation will have the option of paying off the bond in full, resetting the interest rate according to market conditions and amending the term over the remaining amortization with the current lender, or refinancing with another lender. The bond has financial covenants that must be met by the Foundation. The Foundation is in compliance with these covenants.

The future maturities of the bonds are as follows:

Year ending June 30,	University Center
2019	\$ 249,361
2020	257,902
2021	266,350
2022	275,860
2023	285,309
Thereafter	3,247,798
	\$ 4,582,580

**NOTE G – COMPENSATED ABSENCE LIABILITY FOR ANNUAL AND SICK LEAVE**

University employees may accrue annual and sick leave, based on length of service, and subject to certain limitations regarding the amount to be paid upon termination. Additionally, certain University employees are eligible for compensatory time off for overtime worked, subject to maximums after which the overtime is paid out. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2018 is \$999,455. Fiscal year 2018 expenses include \$61,135 for the increase in the estimated compensated absence liability. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2017 is \$938,320. Fiscal year 2017 expenses include \$129,593 for the increase in the estimated compensated absence liability. The recording of the liability for compensated absences may result in fund-balance deficits, which will be funded by state appropriation, self-supporting funds, or other sources available in future years when the liability is paid.

**NOTE H – EMPLOYEE PENSION PLANS**

**A. Optional Retirement Plan**

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

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

The University's contributions to the ORP for fiscal years ending June 30, 2018 and 2017 were \$1,491,971 and \$1,423,167. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

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

**B. Colorado Public Employees' Retirement Association**

**1. Summary of Significant Accounting Policies**

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SDTF for financial reporting purposes be measured using the plan provisions in effect as of the SDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled Changes between the measurement date of the net pension liability and June 30, 2018.

**2. Plan Description**

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

*Benefits.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

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

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

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

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

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

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	Fiscal Year 2017		Fiscal Year 2018
	July 1 to December 31, 2016	January 1 to June 30, 2017	July 1, 2017 to June 30, 2018
Employer Contribution Rate <sup>1</sup>	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) <sup>1</sup>	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF <sup>1</sup> Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 <sup>1</sup>	9.13%	9.13%	9.13%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24- 51-411 <sup>1</sup>	4.60%	5.00%	5.00%
Total Employer Contribution Rate to the SDTF <sup>1</sup>	4.50%	5.00%	5.00%
	18.23%	19.13%	19.13%

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

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions to the SDTF from the University were \$1,082,999 and \$1,049,476 for the years ended June 30, 2018 and 2017.

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

At June 30, 2018 and 2017, the University reported liabilities of \$39,047,629 and \$34,158,370 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 for fiscal year 2018 and as of December 31, 2016 for fiscal year 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation from the preceding December 31. Standard update procedures were used to roll forward the total pension liability to December 31, 2017 and 2016. The University's proportion of the net pension liability was based on the University's contributions to the SDTF for the calendar years 2017 (for fiscal 2018) and 2016 (for fiscal 2017) relative to the total contributions of participating employers to the SDTF.

At December 31, 2017 and 2016, the University's proportion was 0.1951 percent and 0.1860 percent.

For the years ended June 30, 2018 and 2017, the University recognized non-cash pension expense of \$7,804,742 and \$5,400,419.

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Difference between expected and actual experience in the measurement of the total pension liability	\$ 608,843	\$ 339,537	\$ -	\$ -
Changes in assumptions or other inputs	6,780,157	8,690,110	-	105,141
Net difference between projected and actual earnings on pension plan investments	-	1,132,377	1,470,672	-
Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the plan) and the employer's proportionate share of contributions	745,116	-	247,920	737,751
Employer's contributions to the plan subsequent to the measurement date of the collective net pension liability	537,531	549,407	-	-
Total	\$ 8,671,647	\$ 10,711,431	\$ 1,718,592	\$ 842,892

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

Year ending June 30:	Amortization
2019	\$ 6,061,015
2020	1,459,699
2021	(546,310)
2022	(558,880)
2023	-
Thereafter	-

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent

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Post-retirement benefit increases:

PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the AIR

A discount rate of 4.72 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- Females: Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the SDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity – Large Cap	21.20%	4.30
U.S. Equity – Small Cap	7.42	4.80
Non U.S. Equity – Developed	18.55	5.20
Non U.S. Equity – Emerging	5.83	5.40
Core Fixed Income	19.32	1.20
High Yield	1.38	4.30
Non U.S. Fixed Income – Developed	1.84	0.60
Emerging Market Debt	0.46	3.90
Core Real Estate	8.50	4.90
Opportunity Fund	6.00	3.80
Private Equity	8.50	6.60
Cash	1.00	0.20
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

*Discount rate.* The discount rate used to measure the total pension liability was 4.72 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

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

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2038 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2038 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2038 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.72 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.54 percent higher compared to the current measurement date.

*Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the current discount rate (4.72 percent in fiscal year 2018 and 5.26 percent in fiscal 2017), as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Proportionate share of the net pension liability – 2018	48,578,054	39,047,629	31,223,733
Proportionate share of the net pension liability – 2017	42,307,255	34,158,370	27,463,433

*Pension plan fiduciary net position.* Detailed information about the SDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Changes between the measurement date of the net pension liability and June 30, 2018**

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan*

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*Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.
- Expands eligibility to participate in the PERA DC Plan to new members hired on or after January 1, 2019, who are classified college and university employees in the State Division. Beginning January 1, 2021, and every year thereafter, employer contribution rates for the SDTF will be adjusted to include a defined contribution supplement based on the employer contribution amount paid to defined contribution plan participant accounts that would have otherwise gone to the defined benefit trusts to pay down the unfunded liability plus any defined benefit investment earnings thereon.

At June 30, 2018, the University reported a liability of \$39,047,629 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.72%. For comparative purposes, the following schedule presents an estimate of what the University's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18- 200 (pro forma)
7.25%	\$ 18,516,116

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Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$17,424,750 of the estimated reduction in the net pension liability is attributable to the use of a 7.25 percent discount rate.

**C. PERA Voluntary Investment Program**

*Plan Description* - Employees of the University that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an IRC Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the plan provisions to PERA's Board. PERA issues a publicly available comprehensive annual financial report which includes additional information on the Voluntary Investment Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

**D. 457 Deferred Compensation Plan**

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all costs of administration and funding are borne by the plan participants. In calendar year 2016 and 2017, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$18,000. That limit was raised to \$18,500 for calendar year 2018. Participants who are age 50 and older, and contributing the maximum amount allowable, are allowed to make additional contributions, subject to IRS limits. Contributions and earnings are tax deferred.

**E. Student-Employees Defined Contribution Plan**

Beginning in fiscal year 1993, in accordance with the provisions of CRS 24-54.6-101 through 106 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll upon which the plan contributions were based was \$442,138 (2018) and \$423,677 (2017).

**NOTE I – POST-EMPLOYMENT HEALTH CARE BENEFITS**

**Health Care Trust Fund Program**

*Summary of Significant Accounting Policies*

The University participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit Other Post-Employment Benefit ("OPEB") fund administered by PERA. The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the

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accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

*Plan description.* Eligible employees of the University are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Benefits provided.* The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

*PERA Benefit Structure*

The maximum service-based premium subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A

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and Part B and the difference in premium cost is paid by the HCTF on behalf of benefit recipients not covered by Medicare Part A.

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the University were \$54,104 and \$53,004 for the years ended June 30, 2018 and 2017.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the University reported a liability of \$860,775 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The University's proportion of the net OPEB liability was based on the University's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the University's proportion was 0.0662 percent, which was an increase of 0.0032 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the University recognized non-cash OPEB expense of \$20,035.

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	2018	2018
Difference between expected and actual experience in the measurement of the total OPEB liability	\$ 4,071	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	14,401
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	34,274	221
Employer's contributions to the plan subsequent to the measurement date of the collective net OPEB liability	26,855	-
Total	\$ 65,200	\$ 14,622

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

Year ending June 30:	Amortization
2019	\$ 3,890
2020	3,890
2021	3,890
2022	3,890
2023	7,490
Thereafter	673

*Actuarial assumptions.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB	
plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.

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- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA’s actuary, as needed.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA’s Board on October 28, 2016.

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity – Large Cap	21.20%	4.30
U.S. Equity – Small Cap	7.42	4.80
Non U.S. Equity – Developed	18.55	5.20
Non U.S. Equity – Emerging	5.83	5.40
Core Fixed Income	19.32	1.20
High Yield	1.38	4.30
Non U.S. Fixed Income – Developed	1.84	0.60
Emerging Market Debt	0.46	3.90
Core Real Estate	8.50	4.90
Opportunity Fund	6.00	3.80
Private Equity	8.50	6.60
Cash	1.00	0.20
Total	<u>100.00%</u>	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1% Decrease in Trend Rates</u>	<u>Current Trend Rates</u>	<u>1% Increase in Trend Rates</u>
Proportionate share of the net OPEB liability – 2018	837,092	860,775	889,300

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

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- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF’s fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

*Sensitivity of the University’s proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
Proportionate share of the net OPEB liability – 2018	967,782	860,775	769,442

*OPEB plan fiduciary net position.* Detailed information about the HCTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**NOTE J – RISK FINANCING AND INSURANCE-RELATED ACTIVITIES**

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

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**NOTE K – SCHOLARSHIP ALLOWANCE**

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

	<u>Tuition and Fees</u>	<u>Sales and Services of Auxiliary Enterprises</u>	<u>Total</u>
<u>2018</u>			
Gross revenue	\$ 34,378,925	\$ 11,310,583	\$ 45,689,508
Scholarship allowances:			
Federal	(2,516,244)	(45,801)	(2,562,045)
State	(1,078,364)	(19,629)	(1,097,993)
Private	(565,235)	(10,289)	(575,524)
Institutional	(6,448,246)	(117,373)	(6,565,619)
<i>Total Scholarship Allowances</i>	<u>(10,608,089)</u>	<u>(193,092)</u>	<u>(10,801,181)</u>
<i>Net Revenue</i>	<u>\$ 23,770,836</u>	<u>\$ 11,117,491</u>	<u>\$ 34,888,327</u>
	<u>Tuition and Fees</u>	<u>Sales and Services of Auxiliary Enterprises</u>	<u>Total</u>
<u>2017</u>			
Gross revenue	\$ 33,801,159	\$ 11,094,958	\$ 44,896,117
Scholarship allowances:			
Federal	(2,473,828)	(33,167)	(2,506,995)
State	(999,438)	(13,399)	(1,012,837)
Private	(557,037)	(7,468)	(564,505)
Institutional	(6,167,389)	(82,686)	(6,250,075)
<i>Total Scholarship Allowances</i>	<u>(10,197,692)</u>	<u>(136,720)</u>	<u>(10,334,412)</u>
<i>Net Revenue</i>	<u>\$ 23,603,467</u>	<u>\$ 10,958,238</u>	<u>\$ 34,561,705</u>

**NOTE L - WESTERN STATE COLORADO UNIVERSITY FOUNDATION**

**Foundation Investments**

The Foundation's short-term investments are stated at fair value. At June 30, the Foundation had investments with a cost of \$17,318,346 (2018) and \$14,824,410 (2017) and a fair value of \$19,512,039 (2018) and \$16,552,773 (2017).

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 421,308	\$ 412,773
Net realized gains	376,900	98,083
Unrealized gain	465,330	805,268
Fees	(68,327)	(63,517)
Net investment earnings	<u>\$ 1,195,211</u>	<u>\$ 1,252,607</u>

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

	2018	2017
Unrestricted	\$ 99,258	\$ 264,393
Temporarily restricted	1,095,953	988,214
Net investment earnings	\$ 1,195,211	\$ 1,252,607

Fair value measurements for the Foundation's assets reported at fair value on a recurring basis as of June 30, 2018 were determined based on:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-Term Investments				
Cash & Cash Equivalents	\$ 1,835,571	\$ 1,835,571	\$ -	\$ -
Fixed Income	3,866,881	3,832,642	-	34,239
Equities	13,468,841	13,468,841	-	-
Other	340,746	340,746	-	-
Total Long-Term Investments	\$ 19,512,039	\$ 19,477,800	\$ -	\$ 34,239

Fair value measurements for the Foundation's assets reported at fair value on a recurring basis as of June 30, 2017 were determined based on:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-Term Investments				
Cash & Cash Equivalents	\$ 368,019	\$ 368,019	\$ -	\$ -
Fixed Income	3,085,354	3,037,720	-	47,634
Equities	12,753,954	12,753,954	-	-
Other	345,446	345,446	-	-
Total Long-Term Investments	\$ 16,552,773	\$ 16,505,139	\$ -	\$ 47,634

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

	2018	2017
Beginning balance	\$ 47,634	\$ 65,793
Sales proceeds	(14,553)	(14,979)
Unrealized gain	1,158	(3,180)
Ending balance	\$ 34,239	\$ 47,634

**Foundation Endowment**

The Foundation's endowment consists of approximately 170 individual funds established for a variety of purposes for donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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The Board of Directors of the Foundation (the Foundation Board) has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2008 as requiring the assets of an endowment fund be donor-restricted until allocated for spending, unless otherwise specifically stated in the gift instrument. The Foundation Board believes this interpretation is consistent with long established Foundation Board approved investment and spending policy which is specifically referenced in the Foundation's endowed gift instrument. In accordance with the investment policy and UPMIFA, with the exception of certain restricted assets that are separately invested, all restricted endowment assets are invested in the investment pool on a pooled basis until allocated for spending.

As a result of this interpretation, the Foundation classifies permanently restricted net assets as assets that, under the terms of the gift instrument, are permanent endowments not wholly expendable by the Foundation on a current basis until a portion is allocated for spending. Permanently restricted assets are invested in perpetuity in the investment pool subject to periodic spending allocations where a portion of the donor-restricted endowment fund in permanently restricted net assets is allocated and classified as temporarily restricted net assets available for spending.

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

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

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

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

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

This rate shall be applied to the market value of the endowed account (three year trailing average) not including gifts made in the current fiscal year (to allow those new gifts to accrue interest). The corridor (or parameters) of the distribution from year to year will be between 3.5% and 6.5%, with the caveat that the Foundation Board's distribution committee may, with all available information, have the discretion to adjust slightly the distribution rate for a given year depending on short/long term needs of the University and the anticipated near-term trends in anticipated inflation and investment returns, consistent with the Foundation's Investment/Distribution Goal Statement. The only exception to this policy shall be for endowment distributions tied directly to a faculty member's salary, such as an endowed chair. In this

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

case, every effort will be made to hold these distributions at 5% annually. The spending allocation rate was 3.5% for the years ended June 30, 2018 and 2017 for endowed funds supporting scholarships and programs and 5% for endowed funds associated with salaries as mentioned above.

Total endowment spending allocation distributed for the years ended June 30, 2018 and 2017 was \$518,324 and \$503,454.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment Net Assets - Beginning	\$ (3,329,364)	\$ 209,764	\$ 18,538,223	\$ 15,418,623
Contributions	-	-	1,868,431	1,868,431
Investment Income	-	668,527	-	668,527
Net Asset Reclassification	63,698	(63,698)	40,132	40,132
Net Assets Released from Restrictions:				
Amounts Appropriated for Expenditure	-	(518,324)	-	(518,324)
<b>Endowment Net Assets - Ending</b>	<b>\$ (3,265,666)</b>	<b>\$ 296,269</b>	<b>\$ 20,446,786</b>	<b>\$ 17,477,389</b>

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Net Assets
Endowment Net Assets - Beginning	\$ (3,382,883)	\$ 135,912	\$ 18,226,202	\$ 14,979,231
Contributions	-	-	483,940	483,940
Investment Income	-	601,805	-	601,805
Net Asset Reclassification	53,519	(24,499)	(171,919)	(142,899)
Net Assets Released from Restrictions:				
Amounts Appropriated for Expenditure	-	(503,454)	-	(503,454)
<b>Endowment Net Assets - Ending</b>	<b>\$ (3,329,364)</b>	<b>\$ 209,764</b>	<b>\$ 18,538,223</b>	<b>\$ 15,418,623</b>

Due to past stock market fluctuations and continued funding to the University, the fair value of assets associated with individual donor-restricted endowment funds have fallen below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The continued appropriations for certain programs that were deemed prudent by the Foundation Board and in accordance with UPMIFA, caused deficiencies of \$3,265,666 and \$3,329,364 as of June 30, 2018 and 2017. For financial statement purposes, these deficiencies are reported as part of unrestricted net assets in accordance with generally accepted accounting principles.

**Promises to Give**

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

	2018	2017
Restricted for the University Center Project	\$ 45,000	\$ 53,000
Restricted for scholarships or other purposes	243,714	477,808
Less: allowance for uncollectible contributions receivable	(5,774)	(10,616)
Gross unconditional promises to give	282,940	520,192
Less: unamortized discount	(17,875)	(27,139)
<b>Net unconditional promises to give</b>	<b>\$ 265,065</b>	<b>\$ 493,053</b>

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

	2018	2017
Receivable in less than one year	\$ 141,940	\$ 284,303
Receivable in one to five years	73,008	138,086
Receivable after five years	50,117	70,664
<b>Total</b>	<b>\$ 265,065</b>	<b>\$ 493,053</b>

**NOTE M – RELATED PARTY LEASE AGREEMENTS**

The State, acting by and through the Trustees, entered into a ground lease on April 1, 2006 with the Foundation. The lease term is through April 1, 2056 and provides for one dollar (\$1.00) annual rent to be paid by the Foundation. The Foundation agreed to use the land for the purpose of construction and operating an academic building for the University’s business related academic programs. Construction of the building was completed in August 2007 and was financed by approximately six million dollars of donations from outside sources.

The University leases certain building space owned by the Foundation in the University Center, the Borick Business Building, and the Aspinall-Wilson Center. The Foundation charges the University a de minimus amount for this use.

**NOTE N – LEGISLATIVE APPROPRIATION**

**Appropriated Funds**

The Colorado Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State’s General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources. For the years ended June 30, funds newly appropriated to the University for the College Opportunity Fund (COF) and Fee for Service were \$11,821,897 (2018) and \$11,534,927 (2017). Actual appropriated revenue earned and expended for COF and Fee for Service in those years matches the University’s appropriation

The University also receives appropriations for capital construction and controlled maintenance. In the years ended June 30, the University was newly appropriated \$1,000,000 (2018) and \$1,651,869 (2017) in capital appropriations. Additionally, for the fiscal years ended June 30, the University carried over \$1,243,514 (2018) and \$6,891,814 (2017) in capital appropriations from prior fiscal years. Actual appropriated capital revenue earned totaled \$2,153,149 (2018) and \$6,191,601 (2017). Actual appropriated expenditures and transfers totaled \$2,153,149 (2018) and \$6,191,601 (2017).

The Long Appropriations Bill also includes an appropriation related to undergraduate tuition. In fiscal year 2018, the University had \$18,643,748 in appropriations related to undergraduate tuition. The University recognized \$18,619,071 in appropriated revenue and \$18,468,528 in appropriated expenses. In fiscal year 2017, the University had \$18,355,206 in undergraduate tuition related appropriations. The University recognized \$18,355,206 in appropriated revenue and \$17,500,689 in appropriated expenses related to undergraduate tuition in the year ended June 30, 2017.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2018 and 2017

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**Non-Appropriated Funds**

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

**NOTE O – SUBSEQUENT EVENTS**

**Foundation Memorandum of Understanding**

In October 2018, the University and the Foundation executed a new Memorandum of Understanding (MOU). The MOU details the fundraising and development services the Foundation will provide on behalf of the University and the compensation the University will provide to the Foundation for those services. The initial term of the MOU expires June 30, 2019, but the parties have the option to renew annually until June 30, 2023. Additionally, the MOU details the Foundation's intent to transfer two building assets, the Borick Business Building and the Foundation's condominium share of the University Center, to the University in fiscal year 2019. Along with the transfer of those assets, the University will assume approximately \$4 million of debt related to the University Center. These transfers will lead to an increase in the University's net investment in capital assets in fiscal year 2019.

**New Paul M. Rady School of Computer Science and Engineering**

On September 6, 2018, the University announced the creation of the Paul M. Rady School of Computer Science and Engineering in partnership with the University of Colorado Boulder. The new school is made possible by an \$80 million gift from a private donor. The gift will fund a new 75,000 square foot building on the University's campus and also support future operational needs of the school. The partnership with University of Colorado Boulder will allow students to complete their first two years of coursework as Western State Colorado University students and the balance of their education as University of Colorado Boulder students, all while remaining on the University's campus in Gunnison. The partnership will allow the University to play a key role in addressing the shortage of technologically skilled workers in the State of Colorado.

REQUIRED SUPPLEMENTARY INFORMATION

**WESTERN STATE COLORADO UNIVERSITY**

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

For the Years Ended June 30, \*

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
University's proportion of the net pension liability	0.1951%	0.1860%	0.1950%	0.2016%
University's proportionate share of the net pension liability	\$ 39,047,629	\$ 34,158,370	\$ 20,538,558	\$ 18,959,603
University's covered payroll	\$ 6,037,120	\$ 5,573,306	\$ 5,692,536	\$ 5,625,076
University's proportionate share of the net pension liability as a percentage of its covered payroll	646.79%	612.89%	360.80%	337.06%
Plan fiduciary net position as a percentage of the total pension liability	43.20%	42.60%	56.10%	56.84%

\* The amounts presented for the years shown above were determined as of and for the calendar years ended December 31, 2017, 2016, 2015 and 2014 (the Plan's measurement period) occurring within the University's fiscal years ended June 30, 2018, 2017, 2016 and 2015 in accordance with Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* .

**WESTERN STATE COLORADO UNIVERSITY**

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF UNIVERSITY CONTRIBUTIONS TO PERA DEFINED BENEFIT PENSION PLAN**

For the Years Ended June 30,

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,082,140	\$ 1,030,617	\$ 947,246	\$ 901,931
Contributions in relation to the contractually required contribution	\$ (1,082,140)	\$ (1,030,617)	\$ (947,246)	\$ (901,931)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll	\$ 5,978,573	\$ 5,835,267	\$ 5,657,695	\$ 5,589,953
Contributions as a percentage of covered payroll	18.10%	17.66%	16.74%	16.13%

**WESTERN STATE COLORADO UNIVERSITY**

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OTHER  
POST-EMPLOYMENT BENEFIT LIABILITY**

For the Years Ended June 30, \*

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	<u>2018</u>
University's proportion of the net other post-employment benefit liability	0.0662%
University's proportionate share of the net other post-employment benefit liability	\$ 860,775
University's covered payroll	\$ 5,374,897
University's proportionate share of the net other post-employment benefit liability as a percentage of its covered payroll	16.01%
Plan fiduciary net position as a percentage of the total other post-employment benefit liability	17.53%

\* The amounts presented for the years shown above were determined as of and for the calendar year ended December 31, 2017 (the Plan's measurement period) occurring within the University's fiscal year ended June 30, 2018 in accordance with Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*.

**WESTERN STATE COLORADO UNIVERSITY**

**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF UNIVERSITY CONTRIBUTIONS TO PERA DEFINED OTHER POST-  
EMPLOYMENT BENEFIT PLAN**

For the Years Ended June 30,

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	<u>2018</u>
Contractually required contribution	\$ 54,104
Contributions in relation to the contractually required contribution	\$ (54,104)
Contribution deficiency (excess)	<u>\$ -</u>
University's covered payroll	\$ 5,304,305
Contributions as a percentage of covered payroll	1.02%

SUPPLEMENTAL INFORMATION SECTION

**STATE OF COLORADO**  
**WESTERN STATE COLORADO UNIVERSITY**  
**SCHEDULES OF REVENUE AND EXPENSES**  
**FOR ENTERPRISE REVENUE BONDS**  
**For Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>		
University Service Fees	\$ 3,439,557	\$ 3,238,868
Extended Studies Tuition and Fees	6,457,238	6,554,505
10% of Education and General Fund Tuition <sup>1</sup>	2,161,263	2,135,509
Federal Interest Subsidy	1,153,972	1,152,734
Bookstore Sales	778,511	881,554
Rental Income	5,412,890	5,387,707
Food Service Income	3,247,019	3,282,692
Sales/Service Auxiliaries	1,248,365	761,544
Interest Income	154,804	82,516
<i>Total Revenues</i>	<b>24,053,619</b>	23,477,629
<b>EXPENSES</b>		
Employee Compensation	4,189,540	3,695,188
Costs of Goods Sold	568,661	582,548
Utilities	554,318	516,666
Rental	9,549	7,566
Contract Food	1,962,380	1,925,718
Travel	218,199	205,518
Supplies	357,922	247,636
Purchased Services	2,654,500	3,016,168
Financial Aid	679,935	619,973
Administrative Cost Allowance	2,314,902	2,441,796
Furniture & Equipment	202,765	129,973
Other Operating Expenses	116,257	101,617
<i>Total Expenses</i>	<b>13,828,928</b>	13,490,367
<i>Net Operating Revenue</i>	<b>10,224,691</b>	9,987,262
<b>TRANSFERS</b>		
Mandatory Transfers	125,007	125,007
Non-mandatory Transfers	(1,672,907)	90,589
<i>Total Transfers</i>	<b>(1,547,900)</b>	215,596
<i>Net Revenue</i>	<b>\$ 8,676,791</b>	\$ 10,202,858
<b>DEBT SERVICE CHARGE</b>		
Net Operating Revenue	10,224,691	9,987,262
Bond Principal and Interest	(6,185,741)	(5,899,190)
<i>Excess of Net Operating Revenue Over Debt Service</i>	<b>4,038,950</b>	4,088,072
<i>Debt Service Coverage Ratio</i>	<b>1.65</b>	1.69

<sup>1</sup> In fiscal year 2017-18, the outstanding Series 2010 Bonds, Series 2011 Bonds, and Series 2016 Bonds are secured by Institutional Enterprise Revenues, which are equal to Net Revenues of Auxiliary Facilities plus ten percent of Education and General Fund Tuition Revenues. In fiscal year 2016-17, the outstanding Series 2016 Bonds were secured by only Net Revenues of Auxiliary Facilities, excluding Education and General Fund Tuition Revenues. The outstanding Series 2016 Bonds were additionally secured by Education and General Fund Tuition Revenues on a springing basis when the University returned to TABOR enterprise status in fiscal year 2017-18, without any further action of the Board.



DALBY, WENDLAND & CO., P.C.

Grand Junction

CPAs and Business Advisors

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

Members of the Legislative Audit Committee:  
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 3, 2018. Our report includes a reference to other auditors who audited the financial statements of the Western State Colorado University Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component unit, Western State Colorado University Foundation, were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

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

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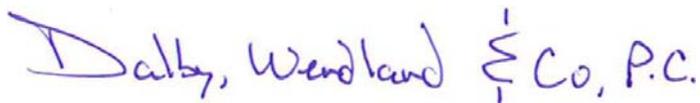
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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in blue ink that reads "Dalby, Wendland & Co., P.C." The signature is written in a cursive, flowing style.

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

December 3, 2018



## AUDIT COMMITTEE COMMUNICATIONS

Members of the Legislative Audit Committee:  
Denver, Colorado

We have audited the financial statements of the business-type activities of Western State Colorado University (the University) an institution of higher education of the State of Colorado, for the year ended June 30, 2018, and have issued our report thereon dated December 3, 2018. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit of the University, and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 21, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note A to the financial statements. As described in Note A to the financial statements, the University adopted new accounting policies related to adopting Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2017. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statements of revenue, expenses and changes in net position as described in Note A to the financial statements. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the net pension liability is based on the estimate of the University's proportionate share of the net pension liability as of December 31, 2017 and 2016 of the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note H to the University's financial statements. The University's proportion of the SDTF's net pension liability was based on the University's contributions to the SDTF for the calendar year 2017 and 2016 relative to the total contributions made to the SDTF by participating employers for the calendar year 2017 and 2016.

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Management's estimate of the net other post-employment benefits (OPEB) liability is based on the estimate of the University's proportionate share of the OPEB liability as of December 31, 2017 and 2016 of the Health Care Trust Fund (HCTF) as described in Note I to the University's financial statements. The University's proportion of the HCTF's net OPEB liability was based on the University's contributions to the HCTF for the calendar year 2017 and 2016 relative to the total contributions made to the HCTF by participating employers for the calendar year 2017 and 2016.

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

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

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

#### **Difficulties Encountered in Performing the Audit**

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

#### **Corrected and Uncorrected Misstatements**

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

#### **Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated December 3, 2018.

#### **Management Consultations with Other Independent Accountants**

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

#### **Other Audit Findings or Issues**

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

**Other Matters**

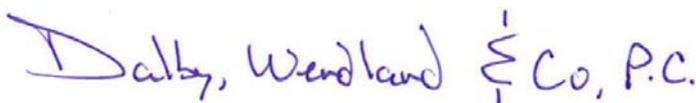
We applied certain limited procedures to the management’s discussion and analysis, the schedule of the University’s proportionate share of the net pension liability of the Health Care Trust Fund – a cost-sharing multiple-employer defined benefit OPEB plan administered by the Colorado Public Employees’ Retirement Association (PERA), the schedule of University contributions to the Health Care Trust Fund, the schedule of the University’s proportionate share of the net pension liability of the State Division Trust Fund – a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees’ Retirement Association and the schedule of University contributions to the State Division Trust Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

**Restriction on Use**

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

Sincerely,

A handwritten signature in blue ink that reads "Dalby, Wendland & Co., P.C." The signature is written in a cursive, flowing style.

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

December 3, 2018