

**WESTERN STATE COLORADO UNIVERSITY**

**FINANCIAL AND COMPLIANCE AUDIT**

Fiscal Years Ended June 30, 2017 and 2016

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# WESTERN STATE COLORADO UNIVERSITY

## TABLE OF CONTENTS

	<u>Page</u>
Report Summary .....	1
Description of Western State Colorado University (Unaudited) .....	3
 <b>FINANCIAL STATEMENTS SECTION</b>	
Independent Auditor's Report .....	4
Management's Discussion and Analysis (Unaudited) .....	7
Statements of Net Position.....	17
Statements of Financial Position - Western State Colorado University Foundation .....	19
Statements of Revenues, Expenses and Changes in Net Position.....	20
Statements of Activities - Western State Colorado University Foundation.....	21
Statements of Cash Flows.....	22
Notes to the Financial Statements.....	24
 <b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of the University's Proportionate Share of PERA Net Pension Liability .....	50
Schedule of University Contributions to PERA Defined Benefit Pension Plan .....	51
 <b>SUPPLEMENTAL INFORMATION SECTION</b>	
Schedule of Revenues and Expenses for Enterprise Revenue Bonds .....	52
Report of Independent Auditors on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	53
Legislative Audit Committee Communications.....	55
 <b>STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION</b>	
Introduction.....	58
Report of Independent Auditors on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs.....	59
State-Funded Student Assistance Programs - Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs.....	61
Summary of Significant Accounting Policies and Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions .....	62
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on and Audit of the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State of Colorado State-Funded Student Assistance Programs Performed in Accordance with <i>Government Auditing Standards</i> .....	63

# **WESTERN STATE COLORADO UNIVERSITY**

## **FINANCIAL AND COMPLIANCE AUDIT REPORT SUMMARY**

As of and for the Year Ended June 30, 2017

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### **Authority, Purpose and Scope**

The Office of the State Auditor of the State of Colorado engaged Dalby, Wendland, & Co., P.C. (DWC) to conduct a financial and compliance audit of Western State Colorado University (the University) for the year ended June 30, 2017. DWC performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. We conducted our fieldwork from June through September 2017.

The purposes and scope of the audit were to:

- Express an opinion on the financial statements of the University as of and for the year ended June 30, 2017. This includes a report on internal control over financial reporting and compliance and other matters based on the audit of the financial statements performed in accordance with Government Auditing Standards.
- Perform a financial and compliance audit of the Statement of Appropriations, Expenditures, Transfers, and Reversions of the University's State-Funded Student Financial Assistance Programs, including a review of the related internal control structure as required by generally accepted auditing standards and Government Auditing Standards.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Evaluate the progress in implementing prior audit findings and recommendations, if any.

The University's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, State of Colorado, are included in Fiscal Year 2017 Statewide Single Audit Report issued under separate cover.

### **Audit Opinion and Reports Summary**

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

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

significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition to issuing a report on the University's compliance and internal control over financial reporting, we also performed procedures in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, over major federal programs as determined by the Office of the State Auditor. The purpose of our procedures was not to issue an opinion over the University's compliance with the federal programs tested, but rather report any noncompliance and internal control deficiencies noted during our testing to the Office of the State Auditor for inclusion in the Statewide Single Audit report. As discussed below, there were no instances of noncompliance or internal control deficiencies noted during these procedures.

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

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

There were no reported findings or recommendations resulting from the audit of the University for the year ended June 30, 2017.

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

The University's audit report for the year ended June 30, 2016 did not include any findings or recommendations that were required to be implemented during the year ended June 30, 2017.

**WESTERN STATE COLORADO UNIVERSITY**  
**DESCRIPTION OF WESTERN STATE COLORADO UNIVERSITY**  
For the Years Ended June 30, 2017 and 2016

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**Description of Western State Colorado University**

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

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

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

	2015	2016	2017
Resident Students	1,473.1	1,533.9	1,630.3
Nonresident Students	517.9	564.6	566.1
Total Students	1,991.0	2,098.5	2,196.4
Faculty FTEs	140.2	147.4	154.3
Staff FTEs	180.3	187.5	190.5
Total Staff and Faculty FTEs	320.5	334.9	344.8

**Description of Western State Colorado University Foundation**

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

## FINANCIAL STATEMENTS SECTION



DALBY, WENDLAND & CO., P.C.

Grand Junction

*CPAs and Business Advisors*

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## INDEPENDENT AUDITOR'S REPORT

Members of the Legislative Audit Committee:  
Denver, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education, State of Colorado, as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit, discussed in Note A to the basic financial statements, which represents 100 percent of total assets, total revenues, and net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2017 and 2016, respectively. Those financial statements were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, whose report has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Western State Colorado University Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

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## **Opinions**

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University, an institution of higher education, State of Colorado, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note A, the financial statements of the University, an institution of higher education, State of Colorado are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of the business-type activities and the discretely presented component unit of the State that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2017 and 2016, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 16 be presented to supplement the basic financial statements. Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, requires that the Schedule of the University's Proportionate Share of the Net Pension Liability of the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association and the Schedule of University Contributions to the State Division Trust Fund – A Cost-Sharing Multiple-Employer Defined Benefit Pension Plan Administered by the Colorado Public Employees' Retirement Association on pages 50 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The Schedules of Revenue and Expenses for Enterprise Revenue Bonds for the years ended June 30, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the University.

The Schedules of Revenue and Expenses for Enterprise Revenue Bonds for the years ended June 30, 2017 and 2016 are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

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

DALBY, WENDLAND & CO., P.C.  
Grand Junction, Colorado  
November 20, 2017

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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This section of Western State Colorado University's (the University) financial report presents management's discussion and analysis of the University's financial position and results of operations as of and for the years ended June 30, 2017 and 2016, with comparative information presented for the year ended June 30, 2015. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

**Understanding the Financial Statements**

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

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

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

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

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

**Statements of Net Position**

The statements of net position present the assets, deferred outflows, liabilities, deferred inflows, and net position of the University at a point in time (June 30, 2017 and 2016). Their purpose is to present a financial snapshot of the University. They aid readers in determining the assets available to continue the University's operations; how much the University owes to employees, vendors, etc.; and a picture of net position and the availability of assets for expenditure by the University.

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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During the year ended June 30, 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), related to the Colorado Public Employees' Retirement Association. GASB 68 establishes accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pensions that are provided to the employees of state and local governmental employers through pension plans. GASB 68 was implemented prospectively and resulted in the beginning balance of net position being restated for the year ended June 30, 2015 to reflect the implementation of GASB 68.

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

The statements of revenues, expenses, and changes in net position present the total revenues and expenses of the University for operating, nonoperating, and other capital related purposes during the fiscal years ended June 30, 2017 and 2016. Their purpose is to assess the University's operating and nonoperating activities.

**Statements of Cash Flows**

The statements of cash flows present cash receipts and payments of the University during the fiscal years ended June 30, 2017 and 2016. Their purpose is to assess the University's ability to generate net cash flows and meet its obligations as they come due.

**Notes to Financial Statements**

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

**Required Supplementary Information (RSI)**

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

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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

**Financial Highlights**

The University's financial position improved slightly during the fiscal year ended June 30, 2017 as evidenced by an increase in net position of \$0.8 million, from \$39.7 million at June 30, 2016 to \$40.5 million. In fiscal year 2016, net position increased by \$14.0 million from \$25.7 million at June 30, 2015, primarily due to State capital construction funding related to the renovation of Quigley Hall.

The University's current assets of \$22.7 million (2017), \$20.2 million (2016) and \$16.6 million (2015) were sufficient to cover current liabilities of \$8.8 million (2017), \$9.3 million (2016) and \$8.6 million (2015). The current ratio of 2.58 (2017), 2.17 (2016) and 1.93 (2015) demonstrates the liquidity of University assets and the relative availability of working capital to fund current operations.

An operating deficit of \$5.3 million (2017), \$1.6 million (2016) and \$2.8 million (2015) resulted partly from the University's dependence on state appropriations for controlled maintenance and Federal Pell grants for operations. The financial reporting model classifies certain grants and contracts and state appropriations as non-operating revenues. Additionally, depreciation is an expense for which Colorado higher education has not historically been funded. In fiscal year 2017, non-cash pension expense increased by \$4.7 million compared with 2016, adding significantly to the University's operating deficit.

**Statements of Net Position**

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

<b>Condensed Statements of Net Position</b>			
<b>June 30, 2017, 2016 and 2015</b>			
<b>(in thousands)</b>			
	2017	2016	2015
<b>Assets</b>			
Current Assets	\$ 22,673	\$ 20,187	\$ 16,594
Noncurrent Assets	135,804	133,350	122,310
<i>Total Assets</i>	<u>158,477</u>	<u>153,537</u>	<u>138,904</u>
<i>Total Deferred Outflows</i>	<u>14,397</u>	<u>3,219</u>	<u>1,841</u>
<b>Liabilities</b>			
Current Liabilities	8,801	9,317	8,594
Noncurrent Liabilities	122,761	107,047	106,380
<i>Total Liabilities</i>	<u>131,562</u>	<u>116,364</u>	<u>114,974</u>
<i>Total Deferred Inflows</i>	<u>843</u>	<u>706</u>	<u>124</u>
<b>Net Position</b>			
Net investment in capital assets	49,923	45,969	32,346
Restricted	6,458	4,725	4,368
Unrestricted	(15,912)	(11,008)	(11,067)
<i>Total Net Position</i>	<u>\$ 40,469</u>	<u>\$ 39,686</u>	<u>\$ 25,647</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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At June 30, the University's total assets were \$158.5 million (2017), \$153.5 million (2016) and \$138.9 million (2015). The largest asset category is the \$135.3 million (2017), \$132.7 million (2016) and \$121.5 million (2015) in capital assets, which includes land, buildings, equipment, library holdings, and construction in progress. Construction in progress decreased \$18.4 million in fiscal year 2017, primarily due to the completion of the renovation of Quigley Hall, which was transferred to Buildings and Improvements on the Statements of Net Position. Construction in progress increased \$16.3 million during fiscal year 2016 due to renovations on Quigley Hall. The capital asset amount is net of accumulated depreciation of \$77.2 million (2017), \$75.9 million (2016) and \$69.2 million (2015). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised \$18.3 million (2017), \$17.4 million (2016) and \$14.9 million (2015) of total assets. The increase in cash and cash equivalents over that period is the result of improved operating performance.

GASB Statement No. 65 defines certain elements of the financial statements previously reported as assets or liabilities as deferred outflows or deferred inflows of resources. Assets and liabilities are resources and obligations with present service capacities and present obligations, while deferred outflows and inflows of resources are acquisitions and uses of net assets that relate to a future period. Unamortized book losses on certain bond refinancing transactions of \$3.7 million (2017), \$0.9 million (2016), and \$1.0 million (2015) are recognized as deferred outflows. The increase in fiscal year 2017 related to the September 2016 advanced refunding of bonds discussed in Note F. The University also has both deferred outflows and inflows related to amounts recognized on our defined benefit pension plan in accordance with GASB 68. Pension related deferred outflows were \$10.7 million (2017), \$2.4 million (2016), and \$0.9 million (2015). The large increase in fiscal year 2017 relates to significant changes in assumptions discussed in detail in Note H. Pension related deferred inflows were \$0.8 million (2017), \$0.7 million (2016), and \$0.1 million (2015). See Notes E and H to the financial for additional information on the composition of the University's deferred outflows and deferred inflows.

Bonds and notes payable of \$89.2 million (2017), \$86.7 million (2016) and \$87.7 million (2015) represent 67.8% (2017), 74.5% (2016) and 76.2% (2015) of the University's total liabilities of \$131.6 million (2017), \$116.4 million (2016) and \$115.0 million (2015). The University's debt is discussed in detail in Note F. During 2016, the University issued \$27.0 million in Series 2016 Refunding Bonds, which were used to refund all the outstanding Series 2009 Bonds and a portion of the Series 2010A Bonds. The refunding created significant interest savings for the University, but resulted in an accounting loss of \$3.0 million, recorded as a deferred outflow. Additionally, the University recognized a \$3.2 million bond premium on the refunding, which increased the reported bond liability in fiscal year 2017. The current portion of bonds and notes payable is \$1,370,000 (2017), \$940,000 (2016), and \$925,000 (2015).

The next largest component of liabilities relates to the University's recognition of its proportionate share of the unfunded pension liability for the cost-sharing multiple-employer defined benefit pension plan administered by PERA, as discussed in Note H. The University's net pension liability of \$34.2 million (2017), \$20.5 million (2016) and \$19.0 million (2015) represents 26.0% (2017), 17.7% (2016) and 16.5% (2015) of the University's total liabilities. While the University is required to record this liability, the University is under no obligation to fund the liability. PERA recently changed certain significant

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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assumptions in its calculation of the liability, which resulted in a 66 percent increase in the recorded liability and other significant increases in non-cash pension expense and deferred outflows in fiscal year 2017.

Net position consisted of \$49.9 million (2017), \$46.0 million (2016) and \$32.3 million (2015) in net investment in capital assets. In addition, \$6.5 million (2017), \$4.7 million (2016) and \$4.4 million (2015) is externally restricted for specific purposes, and (\$15.9) million (2017), (\$11.0) million (2016) and (\$11.1) million (2015) is unrestricted and available for any lawful purpose of the University. Unrestricted net position is significantly impacted by the recognition of the PERA unfunded pension liability, with reductions to unrestricted net position of \$24.3 million in 2017, \$18.9 million in 2016, and \$18.2 million in 2015. Excluding the PERA portion, unrestricted net position is \$8.4 million (2017), \$7.9 million (2016), and \$7.1 million (2015). Slight increases to unrestricted net position in 2017 and 2016 reflect improvements in operations.

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

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

Gross tuition and fee revenue for fiscal year 2017 increased 12.9% from fiscal year 2016; this increase relates to increases in both tuition rates and enrollment. Scholarship allowances of \$10.2 million (2017) were an increase from the two previous fiscal years of \$9.6 million (2016) and \$8.6 million (2015). Scholarship allowances are defined as the financial aid awarded to students by the University that is used to pay University charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense. Net tuition and fee revenues for the year ending June 30, 2017 were \$23.6 million, a \$3.3 million increase from 2016 due to an approximate 8% increase in resident tuition rates, an approximate 4.6% increase in non-resident tuition rates, and increases in enrollment. Net tuition and fee revenue in 2016 was \$20.3 million, a \$1.5 million increase from 2015 due to an approximate 5% increase in tuition rates and increases in enrollment.

An operating deficit of \$5.3 million in fiscal year 2017, \$1.6 million in fiscal year 2016, and \$2.8 million in fiscal year 2015 was offset by Federal Pell grants and capital contributions from the State of Colorado because the financial reporting model classifies these separately from operating revenues. The University's net position increased slightly in fiscal year 2017 due to State capital contributions for the renovation of Quigley Hall, which were partially offset by \$5.4 million of non-cash pension expense. Net position also increased in fiscal year 2016 due to State capital contributions for the renovation of Quigley Hall.

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

**Condensed Statements of Revenue, Expenses, and Changes in Net Position**  
**June 30, 2017, 2016 and 2015**

	(in thousands)		
	2017	2016	2015
<b>Operating Revenue</b>			
Tuition and fees, net	\$23,604	\$20,336	\$18,795
Federal, state, and private grants and contracts	7,287	7,110	5,255
Fee for service revenue	8,535	8,628	7,618
Sales and services of auxiliary enterprises, net	10,173	9,538	8,952
Other operating revenue	1,439	1,527	1,644
Total Operating Revenue	51,038	47,139	42,264
<b>Operating Expenses</b>			
Instruction	19,461	16,142	14,820
Academic support	4,331	2,948	2,234
Student services	5,080	4,556	4,255
Institutional support	4,983	4,485	4,149
Operation and maintenance of plant	4,131	2,485	2,332
Auxiliary enterprises	11,173	10,789	9,555
Depreciation	6,405	6,750	7,198
Other	764	629	518
Total Operating Expenses	56,328	48,784	45,061
Net Operating Loss	(5,290)	(1,645)	(2,797)
<b>Nonoperating Revenue (Expenses)</b>			
Federal Pell grants and interest subsidy	3,590	3,576	3,647
Investment and interest income	85	222	151
Interest expense on capital debt	(5,024)	(5,207)	(5,227)
Other nonoperating expenses	(600)	(275)	(107)
Net Nonoperating Expense	(1,949)	(1,684)	(1,536)
Loss before Capital Contributions	(7,239)	(3,329)	(4,333)
<b>Capital Contributions and Gifts</b>			
State appropriations and capital gifts	8,022	17,368	2,295
<b>Increase (Decrease) in Net Position</b>	783	14,039	(2,038)
<b>Net Assets:</b>			
Net Position, beginning of year	39,686	25,647	50,745
Restatement	-	-	(5,392)
Cumulative effect of adoption of new accounting standard	-	-	(17,668)
Net Position, beginning of year, as restated	39,686	25,647	27,685
Net Position, end of year	\$40,469	\$39,686	\$25,647



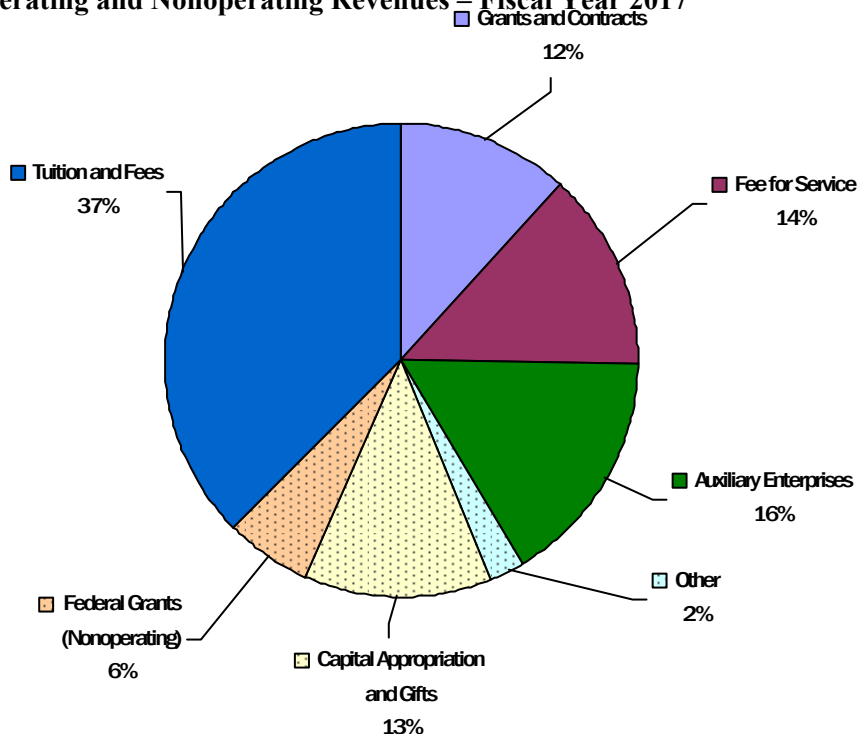
**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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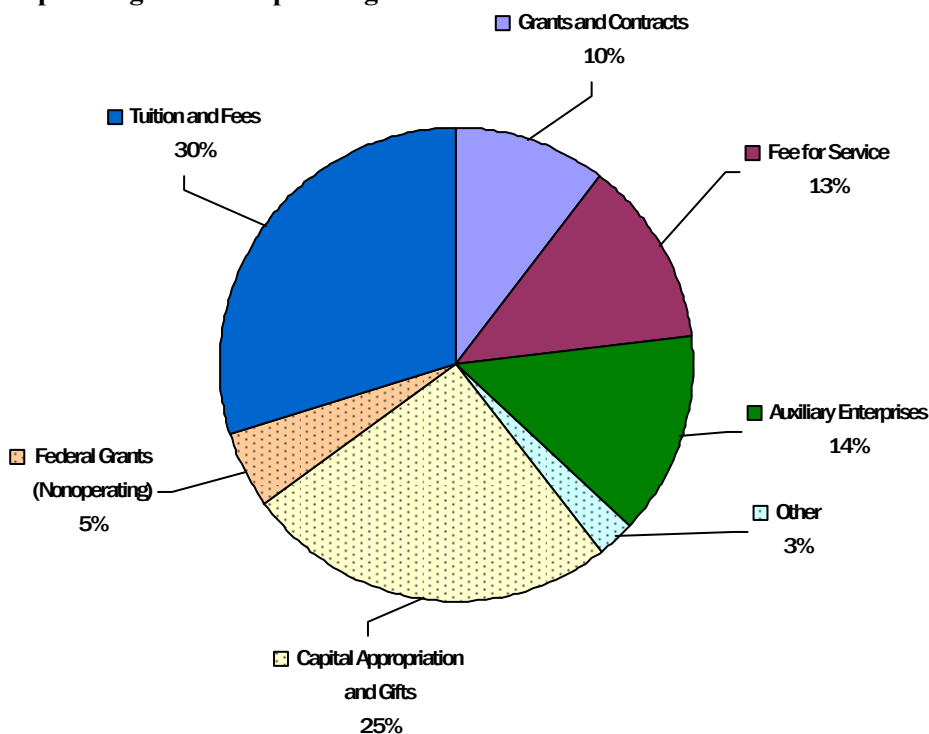
**Revenue by Source**

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

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



**Operating and Nonoperating Revenues – Fiscal Year 2016**



**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

**Capital Assets**

At June 30, 2017, the University had approximately \$135.3 million invested in capital assets, net of accumulated depreciation of \$77.2 million. Depreciation charges were \$6.4 million for the year ended June 30, 2017. At June 30, 2016, the University had \$132.7 million invested in capital assets, net of accumulated depreciation of \$75.9 million. Depreciation charges were \$6.7 million for the year ended June 30, 2016. Details of capital asset balances are shown below.

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

	June 30, 2017	June 30, 2016	June 30, 2015
Land and Improvements	\$ 4,408	\$ 2,599	\$ 2,599
Construction in Progress	464	18,847	2,595
Land Improvements, Net	379	287	317
Buildings and Improvements, Net	128,497	109,083	112,619
Furniture and Equipment, Net	1,241	1,562	2,994
Library Materials, Net	262	296	338
Total	<u>\$ 135,251</u>	<u>\$ 132,674</u>	<u>\$ 121,462</u>

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

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

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

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

**Debt**

At June 30, 2017, the University had \$89.2 million in debt outstanding, an increase of \$2.5 million from the debt outstanding of \$86.7 million as of June 30, 2016. The increase primarily relates to the bond premium on our 2016 Bond Refunding. At June 30, 2016, the University had \$86.7 million in debt outstanding, a decrease of \$1.0 million from the debt outstanding of \$87.7 million as of June 30, 2015, due to principal payments during the year. The table below summarizes the amounts by type of debt.

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

	June 30, 2017	June 30, 2016	June 30, 2015
Auxiliary Revenue Bonds	\$ 89,002	\$ 86,749	\$ 87,665
Notes Payable	150	-	-
Total	<u>\$ 89,152</u>	<u>\$ 86,749</u>	<u>\$ 87,665</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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**Economic Outlook**

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

*State Funding*

State operating support comes in two forms: Fee for Service payments and Student Stipends funded by the College Opportunity Fund. In fiscal year 2018, the University has been appropriated \$11.8 million in state operating support, an increase of 2.5 percent over fiscal year 2017. The stability of state funding is uncertain in the long-term due to potential challenges in State finances and constitutional limitations inherent in TABOR, the Colorado Taxpayer's Bill of Rights.

State capital funding plays an important role in the University's ability to maintain its facilities. The University received significant capital funding in fiscal years 2016 and 2017 devoted to the renovation of Quigley Hall, which houses the arts and music programs. The University has been appropriated \$1.0 million of capital funding in fiscal year 2018 for Paul Wright Gym and carries forward a \$1.2 million capital appropriation for Hurst Hall. In spite of recent State funding, the University has additional deferred maintenance needs and will look to meet those needs through future State funding, donations, and revenue generated by the student facility fee.

*Enrollment and Tuition Revenues/Rates*

State-supported FTE enrollment in fiscal year 2017 was 2,196, a 4.7 percent increase over fiscal year 2016. Based on initial Fall 2017 enrollment data, the University anticipates a 4 percent decrease in enrollment for fiscal year 2018. The University has created a committee to identify potential solutions to enrollment and retention challenges.

In fiscal year 2018, resident tuition rates will increase 4.9 percent and nonresident tuition rates will increase 2.7 percent over fiscal year 2017. In the last decade, State operating support has declined shifting more of the tuition burden to students. In spite of this, the University remains one of the best values in the State as the University looks to control tuition increases and balance them with enhanced financial support for students.

The University anticipates flat tuition and fee revenues in fiscal year 2018 versus 2017 due to the combination of an anticipated enrollment decline and increased tuition rates.

*Compensation Costs*

Consistent with most institutions of higher education, the University spends over 60 percent of its education and general budget on salaries and benefits. Although the University spends the majority of its budget on personnel costs, Western salaries lag peers in several categories. The University has prioritized salary enhancement as a future goal, but did not give salary increases to faculty and administrators for fiscal year 2018 in anticipation of the enrollment decline. Salary and benefits will continue to be a significant driver of operating costs as benefits costs are expected to continue to increase in the future. The University continues to work actively with benefit providers to control costs while still providing quality, competitive benefit packages for employees.

**WESTERN STATE COLORADO UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
As of and for the Years Ended June 30, 2017 and 2016

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*Debt Service*

In order to improve and maintain facilities, the University has increased its debt burden significantly over the last decade. In fiscal year 2017, the University paid \$5.9 million in debt service and anticipates \$6.2 million in debt service in fiscal year 2018. The University uses a combination of student fees and auxiliary revenues to meet its debt service burden. The University also maintains a debt service reserve, which can be used to meet debt service needs in the case of an unanticipated decrease in operating income. The University added \$0.6 million to that reserve in fiscal year 2017, bringing the reserve balance to \$1.7 million.

In September 2016, the University issued \$27.0 million in Enterprise Revenue Refunding Bonds, Series 2016. The proceeds of the issue were used to refund the Series 2009 Revenue Bonds and a portion of the Series 2010A Institutional Enterprise Revenue Bonds. The University secured \$4.7 million in future interest savings as a result of this transaction.

**Requests for Information**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 18,334,774	\$ 17,412,996
Investments	120,341	126,970
Student accounts receivable, net	791,801	561,852
Other accounts receivable, net	959,281	1,307,759
Student loans receivable, net	82,375	111,904
Inventories	410,415	409,768
Other current assets	1,973,501	255,844
<i>Total Current Assets</i>	<u>22,672,488</u>	<u>20,187,093</u>
<b>Noncurrent Assets</b>		
Noncapital Noncurrent Assets		
Student loans receivable, net	553,931	676,043
<i>Total Noncapital Noncurrent Assets</i>	<u>553,931</u>	<u>676,043</u>
Nondepreciable Capital Assets		
Land	2,503,736	695,416
Land improvements	1,904,083	1,904,083
Construction in progress	463,939	18,847,115
<i>Total Nondepreciable Capital Assets</i>	<u>4,871,758</u>	<u>21,446,614</u>
Depreciable Capital Assets, Net		
Land improvements, less accumulated depreciation of \$353,216 (2017) and \$316,588 (2016)	379,339	286,437
Buildings and improvements, less accumulated depreciation of \$68,844,433 (2017) and \$63,700,364 (2016)	128,496,666	109,082,665
Furniture, equipment and software, less accumulated depreciation of \$2,310,736 (2017) and \$6,209,109 (2016)	1,240,634	1,562,227
Library materials, less accumulated depreciation of \$5,714,332 (2017) and \$5,633,319 (2016)	262,119	295,985
<i>Total Depreciable Capital Assets, Net</i>	<u>130,378,758</u>	<u>111,227,314</u>
<i>Total Noncurrent Assets</i>	<u>135,804,447</u>	<u>133,349,971</u>
<b>Total Assets</b>	<u>158,476,935</u>	<u>153,537,064</u>
<b>DEFERRED OUTFLOWS</b>		
Loss on bond refundings	3,685,830	863,981
Contributions to cost-sharing multiple-employer defined benefit pension plan subsequent to the measurement date (See Note H)	549,407	499,168
Net difference between projected and actual earnings on cost-sharing multiple-employer defined benefit pension plan investments (See Note H)	1,132,377	1,556,955
Difference between expected and actual experience in the measurement of the total pension liability from cost-sharing multiple-employer defined benefit pension plan (See Note H)	339,537	299,076
Change in assumptions or other inputs related to a cost-sharing multiple-employer defined benefit pension plan (See Note H)	8,690,110	-
<i>Total Deferred Outflows</i>	<u>14,397,261</u>	<u>3,219,180</u>

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
As of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	851,005	2,380,655
Accrued liabilities	3,358,620	3,686,340
Unearned revenue	2,713,736	1,760,741
Student deposits	390,352	440,123
Bonds and notes payable, current portion	1,370,000	940,000
Compensated absence liabilities, current portion	117,991	108,554
<i>Total Current Liabilities</i>	<u>8,801,704</u>	<u>9,316,413</u>
<b>Noncurrent Liabilities</b>		
Bonds and notes payable	87,782,033	85,808,614
Compensated absence liabilities	820,329	700,173
Net pension liability (See Note H)	34,158,370	20,538,558
<i>Total Noncurrent Liabilities</i>	<u>122,760,732</u>	<u>107,047,345</u>
<b>Total Liabilities</b>	<u>131,562,436</u>	<u>116,363,758</u>
<b>DEFERRED INFLOWS</b>		
Change in University's proportion and differences between the University's contributions and the University's proportionate share of contributions to a cost-sharing multiple-employer defined benefit pension plan (See Note H)	737,751	462,280
Difference between expected and actual experience in the measurement of the total pension liability from cost-sharing multiple-employer defined benefit pension plan (See Note H)	-	655
Change in assumptions or other inputs related to a cost-sharing multiple-employer defined benefit pension plan (See Note H)	105,141	243,118
<i>Total Deferred Inflows</i>	<u>842,892</u>	<u>706,053</u>
<b>NET POSITION</b>		
Net investment in capital assets	49,923,159	45,968,897
Restricted for:		
Loans	691,744	1,073,859
Debt service	5,766,564	3,651,957
Unrestricted comprised of:		
General unrestricted	7,757,222	7,340,432
Effect of GASB 68 on unrestricted net position (see Note H)	(24,289,831)	(18,889,412)
Designated by the Board	620,010	540,700
<i>Total Net Position</i>	<u>\$ 40,468,868</u>	<u>\$ 39,686,433</u>

See accompanying notes.

# WESTERN STATE COLORADO UNIVERSITY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and cash equivalents.....	\$ 317,427	\$ 494,062
Accounts receivable .....	17,167	-
Investments .....	16,552,773	15,335,183
Contributions receivable, net of allowance of \$10,616 (2017) and \$44,311 (2016).....	493,053	693,293
Other assets .....	446,902	383,382
Debt issuance costs, net.....	105,653	112,677
Property and equipment, net of accumulated depreciation .....	<u>11,467,990</u>	<u>11,828,737</u>
<b>Total Assets</b>	<u>\$ 29,400,965</u>	<u>\$ 28,847,334</u>
<b>Liabilities</b>		
Accounts payable .....	\$ 35,846	\$ 46,450
Accrued compensated absences .....	30,741	21,776
Accrued interest .....	74,455	78,498
Charitable gift annuities payable.....	86,406	-
Bonds payable .....	<u>4,823,682</u>	<u>5,056,336</u>
<b>Total Liabilities</b>	<u>5,051,130</u>	<u>5,023,060</u>
<b>Net Assets</b>		
Endowment asset deficiencies.....	(3,329,364)	(3,382,883)
Operating unrestricted .....	<u>1,275,000</u>	<u>1,026,531</u>
Net Unrestricted .....	(2,054,364)	(2,356,352)
Temporarily restricted .....	7,865,976	7,774,424
Permanently restricted.....	<u>18,538,223</u>	<u>18,226,202</u>
<b>Total Net Assets</b>	<u>24,349,835</u>	<u>23,644,274</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 29,400,965</u>	<u>\$ 28,847,334</u>

The accompanying notes are an integral part of these statements.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating Revenue</b>		
Tuition and fees, including \$11,894,268 (2017) and \$9,861,679 (2016) pledged for bonds	\$ 33,801,159	\$ 29,931,252
Less: scholarship allowances	<u>(10,197,692)</u>	<u>(9,595,182)</u>
<i>Net Tuition and Fees</i>	23,603,467	20,336,070
Federal, state, and private grants and contracts	7,286,872	7,110,273
Fee for service revenue	8,535,039	8,628,355
Sales and services of auxiliary enterprises, including \$10,146,391 (2017) and \$9,565,305 (2016) pledged for bonds	10,310,143	9,704,494
Less: scholarship allowances	<u>(136,720)</u>	<u>(167,043)</u>
<i>Net Sales and Services of Auxiliary Enterprises</i>	10,173,423	9,537,451
Other operating revenue, including \$201,720 (2017) and \$237,724 (2016) pledged for bonds	1,439,000	1,526,860
<i>Total Operating Revenue</i>	<u>51,037,801</u>	<u>47,139,009</u>
<b>Operating Expenses</b>		
Instruction	19,461,059	16,141,649
Research	185,903	144,852
Public service	301,897	193,538
Academic support	4,330,717	2,948,327
Student services	5,079,797	4,555,810
Institutional support	4,982,881	4,485,327
Operation and maintenance of plant	4,131,073	2,484,626
Scholarships and fellowships	276,806	290,883
Auxiliary enterprises	11,173,004	10,789,114
Depreciation	6,404,693	6,749,764
<i>Total Operating Expenses</i>	56,327,830	48,783,890
<i>Operating Loss</i>	<u>(5,290,029)</u>	<u>(1,644,881)</u>
<b>Nonoperating Revenue (Expenses)</b>		
Federal Pell grants	2,437,657	2,421,019
Federal interest subsidy, including \$1,152,734 (2017) and \$1,154,746 (2016) pledged for bonds	1,152,734	1,154,746
Investment and interest income, including \$82,516 (2017) and \$64,374 (2016) pledged for bonds	84,897	221,944
Interest expense on capital debt	(5,024,236)	(5,206,612)
Other nonoperating expenses	<u>(600,189)</u>	<u>(275,122)</u>
<i>Net Nonoperating Expenses</i>	(1,949,137)	(1,684,025)
<i>Loss Before Capital Contributions</i>	(7,239,166)	(3,328,906)
<b>Capital Contributions</b>		
State appropriation, capital	6,191,601	17,368,348
Other capital gifts	<u>1,830,000</u>	<u>-</u>
<i>Increase in Net Position</i>	782,435	14,039,442
<b>Net Position - beginning of year</b>	39,686,433	25,646,991
<b>Net Position - end of year</b>	<u>\$ 40,468,868</u>	<u>\$ 39,686,433</u>

See accompanying notes.



# WESTERN STATE COLORADO UNIVERSITY FOUNDATION

## STATEMENTS OF ACTIVITIES

**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenues, gains and other support:		
Contributions.....	\$ 297,889	\$ 240,324
Investment income .....	264,393	10,972
Rental Income .....	<u>2,414</u>	<u>14,482</u>
	564,696	265,778
Net assets released from restrictions:		
Satisfaction of program restrictions.....	5,851,738	5,715,803
Change in endowment asset deficiencies .....	53,518	(151,949)
Transfers .....	<u>44,836</u>	<u>251,196</u>
	<u>6,514,788</u>	<u>6,080,828</u>
Expenses:		
Programs .....	5,323,314	5,793,417
Management and general .....	317,245	292,620
Fund-raising .....	<u>572,241</u>	<u>266,511</u>
	<u>6,212,800</u>	<u>6,352,548</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>301,988</u>	<u>(271,720)</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Revenues and gains:		
Contributions.....	2,160,199	1,808,217
Fundraising.....	489,138	674,467
In-kind contributions .....	2,196,381	2,200,659
Investment income .....	988,214	765,704
Royalties .....	<u>35,793</u>	<u>39,917</u>
	5,869,725	5,488,964
Net assets released from restrictions:		
Satisfaction of program restrictions.....	(5,851,738)	(5,715,803)
Change in endowment asset deficiencies .....	(53,518)	151,949
Transfers .....	<u>127,083</u>	<u>(251,620)</u>
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<u>91,552</u>	<u>(326,510)</u>
<b>Changes in Permanently Restricted Net Assets</b>		
Revenues and gains:		
Contributions.....	483,940	674,774
Transfers .....	<u>(171,919)</u>	<u>424</u>
<b>Increase in Permanently Restricted Net Assets</b>	<u>312,021</u>	<u>675,198</u>
<b>Increase in Net Assets</b>	<u>705,561</u>	<u>76,968</u>
<b>Net Assets - July 1 .....</b>	<u>23,644,274</u>	<u>23,567,306</u>
<b>Net Assets - June 30 .....</b>	<u>\$ 24,349,835</u>	<u>\$ 23,644,274</u>

The accompanying notes are an integral part of these statements.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash Flows from Operating Activities</b>		
<b>Cash Received</b>		
Tuition and fees	\$ 23,514,647	\$ 20,278,367
Sales of services	18,435,820	16,757,178
Sales of product	881,326	892,874
Grants, contracts and gifts	4,135,258	3,929,720
Student loans collected	148,259	177,627
Other operating receipts	1,445,292	1,526,860
<b>Cash Payments</b>		
Payments to or for employees	(26,296,766)	(25,168,830)
Payments to suppliers	(15,113,234)	(14,495,632)
Scholarships disbursed	(276,806)	(290,883)
<i>Net Cash Provided by Operating Activities</i>	<u>6,873,796</u>	<u>3,607,281</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal, state, private grants & contracts	3,590,320	3,573,546
Other agency outflows	(438,892)	(273,494)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>3,151,428</u>	<u>3,300,052</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
State appropriations, capital	6,191,601	17,368,349
Acquisition or construction of capital assets	(9,497,250)	(15,904,121)
Principal paid on capital debt	(1,420,000)	(925,000)
Interest on capital debt	(4,469,323)	(5,099,044)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(9,194,972)</u>	<u>(4,559,816)</u>
<b>Cash Flows from Investing Activities</b>		
Investment earnings	91,526	206,582
<i>Net Cash Provided by Investing Activities</i>	<u>91,526</u>	<u>206,582</u>
<i>Net Increase in Cash and Cash Equivalents</i>	<u>921,778</u>	<u>2,554,099</u>
<b>Cash and Cash Equivalents - beginning of year</b>	<u>17,412,996</u>	<u>14,858,897</u>
<b>Cash and Cash Equivalents - end of year</b>	<u>\$ 18,334,774</u>	<u>\$ 17,412,996</u>

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (5,290,029)	\$ (1,644,881)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	6,404,693	6,749,764
Provision for uncollectable accounts	105,958	5,791
Non-cash pension expense (See Note H)	5,400,419	681,264
Changes in assets and liabilities:		
Receivables	121,161	(800,728)
Inventories	(647)	(4,696)
Other assets	(1,717,658)	(229,486)
Student loans	142,495	177,627
Accounts payable	92,733	(70,315)
Accrued liabilities	575,233	53,315
Unearned revenue	952,995	(1,256,368)
Deposits held for others	(43,150)	(77,046)
Other liabilities	129,593	23,040
<b><i>Net Cash Provided by Operating Activities</i></b>	<b><u>\$ 6,873,796</u></b>	<b><u>\$ 3,607,281</u></b>
<b>Noncash Investing, Capital, and Financing Activities</b>		
Increase (decrease) in accounts payable and accrued liabilities related to capital assets	\$ (2,495,969)	\$ 2,057,099
Unrealized (gain) loss on investments	6,629	(15,362)
Amortization of deferred bond refunding loss	201,309	101,645
Amortization of bond discount (premium)	(102,404)	8,847
Capital assets donated	1,830,000	-

See accompanying notes.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

**Nature of Operations**

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

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

**Governance**

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

**Reporting Entity**

The accompanying financial statements reflect the financial activities of the University for the fiscal years ended June 30, 2017 and 2016. The University is an institution of higher education of the State. Thus, for financial reporting purposes, the University is included as part of the State's primary government. A copy of the State's Comprehensive Annual Financial Report may be obtained from the Colorado Office of the State Controller (OSC), Department of Personnel and Administration (DPA), Denver, Colorado.

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

**Basis of Accounting**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

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

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Investments**

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

**Accounts Receivable**

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

**Student Loans Receivable**

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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**Inventories**

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

**Capital Assets**

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

**Unearned Revenue**

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

**Compensated Absences**

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

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

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

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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**Classification of Revenue**

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

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

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

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

**Scholarship Allowances**

Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net position. Scholarship allowances are the differences between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenue in the University's financial statements. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition, fees and housing for the years ended June 30 were \$10,334,412 (2017) and \$9,762,225 (2016).

**Net Position**

The University's net position is classified as follows:

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

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

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

**Application of Restricted and Unrestricted Resources**

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

**Reconciliation to Other Reports**

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

**Income Taxes**

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code (IRC) and a similar provision of State law. However, the University is subject to income tax on any unrelated business taxable income. The University did not have any significant unrelated business taxable income in fiscal year 2017 or 2016.

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

**Reclassifications**

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

**NOTE B – CASH AND INVESTMENTS**

**Cash on Hand and in Local Banks**

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

	2017	2016
Cash on hand	\$ 152,410	\$ 31,003
Cash in local banks	604,850	390,004
	<u>\$ 757,260</u>	<u>\$ 421,007</u>



**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

The University deposits most of its cash with the Treasurer as required by the C.R.S. The Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury (the Treasury) acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2017, the University had cash on deposit with the Treasurer of \$17,577,514, which represented approximately 0.26 percent of the total \$6,770.2 million fair value of deposits in the Treasurer's Pool (the Pool). As of June 30, 2016, the University had cash on deposit with the Treasurer of \$16,991,989, which represented approximately 0.23 percent of the total \$7,408.5 million fair value of deposits in the Pool.

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

Additional information on the investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2017.

**Investments**

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

**NOTE C – RECEIVABLES AND PAYABLES**

At June 30, receivable balances were as follows:

	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
<u>2017</u>			
Student accounts receivable	\$ 1,125,169	\$ (333,368)	\$ 791,801
Other accounts receivable	959,281	-	959,281
Student loans receivable	142,495	(60,120)	82,375
Noncurrent student loans receivable	959,860	(405,929)	553,931
<u>2016</u>			
Student accounts receivable	\$ 811,276	\$ (249,424)	\$ 561,852
Other accounts receivable	1,307,759	-	1,307,759
Student loans receivable	177,627	(65,723)	111,904
Noncurrent student loans receivable	1,073,156	(397,113)	676,043

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

At June 30, accrued liabilities balances were as follows:

	2017	2016
Accrued payroll and benefits	\$ 2,721,497	\$ 2,146,264
Retainage payable	32,031	905,617
Accrued interest payable	605,092	634,459
<i>Total Accrued Liabilities</i>	<u>\$ 3,358,620</u>	<u>\$ 3,686,340</u>

**NOTE D – CAPITAL ASSETS**

The following presents changes in capital assets and accumulated depreciation for the years ended June 30, 2017 and 2016.

	Balance June 30, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
<b>Nondepreciable Capital Assets</b>				
Land	\$ 695,416	\$ 1,808,320	\$ -	\$ 2,503,736
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	18,847,115	6,133,689	(24,516,865)	463,939
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 21,446,614</u>	<u>\$ 7,942,009</u>	<u>\$ (24,516,865)</u>	<u>\$ 4,871,758</u>
<b>Depreciable Capital Assets</b>				
Land improvements	\$ 603,025	\$ -	\$ 129,530	\$ 732,555
Buildings and improvements	172,783,029	170,735	24,387,335	197,341,099
Furniture and equipment	7,771,336	821,390	(5,041,356)	3,551,370
Library materials	5,929,304	47,147	-	5,976,451
<i>Total Depreciable Capital Assets</i>	<u>187,086,694</u>	<u>1,039,272</u>	<u>19,475,509</u>	<u>207,601,475</u>
Less: Accumulated depreciation				
Land improvements	(316,588)	(36,628)	-	(353,216)
Buildings and improvements	(63,700,364)	(5,144,069)	-	(68,844,433)
Furniture and equipment	(6,209,109)	(1,142,983)	5,041,356	(2,310,736)
Library materials	(5,633,319)	(81,013)	-	(5,714,332)
<i>Total Accumulated Depreciation</i>	<u>(75,859,380)</u>	<u>(6,404,693)</u>	<u>5,041,356</u>	<u>(77,222,717)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$ 111,227,314</u>	<u>\$ (5,365,421)</u>	<u>\$ 24,516,865</u>	<u>\$ 130,378,758</u>
	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
<b>Nondepreciable Capital Assets</b>				
Land	\$ 695,416	\$ -	\$ -	\$ 695,416
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	2,594,746	17,506,284	(1,253,915)	18,847,115
<i>Total Nondepreciable Capital Assets</i>	<u>\$ 5,194,245</u>	<u>\$ 17,506,284</u>	<u>\$ (1,253,915)</u>	<u>\$ 21,446,614</u>

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
<b>Depreciable Capital Assets</b>				
Land improvements	\$ 603,025	\$ -	\$ -	\$ 603,025
Buildings and improvements	171,529,114	-	1,253,915	172,783,029
Furniture and equipment	7,466,419	405,098	(100,181)	7,771,336
Library materials	5,879,467	49,837	-	5,929,304
<i>Total Depreciable Capital Assets</i>	<u>185,478,025</u>	<u>454,935</u>	<u>1,153,734</u>	<u>187,086,694</u>
Less: Accumulated depreciation				
Land improvements	(286,437)	(30,151)	-	(316,588)
Buildings and improvements	(58,910,293)	(4,790,071)	-	(63,700,364)
Furniture and equipment	(4,471,777)	(1,837,513)	100,181	(6,209,109)
Library materials	(5,541,290)	(92,029)	-	(5,633,319)
<i>Total Accumulated Depreciation</i>	<u>(69,209,797)</u>	<u>(6,749,764)</u>	<u>100,181</u>	<u>(75,859,380)</u>
<i>Net Depreciable Capital Assets</i>	<u>\$ 116,268,228</u>	<u>\$ (6,294,829)</u>	<u>\$ 1,253,915</u>	<u>\$ 111,227,314</u>

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

	2017	2016
Land	\$ 813,225	\$ 813,225
Buildings and improvements	14,437,834	14,437,834
Furniture and equipment	101,484	101,484
	15,352,543	15,352,543
Less: Accumulated depreciation	(3,884,553)	(3,523,806)
	<u>\$ 11,467,990</u>	<u>\$ 11,828,737</u>

**NOTE E – DEFERRED OUTFLOWS AND DEFERRED INFLOWS**

GASB Statement No. 65 defines which items previously reported as assets and liabilities are now required to be reported as either deferred outflows or deferred inflows of resources. Under this statement, the University is reporting \$3,685,830 (2017) and \$863,981 (2016) of unamortized accounting losses from refunding certain bonds as deferred outflows. The University also recorded deferred outflows of \$10,711,431 (2017) and \$2,355,199 (2016) and deferred inflows of \$842,892 (2017) and \$706,053 (2016) related to defined benefit pension plan amounts the University is required to record under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) due to coverage of certain University employees by the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note H.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

**NOTE F – LONG-TERM LIABILITIES**

The University's long-term liability activity for the years ended June 30, 2017 and 2016 was as follows:

	Balance 6/30/2016	Additions	Reductions	Balance 6/30/2017	Due within One Year
Bonds and Notes Payable:					
Bonds	\$ 86,895,000	\$ 26,995,000	\$ 28,010,000	\$ 85,880,000	\$ 1,345,000
Bond Premium/(Discount)	(146,386)	3,249,337	(19,082)	3,122,033	-
Notes Payable	-	150,000	-	150,000	25,000
Total Bonds & Notes Payable	86,748,614	30,394,337	27,990,918	89,152,033	1,370,000
Other Liabilities:					
Compensated Absences	808,727	247,584	117,991	938,320	117,991
Net Pension Liability	20,538,558	13,619,812	-	34,158,370	-
Total Other Liabilities	21,347,285	13,867,396	117,991	35,096,690	117,991
Total Long-Term Liabilities	<u>\$ 108,095,899</u>	<u>\$ 44,261,733</u>	<u>\$28,108,909</u>	<u>\$ 124,248,723</u>	<u>\$ 1,487,991</u>
	Balance 6/30/2015	Additions	Reductions	Balance 6/30/2016	Due within One Year
Bonds and Notes Payable:					
Bonds	\$ 87,820,000	\$ -	\$ 925,000	\$ 86,895,000	\$ 940,000
Bond Premium/(Discount)	(155,233)	-	(8,847)	(146,386)	-
Total Bonds Payable	87,664,767	-	916,153	86,748,614	940,000
Other Liabilities:					
Compensated Absences	785,687	131,594	108,554	808,727	108,554
Net Pension Liability	18,959,603	1,578,955	-	20,538,558	-
Total Other Liabilities	19,745,290	1,710,549	108,554	21,347,285	108,554
Total Long-Term Liabilities	<u>\$ 107,410,057</u>	<u>\$ 1,710,549</u>	<u>\$ 1,024,707</u>	<u>\$ 108,095,899</u>	<u>\$ 1,048,554</u>

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

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

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

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

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

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

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

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

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

Additionally, the University has agreements for the rental of copiers all of which are for a period 24 to 48 months and are in effect through March 2021. Total future rental obligations total \$95,667.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

At June 30, 2017, principal and interest requirements to maturity are as follows:

Year ending June 30	2010 Series	2011 Series	2016 Series	Total
2018	\$ 3,905,825	\$ 1,219,816	\$ 1,060,100	\$ 6,185,741
2019	4,209,263	1,373,869	1,060,100	6,643,232
2020	4,691,999	1,071,644	1,060,100	6,823,743
2021	3,644,896	1,072,031	2,095,100	6,812,027
2022	3,637,645	1,074,431	2,098,350	6,810,426
2023-2027	19,507,204	2,935,007	11,371,000	33,813,211
2028-2032	23,366,950	-	8,718,650	32,085,600
2033-2037	22,273,900	-	8,725,800	30,999,700
2038-2042	23,711,650	-	3,491,050	27,202,700
2043-2045	14,321,850	-	-	14,321,850
<i>Total Principal and Interest</i>	123,271,182	8,746,798	39,680,250	171,698,230
Less: Interest	(71,556,182)	(1,096,798)	(13,165,250)	(85,818,230)
<i>Total Principal</i>	<u>\$ 51,715,000</u>	<u>\$ 7,650,000</u>	<u>\$ 26,515,000</u>	<u>\$ 85,880,000</u>

**Capitalization of Interest**

Interest costs are capitalized as part of historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Interest earned on the proceeds of the University's tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs capitalized in determining the amount to be capitalized. During the years ended June 30, 2017 and 2016, no interest was capitalized.

**Foundation Long-Term Liabilities**

On October 15, 2009, the University issued a Revenue Bond Series 2009 of \$19,535,000 to finance the construction of a new University Center. The Foundation was included in this issue for a \$6,000,000 bond issue (relating to its share of the project) at a 6.1% annual interest rate, due July 15, 2019. On April 30, 2012, the "Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012A" was issued in the aggregate principal amount of \$6,023,043, which refunded the Series 2009 Bond. The initial maturity dates on the Series 2009 bonds remained the same with the "Series 2012 Bonds"; however, the interest rate was reduced to 2.86%. On June 19, 2015, a bond was issued designated as the "Gunnison County, Colorado Revenue Refunding Bond Series 2012A" (2015 Reissuance) in the aggregate principal amount of \$5,157,000, which refunded the "Gunnison County, Colorado Revenue Refunding Bond Series 2012A". The maturity date of the original bond is now July 15, 2032 with a fixed rate of 3.35% through July 15, 2025. On July 15, 2025, the Foundation will have the option of paying off the bond in full, resetting the interest rate according to market conditions and amending the term over the remaining amortization with the current lender, or refinancing with another lender. The bond has financial covenants that must be met by the Foundation. The Foundation is in compliance with these covenants.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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The future maturities of the bonds are as follows:

<u>Year ending June 30</u>	<u>University Center</u>
2018	\$ 241,102
2019	\$ 249,361
2020	\$ 257,902
2021	\$ 266,350
2022	\$ 275,860
Thereafter	\$ 3,533,107

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

University employees may accrue annual and sick leave, based on length of service, and subject to certain limitations regarding the amount to be paid upon termination. Additionally, certain University employees are eligible for compensatory time off for overtime worked, subject to maximums after which the overtime is paid out. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2017 is \$938,320. Fiscal year 2017 expenses include \$129,593 for the increase in the estimated compensated absence liability. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2016 is \$808,727. Fiscal year 2016 expenses include \$23,040 for the increase in the estimated compensated absence liability. The recording of the liability for compensated absences may result in fund-balance deficits, which will be funded by state appropriation, self-supporting funds, or other sources available in future years when the liability is paid.

**NOTE H – EMPLOYEE PENSION PLANS**

**A. Optional Retirement Plan**

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

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

The University's contributions to the ORP for fiscal years ending June 30, 2017 and 2016 were \$1,423,167 and \$1,341,540, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

**1. Summary of Significant Accounting Policies**

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

**2. Plan Description**

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

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

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for



**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SDTF.

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

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

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

	Fiscal Year 2015		Fiscal Year 2016		Fiscal Year 2017	
	7/1/14 to 12/31/14	1/1/15 to 6/30/15	7/1/15 to 12/31/15	1/1/16 to 6/30/16	7/1/16 to 12/31/16	1/1/17 to 6/30/17
Employer Contribution Rate <sup>1</sup>	10.15%	10.15%	10.15%	10.15%	10.15%	10.15%
Amount of Employer Contribution Apportioned to the Health Care Trust Fund as specified in C.R.S. Section 24-51-208(1)(f) <sup>1</sup>	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%	-1.02%
Amount Apportioned to the SDTF <sup>1</sup>	9.13%	9.13%	9.13%	9.13%	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. Section 24-51-411 <sup>1</sup>	3.80%	4.20%	4.20%	4.60%	4.60%	5.00%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S., Section 24-51- 411 <sup>1</sup>	3.50%	4.00%	4.00%	4.50%	4.50%	5.00%
Total Employer Contribution Rate to the SDTF <sup>1</sup>	16.43%	17.33%	17.33%	18.23%	18.23%	19.13%

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

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and the University is statutorily committed to pay the contributions to the SDTF. Employer contributions to the SDTF from the University were \$1,049,476 and \$949,581 for the years ended June 30, 2017 and 2016, respectively.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

At June 30, 2017 and 2016, the University reported liabilities of \$34,158,370 and \$20,538,558, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 for fiscal year 2017 and as of December 31, 2015 for fiscal year 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation from the preceding December 31. Standard update procedures were used to roll forward the total pension liability to December 31, 2016 and 2015. The University's proportion of the net pension liability was based on the University's contributions to the SDTF for the calendar years 2016 (for fiscal 2017) and 2015 (for fiscal 2016) relative to the total contributions of participating employers to the SDTF.

At December 31, 2017 and 2016, the University's proportion was 0.1860 percent and 0.1950 percent, respectively.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$5,400,419 and \$681,264, respectively.

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2017	2016	2017	2016
Difference between expected and actual experience in the measurement of the total pension liability	\$ 339,537	\$ 299,076	\$ -	\$ 655
Changes in assumptions or other inputs	8,690,110	-	105,141	243,118
Net difference between projected and actual earnings on pension plan investments	1,132,377	1,556,955	-	-
Changes in the employer's proportion and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the plan) and the employer's proportionate share of contributions	-	-	737,751	462,280
Employer's contributions to the plan subsequent to the measurement date of the collective net pension liability	549,407	499,168	-	-
Total	<u>\$ 10,711,431</u>	<u>\$ 2,355,199</u>	<u>\$ 842,892</u>	<u>\$ 706,053</u>

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

---

Year ending June 30:	Amortization
2018	\$ 4,961,528
2019	\$ 4,031,603
2020	\$ 314,014
2021	\$ 11,987
2022	-
Thereafter	-

*Actuarial assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 9.57 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the AIR

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board of Trustees (PERA's Board) on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.17 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the AIR

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

---

and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

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

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

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

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

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

As of the November 18, 2016 adoption of the current long-term expected rate of return by PERA's Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

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

*Discount rate.* The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

---

members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SDTF's fiduciary net position was projected to be depleted in 2039 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2039 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2039 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

*Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the current discount rate (5.26 percent in fiscal year 2017 and 7.50 percent in fiscal 2016), as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Proportionate share of the net pension liability – 2017	42,307,255	34,158,370	27,463,433
Proportionate share of the net pension liability – 2016	25,947,582	20,538,558	16,014,091

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

**C. Voluntary Investment Program**

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

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

**D. 457 Deferred Compensation Plan**

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

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

Beginning in fiscal year 1993, in accordance with the provisions of CRS 24-54.6-101 through 106 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll upon which the plan contributions were based was \$423,677 (2017) and \$449,681 (2016).

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

**Health Care Program**

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

The University is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the University are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017 and 2016 the University's contributions to the HCTF were \$53,943 and \$53,705, equal to their required contributions for each year.

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

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

**NOTE K – SCHOLARSHIP ALLOWANCE**

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

	Tuition and Fees	Sales and Services of Auxiliary Enterprises	Total
<u>2017</u>			
Gross revenue	\$ 33,801,159	\$ 10,310,143	\$ 44,111,302
Scholarship allowances:			
Federal	(2,473,828)	(33,167)	(2,506,995)
State	(999,438)	(13,399)	(1,012,837)
Private	(557,037)	(7,468)	(564,505)
Institutional	(6,167,389)	(82,686)	(6,250,075)
<i>Total Scholarship Allowances</i>	<u>(10,197,692)</u>	<u>(136,720)</u>	<u>(10,334,412)</u>
<i>Net Revenue</i>	<u>\$ 23,603,467</u>	<u>\$ 10,173,423</u>	<u>\$ 33,776,890</u>



**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

	Tuition and Fees	Sales and Services of Auxiliary Enterprises	Total
<u>2016</u>			
Gross revenue	\$ 29,931,252	\$ 9,704,494	\$ 39,635,746
Scholarship allowances:			
Federal	(2,443,143)	(42,533)	(2,485,676)
State	(966,701)	(16,829)	(983,530)
Private	(612,445)	(10,662)	(623,107)
Institutional	(5,572,893)	(97,019)	(5,669,912)
<i>Total Scholarship Allowances</i>	<u>(9,595,182)</u>	<u>(167,043)</u>	<u>(9,762,225)</u>
<i>Net Revenue</i>	<u>\$ 20,336,070</u>	<u>\$ 9,537,451</u>	<u>\$ 29,873,521</u>

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

**Foundation Investments**

The Foundation's short-term investments are stated at fair value. At June 30, the Foundation had investments with a cost of \$14,824,410 (2017) and \$14,412,088 (2016) and a fair value of \$16,552,773 (2017) and \$15,335,183 (2016).

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

	2017	2016
Interest and dividend income	\$ 412,773	\$ 428,071
Net realized gains	98,083	922,610
Unrealized gain (loss)	805,268	(493,816)
Fees	(63,517)	(80,189)
Net investment earnings	<u>\$ 1,252,607</u>	<u>\$ 776,676</u>

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

	2017	2016
Unrestricted	\$ 264,393	\$ 10,972
Temporarily restricted	988,214	765,704
Net investment earnings	<u>\$ 1,252,607</u>	<u>\$ 776,676</u>

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-Term Investments				
Cash & Cash Equivalents	\$ 719,761	\$ 719,761	\$ -	\$ -
Fixed Income	2,692,355	2,626,562	-	65,793
Equities	11,387,039	11,387,039	-	-
Other	536,028	536,028	-	-
Total Long-Term Investments	\$ 15,335,183	\$ 15,269,390	\$ -	\$ 65,793

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

	2017	2016
Beginning balance	\$ 65,793	\$ 77,189
Sales proceeds	(14,979)	(17,947)
Unrealized gain	(3,180)	6,551
Ending balance	\$ 47,634	\$ 65,793

#### **Foundation Endowment**

The Foundation's endowment consists of approximately 165 individual funds established for a variety of purposes for donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

- (1) The duration and preservation of the fund

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

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

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

This rate shall be applied to the market value of the endowed account (three year trailing average) not including gifts made in the current fiscal year (to allow those new gifts to accrue interest). The corridor (or parameters) of the distribution from year to year will be between 3.5% and 6.5%, with the caveat that the Foundation Board's distribution committee may, with all available information, have the discretion to adjust slightly the distribution rate for a given year depending on short/long term needs of the University and the anticipated near-term trends in anticipated inflation and investment returns, consistent with the Foundation's Investment/Distribution Goal Statement. The only exception to this policy shall be for endowment distributions tied directly to a faculty member's salary, such as an endowed chair. In this case, every effort will be made to hold these distributions at 5% annually. The spending allocation rate was 3.5% for the years ended June 30, 2017 and 2016 for endowed funds supporting scholarships and programs and 5% for endowed funds associated with salaries as mentioned above.

Total endowment spending allocation distributed for the years ended June 30, 2017 and 2016 was \$503,454 and \$489,311, respectively.

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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

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

Due to past stock market fluctuations and continued funding to the University, the fair value of assets associated with individual donor-restricted endowment funds have fallen below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. The continued appropriations for certain programs that were deemed prudent by the Foundation Board and in accordance with UPMIFA, caused deficiencies of \$3,329,364 and \$3,382,883 as of June 30, 2017 and 2016, respectively. For financial statement purposes, these deficiencies are reported as part of unrestricted net assets in accordance with generally accepted accounting principles.

**Promises to Give**

Unconditional promises to give at June 30, 2017 consisted of the following:

Restricted for the University Center Project	\$ 53,000
Restricted for scholarships or other purposes	477,808
Less: allowance for uncollectible contributions receivable	<u>(10,616)</u>
Gross unconditional promises to give	520,192
Less: unamortized discount	<u>(27,139)</u>
<b>Net unconditional promises to give</b>	<b><u>\$ 493,053</u></b>
Receivable in less than one year	\$ 284,303
Receivable in one to five years	138,086
Receivable after five years	<u>70,664</u>
<b>Total</b>	<b><u>\$ 493,053</u></b>

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

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

**WESTERN STATE COLORADO UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2017 and 2016

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**NOTE M – RELATED PARTY LEASE AGREEMENTS**

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

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

**NOTE N – LEGISLATIVE APPROPRIATION**

**Appropriated Funds**

The Colorado Legislature establishes spending authority for the University in its annual Long Appropriations Bill. Appropriated funds include an amount from the State's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources. For the years ended June 30, funds newly appropriated to the University for the College Opportunity Fund and Fee for Service were \$11,534,927 (2017) and \$11,643,992 (2016). In 2017, the University was also appropriated \$1,651,869 for capital construction. Additionally, for the fiscal years ended June 30, the University carried over \$6,891,814 (2017) and \$24,260,548 (2016) in capital appropriations from prior fiscal years. Actual appropriated revenue earned, including capital appropriations, totaled \$17,726,528 (2017) and \$29,012,341 (2016). Actual appropriated expenditures and transfers totaled \$17,726,528 (2017) and \$29,012,341 (2016).

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

**Non-Appropriated Funds**

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

## REQUIRED SUPPLEMENTARY INFORMATION

# WESTERN STATE COLORADO UNIVERSITY

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

For the Years Ended June 30, \*

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	2017	2016	2015
University's proportion of the net pension liability	0.1860%	0.1950%	0.2016%
University's proportionate share of the net pension liability	\$ 34,158,370	\$ 20,538,558	\$ 18,959,603
University's covered payroll	\$ 5,573,306	\$ 5,692,536	\$ 5,625,076
University's proportionate share of the net pension liability as a percentage of its covered payroll	612.89%	360.80%	337.06%
Plan fiduciary net position as a percentage of the total pension liability	42.60%	56.10%	56.84%

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

**WESTERN STATE COLORADO UNIVERSITY**  
**SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF UNIVERSITY CONTRIBUTIONS TO PERA DEFINED BENEFIT PENSION PLAN**  
For the Years Ended June 30,

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



## SUPPLEMENTAL INFORMATION SECTION

**WESTERN STATE COLORADO UNIVERSITY**  
**SCHEDULES OF REVENUES AND EXPENSES**  
**FOR ENTERPRISE REVENUE BONDS**  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>REVENUE</b>		
College Service Fees	\$ 3,238,868	\$ 2,851,091
Extended Studies Tuition	6,554,505	5,164,720
10% of Education and General Fund Tuition <sup>1</sup>	2,135,509	1,995,024
Federal Interest Subsidy	1,152,734	1,154,746
Bookstore Sales	881,554	892,874
Rental Income	5,387,707	4,759,378
Food Service Income	3,282,692	3,100,661
Sales/Service Auxiliaries	761,544	1,023,876
Interest Income	82,516	64,374
<i>Total Revenues</i>	<u>23,477,629</u>	<u>21,006,744</u>
<b>EXPENSES</b>		
Employee Compensation	3,695,188	3,300,449
Costs of Goods Sold	582,548	646,383
Utilities	516,666	467,819
Rental	7,566	23,925
Contract Food	1,925,718	1,886,016
Travel	205,518	256,663
Supplies	247,636	237,371
Purchased Services	3,016,168	2,879,812
Financial Aid	619,973	486,152
Administrative Cost Allowance	2,441,796	2,267,460
Furniture & Equipment	129,973	111,554
Other Operating Expenses	101,617	105,069
<i>Total Expenses</i>	<u>13,490,367</u>	<u>12,668,673</u>
<i>Net Operating Revenue</i>	<b>9,987,262</b>	8,338,071
<b>TRANSFERS</b>		
Mandatory Transfers	125,007	125,007
Non-mandatory Transfers	90,589	143,803
<i>Total Transfers</i>	<u>215,596</u>	<u>268,810</u>
<i>Net Revenue</i>	<u><b>\$ 10,202,858</b></u>	<u><b>\$ 8,606,881</b></u>
<b>DEBT SERVICE CHARGE</b>		
Net Operating Revenue	9,987,262	8,338,071
Bond Principal and Interest	(5,899,190)	(6,024,045)
Bond Principal and Interest Paid from Debt Service Reserve	-	297,657
<i>Excess of Net Operating Revenue over Debt Service</i>	<u><b>\$ 4,088,072</b></u>	<u><b>\$ 2,611,683</b></u>
<i>Debt Service Coverage Ratio, Net of Debt Service Reserve</i>	<b>1.69</b>	1.46

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



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

Members of the Legislative Audit Committee:  
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of Western State Colorado University (the University), an institution of higher education of the State of Colorado, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 20, 2017. Our report includes a reference to other auditors who audited the financial statements of the Western State Colorado University Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component unit, Western State Colorado University Foundation, were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

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

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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

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

November 20, 2017



DALBY, WENDLAND & CO., P.C.

Grand Junction

*CPAs and Business Advisors*

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## AUDIT COMMITTEE COMMUNICATIONS

Members of the Legislative Audit Committee:  
Denver, Colorado

We have audited the financial statements of the business-type activities of Western State Colorado University (the University) an institution of higher education of the State of Colorado, for the year ended June 30, 2017, and have issued our report thereon dated November 20, 2017. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Western State Colorado University Foundation (the Foundation), a discretely presented component unit of the University, and the Foundation's financial statements were not audited in accordance with *Government Auditing Standards*. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 17, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

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

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the University are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the University during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the net pension liability is based on the estimate of the University's proportionate share of the net pension liability as of December 31, 2016 and 2015 of the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Colorado Public Employees' Retirement Association (PERA), as described in Note H to the University's financial statements. The University's proportion of the SDTF's net pension liability was based on the University's contributions to the SDTF for the calendar year 2016 and 2015 relative to the total contributions made to the SDTF by participating employers for the calendar year 2016 and 2015.

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

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

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

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

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

### **Corrected and Uncorrected Misstatements**

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

### **Disagreements with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 20, 2017.

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

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

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

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

### **Other Matters**

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

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

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

**Restriction on Use**

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

Sincerely,

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

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

November 20, 2017

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION



**WESTERN STATE COLORADO UNIVERSITY**  
**STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
For the year ended June 30, 2017

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**Introduction**

Western State Colorado University is a state-supported institution of higher education located in Gunnison, Colorado.

The financial and compliance examination of the various state-funded student assistance programs at the University for the year ended June 30, 2017, was directed toward the objectives and criteria set forth in the Colorado Handbook for State-Funded Student Assistance Programs, issued by the Colorado Department on Higher Education (CDHE). The State-Funded Student Assistance Programs policies are approved by the Colorado Commission on Higher Education (CCHE). The State student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2017.

**State-Funded Student Assistance Programs**

The various State-funded student assistance programs at the University include the Colorado Need Based Grant Program, the Colorado Work Study Program, and the Colorado Merit Aid.

The State-funded student assistance awards made by the University totaled approximately \$1,305,000 for the fiscal year ended 2017.

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

During the audit period, Western State Colorado University obtained authorizations to award federal student financial aid funds of approximately \$2,440,000 under the Pell Grant Program, \$86,000 under the Supplemental Educational Opportunity Grant Program and \$187,000 under the Federal College Work-Study Program.

During the audit period, Western State Colorado University obtained authorizations to award Colorado student financial aid funds of approximately \$993,000 under the Colorado Need Based Grant Program, \$47,000 under the Colorado Merit Aid program, and \$265,000 under the Colorado Work Study Program.



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**REPORT OF INDEPENDENT AUDITOR ON THE STATEMENT OF  
APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS OF  
THE STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**

Members of the Legislative Audit Committee:

**Report on the Statement**

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs (the Statement) for Western State Colorado University (the University), an institution of higher education of the State of Colorado, for the year ended June 30, 2017, and the notes related to the Statement. The Statement is the responsibility of the University's management. Our responsibility is to express an opinion on this Statement based on our audit.

**Management's Responsibility for the Statement**

Management is responsible for the preparation and fair presentation of the Statement in accordance with the financial format as set forth in the *2016-17 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Colorado Department of Higher Education (CDHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University, as described in Note A to the Statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

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

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

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## **Opinion**

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the University for the year ended June 30, 2017, in accordance with the format as set forth in the *2016-17 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education (DHE), and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University described in Note A to the Statement.

## **Basis of Accounting**

We draw attention to Note A to the Statement, which describes the basis of accounting. As described in Note A to the Statement, the Statement prepared by the University was prepared in accordance with the *2016-2017 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado-Funded Student Aid* issued by the Department of Higher Education, and in conformity with the policies and procedures for State-Funded Student Financial Assistance Programs established by the governing board of the University. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study programs, and does not present certain transactions that would be included in the statement of state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to, and does not present the financial position, changes in financial position, or cash flows of the University in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have issued our report dated November 20, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## **Restriction on Use**

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the University's Board of Trustees, and management of the University, the Colorado Department of Higher Education, and the Colorado Commission on Higher Education and is not intended to be, and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee this report is a public document.

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

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

November 20, 2017

**WESTERN STATE COLORADO UNIVERSITY**

STATE-FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS  
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS

Year Ended June 30, 2017

	TOTAL STATE- FUNDED STUDENT ASSISTANCE	COLORADO NEED-BASED GRANT	COLORADO GRADUATE GRANT	WORK STUDY PROGRAM	COLORADO MERIT SCHOLARSHIP
APPROPRIATIONS:					
ORIGINAL	\$ 1,255,441	\$ 943,333	\$ -	\$ 265,475	\$ 46,633
SUPPLEMENTAL	50,000	50,000	-	-	-
TRANSFERS	-	-	-	-	-
RETURNED TO CCHE	-	-	-	-	-
TOTAL	1,305,441	993,333	-	265,475	46,633
EXPENDITURES	(1,305,441)	(993,333)		(265,475)	(46,633)
REVERSIONS TO STATE	-	-	-	-	-
GENERAL FUND	\$ -	\$ -	\$ -	\$ -	\$ -

**WESTERN STATE COLORADO UNIVERSITY**  
**STATE –FUNDED STUDENT FINANCIAL ASSISTANCE PROGRAMS**  
**NOTES TO STATEMENT OF APPROPRIATIONS,**  
**EXPENDITURES, TRANSFERS, AND REVERSIONS**

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

**Basis of Presentation**

Western State Colorado University (the University) is governed by the University's Board of Trustees.

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as set forth in the *2016-2017 Audit Guide for State and Private Non-Profit Institutions of Higher Education, Colorado Funded Student Aid* issued by the Colorado Department of Higher Education (CDHE) and in accordance with the policies and procedures for State-Funded Student Financial Assistance Programs established by the Board of Trustees of the University. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of the University for the year ended June 30, 2017. Because the Statement presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position or changes in financial position of the University in conformity with U.S. generally accepted accounting principles.

**Basis of Accounting**

The University's accounting system is structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Officers in its revised publication *Financial Accounting and Reporting Manual*.

All student aid is expensed on a cash basis except for the Colorado Work Study (CWS) Program. The CWS is on the accrual basis in that the expense is recognized when students earn their wages from employment positions funded by CWS.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE STATEMENT OF APPROPRIATIONS, EXPENDITURES,  
TRANSFERS, AND REVERSIONS OF THE STATE OF COLORADO STATE-FUNDED STUDENT  
ASSISTANCE PROGRAMS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Members of the Legislative Audit Committee:  
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Assistance Programs (the Statement) of Western State Colorado University (the University), an institution of higher education of the State of Colorado, as of and for the year ended June 30, 2017, and the related notes to the Statement, and have issued our report thereon dated November 20, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

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

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

November 20, 2017