



**REPORT OF
THE
STATE AUDITOR**

**STATE COLLEGES IN COLORADO
FINANCIAL AND COMPLIANCE AUDIT**

**FISCAL YEAR ENDED
JUNE 30, 2002**

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STATE OF COLORADO

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February 19, 2003

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of the State Colleges in Colorado. The audit included examinations of the consolidated financial statements and the statements of state-funded student assistance programs. The report also presents the findings and recommendations resulting from the examinations, and the responses of the State Colleges in Colorado.

Joanne Hill

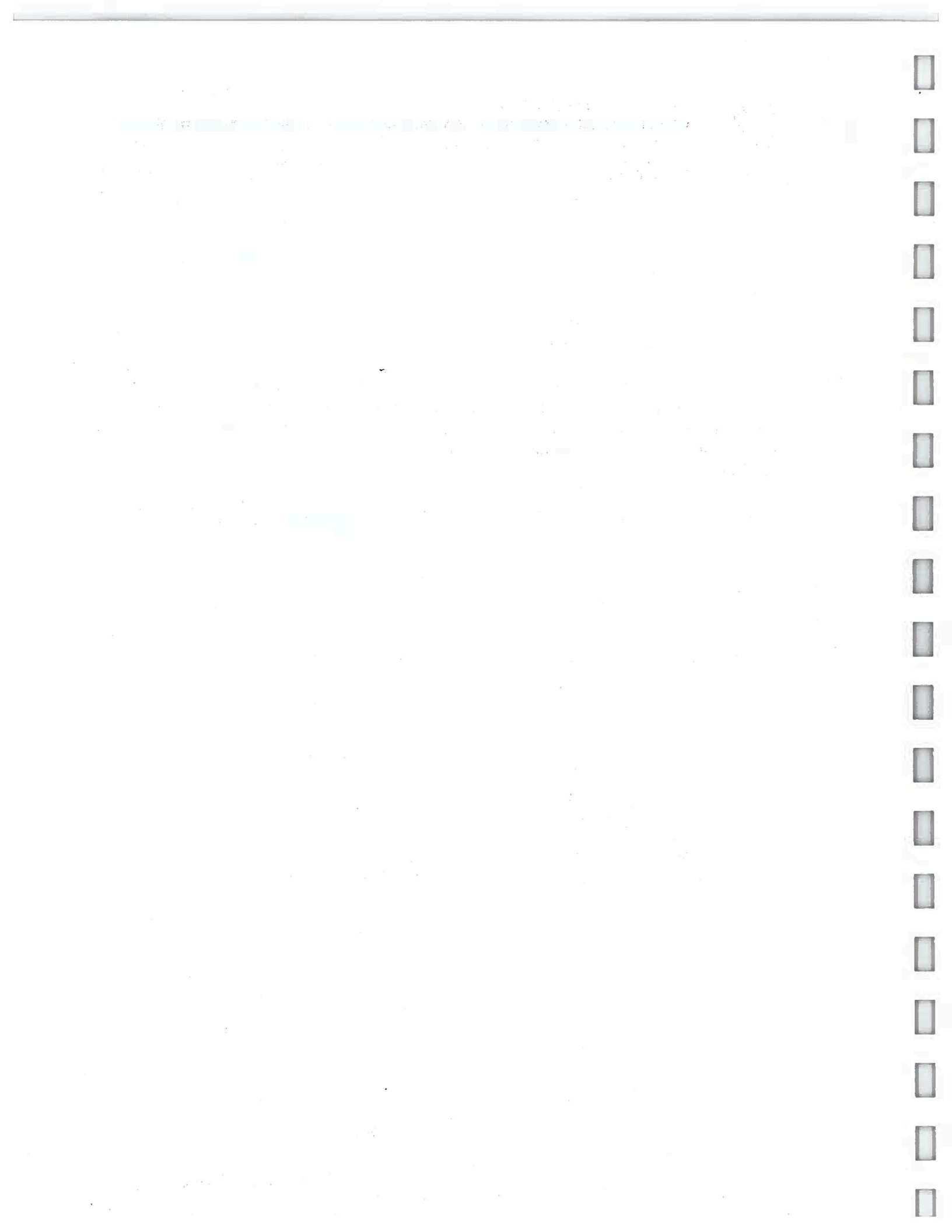


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**STATE OF COLORADO
OFFICE OF THE STATE AUDITOR**

REPORT SUMMARY

**JOANNE HILL, CPA
State Auditor**

**STATE COLLEGES IN COLORADO
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 2002**

Authority, Purpose, and Scope

The audit of the State Colleges in Colorado was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted 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. Audit work was performed from May 2002 through October 2002.

The purposes and scope of our audit were to:

- Express an opinion on the consolidated financial statements of the State Colleges in Colorado for the year ended June 30, 2002. This included a review of the related internal control structure as required by auditing standards generally accepted in the United States of America.
- Evaluate compliance with rules and regulations governing the expenditure of federal and state funds.
- Express an opinion on the Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Adams State College, Mesa State College, Metropolitan State College of Denver, and Western State College for the year ended June 30, 2002.
- Evaluate progress in implementing prior audit recommendations.

The Schedules of Federal Assistance for the State Colleges in Colorado and applicable audit opinions are included in the June 30, 2002 Statewide Single Audit Report issued by the Office of the State Auditor under a separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the consolidated financial statements and the Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for the State Colleges in Colorado for the year ended June 30, 2002.

For further information on this report, contact the Office of the State Auditor at (303) 869-2800.

SUMMARY

We issued a report on the State Colleges' compliance with applicable laws and regulations and internal controls over financial reporting. We did not note any material instances of noncompliance with legal or regulatory requirements or material internal control weaknesses. Certain areas in which the State Colleges can improve their internal controls are described in the Findings and Recommendations section of this report.

Summary of Findings and Recommendations

The State Colleges in Colorado issue a single set of financial statements that consolidates the financial activity of the four state colleges (Adams, Mesa, Metro, Western), the Western Colorado Graduate Center, and the Office of State Colleges. The consolidated financial statements are prepared by the Office of State Colleges and audited by the Office of the State Auditor. Our review included determining the appropriateness of information reported in the consolidated financial statements based on audit work performed by certified public accounting firms at the four state colleges. The Office of the State Auditor also audited the financial balances of the Office of State Colleges and the Western Colorado Graduate Center.

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

ADAMS STATE COLLEGE

During Fiscal Year 2002, the College discovered an alleged embezzlement of funds. A review of the College's records by the Office of the State Auditor found evidence indicating that approximately \$168,000 of funds were not properly spent and are missing. The local district attorney was notified of questionable transactions found during the review. After additional investigation by the District Attorney, criminal charges were filed against one of the College's former employees.

The College instituted a review of its accounting procedures to identify weaknesses which allowed the alleged embezzlement to occur. The College identified a number of changes it will make to strengthen its internal accounting controls. Some of these changes were being put into place at the completion of the 2002 audit and others will be implemented in the future. The adequacy of the new procedures and controls will be reviewed during the Fiscal Year 2003 audit of the College.

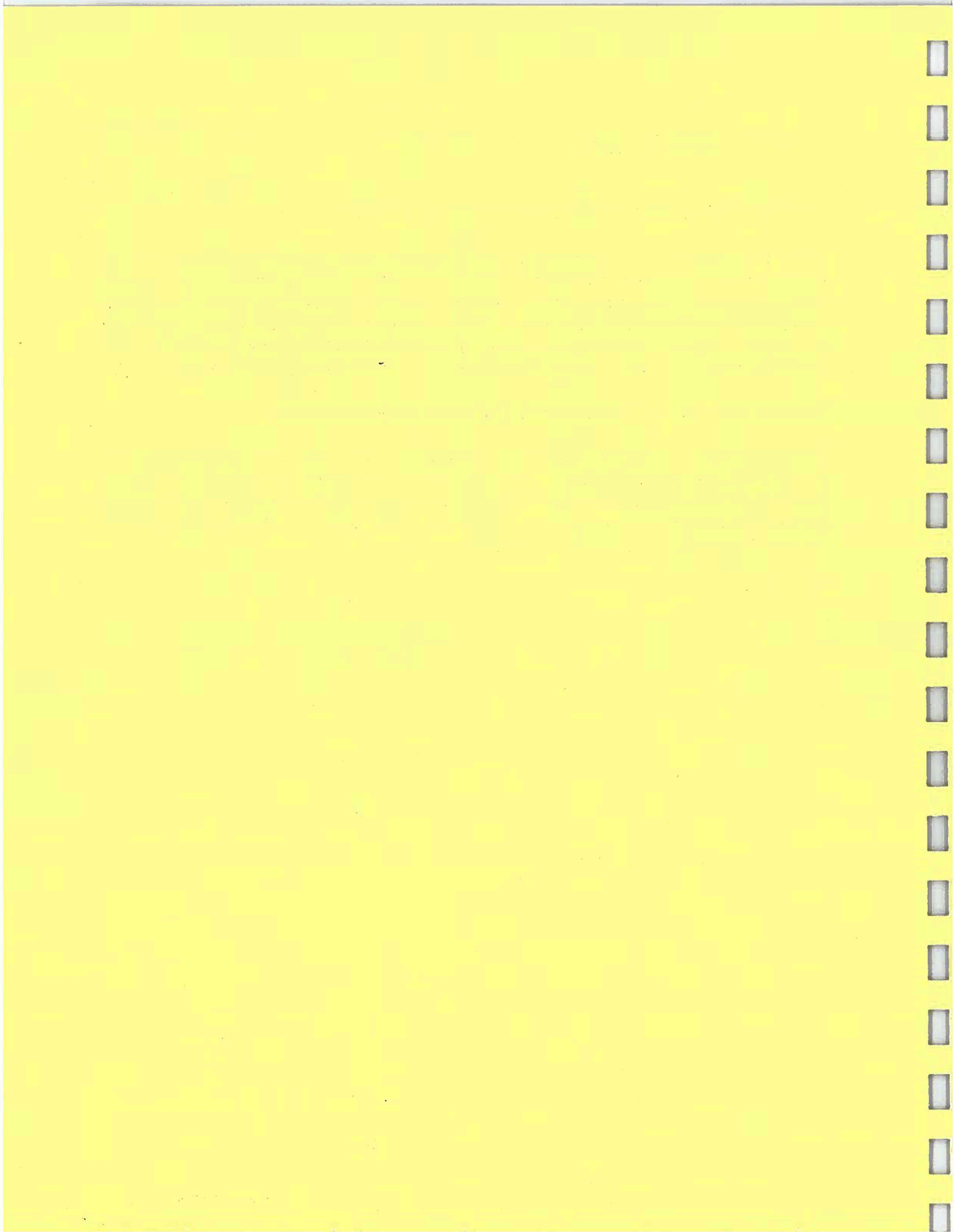
The College is highly dependent on technology to deliver many of its student and business services. We noted several information system procedures and controls that could be improved. These include conducting tests to ensure recovery of backups for major applications and databases, developing and testing a disaster/contingency plan, requiring users to change passwords periodically, and separating some functions between the Computing Services and the Business Office when checks are printed.

METROPOLITAN STATE COLLEGE OF DENVER

The College uses estimates to allocate the cost of unemployment, workman's compensation, and liability insurance to certain departments and funds. At June 30, 2002, a balance of approximately \$189,000 existed in the account used to accumulate funds for payment of such costs. This balance represents an accumulation of excess charges that has occurred over the years. Because the account is intended to pay annual insurance expenses, the College should reimburse accounts that were overcharged and clear excess accumulated balances out of the account at each year end.

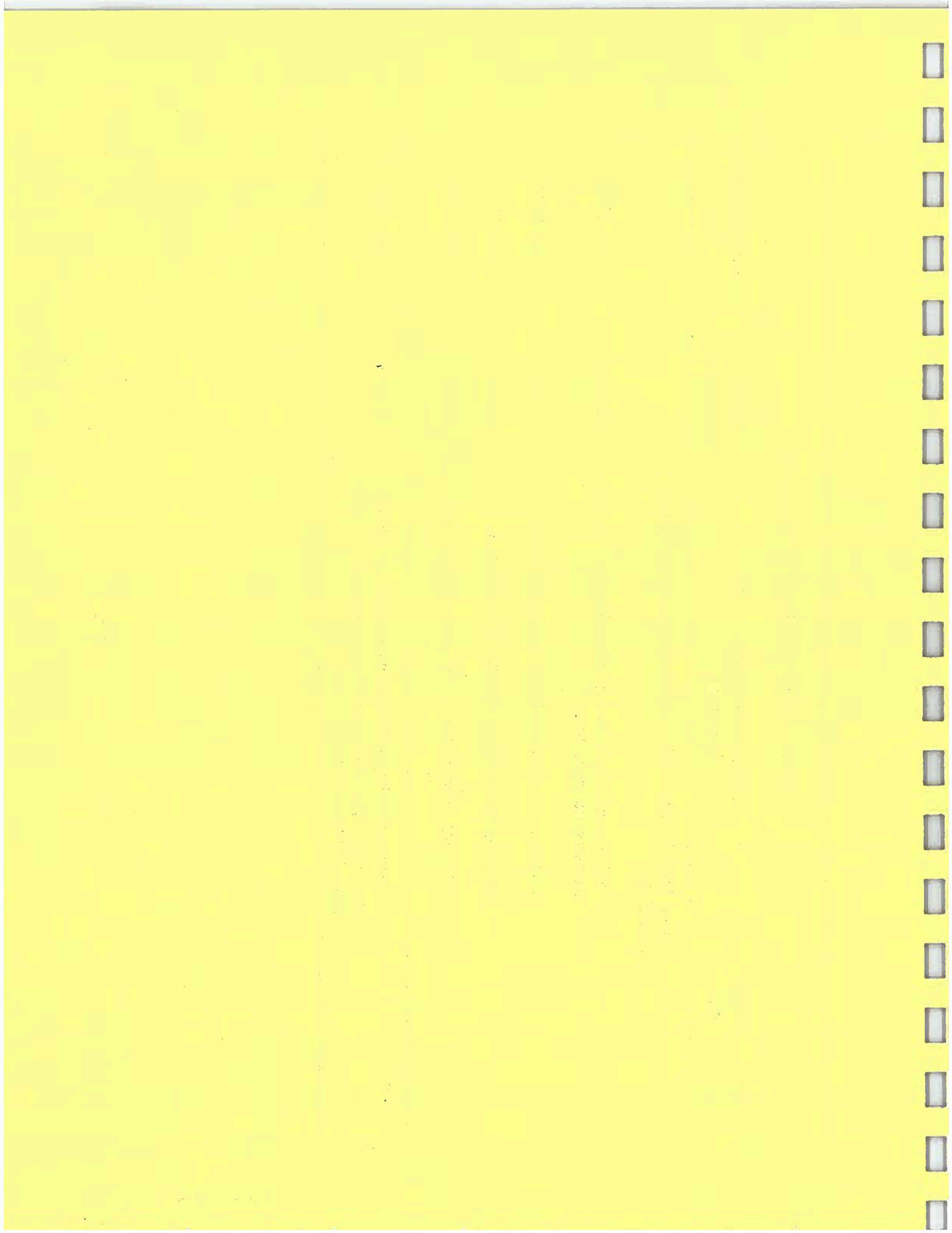
Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the State Colleges in Colorado for Fiscal Year 2001 contained four audit recommendations. As of October 4, 2002, the recommendation for Adams State College was implemented, the recommendation for Mesa State College was implemented, the recommendation for Metropolitan State College of Denver was partially implemented, and the recommendation for Western State College was partially implemented.



RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	15	Adams State College should improve its information systems controls by: <ul style="list-style-type: none"> a. Testing recovery of backup for information system databases and applications. b. Developing and testing a disaster/contingency plan. c. Requiring users to change passwords periodically. d. Separating duties involved in the check writing process. 	Agree	June 2003
			Agree	June 2003
			Agree	June 2003
			Agree	June 2003
2	17	Metropolitan State College of Denver should reimburse accounts that were overcharged in previous years and clear future excess accumulated balances at each year end.	Agree	June 2003



Description of the State Colleges in Colorado

The State Colleges in Colorado

The Board of Trustees of the State Colleges in Colorado (State Colleges) is the governing board for Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, and the Western Colorado Graduate Center. The Board of Trustees has oversight responsibility for the four state colleges and the Graduate Center in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies.

The Board has three goals:

- To provide outstanding teaching in four distinctive institutions with diverse student populations.
- To furnish Board and campus leadership that connects educational issues with the future of Colorado and the communities in which the institutions are located.
- To assure the people of Colorado that human and financial resources are utilized most effectively.

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

Office of State Colleges

The Office of State Colleges, under the direction of the President of the State Colleges in Colorado, is responsible for administering the Trustees' policies and procedures, and for coordinating reporting requirements and external matters for the four state colleges.

Adams State College, Alamosa

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

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

	2000	2001	2002
Resident Students	1,893.0	1,808.6	1,934.4
Nonresident Students	368.1	334.5	341.0
Total Students	<u>2,261.1</u>	<u>2,143.1</u>	<u>2,275.4</u>
Faculty FTEs	126.1	132.5	135.5
Staff FTEs	134.7	129.7	131.4
Total Staff and Faculty FTEs	<u>260.8</u>	<u>262.2</u>	<u>266.9</u>

Mesa State College, Grand Junction

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

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

reliable, consistent, and cost-effective access to necessary graduate courses and programs.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Resident Students	3,703.0	3,884.0	4,029.6
Nonresident Students	<u>438.3</u>	<u>428.5</u>	<u>431.3</u>
Total Students	<u>4,141.3</u>	<u>4,312.5</u>	<u>4,460.9</u>
Faculty FTEs	238.1	241.8	247.5
Staff FTEs	<u>147.7</u>	<u>149.5</u>	<u>151.0</u>
Total Staff and Faculty FTEs	<u>385.8</u>	<u>391.3</u>	<u>398.5</u>

Metropolitan State College of Denver

Metropolitan State College of Denver serves a student population in the greater metro-Denver area. Section 23-54-101, C.R.S., provides that Metropolitan State College of Denver be a comprehensive baccalaureate institution with modified open admission standards, except that nontraditional students who are at least 20 years of age only need to have an admission requirement of a high school diploma, a GED high school equivalency certificate, or the equivalent. Metropolitan State College of Denver is to offer a variety of liberal arts and science, technical, and educational programs. The College may offer a limited number of professional programs, but cannot offer any graduate program.

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

	2000	2001	2002
Resident Students	11,943.0	11,845.8	12,760.5
Nonresident Students	426.5	434.0	466.4
Total Students	12,369.5	12,279.8	13,226.9
Faculty FTEs	643.2	654.7	680.7
Staff FTEs	351.6	288.3	312.3
Total Staff and Faculty FTEs	994.8	943.0	993.0

Western State College, Gunnison

Western State College is an undergraduate college of liberal arts and sciences. Section 23-56-101, C.R.S., provides that Western State College be a general baccalaureate institution with moderately selective admission standards. The College is to provide a limited number of professional, educational, and traditional arts and sciences programs. Western State College cannot offer any two-year programs.

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

	2000	2001	2002
Resident Students	1,499.0	1,431.7	1,499.2
Nonresident Students	680.1	640.3	594.5
Total Students	2,179.1	2,072.0	2,093.7
Faculty FTEs	117.4	112.6	109.9
Staff FTEs	116.1	106.6	106.2
Total Staff and Faculty FTEs	233.5	219.2	216.1

Western Colorado Graduate Center

The Western Colorado Graduate Center is designed to provide the residents of western Colorado access to graduate degree programs offered in Colorado's western communities by Colorado colleges and universities. The Center serves as a resource and referral service as well as a broker of degree programs.

Section 23-53-116, C.R.S., provides that the Western Colorado Graduate Center be established on the campus of Mesa State College. The Center's mission is to ensure reliable, consistent, and cost-effective access for residents of western Colorado to graduate courses and programs necessary to maintain or strengthen employment knowledge and skills. The Center is not authorized to provide graduate courses or programs. The Center is under the authority and governance of the Trustees of the State Colleges in Colorado, who are responsible for developing a plan of implementation and operation of the Center consistent with the Center's mission. The Center operates independently of Mesa State College and commenced operation on July 1, 1996.

Findings and Recommendations

Adams State College

The following comment was prepared by the public accounting firm of Johnson, Holscher & Company, P.C., who completed audit work at Adams State College.

Internal Accounting Controls

During Fiscal Year 2002, the College discovered an alleged embezzlement of funds. The alleged theft occurred over a period of at least three years. The alleged theft was discovered when the College detected some discrepancies in its records during Fiscal Year 2002. The College notified the Office of the State Auditor which engaged a public accounting firm to perform a review of the discrepancies. The review found evidence indicating that approximately \$168,000 of funds were not properly spent and are missing. In April 2002, the State Auditor informed the Alamosa District Attorney of questionable transactions found during the review. After additional investigation by the District Attorney's Office, the District Attorney filed criminal charges against one of the College's former employees in August 2002.

After the embezzlement was discovered, the College instituted a review of its accounting and administrative procedures. The purpose of the review was to identify weaknesses which allowed the alleged embezzlement to occur and not be detected. The College identified a number of changes it will make to strengthen its internal accounting controls. These include restructuring some employee duties, modifying certain existing procedures, and adding some new procedures. Some of these changes were being put into place at the completion of our 2002 audit and others will be implemented in the future. We will review the adequacy of the new procedures and controls during our Fiscal Year 2003 audit of the College.

During our audit work for Fiscal Year 2002, we noted several information systems processes that could be improved or controls strengthened. These are discussed below.

Recovery of Computer Backup

The College's databases, servers, and network are subject to routine backups. Although backups are appropriately stored off site, recovery of major applications and databases has not been tested.

Databases and applications will, to some degree, periodically fail. Recovery must be tested to ensure that backups are adequate. Failure to adequately recover the College's databases could result in negative financial and programmatic impacts. The risk of permanent data loss greatly increases when tests to recover computer backups are not periodically performed. A plan for testing backup recovery should be developed and implemented as a normal part of system maintenance activities.

Disaster Recovery Plan

The College is highly dependent on technology to deliver many of its student and business services. Because of this, it is very important that a disaster/contingency plan be developed for every database and application.

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

Passwords

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

Separation of Duties for Check Printing

The Business Office presently has all check printing, as well as most report printing, done offsite at a different building by Computing Services. The Business Office staff delivers blank check stock over to Computing Services. Computing Services receives the checks and then processes the check run and related reports. The Business Office staff returns when the process is completed to pick up the check stock, checks, and applicable reports.

The current process results in a potential weakness in internal controls because it allows computer operators, who have access to data and source code, to be involved in the user process of printing checks. Thus, there is not a segregation of duties between technology support and user functions. We suggest two options for improving controls over check printing. One is to perform the check writing process in the Business Office where the entire check writing process can be observed and monitored by Business Office staff. Another option is to have Business Office staff perform the check writing process at Computing Services with an accounting technician performing posting and review functions currently performed by the computer operator.

Recommendation No. 1:

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

- a. Developing and implementing a plan to routinely test recovery of backup for information databases and applications.
- b. Developing and testing a disaster/contingency plan.
- c. Developing guidelines on how often passwords should be changed and requiring password changes at appropriate time intervals.
- d. Performing the check writing process in the Business Office or having Business Office staff oversee and perform certain review functions if the process is performed at Computing Services.

Adams State College Response:

- a. Agree. With the limited equipment and resources available, we will develop a formal plan and test restoration based on a sample of selected tables and data files.
- b. Agree. A disaster/contingency plan will be developed during a review process in which we are currently evaluating all of our Computing Services policies and procedures. Efforts to mitigate any processing disasters are underway including the installation of a standby generator, off-site monitoring of environmental controls, and a fire alarm system.

- c. Agree. We have ordered a software upgrade that will allow password aging and it is due for delivery in February 2003. It is proposed that the password changes will coincide with the grading cycle as discussed during the audit.
- d. Agree. Adams State College will review the check writing procedures and adopt a revised process that provides for stronger internal controls.

Mesa State College

The public accounting firm of Chadwick, Steinkirchner, Davis & Co., P.C., completed audit work for Mesa State College. There were no report findings and recommendations resulting from the audit work completed for Fiscal Year 2002.

Metropolitan State College of Denver

The following comment was prepared by the public accounting firm of Kunderling, McCutcheon, Corder and Engle, P.C., who completed audit work at Metropolitan State College of Denver.

Insurance Clearing Account

Metropolitan State College of Denver uses estimates to allocate certain expenses to departments in the auxiliary and restricted funds. The estimated expenses are accumulated in clearing, or reserve, accounts in the agency fund. The College currently allocates the cost of unemployment, workman's compensation and liability insurance to the auxiliary and restricted funds at a rate of .75% of annual salary expense. These amounts are accumulated in the Unemployment Compensation Reserve Account in the agency fund until disbursements are made. During Fiscal Year 2002, the Account had cash inflows of approximately \$71,000 and cash outflows of about \$27,000.

At June 30, 2002, the balance in the Unemployment Compensation Reserve Account was approximately \$189,000. This balance represents an accumulation of excess charges over the years for unemployment, workman's compensation and liability insurance. Large surplus balances should not be accumulated in the Clearing Account. Because the Account is intended to pay annual insurance expenses, the account balance should normally be zero or near zero at the end of the year. In

addition, federal regulations do not permit the accumulation of excess funds from charges to federal grants and contracts.

Recommendation No. 2:

Metropolitan State College of Denver should reimburse the accounts in the auxiliary and restricted funds that were overcharged in previous years for unemployment, workman's compensation and liability insurance, and clear future excess accumulated balances at each year end.

Metropolitan State College of Denver Response:

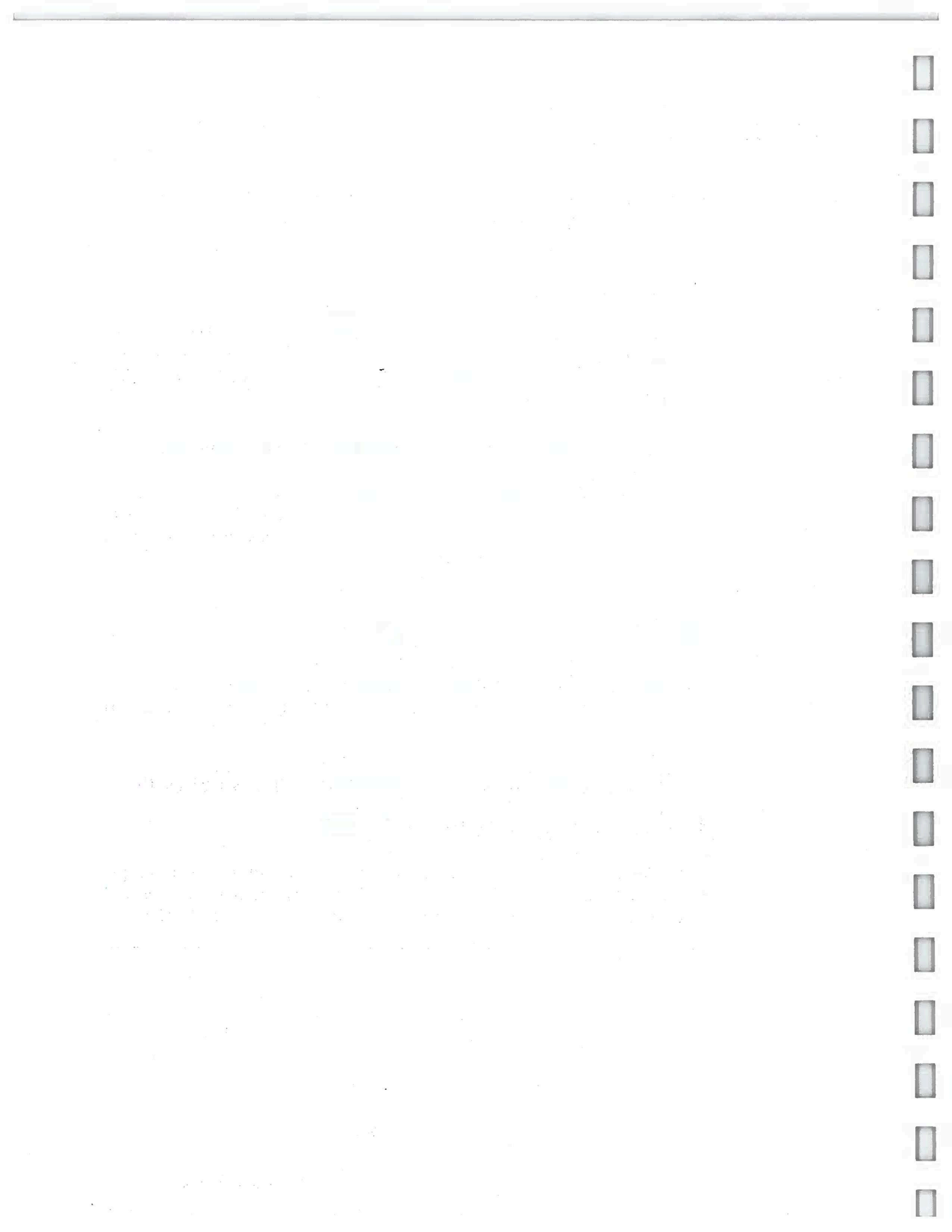
Agree. Metropolitan State College will, at the end of Fiscal Year 2003, review the balance in this fund and reimburse the excess balance to the grants and auxiliary enterprises. We will continue to monitor the allocation percentage of 3/4 percent to ensure that it is fair and accurate.

Western State College

The public accounting firm of Dalby, Wendland & Co., P.C. completed audit work for Western State College. There were no report findings and recommendations resulting from the audit work completed for Fiscal Year 2002.

Office of State Colleges and the Western Colorado Graduate Center

The Office of the State Auditor completed audit work for the Office of State Colleges and the Western Colorado Graduate Center. There were no report findings and recommendations resulting from the audit work completed for Fiscal Year 2002.



Disposition of Prior Audit Recommendations

Listed below are the recommendations included in the State Colleges in Colorado audit report for the year ended June 30, 2001, and their disposition as of October 4, 2002.

Recommendation

Disposition

ADAMS STATE COLLEGE

1. Adams State College should monitor its fees, rental rates and charges for the use of its buildings and facilities to ensure that adequate bond coverage is maintained. These fees, and the related current costs, should be monitored throughout the year to determine if revisions are warranted prior to the beginning of the subsequent fiscal year.

Implemented.

MESA STATE COLLEGE

2. The Director of Housing and Student Life should:

- a. Request supporting documentation for sales revenue reported by Marriott for guest meals and faculty punch cards.
- b. Conduct a formal market survey of meal plans in Colorado and other states.

a. Implemented.

b. Implemented.

Recommendation**Disposition****METROPOLITAN STATE COLLEGE OF DENVER****3. Metropolitan State College of Denver should:**

- | | |
|---|--|
| a. Continue to analyze all current clearing accounts and adjust the accounts as necessary. | a. Partially implemented. Metro is continuing to analyze and adjust the clearing accounts in the agency fund. However, we noted that additions to one of these accounts, the Unemployment Compensation Reserve Account, continue to exceed the expenses. See current year Recommendation No 2. |
| b. Continue to monitor the fringe benefit allocation percentage to ensure that the estimate approximates actual. | b. Implemented. |
| c. Research and apply the loan payments carried in the AFSA clearing account, writing off the remaining carry-forward balance if necessary. | c. Implemented. |

Recommendation**Disposition****WESTERN STATE COLLEGE**

4. The Western State College Financial Aid Office should document all of its policies and procedures in a manual (either in paper or electronic format) as required by CCHE guidelines and as dictated by good business practice. The College should also provide all of the information required by CCHE to all financial aid applicants via the College's financial aid handbook or other written format.

Partially implemented. Information required by CCHE to be disclosed to financial aid applicants has been included in the information provided by the College on its financial aid website. However, Western State College has not developed an internal financial aid policy and procedures manual. We believe this is an important matter that needs to be implemented by the Financial Aid Department. Development of a comprehensive policy and procedure manual will assist the Department in training new employees, providing up-to-date information for employees when changes occur in financial aid requirements, and helping ensure the Department complies with CCHE requirements. We will continue our follow up in Fiscal Year 2003.



FINANCIAL STATEMENT SECTION



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State Auditor

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November 24, 2002

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying consolidated Statement of Net Assets of the State Colleges in Colorado as of June 30, 2002, and the related Consolidated Statements of Revenues, Expenses, and Changes in Net Assets and Cash Flows for the year then ended. These basic financial statements are the responsibility of the management of the State Colleges. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the State Colleges are institutions of the State of Colorado and accordingly their financial statements are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities of the State of Colorado that is attributable to the transactions of the State Colleges. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State Colleges in Colorado as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

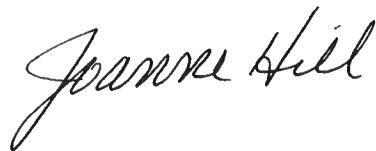
As described in Note 1, the State Colleges in Colorado implemented a new financial reporting model as required by the provisions of the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and*

Management's Discussion and Analysis - for Public Colleges and Universities; GASB Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and GASB Statement No. 38, Certain Financial Statement Note Disclosures, as of July 1, 2001. This resulted in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2002 on our consideration of the State Colleges in Colorado's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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



**STATE COLLEGES IN COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2002**

This section of the State Colleges in Colorado ("State Colleges") consolidated financial report presents management's discussion and analysis of the financial performance of the System during the year ended June 30, 2002. The State College System is comprised of Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, the Western Colorado Graduate Center and the Office of State Colleges. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes. Only one year of financial data is provided since this is a transition year for this reporting format. In future years, when prior-year information is available, a comparative analysis will be presented.

Using the Consolidated Financial Report

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

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

Financial Highlights

- Economic conditions during Fiscal Year 2002 forced the State of Colorado to reduce the appropriation of all higher education institutions and state agencies. The unexpected reductions totaled 3.9% of the State Colleges' appropriation and occurred within the last two months of the Fiscal Year.
- The State Colleges' financial position improved during the Fiscal Year ended June 30, 2002 as evidenced by an increase in net assets of \$16.5 million to \$166.4 million.

- The State Colleges' current assets of \$38.7 million were sufficient to cover current liabilities of \$15.5 million. The 2.50 current ratio (current assets/current liabilities) demonstrates the liquidity of system assets and the relative availability of working capital to fund current operations.
- An operating deficit of \$81.6 million resulted from the State Colleges' dependence on state appropriations because the financial reporting model classifies state appropriations as non-operating revenues. When all revenues and expenses are considered, the State Colleges' net assets increased by \$16.5 million.
- HB 02-1165 authorized independent governance for Metropolitan State College of Denver (MSCD) effective July 1, 2002. MSCD supports the largest student enrollment of all the State Colleges and correspondingly comprises a significant portion of system operations. The condensed financial statements are accordingly segregated by entity to facilitate a review of the operational results of those component units remaining affiliated with the State Colleges in Colorado System during Fiscal Year 2003.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the State Colleges' financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

Condensed Statement of Net Assets June 30, 2002 (in thousands)

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Assets							
Current Assets	\$7,178	\$6,785	\$18,700	\$4,031	\$1,944	\$35	\$38,673
Noncurrent Assets	60,183	59,443	11,345	48,942	1	1	179,915
Total Assets	67,361	66,228	30,045	52,973	1,945	36	218,588
Liabilities							
Current Liabilities	3,023	2,205	7,881	2,279	51	23	15,462
Noncurrent Liabilities	10,294	12,080	1,942	12,326	49	12	36,703
Total Liabilities	13,317	14,285	9,823	14,605	100	35	52,165
Net Assets							
Invested in Capital Assets	48,515	46,723	3,895	35,823	1	1	134,958
Restricted	1,716	1,125	10,021	2,144			15,006
Unrestricted	3,813	4,095	6,306	401	1,844		16,459
Total Net Assets	\$54,044	\$51,943	\$20,222	\$38,368	\$1,845	\$1	\$166,423

At June 30, 2002, the State Colleges' total assets were \$218.6 million. The largest asset category is the \$167.3 million in capital assets, net of accumulated depreciation of \$71.7 million. These assets include land, buildings, equipment, library holdings, and construction in process. Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In Fiscal Year 2002, the State Colleges' current assets of \$38.7 million were sufficient to cover current liabilities of \$15.5 million (producing a current ratio of 2.50). Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments with maturities of three months or less) comprised almost \$28.2 million in assets per the Statement of Cash Flows.

Bonds payable of \$32.2 million represent almost 62% of the State Colleges' total liabilities of \$52.2 million. The current portion of the bonds payable liability is \$1.7 million.

The State Colleges' financial position improved during the Fiscal Year as evidenced by the increase of \$16.5 million in net assets (see the Statement of Revenues, Expenses and Changes in Net Assets) to \$166.4 million. Net assets is composed of \$135 million invested in capital assets net of related debt, \$15 million externally restricted for specific purposes, and \$16.4 million unrestricted and available for any lawful purpose of the State Colleges.

Statement of Revenues, Expenses and Changes in Net Assets

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

Tuition and fee revenues accounted for \$50.7 million of the \$121.9 million in operating revenues. The tuition and fee amount is net of scholarship allowances of \$20.6 million. Scholarship allowances are defined as the financial aid awarded to students by the Colleges that is used to pay College charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense, as previously reported.

Operating expenses totaled \$203.5 million. Of that total, \$77 million was for instruction, \$37.7 million for auxiliary enterprises, \$21 million for student services, \$16.8 million for institutional support, and \$15.3 million for academic support.

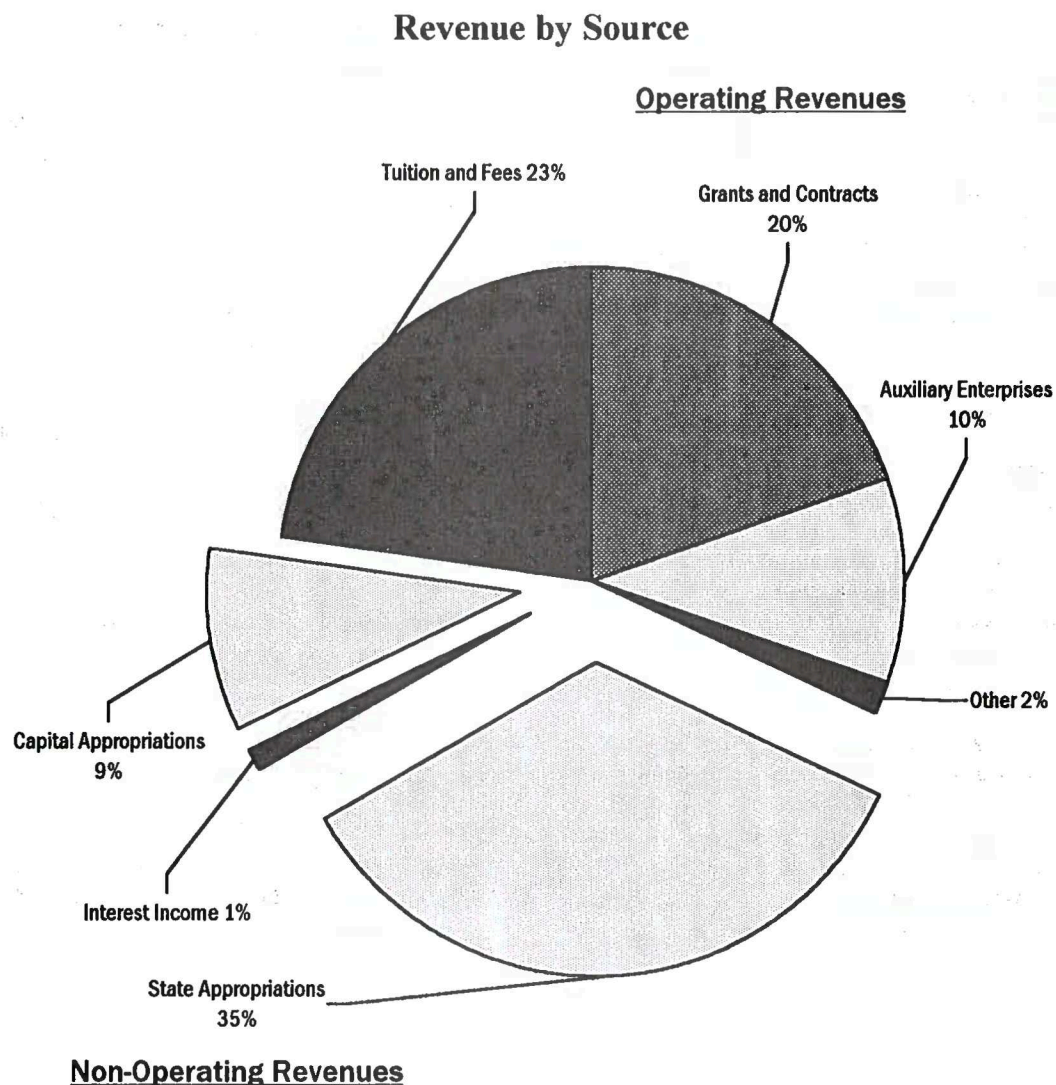
The State Colleges' dependency on state appropriations produced an operating deficit of \$81.6 million in Fiscal Year 2002 because the financial reporting model classifies state appropriations as non-operating revenues. However, the State Colleges

realized a \$16.5 million increase in net assets, principally resulting from a comparable increase in their investment in capital assets.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002
(in thousands)

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Operating Revenues							
Tuition and Fees, net	\$4,590	\$7,899	\$31,140	\$7,104			\$50,733
Grants and Contracts	8,586	5,511	25,763	3,941			43,801
Auxiliary Enterprises	5,885	7,834	2,958	6,745			23,422
Other	478	499	2,223	743			3,943
Total Operating Revenues	19,539	21,743	62,084	18,533	0	0	121,899
Operating Expenses	32,147	40,527	102,255	27,118	1,316	131	203,494
Net Operating (Loss)	(12,608)	(18,784)	(40,171)	(8,585)	(1,316)	(131)	(81,595)
Nonoperating Revenue (Expense)							
State Appropriations	10,028	18,499	41,209	6,196	1,014	120	77,066
Interest Income	229	329	223	182	1,243		2,206
Other Nonoperating	(621)	(227)	346	(1,401)			(1,903)
Net Nonoperating Revenue	9,636	18,601	41,778	4,977	2,257	120	77,369
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	(2,972)	(183)	1,607	(3,608)	941	(11)	(4,226)
State Appropriations, Capital	6,825	8,667		5,565			21,057
Other	107	172	439	441	(1,536)	6	(371)
Increase (Decrease) in Net Assets	3,960	8,656	2,046	2,398	(595)	(5)	16,460
Net Assets:							
Net Assets-Beginning of Year	50,084	43,287	18,176	35,970	2,440	6	149,963
Net Assets-End of Year	\$54,044	\$51,943	\$20,222	\$38,368	\$1,845	\$1	\$166,423

The following is a graphic illustration of total revenues by source for the State Colleges. It clearly depicts the State Colleges' dependence on state appropriations and other non-operating revenue sources which comprise approximately 45% of total revenues. Each major revenue component is displayed relative to its proportionate share of total revenues.



Statement of Cash Flows

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

Condensed Statement of Cash Flows
Year Ended June 30, 2002
(in thousands)

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Net Cash Provided (Used) by:							
Operating Activities	(\$10,895)	(\$16,484)	(\$39,180)	(\$5,834)	(\$1,577)	(\$113)	(\$74,083)
Non-Capital Financing Activities	10,175	19,683	41,841	6,051	(523)	126	77,353
Capital and Related							
Financing Activities	(53)	(2,405)	(1,386)	(248)			(4,092)
Investing Activities	229	328	261	402	1,244		2,464
Net Increase (Decrease)	(544)	1,122	1,536	371	(856)	13	1,642
in Cash							
Cash & Cash Equivalents:							
Beginning of Year	6,294	2,964	11,398	3,133	2,740	22	26,551
End of Year	\$5,750	\$4,086	\$12,934	\$3,504	\$1,884	\$35	\$28,193

The State Colleges' overall liquidity improved slightly during the Fiscal Year with an increase in cash and cash equivalents of \$1.6 million. The net cash outflow from operating activities was \$74.1 million. The major sources of cash were \$54.6 million in student tuition and fees and \$43.7 million in contracts and grants. Payments to or for employees of \$122.3 million and payments to suppliers of \$59.5 million were the primary uses of funds.

Economic Outlook

During Fiscal Year 2002, the State of Colorado experienced several economic setbacks that resulted in an unanticipated loss of tax revenue. Consequently, higher education institutions had to cope with a late reduction in their appropriations. For Fiscal Year 2003, the economic forecast for the State looks equally as bleak. The State Colleges' appropriation has already been internally restricted by 3.67%, with an additional 10% restriction possible following the November elections.

Enrollments for Adams State College, Mesa State College and Western State College are projected to remain relatively stable for Fiscal Year 2003. However, a tuition rate increase of 4.7% for resident students and 7% for nonresident students was approved.

An integral part of HB 02-1165 that allowed Metropolitan State College of Denver to become an independent institution was a provision mandating a cost study of the three remaining colleges to establish a minimum level of funding. The Trustees of the State Colleges in Colorado have recommended that \$14.75 million in General Fund be added to existing base funding amounts for these schools. The Colorado Commission on Higher Education requests \$4 million of additional funding in Fiscal Year 2004 and a second installment of \$3.4 million in Fiscal Year 2005.

STATE COLLEGES IN COLORADO

Consolidated Statement of Net Assets

June 30, 2002

ASSETS

Current Assets

Cash & Cash Equivalents	\$27,074,944
Short-term Investments	353,811
Student Accounts Receivable, Net	3,965,319
Other Accounts Receivable, Net	3,674,042
Student Loans Receivable, Net	2,245,859
Inventories	1,224,974
Prepaid Expenses	125,425
Other Current Assets	8,438
Total Current Assets	38,672,812

Non-current Assets

Restricted Cash & Cash Equivalents	1,118,585
Student Loans Receivable, Net	10,962,855
Long-term Investments	190,634
Deferred Charges	145,015
Other Non-current Assets	180,448
Non-depreciable Capital Assets	
Land	2,022,883
Land Improvements	1,904,083
Construction in Progress	22,409,655
Total Non-depreciable Capital Assets	26,336,621
Depreciable Capital Assets, Net	
Land Improvements (less accumulated depreciation of \$2,177,920)	4,295,748
Buildings & Improvements (less accumulated depreciation of \$47,411,696)	125,118,938
Furniture & Equipment (less accumulated depreciation of \$11,427,087)	5,994,535
Library Materials (less accumulated depreciation of \$10,652,123)	5,571,067
Total Depreciable Capital Assets, Net	140,980,288
Total Non-current Assets	179,914,446
Total Assets	218,587,258

STATE COLLEGES IN COLORADO

Consolidated Statement of Net Assets

June 30, 2002

LIABILITIES

Current Liabilities

Accounts Payable	1,138,971
Accrued Liabilities	4,182,794
Deferred Revenue	3,565,213
Deposits Held for Others	3,128,836
Student Deposits	442,520
Bonds Payable, Current Portion	1,755,000
Capital Leases Payable, Current Portion	550,241
Notes Payable, Current Portion	11,960
Compensated Absence Liabilities	340,753
Other Current Liabilities	344,787
Total Current Liabilities	<u>15,461,075</u>

Non-current Liabilities

Bonds Payable	30,448,001
Capital Leases Payable	2,185,401
Notes Payable	64,460
Other L/T Liabilities	50,000
Compensated Absence Liabilities	3,955,833
Total Non-current Liabilities	<u>36,703,695</u>
Total Liabilities	<u>52,164,770</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	134,958,329
Restricted for:	
Non-expendable Endowments	28,250
Expendable	
Endowments	29,088
Loans	14,039,852
Capital Projects	700,000
Other Purposes	208,465
Unrestricted	16,458,504
Total Net Assets	<u>\$166,422,488</u>



STATE COLLEGES IN COLORADO

Consolidated Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002

OPERATING REVENUES

Tuition and Fees (including \$1,438,495 of revenues pledged for bonds and net of scholarship allowances of \$20,638,141)	\$50,733,044
Federal, State, Private Grants and Contracts	43,800,903
Gifts	194,319
Auxiliary Enterprises (including \$21,341,346 of revenues pledged for bonds and net of scholarship allowances of \$1,523,638)	23,422,789
Other Operating Revenues (including \$190,810 of revenues pledged for bonds)	3,747,723
Total Operating Revenues	<u>121,898,778</u>

OPERATING EXPENSES

Instruction	76,999,223
Research	263,389
Public Service	545,137
Academic Support	15,305,915
Student Services	20,965,771
Institutional Support	16,832,562
Operation and Maintenance of Plant	14,791,086
Scholarships and Fellowships	11,483,786
Auxiliary Enterprises	37,720,442
Depreciation	8,586,648
Total Operating Expenses	<u>203,493,959</u>
Operating Loss	<u>(81,595,181)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	77,065,409
Gifts	518,466
Investment and Interest Income (including \$160,014 of revenues pledged for bonds)	2,205,541
Interest Expense on Capital Debt	(2,004,024)
Other Nonoperating Expenses	(416,693)
Net Nonoperating Revenues	<u>77,368,699</u>
Loss Before Other Revenues or Expenses	<u>(4,226,482)</u>

OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS

State Appropriations, Capital	21,057,061
Gain or Loss on Disposal of Assets	(24,339)
Transfers (To)/From Governing Boards or Other Institutions	(346,021)
Increase in Net Assets	<u>16,460,219</u>

NET ASSETS

Net Assets - Beginning of Year, As Originally Reported	213,574,409
Cumulative Effect of Change in Accounting Principle	(63,612,140)
Net Assets - Beginning of Year, Restated	<u>149,962,269</u>
Net Assets - End of Year	<u>\$166,422,488</u>

STATE COLLEGES IN COLORADO

Consolidated Statement of Cash Flows
Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received:

Tuition and Fees	\$54,620,692
Sales of Service	18,409,727
Sales of Product	5,136,919
Grants, Contracts and Gifts	43,678,663
Student Loans Collected	2,515,611
Other Operating Receipts	3,525,573

Cash Payments:

Payments to or for Employees	(122,326,028)
Payments to Suppliers	(59,468,396)
Scholarships Disbursed	(17,624,316)
Student Loans Disbursed	(2,475,868)
Other Operating Payments	(75,851)
Net cash provided (used) by operating activities	<u>(74,083,274)</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State Appropriations, Non-capital	77,188,018
Gifts/Grants for Other than Capital Purposes	619,345
Direct Lending Inflows	33,262,141
Direct Lending (Outflows)	(33,282,084)
Other Agency Inflows	17,615,114
Other Agency (Outflows)	(17,105,825)
Transfers from (to) Other Campuses, Board, or Institution	(943,592)
Net cash provided (used) by non-capital financing activities	<u>77,353,117</u>

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

State Appropriations, Capital	20,934,452
Capital Grants, Contracts and Gifts	1,164
Acquisition and Construction of Capital Assets	(20,738,285)
Principal Paid on Capital Debt	(2,202,109)
Interest on Capital Debt	(2,086,528)
Net cash provided (used) by capital & related financing activities	<u>(4,091,306)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale & Maturities of Investments	265,547
Investment Earnings (Interest/Dividends)	2,244,349
Purchase of Investments	(46,094)
Net cash provided (used) by investing activities	<u>2,463,802</u>
Net Increase (Decrease) in Cash & Cash Equivalents	<u>1,642,339</u>
Cash & Cash Equivalents - Beginning of the Year	26,551,190
Cash & Cash Equivalents - End of the Year	<u>\$28,193,529</u>

Reconciliation of operating income to net cash provided (used) by operating activities:

Operating income (loss)	(\$81,595,181)
Adjustments to reconcile:	
Depreciation expense	8,582,749
Provision for uncollectible accounts	797,490
Decrease (increase) in assets	(508,130)
Increase (decrease) in liabilities	(2,054,708)
Other reconciling items	694,506
Net cash provided (used) by operating activities	<u>(74,083,274)</u>

STATE COLLEGES IN COLORADO
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2002

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governance

The Board of Trustees of the State Colleges in Colorado ("State Colleges") is the governing board for Adams State College (ASC), Mesa State College (MSC), Metropolitan State College of Denver (MSCD), Western State College (WSC), and the Western Colorado Graduate Center (WCGC). The Trustees are statutorily charged with responsibility in the areas of finance, resources, academic programs, admissions, role and mission, and personnel policies. The Board consists of seven members appointed by the Governor serving four-year terms. Additionally, a faculty and a student trustee are elected to serve for one-year terms.

Basis of Presentation and Financial Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the financial reporting entity of the State Colleges includes the combined operations of the component institutions, the Office of State Colleges (OSC), and all related entities for which the State Colleges are financially accountable. As defined in GASB No. 14, financial accountability may stem from the State Colleges' ability to appoint a majority of the governing boards of the related organization, its ability to impose its will on the related organization, or its ability to access assets or be held responsible for the debts of the related organization. Accordingly, the accompanying financial statements contain the operations of the Office of State Colleges, the Western Colorado Graduate Center and the following four component colleges:

Adams State College
Mesa State College
Metropolitan State College of Denver
Western State College

For financial reporting purposes, the State Colleges are considered to be institutions of the State of Colorado.

The significant accounting policies followed by the State Colleges System are described below to enhance the usefulness of the financial statements to the reader.

Basis of Accounting

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

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

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the State Treasurer and all highly liquid investments with an original maturity of three months or less. All endowment investments are considered long-term investments regardless of the liquidity or maturity of those investments.

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

Inventories: Inventories are stated at the lower of cost or market. The central stores inventory consists primarily of office supplies and other consumable goods. It is valued using the average cost method. The bookstore inventory includes instructional materials and soft goods held for resale. It is valued using the retail FIFO (first-in-first-out) method which involves pricing items at current selling prices reduced to the lower of cost or market by application of an average mark-up ratio.

Capital Assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation. The State Colleges each follow the policy of capitalizing only those assets with an initial cost or fair market value equal to or greater than \$5,000 and an estimated useful life of more than one year. A physical inventory of all capital assets is taken annually with appropriate adjustments made to the financial records. Annual revisions to the statement of values are performed for insurance purposes.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets following the "half-year" convention for asset acquisitions and disposals. The estimated useful lives range from 25-40 years for buildings, 10-20 years for improvements other than buildings, and 3-20 years for equipment and library materials. The State Controller established useful lives guidelines for calculating depreciation. Agencies, however, may use different useful lives based on agency experience and supporting documentation. Depreciation is reported as a separate operating expense line in the *Statement of Revenues, Expenses, and Changes in Net Assets* and not allocated across other functional classifications.

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 State Colleges, must take into consideration any differences in the basis of accounting and other requirements for the preparation of such other presentations.

Classification of Revenue

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

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

Application of Restricted and Unrestricted Resources

The State Colleges System policy is to first apply an expense against restricted resources then towards unrestricted resources, when both restricted and unrestricted resources are available to pay an expense.

Financial Statement Presentation and Changes in Accounting Principles

In June 1999, GASB approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Government*. This was followed by the approval of Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The State of Colorado is required to implement GASB No. 34 as of and for the year ended June 30, 2002. As institutions of the State of Colorado, the State Colleges are also required to adopt GASB No. 34 and 35. The State College System has elected to follow the financial statement presentation guidelines for special-purpose governments engaged only in business-type activities as outlined in GASB No. 34. Those guidelines require the financial statements to be prepared using an entity-wide perspective. Therefore, the financial statements report the State Colleges System's assets, liabilities, and net assets, revenues, expenses and changes in net assets, and cash flows for the State Colleges System as a whole, rather than by fund, as previously required.

The State Colleges System was required to make the following significant changes in accounting principles to conform to GASB No. 34 and 35:

- Scholarship Allowances – Financial aid awarded to students by the Colleges that is used to pay College charges, such as tuition, fees, residence hall charges and board, is recognized as a scholarship allowance rather than as financial aid expense, as previously required. A scholarship allowance directly reduces the appropriate revenue. To the extent that financial aid awarded exceeds College charges to students, the Colleges recognize financial aid expense.
- Summer School Revenue and Expense – The State Colleges are required to recognize summer school revenue and expense as earned or incurred rather than deferring summer school revenue and expense and reporting the entire term in one fiscal year, as previously required. During FY2002, the State Colleges restated beginning net assets to reflect the cumulative effect of this change in accounting principle.
- Depreciation Expense – The State Colleges are required to record depreciation expense for capital assets. Previously depreciation expense was not recognized. During FY2002, the State Colleges restated beginning net assets to reflect the cumulative effect of this change in accounting principle.
- Acquisitions of Capital Assets and Payments of Debt Principal – Under the fund perspective, the State Colleges recognized an expenditure or fund deduction for the acquisition of capital assets and payment of debt principal. Under the entity-wide perspective, these items are not an expense against operations.

The provisions of GASB Statement Nos. 34 and 35 have been applied to the beginning net assets balance. The following is a reconciliation of the total fund balance previously reported as of June 30, 2001 to the total adjusted net assets balance:

Total Fund Balance at June 30, 2001	
As Previously Reported	\$ 213,574,409
Accrual of Summer School Activity	1,166,658
Decrease in Capital Asset Carrying Amounts	(607,636)
Deferral of Restricted Fund Revenue	(149,750)
Accumulated Depreciation	(64,021,412)
Cumulative Effect of Change in Accounting Principle	(63,612,140)
Net Assets at June 30, 2001 as Adjusted	<u>\$ 149,962,269</u>

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

Cash with the State Treasurer. At year-end June 30, 2002, the State Colleges had \$24,814,880 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

The State Colleges deposit cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Colleges report their share of the Treasurer's unrealized gains and losses based on their participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2002. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gains included in "Investment Income" reflect only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

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

Cash on Hand	\$ 157,708
Checking Accounts	2,176,746
Certificates of Deposit	<u>1,044,195</u>
	<u>\$3,378,649</u>

The bank balance was \$7,443,658. Of this bank balance, \$1,678,178 was insured by the Federal Deposit Insurance Corporation or collateralized with securities held by the Colleges' custodial agent in the State's name. \$5,765,480 was collateralized with securities held by the financial institution or the institution's agent in the name of the public deposit pool, as required by the Public Deposit Protection Act.

Investments. A summary of the State Colleges' investments at June 30, 2002, by risk category described below, is as follows:

	Risk Categories		Book Value	Market Value
	A	B		
U.S. Government Securities	\$0	\$190,634	\$190,634	\$190,634
Repurchase Agreements		44,231	44,231	44,231
Investments in Mutual Funds		309,580	<u>309,580</u>	<u>309,580</u>
Total Investments			<u>\$544,445</u>	<u>\$544,445</u>

Risk Category Descriptions:

- A- investments, which are insured, registered, or held by the State or its agent in the State's name.
- B- investments which are uninsured and held by the counter party's trust department or agent.

NOTE 3: ACCOUNTS AND LOANS RECEIVABLE

At June 30, 2002, accounts and loans receivable were as follows:

	<u>Adams</u>	<u>Mesa</u>	<u>MSCD</u>	<u>Western</u>	<u>OSC</u>	<u>WCGC</u>	<u>Total</u>
Student							
<u>Accts Receivable</u>	\$623,045	\$723,527	\$4,078,209	\$270,533	\$0	\$0	\$5,695,314
Less Allowance for Doubtful Accounts	<u>(177,526)</u>	<u>(334,581)</u>	<u>(1,116,881)</u>	<u>(101,007)</u>	<u>-</u>	<u>-</u>	<u>(1,729,995)</u>
Net Student Receivables	<u>445,519</u>	<u>388,946</u>	<u>2,961,328</u>	<u>169,526</u>	<u>0</u>	<u>0</u>	<u>3,965,319</u>
Other							
<u>Accts Receivable</u>	679,887	1,313,608	1,463,988	179,112	46,895	0	3,683,490
Less Allowance for Doubtful Accounts	<u>-</u>	<u>(9,448)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,448)</u>
Net Other Receivables	<u>679,887</u>	<u>1,304,160</u>	<u>1,463,988</u>	<u>179,112</u>	<u>46,895</u>	<u>0</u>	<u>3,674,042</u>
Student							
<u>Loans Receivable</u>	1,243,468	1,137,115	10,878,000	1,861,366	-	-	15,119,949
Less Allowance for Doubtful Accounts	<u>(131,338)</u>	<u>(87,419)</u>	<u>(1,178,483)</u>	<u>(513,995)</u>	<u>-</u>	<u>-</u>	<u>(1,911,235)</u>
Net Loans Receivable	<u>\$1,112,130</u>	<u>\$1,049,696</u>	<u>\$9,699,517</u>	<u>\$1,347,371</u>	<u>\$0</u>	<u>\$0</u>	<u>\$13,208,714</u>

NOTE 4: CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the year ended June 30, 2002.

	Balance June 30, 2001	Additions	Retirements	Balance June 30, 2002
Nondepreciable Capital Assets				
Land	\$2,022,883	\$0	\$0	\$2,022,883
Land Improvements	1,904,083	0	0	1,904,083
Construction in Progress	<u>20,283,804</u>	<u>15,659,163</u>	<u>(13,533,312)</u>	<u>22,409,655</u>
Total Nondepreciable Capital Assets	<u>24,210,770</u>	<u>15,659,163</u>	<u>(13,533,312)</u>	<u>26,336,621</u>
Depreciable Capital Assets				
Land Improvements	5,016,355	1,486,264	(28,951)	6,473,668
Buildings	158,960,291	14,483,535	(913,192)	172,530,634
Furniture & Equipment	16,190,390	2,358,577	(1,127,346)	17,421,621
Library Materials	<u>15,594,217</u>	<u>657,502</u>	<u>(28,529)</u>	<u>16,223,190</u>
Total Depreciable Capital Assets	195,761,253	18,985,878	(2,098,018)	212,649,113
Less: Accumulated Depreciation				
Land Improvements	1,882,399	295,521	(0)	2,177,920
Buildings	41,770,016	5,641,680	(0)	47,411,696
Furniture & Equipment	10,406,161	1,932,210	(911,285)	11,427,086
Library Materials	<u>9,962,836</u>	<u>717,237</u>	<u>(27,950)</u>	<u>10,652,123</u>
Total Accumulated Depreciation	<u>64,021,412</u>	<u>8,586,648</u>	<u>(939,235)</u>	<u>71,668,825</u>
Net Depreciable Capital Assets	<u>\$131,739,841</u>	<u>\$(10,399,230)</u>	<u>\$(1,158,783)</u>	<u>\$140,980,288</u>

NOTE 5: LEASE OBLIGATIONS**Adams State College**

A capital lease for Energy Conservation Equipment was entered into May 17, 1996 in the amount of \$1,144,242. This lease consisted of two purchase agreements. Phase I agreement requires monthly payments of \$4,527 for ten years with an interest rate of 6.75%. Phase II agreement, which went into effect July 1, 1999, requires monthly payments of \$8,612 for ten years with an interest rate of 6.75%.

Principal and interest requirements to maturity are as follows:

Year Ending June 30

2003	\$157,664
2004	157,664
2005	157,664
2006	157,664
2007	148,610
2008	<u>103,340</u>
Total principal and interest payments	882,606
Less amount representing interest	<u>(150,415)</u>
Principal outstanding	<u>\$ 732,191</u>

Mesa State College

Mesa State College leases phone system equipment under a capital lease through October 1, 2004, at which time the title will be transferred to Mesa State College. MSC also leases student ID equipment and an automated parking attendant machine under a capital lease through August 10, 2005, at which time the title will be transferred to the College. The leases can be terminated due to lack of funding with 30 days written notice, and the College has an option to purchase at any time during the lease. Future minimum lease payments are as follows:

Year Ending June 30

2003	\$103,216
2004	103,216
2005	61,567
2006	<u>19,919</u>
Total principal & interest payments	287,919
Less amount representing interest	<u>(25,721)</u>
Principal outstanding	<u>262,198</u>

Metropolitan State College of Denver

MSCD leases building space and equipment under operating lease agreements. Rental expense for the year ended June 30, 2002 under these agreements was \$690,758. Minimum future rentals (excluding contingent rentals) required by the above agreements are as follows:

Year Ending June 30

2003	\$510,024
2004	413,651
2005	167,985
2006	<u>34,659</u>
Total	<u>\$1,126,319</u>

MSCD has a sub-lease rental agreement for one more year totaling \$66,530. Payments made in FY 2002 totaled \$95,441.

Western State College

A capital lease for an Energy Management System was entered into December 16, 1996 in the amount of \$3,335,000, which requires semi-annual payments of \$223,100 for ten year and includes interest at 5.897%. Title to the equipment passed to the College at the beginning of the lease term. Principal and interest requirements to maturity on both leases are as follows:

Year Ending June 30

2003	\$446,200
2004	446,200
2005	446,200
2006	446,200
2007	<u>223,100</u>
Total principal & interest payments	2,007,900
Less amount representing interest	<u>(266,646)</u>
Principal outstanding	<u>\$1,741,254</u>

Office of State Colleges

OSC has an operating lease agreement to rent office space at 1580 Lincoln, Suite 750, Denver through August 31, 2003 with monthly payments varying between \$6,233 and \$7,452 per month. Following is a schedule of future minimum lease payments.

Year Ending June 30

2003	\$88,542
2004	<u>14,904</u>
Net minimum lease payments	<u>\$103,446</u>

In addition to the net minimum lease payment listed above, there is a variable expense component that is paid.

NOTE 6: REVENUE BONDS PAYABLE**Adams State College**

The Series A 1994 Enterprise Revenue Bonds have annual maturities through 2006, and then the bonds will mature in 2009, 2014, and 2019. Interest rates vary from 3.30% to 5.75% with an average rate of 5.55%. The bonds are collateralized by first lien on all net revenues of the Auxiliary Facilities System, which consists of all dormitories, the cafeteria, apartment buildings, and the college center. Also, the Series A 1994 Bonds are insured through the Municipal Bond Investors Assurance Corporation (MBIA).

Under the terms of the bond resolution cash, or a qualified surety bond or a combination of both in the amount of \$1,182,180 may maintain the Debt Service Reserve Requirement. The College fulfilled this requirement with the purchase of a Debt Service Reserve Surety Bond in the amount of \$1,182,180 issued through the MBIA.

Under the terms of the bond resolution the Repair and Replacement Reserve Requirement was to start with an initial amount of \$200,000 with deposits in the amount of not less than \$25,000 each year from 1995 through 1998, or until a reserve of \$300,000 was met. As of June 30, 2002, the College had a Repair and Replacement Reserve balance of \$417,678. Principal and interest requirements to maturity are as follows:

Year Ending June 30

2003	\$1,010,553
2004	931,803
2005	940,383
2006	936,982
2007	862,072
2008-2012	4,314,413
2013-2017	4,322,712
2018-2019	<u>1,728,575</u>
Total Principal and Interest	15,047,493
Less: Interest	<u>(5,462,493)</u>
Total Principal Outstanding	9,585,000
Less: unamortized discount and issue cost	<u>(141,787)</u>
Bonds Payable	<u>\$9,443,213</u>

Mesa State College

Mesa Auxiliary Facilities Revenue Bonds, Series B 1994, require annual debt service payments ranging from \$586,913 to \$830,756, including interest at 4.6% to 5.75%. Final payments are due November, 2019. The bonds are secured by a first lien on and pledge of certain net revenues of the Mesa Auxiliary Facilities System. A \$300,000 renewal and replacement reserve fund is maintained, as required by the bond resolution. Bonds maturing in 2004 are callable at a premium of 1% and bonds maturing in 2005 at .5%. Bonds maturing in 2006 and thereafter are subject to mandatory sinking fund redemption without premium.

Mesa Auxiliary Facilities Revenue Bonds, Series A 1996, require annual debt service payments ranging from \$508,200 to \$514,115, including interest at 4.65% to 6.0%. Final payments are due in May of 2016. The bonds are secured by a first lien on and pledge of certain net revenues of the Mesa Auxiliary Facilities System. A \$25,000 renewal and replacement reserve fund is maintained, as required by the bond resolution. Bonds maturing in 2011 and thereafter are subject to mandatory sinking fund redemption without premium.

The following is a schedule of future minimum bond payments as of June 30, 2002:

<u>Year Ending June 30</u>	<u>Auxiliary Facilities System</u>	
	<u>Revenue Bonds</u>	
	<u>1994B</u>	<u>1996A</u>
2003	\$823,705	\$517,490
2004	827,205	515,250
2005	824,000	510,250
2006	604,300	509,650
2007	603,900	508,150
2008-2012	3,039,705	2,534,988
2013-2017	3,010,500	2,025,844
2018-2022	<u>1,174,013</u>	<u>0</u>
Total Principal and Interest	10,907,328	7,121,621
Less: Interest	<u>(3,837,328)</u>	<u>(2,336,621)</u>
Total Principal Outstanding	7,070,000	4,785,000
Less: unamortized discount and issue cost	<u>(103,831)</u>	<u>(16,381)</u>
Bonds Payable	<u>\$6,966,169</u>	<u>\$4,768,619</u>

Western State College

On March 31, 1994 the College issued \$14,145,000, Series C 1994, in Student Housing Revenue Bonds with an average interest rate of 5.458%. The 1994 bonds require interest only payments until May 15, 1996 when the bonds begin to mature in increasing amounts through May 15, 2015. Interest rates may vary from 4.000% on bonds maturing May 15, 1996 to 5.625% on all bonds maturing after May 15, 2009. The bonds are collateralized by a first lien on and pledge of all revenues of the Auxiliary Facilities System.

Debt Service Reserve Requirement - Under the terms of the bond agreement the College is required to maintain in a Debt Service Reserve Fund an amount equal to the lesser of (1) the combined maximum annual principal and interest payments on all bonds outstanding, (2) the combined average annual principal and interest payments on all bonds outstanding, or (3) ten percent of the original principal amount of each issue outstanding. A surety bond obtained at bond closing satisfies the initial debt service reserve requirement of \$1,220,812.

A summary of the amounts recorded in net assets for the purpose of meeting the bond payments and satisfying the terms of the bond agreement as of June 30, 2002 is as follows:

Retirement of Indebtedness	<u>\$471,266</u>
Renewal and Replacement	<u>\$1,032,569</u>

Principal and interest requirements to maturity are as follows:

<u>Year Ending June 30</u>	
2003	\$1,216,279
2004	1,210,779
2005	1,213,394
2006	1,212,549
2007	1,214,831
2008-2012	6,078,881
2013-2015	<u>3,638,781</u>
Total Principal and Interest	15,785,494
Less: Interest	<u>(4,760,494)</u>
Bonds Payable	<u>\$11,025,000</u>

NOTE 7: EXTINGUISHMENT OF DEBT

Adams State College

In 1991, Adams defeased its outstanding Series 1972, Adams State College Center Revenue Bonds totaling \$1,345,000, with an average interest rate of 5.6% by placing the proceeds of certificates of participation, Series 1991 in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the College's financial statements. As of June 30, 2002, \$145,000 of the bonds outstanding is considered economically defeased. In 1994, Adams State College defeased its Certificates of Participation, Series 1991 totaling \$925,000, with an average interest rate of 7.16% by placing a portion on the proceeds of the Adams Auxiliary Facilities System-Enterprise Revenue Bonds, Series A 1994, in a Certificate Escrow Fund. An Escrow Agent in accordance with the terms of the Series maintains this Escrow Fund A Resolution and the Certificate Escrow Agreement. This Escrow Agreement provides for the full and timely payment of all future debt service payments on the Certificates of Participation. Accordingly, the Escrow Fund assets and the liability of the defeased Certificates of Participation are not included in the College's financial statements. On June 30, 2002 \$115,000 of the Certificates of Participation outstanding are considered economically defeased.

Western State College

In Fiscal Year 1994, the College defeased 1992 series bonds by placing the proceeds of the 1994 series plus a portion of the 1992 series debt service reserve funds in an irrevocable trust to provide for all future debt service payments on the 1992 bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2002, \$10,400,000 of bonds outstanding is considered defeased.

NOTE 8: COLLEGE FOUNDATIONS

Foundations in the State Colleges System are unconsolidated nonprofit corporations formed to provide financial assistance to college students and to otherwise assist the colleges in serving educational needs.

The foundations engage in activities that may be beyond the scope of the Board of Trustees. Their financial records are maintained separately from the Colleges' financial accounting systems. As of June 30, 2002, the

foundations' condensed, unaudited balance sheets and statements of revenues and expenses for Adams, Mesa and Western are shown below. Metropolitan State College does not have access to FY 2002 figures at this time.

	<u>Adams - 2002</u>	<u>Mesa - 2002</u>	<u>MSCD - 2001</u>	<u>Western - 2002</u>
Assets	\$7,519,485	\$9,327,655	\$7,956,718	\$7,627,787
Liabilities		<u>1,166,120</u>	<u>153,652</u>	<u>1,265</u>
Fund Balance	<u>7,519,485</u>	<u>8,161,535</u>	<u>7,803,066</u>	<u>7,626,522</u>
Revenue	335,861	809,513	3,103,302	2,109,127
Expenses	(748,671)	(1,792,725)	2,619,447	(1,736,231)
Unrealized Appreciation/ Loss on Investments	(479,275)	835,871	(435,835)	<u>0</u>
Change in Fund Balance	<u>(\$892,085)</u>	<u>(\$147,341)</u>	<u>\$48,020</u>	<u>\$372,896</u>

During the year ended June 30, 2002 Adams State College received funds totaling \$537,260 from the Foundation for special projects, library materials, scholarships and grants-in-aid.

Under a memorandum of understanding between Mesa State College and the Mesa State College Foundation, the College is to grant and manage student loans made from designated Foundation funds. The College absorbs any associated costs in excess of loan interest collections, including loan write-offs and administrative expenses. Student loan fund assets at June 30, 2002, consisting primarily of loans receivable, are held by the College and represent a payable to the Foundation of \$50,000.

NOTE 9: CONTINGENT LIABILITIES

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

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

NOTE 10: COMPENSATED ABSENCES FOR ANNUAL AND SICK LEAVE

Employees may accrue annual and sick leave based on length of service and subject to certain limitations regarding the amount, which will be paid upon termination. Estimated costs of compensated absences for which employees are vested for the year ended June 30, 2002 is estimated at \$4,296,586. Current expenses include an increase of \$339,801 for the estimated compensated absence liability. Recording the liability may result in net asset deficits, which will be funded by state appropriation, federal funds, or other fund sources available in future years when the liability is paid.

NOTE 11: PENSION PLAN OBLIGATION

A. Optional Retirement Plan Description

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

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

Contributions to the ORP are similar to PERA contributions for covered payroll. The State College System contributions to the ORP for the fiscal years ending June 30, 2002, 2001, and 2000 were \$4,560,856, \$4,226,420 and \$3,838,546 respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately vested in the employee's account. "Normal Retirement Age" for the ORP has been established as 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 State Colleges elected to continue as members with the Public Employee's Retirement Association of Colorado (PERA); the remainder participate in the ORP.

B. PERA Plan Description

The PERA Plan's purpose is to provide income to members and their families at retirement or in the case of death or disability. The Plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the Plan is placed with the Board of Trustees of PERA. Changes to the Plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, is included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203.

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

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

PERA Plan Funding Policy

Most employees contribute 8 percent of their gross covered wages to an individual account in the plan. During the fiscal year ended June 30, 2002, the State Colleges System contributed 9.9 percent of the employees' gross wages. The state contribution was allocated to three separate programs by PERA according to statutory funding policy:

- Before January 1, 2002, 1.42 percent was allocated to the Health Care Trust Fund. After January 1, 2002, 1.64 percent was allocated to the Health Care Trust Fund.
- Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 12 below).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The State College System contributions to the three programs described above for the fiscal years ending June 30, 2002, 2001, and 2000, were \$5,310,874, \$5,235,335, and \$5,809,203 respectively. These contributions met the contribution requirement for each year.

C. Student Retirement Plan

Beginning in fiscal year 1993, in accordance with the provision of Section 24-54.6-101, Colorado Revised Statutes (C.R.S.), and as provided in Section 403 (b) of the Internal Revenue Code, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees not currently attending classes are required to participate. The plan requires a 7.5 percent contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan, for the State College System was \$945,826. Employee contributions were 7.5 percent of covered payroll.

NOTE 12: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning January 1, 2001, the Matchmaker program established a state match for PERA members' voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401 (k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer a 403 (b) plan. Members who contribute to any of these plans also receive the state match.

NOTE 13: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Care (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During the fiscal year 2002, the subsidy was \$115.00 for those with 20 years of service credit and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects the premium subsidy.

**SUPPLEMENTAL INFORMATION
COMBINING FINANCIAL STATEMENTS**



STATE COLLEGES IN COLORADO

Combining Statement of Net Assets

June 30, 2002

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
ASSETS							
<u>Current Assets</u>							
Cash & Cash Equivalents	\$5,422,006	\$4,086,347	\$12,933,914	\$2,713,710	\$1,884,095	\$34,872	\$27,074,944
Short-term Investments				353,811			353,811
Student Accounts Receivable, Net	445,519	388,946	2,961,328	169,526			3,965,319
Other Accounts Receivable, Net	679,887	1,304,160	1,463,988	179,112	46,895		3,674,042
Student Loans Receivable, Net	169,491	507,935	1,286,764	281,669			2,245,859
Inventories	453,626	438,696		332,652			1,224,974
Prepaid Expenses	2,652	54,386	54,229	760	13,398		125,425
Other Current Assets	4,500	3,938					8,438
Total Current Assets	7,177,681	6,784,408	18,700,223	4,031,240	1,944,388	34,872	38,672,812
<u>Non-current Assets</u>							
Restricted Cash & Cash Equivalents	328,250			790,335			1,118,585
Student Loans Receivable, Net	942,639	541,761	8,412,753	1,065,702			10,962,855
Long-term Investments			190,634				190,634
Deferred Charges	145,015						145,015
Other Non-current Assets		180,448					180,448
Non-depreciable Capital Assets							
Land	170,210	1,157,257		695,416			2,022,883
Land Improvements				1,904,083			1,904,083
Construction in Progress							22,409,655
Total Non-depreciable Capital Assets	8,581,011	13,828,644	0	2,599,499	0	0	26,336,621
Depreciable Capital Assets, Net							
Land Improvements (less accumulated depreciation of \$2,177,920)	3,561,359	734,389					4,295,748
Buildings & Improvements (less accumulated depreciation of \$47,411,696)	44,061,638	37,649,831		43,407,469			125,118,938
Furniture & Equipment (less accumulated depreciation of \$11,427,087)	1,563,443	1,404,441	2,741,041	282,976	1,375	1,259	5,994,535
Library Materials (less accumulated depreciation of \$10,652,123)	829,379	3,946,355		795,333			5,571,067
Total Depreciable Capital Assets, Net	50,015,819	43,735,016	2,741,041	44,485,778	1,375	1,259	140,980,288
Total Non-current Assets	60,182,944	59,443,126	11,344,428	48,941,314	1,375	1,259	179,914,446
Total Assets	67,360,625	66,227,534	30,044,651	52,972,554	1,945,763	36,131	218,587,258

STATE COLLEGES IN COLORADO

Combining Statement of Net Assets

June 30, 2002

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
LIABILITIES							
<u>Current Liabilities</u>							
Accounts Payable	562,876	166,781	31,355	316,965	38,393	22,601	1,138,971
Accrued Liabilities	1,088,040	538,735	2,127,609	428,410			4,182,794
Deferred Revenue	280,908	424,827	2,488,605	370,873			3,565,213
Deposits Held for Others	409,814	107,654	2,611,368				3,128,836
Student Deposits		161,343	127,836	153,341			442,520
Bonds Payable, Current Portion	475,000	670,000		610,000			1,755,000
Capital Leases Payable, Current Portion	111,653	90,008		348,580			550,241
Notes Payable, Current Portion	11,960						11,960
Compensated Absence Liabilities	83,133	45,260	149,283	50,426	12,651		340,753
Other Current Liabilities			344,787				344,787
Total Current Liabilities	3,023,384	2,204,608	7,880,843	2,278,595	51,044	22,601	15,461,075
<u>Non-current Liabilities</u>							
Bonds Payable	8,968,213	11,064,788		10,415,000			30,448,001
Capital Leases Payable	620,538	172,189		1,392,674			2,185,401
Notes Payable	64,460						64,460
Other L/T Liabilities		50,000					50,000
Compensated Absence Liabilities	640,022	793,294	1,942,278	518,686	49,282	12,271	3,955,833
Total Non-current Liabilities	10,293,233	12,080,271	1,942,278	12,326,360	49,282	12,271	36,703,695
Total Liabilities	13,316,617	14,284,879	9,823,121	14,604,955	100,326	34,872	52,164,770
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	48,515,216	46,722,932	3,894,688	35,822,859	1,375	1,259	134,958,329
Restricted for:							
Non-expendable Endowments	28,250						28,250
Expendable							
Endowments	29,088						29,088
Loans	1,275,022	999,696	10,021,142	1,743,992			14,039,852
Capital Projects	300,000			400,000			700,000
Other Purposes	83,137	125,328					208,465
Unrestricted	3,813,295	4,094,699	6,305,700	400,748	1,844,062		16,458,504
Total Net Assets	\$54,044,008	\$51,942,655	\$20,221,530	\$38,367,599	\$1,845,437	\$1,259	\$166,422,488

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

STATE COLLEGES IN COLORADO

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
REVENUES							
Operating Revenues:							
Tuition and Fees (including \$1,438,495 of revenues pledged for bonds and net of scholarship allowances of \$20,638,141)	\$4,590,118	\$7,898,783	\$31,139,591	\$7,104,552	\$0	\$0	\$50,733,044
Federal, State, Private Grants and Contracts	8,586,056	5,511,216	25,763,089	3,940,542			43,800,903
Gifts		194,319					194,319
Auxiliary Enterprises (including \$21,341,346 of revenues pledged for bonds and net of scholarship allowances of \$1,523,638)	5,885,344	7,834,187	2,958,250	6,745,008			23,422,789
Other Operating Revenues (including \$190,810 of revenues pledged for bonds)	477,840	304,280	2,222,625	742,978			3,747,723
Total Operating Revenues	19,539,358	21,742,785	62,083,555	18,533,080	0	0	121,898,778
EXPENSES							
Operating Expenses:							
Instruction	9,502,488	15,643,741	44,326,651	7,526,343			76,999,223
Research		137,780		125,609			263,389
Public Service	29,569	14,358	500,715	495			545,137
Academic Support	1,682,443	2,656,186	9,934,967	1,032,319			15,305,915
Student Services	3,811,673	2,689,340	10,537,344	3,927,414			20,965,771
Institutional Support	2,353,243	1,933,917	9,285,491	1,908,850	1,222,172	128,889	16,832,562
Operation and Maintenance of Plant	2,169,824	2,999,285	6,569,347	2,962,979	89,651		14,791,086
Scholarships and Fellowships	2,062,145	2,247,683	6,211,599	962,359			11,483,786
Auxiliary Enterprises	8,044,721	9,505,164	14,248,153	5,922,404			37,720,442
Depreciation	2,491,063	2,699,419	640,888	2,749,371	3,786	2,121	8,586,648
Total Operating Expenses	32,147,169	40,526,873	102,255,155	27,118,143	1,315,609	131,010	203,493,959
Operating Income (Loss)	(12,607,811)	(18,784,088)	(40,171,600)	(8,585,063)	(1,315,609)	(131,010)	(81,595,181)
NONOPERATING REVENUES (EXPENSES)							
State Appropriations	10,027,697	18,499,163	41,208,778	6,196,187	1,013,584	120,000	77,065,409
Gifts		518,466					518,466
Investment and Interest Income (including \$160,014 of revenues pledged for bonds)		328,410	222,951	181,661	1,243,635		2,205,541
Interest Expense on Capital Debt							(2,004,024)
Other Nonoperating Revenues							(416,693)
Net Nonoperating Revenues (Expenses)	9,636,375	18,600,453	41,778,105	4,976,547	2,257,219	120,000	77,368,699
Income (loss) before other revenues or expenses	(2,971,436)	(183,635)	1,606,505	(3,608,516)	941,610	(11,010)	(4,226,482)

STATE COLLEGES IN COLORADO

Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2002

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Other Revenues, Expenses, Gains, Losses, or Transfers:							
State Appropriations, Capital	6,824,966	8,667,171		5,564,924			21,057,061
Gain or Loss on Disposal of Assets	(13,879)			(10,460)			(24,339)
Transfers (To)/From Governing Boards or Other Institutions	120,005	172,151	439,413	452,219	(1,536,151)	6,342	(346,021)
Increase (Decrease) in Net Assets	<u>3,959,656</u>	<u>8,655,687</u>	<u>2,045,918</u>	<u>2,398,167</u>	<u>(594,541)</u>	<u>(4,668)</u>	<u>16,460,219</u>
NET ASSETS							
Net Assets - Beginning of Year, As Originally Reported	69,149,338	63,620,003	21,965,361	56,368,145	2,457,532	14,030	213,574,409
Cumulative Effect of Change in Accounting Principle	(19,064,986)	(20,333,035)	(3,789,749)	(20,398,713)	(17,554)	(8,103)	(63,612,140)
Net Assets - Beginning of Year, Restated	<u>50,084,352</u>	<u>43,286,968</u>	<u>18,175,612</u>	<u>35,969,432</u>	<u>2,439,978</u>	<u>5,927</u>	<u>149,962,269</u>
Net Assets - End of Year	<u>\$54,044,008</u>	<u>\$51,942,655</u>	<u>\$20,221,530</u>	<u>\$38,367,599</u>	<u>\$1,845,437</u>	<u>\$1,259</u>	<u>\$166,422,488</u>

STATE COLLEGES IN COLORADO

Combining Statement of Cash Flows

Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received:

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Tuition and Fees	\$4,511,316	\$13,013,066	\$29,997,345	\$7,098,965	\$0	\$0	\$54,620,692
Sales of Service	4,154,697	5,645,281	3,169,747	5,440,002			18,409,727
Sales of Product	1,385,361	2,500,674		1,250,884			5,136,919
Grants, Contracts and Gifts	8,380,613	5,393,151	26,025,618	3,879,281			43,678,663
Student Loans Collected	168,324	192,582	1,713,755	440,950			2,515,611
Other Operating Receipts	334,115	304,280	2,333,020	554,158			3,525,573

Cash Payments:

Payments to or for Employees	(17,755,114)	(25,105,911)	(63,927,968)	(14,402,595)	(1,035,097)	(99,343)	(122,326,028)
Payments to Suppliers	(9,573,875)	(10,502,654)	(29,859,097)	(8,975,973)	(542,420)	(14,377)	(59,468,396)
Scholarships Disbursed	(2,347,079)	(7,659,715)	(6,653,390)	(964,132)			(17,624,316)
Student Loans Disbursed	(152,788)	(188,860)	(1,978,888)	(155,332)			(2,475,868)
Other Operating Payments		(75,851)					(75,851)
Net cash provided (used) by operating activities	(10,894,430)	(16,483,957)	(39,179,858)	(5,833,792)	(1,577,517)	(113,720)	(74,083,274)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

State Appropriations, Non-capital	10,027,697	18,621,772	41,208,778	6,196,187	1,013,584	120,000	77,188,018
Gifts/Grants for Other than Capital Purposes		619,345					619,345
Direct Lending Inflows			33,262,141				33,262,141
Direct Lending (Outflows)			(33,282,084)				(33,282,084)
Other Agency Inflows	27,512	13,597,418	3,990,184				17,615,114
Other Agency (Outflows)		(13,327,751)	(3,778,074)				(17,105,825)
Transfers from (to) Other Campuses, Board, or Institution	120,005	172,151	439,414	(145,353)	(1,536,151)	6,342	(943,592)
Net cash provided (used) by non-capital financing activities	10,175,214	19,682,935	41,840,359	6,050,834	(522,567)	126,342	77,353,117

CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES

State Appropriations, Capital	6,824,966	8,544,562		5,564,924			20,934,452
Capital Grants, Contracts and Gifts		1,164					1,164
Acquisition and Construction of Capital Assets	(5,703,432)	(9,497,010)	(1,385,895)	(4,151,948)			(20,738,285)
Principal Paid on Capital Debt	(567,965)	(725,245)		(908,899)			(2,202,109)
Interest on Capital Debt	(606,626)	(728,047)		(751,855)			(2,086,528)
Net cash provided (used) by capital & related financing activities	(53,057)	(2,404,576)	(1,385,895)	(247,778)	0	0	(4,091,306)

STATE COLLEGES IN COLORADO

Combining Statement of Cash Flows

Year Ended June 30, 2002

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sale & Maturities of Investments

Investment Earnings (Interest/Dividends)

Purchase of Investments

Net cash provided (used) by investing activities

Net Increase (Decrease) in Cash & Cash Equivalents

Cash & Cash Equivalents - Beginning of the Year

Cash & Cash Equivalents - End of the Year

Reconciliation of operating income to net cash

provided (used) by operating activities:

Operating income (loss)

Adjustments to reconcile:

Depreciation expense

Provision for uncollectible accounts

Decrease (increase) in assets

Increase (decrease) in liabilities

Other reconciling items

Net cash provided (used) by operating activities

	Adams	Mesa	MSCD	Western	OSC	WCGC	Total
Proceeds from Sale & Maturities of Investments	228,883	328,141	261,523	265,547	1,243,635		265,547
Investment Earnings (Interest/Dividends)				182,167			2,244,349
Purchase of Investments				(46,094)			(46,094)
Net cash provided (used) by investing activities	228,883	328,141	261,523	401,620	1,243,635	0	2,463,802
Net Increase (Decrease) in Cash & Cash Equivalents	(543,390)	1,122,543	1,536,129	370,884	(856,449)	12,622	1,642,339
Cash & Cash Equivalents - Beginning of the Year	6,293,646	2,963,804	11,397,785	3,133,161	2,740,544	22,250	26,551,190
Cash & Cash Equivalents - End of the Year	\$5,750,256	\$4,086,347	\$12,933,914	\$3,504,045	\$1,884,095	\$34,872	\$28,193,529
Reconciliation of operating income to net cash provided (used) by operating activities:							
Operating income (loss)	(\$12,607,811)	(\$18,784,088)	(\$40,171,600)	(\$8,585,063)	(\$1,315,609)	(\$131,010)	(\$81,595,181)
Adjustments to reconcile:							
Depreciation expense	2,487,164	2,699,419	640,888	2,749,371	3,786	2,121	8,582,749
Provision for uncollectible accounts			805,733	(8,243)			797,490
Decrease (increase) in assets	(487,501)	(138,814)	(311,159)	445,577	(28,980)	12,747	(508,130)
Increase (decrease) in liabilities	(621,022)	(154,444)	(847,600)	(197,350)	(236,714)	2,422	(2,054,708)
Other reconciling items	334,740	(106,030)	703,880	(238,084)			694,506
Net cash provided (used) by operating activities	(\$10,894,430)	(\$16,483,957)	(\$39,179,858)	(\$5,833,792)	(\$1,577,517)	(\$113,720)	(\$74,083,274)

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

**Schedule of Revenues and Expenses
for Enterprise Revenue Bonds
Adams, Mesa and Western State Colleges
For Year Ended June 30, 2002**

	<u>Adams</u>	<u>Mesa</u>	<u>Western</u>
Revenue			
College Service Fees	\$564,292	\$1,002,166	\$874,203
Rental Income	3,120,053	2,833,545	3,276,319
Food Service Income	1,463,662	1,864,877	1,869,538
Sales/Service Auxiliaries	1,425,661	3,453,791	2,072,207
Interest Income	38,232	171,402	121,781
Other Income	131,604	1,416	
Total Revenue	6,743,504	9,327,197	8,214,048
Expenses			
Employee Compensation	1,374,108	1,375,181	811,298
Costs of Goods	904,101	1,913,805	848,920
Utilities	369,914	440,254	503,070
Rental	181,607	325,237	7,498
Contract Food	831,508	1,237,367	1,170,787
Travel	18,459	14,808	10,647
Supplies	151,026	449,711	201,581
Other Operating Expenses	329,835	290,439	397,980
Purchased Services	9,278	60,605	149,004
Financial Aid	276,105	157,496	74,995
Administrative Cost	566,543	838,614	1,564,152
Furniture & Equipment	51,298	76,880	28,388
Other Capital Expenditures	124,254	5,917	
Other Expenses	82,694		53,261
Total Expenses	5,270,730	7,186,314	5,821,581
Net Revenue Before Transfers	1,472,774	2,140,883	2,392,467
Transfers			
Mandatory Transfers - Debt Service	1,101,878	1,355,262	1,209,396
Nomandatory Transfers	141,707	307,340	1,134,022
Total Transfers	1,243,585	1,662,602	2,343,418
Net Revenue	\$229,189	\$478,281	\$49,049



STATE OF COLORADO

STATE AUDITOR'S OFFICE

(303) 869-2800
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JOANNE HILLI, C.P.A.
State Auditor

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

November 24, 2002

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the basic financial statements of the State Colleges in Colorado, an institution of the State of Colorado, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 24, 2002. Our report contained an explanatory paragraph discussing that the State Colleges in Colorado implemented a new financial reporting model as required by the provisions of the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State Colleges in Colorado's internal control over financial reporting. This was done to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited

may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal controls over financial reporting that we have reported in the Findings and Recommendations section of this report.

Joanne Hill



STATE OF COLORADO

JOANNE HILL, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
(303) 869-2800
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Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

November 24, 2002

Members of the Legislative Audit Committee:

We have audited the financial statements of the State Colleges in Colorado for the year ended June 30, 2002, and have issued our report thereon dated November 24, 2002. As required by professional auditing standards, we are providing you with information related to our audit.

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

Our responsibility under professional standards is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the nature of audit evidence, we did not perform a detailed examination of all transactions. Consequently, there is a risk that misstatements, whether caused by error or fraud, that are not material to the financial statements may exist.

As part of our audit, we considered the internal controls of the State Colleges in determining our audit procedures. However, this consideration was not sufficient enough to render an opinion on the effectiveness of internal controls

Significant Accounting Policies

The State Colleges' significant accounting policies are described in the notes to the financial statements. New accounting policies were adopted during Fiscal Year 2002 to comply with the issuance of additional Governmental Accounting Standards Board pronouncements as explained in Note 1 to the financial statements. The new accounting policies resulted in changes in the format and content of the financial statements.

Management Judgments and Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We noted 12 misstatements of financial statement balances totaling \$1,649,102 during our audit. No audit adjustments were made because management determined these misstatements not to be material to the financial statements. We concur the adjustments are not significant.

Difficulties or Disagreements Encountered During the Audit

We encountered no difficulties in performing our audit and had no disagreements with management related to matters that are significant to the State Colleges' Fiscal Year 2002 financial statements.

A handwritten signature in cursive script, reading "Joanne Hill". The signature is written in dark ink and is positioned to the right of the "Difficulties or Disagreements Encountered During the Audit" section.

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

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STATE OF COLORADO

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State Auditor

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200 East 14th Avenue
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November 24, 2002

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

Members of the Legislative Audit Committee:

We have audited the accompanying Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for each of the State Colleges in Colorado (Adams State College, Mesa State College, Metropolitan State College of Denver, and Western State College) for the year ended June 30, 2002. These financial statements are the responsibility of the Colleges' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The statements were prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2002 revision. The statements are a summary of cash activity of the state-funded student financial assistance programs with the exception of the College Work-Study Program and the Perkins Loan Program, and do not present certain transactions that would be included in the statements of the state-funded student financial assistance programs if presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statements are not intended to present the financial position or changes in financial position of the State Colleges in Colorado, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly the appropriations, expenditures, transfers, and reversions of the state-funded student assistance programs of the State Colleges in Colorado (Adams State College, Mesa State College, Metropolitan State College of Denver, and Western State College) for the year ended June 30, 2002, in conformity with the provisions of the Colorado Commission on Higher Education's *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2002 on our consideration of the State Colleges in Colorado's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Joanne Hill

STATE OF COLORADO
ADAMS STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS
EXPENDITURES AND REVERSIONS
YEAR ENDED JUNE 30, 2002

	TOTAL STATE-FUNDED STUDENT ASSISTANCE	PART-TIME STUDENT GRANTS	STUDENT INCENTIVE GRANTS	STUDENT GRANT PROGRAM	WORK STUDY PROGRAM	GRADUATE GRANT PROGRAM	DIVERSITY GRANT PROGRAM	UNDER-GRAD MERIT PROGRAM	PERKINS LOAN MATCH	GOVERNOR'S OPPORTUNITY SCHOLARSHIP
APPROPRIATIONS:										
ORIGINAL	\$1,734,793	\$0	\$215,253	\$801,832	\$377,696	\$0	\$0	\$220,000	\$838	\$119,174
SUPPLEMENTAL	18,542									18,542
TRANSFERS	0		(3,000)							3,000
TOTAL	1,753,335	0	212,253	801,832	377,696	0	0	220,000	838	140,716
EXPENDITURES	1,753,335	0	212,253	801,832	377,696	0	0	220,000	838	140,716
REVERSIONS TO STATE										
GENERAL FUND	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

STATE OF COLORADO
MESA STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS
EXPENDITURES AND REVERSIONS
YEAR ENDED JUNE 30, 2002

APPROPRIATIONS:	TOTAL STATE-FUNDED STUDENT ASSISTANCE	PART-TIME STUDENT GRANTS	STUDENT INCENTIVE GRANTS	STUDENT GRANT PROGRAM	WORK STUDY PROGRAM	COLORADO NURSING PROGRAM	DIVERSITY GRANT PROGRAM	UNDER-GRAD MERIT PROGRAM	PERKINS LOAN MATCH	GOVERNOR'S OPPORTUNITY SCHOLARSHIP
ORIGINAL	\$2,602,716		\$88,908	\$1,343,409	\$587,890	\$19,108		\$368,032	\$7,369	\$188,000
SUPPLEMENTAL	56,000		(3,000)							59,000
TRANSFERS	(2,579)					(2,579)				
TOTAL	2,656,137	0	85,908	1,343,409	587,890	16,529	0	368,032	7,369	247,000
EXPENDITURES	2,655,109	0	85,908	1,343,409	586,862	16,529	0	368,032	7,369	247,000
REVERSIONS TO STATE										
GENERAL FUND	\$1,028	\$0	\$0	\$0	\$1,028	\$0	\$0	\$0	\$0	\$0

STATE OF COLORADO
METROPOLITAN STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS
EXPENDITURES AND REVERSIONS
YEAR ENDED JUNE 30, 2002

	TOTAL STATE-FUNDED STUDENT ASSISTANCE	PART-TIME STUDENT GRANTS	STUDENT INCENTIVE GRANTS	STUDENT GRANT PROGRAM	WORK STUDY PROGRAM	GRADUATE GRANT PROGRAM	DIVERSITY GRANT PROGRAM	UNDER-GRAD MERIT PROGRAM	PERKINS LOAN MATCH	GOVERNOR'S OPPORTUNITY SCHOLARSHIP	COLORADO NURSING SCHOLARSHIP
APPROPRIATIONS:											
ORIGINAL	\$7,542,801		\$230,486	\$3,913,167	\$1,857,165	\$0	\$0	\$1,218,930	\$58,293	\$264,760	\$0
SUPPLEMENTAL	4,815		(3,000)							7,815	
TRANSFERS	0			(647,000)			647,000				
TOTAL	7,547,616	0	227,486	3,266,167	1,857,165	0	647,000	1,218,930	58,293	272,575	0
EXPENDITURES	7,547,616	0	227,486	3,266,167	1,857,165	0	647,000	1,218,930	58,293	272,575	0
REVERSIONS TO STATE											
GENERAL FUND	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

STATE OF COLORADO
WESTERN STATE COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS
EXPENDITURES AND REVERSIONS
YEAR ENDED JUNE 30, 2002

APPROPRIATIONS: ORIGINAL SUPPLEMENTAL TRANSFERS	TOTAL STATE-FUNDED STUDENT ASSISTANCE	PART-TIME STUDENT GRANTS	STUDENT INCENTIVE GRANTS	STUDENT GRANT PROGRAM	WORK STUDY PROGRAM	GRADUATE GRANT PROGRAM	DIVERSITY GRANT PROGRAM	UNDER-GRAD MERIT PROGRAM	PERKINS LOAN MATCH	GOVERNOR'S OPPORTUNITY SCHOLARSHIP
	\$995,637	\$0	\$47,942	\$442,078	\$225,569	\$0	\$0	\$280,048	\$0	\$0
TOTAL	995,637	0	47,942	442,078	225,569	0	0	280,048	0	0
EXPENDITURES	995,637	0	47,942	442,078	225,569	0	0	280,048	0	0
REVERSIONS TO STATE GENERAL FUND	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

STATE COLLEGES IN COLORADO
STATE FUNDED STUDENT ASSISTANCE PROGRAMS
JUNE 30, 2002

Summary of significant accounting policies and notes to the Statements of Appropriations, Expenditures, Transfers, and Reversions.

Basis of Accounting

The Statements of Appropriations, Expenditures, Transfers, and Revisions have been prepared in accordance with the format set forth in the CCHE publication *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

The Perkins Loan Program matching requirement from general funds, as approved by the Colorado Commission on Higher Education, is recorded as a transfer from the general fund to the loan fund and not as general fund expense and loan fund revenue.

All student aid is expensed on a cash basis except for Perkins loans and the College Work Study Program (CWS). Perkins loan disbursements are recorded as loans receivable when the funds are disbursed. The CWS is on the accrual basis in that the expense is recognized when the services are performed.

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