MESA STATE COLLEGE

FINANCIAL AND COMPLIANCE AUDIT

FISCAL YEARS ENDED June 30, 2006 and 2005

LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS

Senator Stephanie Takis
Chair

Representative James Kerr
Vice-Chair

Representative Dorothy Butcher
Senator Jim Isgar
Representative Rosemary Marshall
Representative Victor Mitchell
Senator Nancy Spence
Senator Jack Taylor

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Christy Reeves
Legislative Manager

November 1, 2006

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of Mesa State College. The audit was conducted under contract with the State Auditor pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions, and agencies of state government. The audit included examinations of the basic financial statements and the statements of state-funded student assistance programs. The report includes the financial statements as well as the independent auditors' reports issued as part of the audit.

TABLE OF CONTENTS

STATE OF COLORADO
MESA STATE COLLEGE
REPORT SUMMARY - FINANCIAL AND COMPLIANCE AUDIT
Year Ended June 30, 2006

PURPOSE AND SCOPE OF AUDIT

The Office of the State Auditor, State of Colorado, engaged Chadwick, Steinkirchner, Davis & Co., P.C. to conduct an audit of Mesa State College (the College) for its Fiscal Year ended June 30, 2006 and 2005. Chadwick, Steinkirchner, Davis & Co., P.C. performed the audit in accordance with auditing standards generally accepted in the United States of America, and *Government Auditing Standards*, issued by the Comptroller General of the United States. The related field work was conducted from June through September 2006.

The purpose and scope of the audit was to:

- Express an opinion on the financial statements of the College as of and for the years ended June 30, 2006 and 2005. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditures of federal and state funds.

- Report on the College's compliance and internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.

- Evaluate progress in implementing prior audit findings and recommendations.

Audit Opinions and Reports

We expressed an unqualified opinion on the College's financial statements as of and for the years ended June 30, 2006 and 2005, as applicable.

We issued a report on the College's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. We did not note any material weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the financial statements.

The College's Schedule of Expenditures of Federal Awards and applicable opinions thereon of the Office of the State Auditor, State of Colorado, are included in the June 30, 2006, Statewide Single Audit Report issued under separate cover.

We also issued certain required communications related to the conduct of an audit including our responsibility under auditing standards generally accepted in the United States of America, significant accounting policies, management judgments and accounting estimates, audit adjustments, disagreements with management, and difficulties encountered in performing the audit. No delays or disagreements are reported. Two audit adjustments were recorded as a result of audit procedures performed during fieldwork. The first adjustment was for $1,136,202 affecting both liabilities and construction in progress in the current year. The second adjustment was a prior period adjustment for $436,798 affecting accumulated depreciation and depreciation expense in the prior year.

Summary of Key Findings and Recommendations

There were no reported findings and recommendations resulting from the audit work completed for Fiscal Year 2006.

Summary of Progress in Implementing Prior Audit Recommendations

There were no recommendations for the year ended June 30, 2005.

Description of Mesa State College

The Board of Trustees of Mesa State College

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, establishes an independent governing board for Mesa State College. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of Mesa State College. For the years ended June 30, 2006 and 2005, the financial statements of Mesa State College are presented on a stand-alone basis as the State Colleges in Colorado system no longer exists. For the years ended on and prior to July 1, 2002, the financial statements of Mesa State College were included on a consolidated basis, which included Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, the Office of State Colleges, and the Western Colorado Graduate Center.

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

The Board has three goals:

- To provide outstanding teaching with diverse student populations.
- To furnish Board and campus leadership that connects educational issues with the future of Colorado and the communities served by Mesa State College.
- To assure the people of Colorado that human and financial resources are utilized most effectively.

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

Mesa State College

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

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

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

	2006	2005	2004
Resident Students	4586.4	4,679.1	4,334.3
Non-Resident Students	457.2	473.7	463.0
Total Students	5043.6	5,152.8	4,797.3
Faculty FTEs	241.3	242.0	240.8
Staff FTEs	153.2	144.0	148.4
Total Faculty and Staff FTEs	394.5	386.0	389.2

FINANCIAL STATEMENT SECTION

INDEPENDENT AUDITORS' REPORT

September 8, 2006

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of Mesa State College, a blended component unit of the State of Colorado, and of Mesa State College Foundation, a discretely presented component unit of Mesa State College as of and for the years ended June 30, 2006 and 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the management of Mesa State College. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 on our consideration of Mesa State College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

225 North 5th Street , Suite 401
Grand Junction, CO 81501-2645
www.csdcpa.com
e-mail info@csdcpa.com
970/245-3000
FAX 970/242-4716
TOLL FREE 877/245-8080

September 8, 2006
Page Two

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

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

Chadwick, Steinkirchner, Davis & Co., P.C.

MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS- UNAUDITED

Years Ended June 30, 2006 and 2005

This section of Mesa State College's annual financial report presents management's discussion and analysis of the financial performance of the College during the years ended June 30, 2006 and 2005. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of Mesa State College. The former State College System was comprised of Adams State College, Mesa State College, Metropolitan State College of Denver, Western State College, the Western Colorado Graduate Center and the Office of State Colleges (governing board staff). Additional information is provided in the notes accompanying the basic financial statements. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes.

Using the Financial Report

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

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

Component Units

During Fiscal Year 2004, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units. This Statement amends GASB Statement No. 14 to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the College's financial reporting entity. The College has determined that the Mesa State College Foundation meets GASB Statement No. 39 criteria for inclusion in the College's financial statements. The Foundation had net assets of $10.0 million and $9.0 million as of June 30, 2006 and 2005, respectively, and total support and revenue of $2.6 million and $3.3 million for Fiscal Year 2006 and Fiscal Year 2005, respectively. Typically, discretely presented information is shown in a separate column on the same page as the information of the reporting entity. However, if a component unit uses a different financial reporting model (i.e., FASB Non-Profit) then GASB 39 states that the information "... need not be presented on the same page as the primary government, but may be presented on separate pages."

For Colorado institutions of higher education, either of these presentation options is acceptable if the component unit uses a different reporting model. Component Unit reporting must include a Statement of Net Assets (or Financial Position) and a Statement of Revenues, Expenses, and Changes in Net Assets (or Statement of Activities). A Statement of Cash Flows is not required.

For the year ended June 30, 2006, Mesa State College, using GASB 39 criteria, has identified the Mesa State College Foundation as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages immediately following the basic financial statements as allowed by GASB 39.

The Mesa State College Foundation is a separate non-profit corporation under Internal Revenue Code Section 501 (c) (3) formed to provide financial assistance to Mesa State College students and to otherwise assist Mesa State College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the Mesa State College Board of Trustees. The Foundation's records are maintained separately from the College.

The Foundation transferred real property of $170,000 (2006) and $429,297 (2005) to the College to assist with the College's expansion efforts.

In May 2006, the Mesa State College Board of Trustees approved the articles of incorporation for the Mesa State College Real Estate Foundation (MSCREF). At the end of the current fiscal year, operations had not commenced and MSCREF had $18 thousand in cash as its only asset. MSCREF does not meet GASB 39 criteria for a component unit for the current fiscal year because economic resources are not significant to the College. It is expected that MSCREF resources will grow over time and the required financial data will be presented in accordance with GASB 39.

Financial Highlights

- Mesa State College's financial position improved during the Fiscal Year ended June 30, 2006 as evidenced by an increase of nearly $6.5 million in net assets; net assets were $69.9 million at June 30, 2006 and $63.5 million at June 30, 2005.

- Mesa State College's current assets of $25.2 million (2006) and $17.9 million (2005) were sufficient to cover current liabilities of $8.6 million (2006) and $5.1 million (2005). The current ratio (current assets/current liabilities) of 2.93 (2006) and 3.51 (2005) demonstrates the liquidity of assets and the relative availability of working capital to fund current operations.

- State appropriations funding was replaced with student stipends from the College Opportunity Fund totaling $9.7 million and by the fee for services contract with the Colorado Commission on Higher Education (CCHE) for $10.2 million. Prior years' appropriations were recorded as non-operating state appropriations whereas in 2006 student stipend and contract revenues from CCHE are shown as tuition revenue and as sales of services respectively. As a result, the College had net operating income of $6 million in 2006 versus a net operating loss of $11.9 million in 2005.

- Mesa State College was part of the State Colleges' system during 2003. HB 03-1093 authorized independent governance for Mesa State College effective July 1, 2003. Since the State Colleges system no longer exists, Mesa State College's financials are presented on a stand-alone basis for 2006 and 2005.

Statement of Net Assets

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

Mesa State College
Condensed Statement of Net Assets
As of June 30,
(in Thousands)

	2006	2005	2004
Assets			
Current Assets	$ 25,232	$ 17,852	$ 12,831
Non-Current Assets	86,251	63,669	64,911
Total Assets	$ 111,483	$ 81,521	$ 77,742
Liabilities			
Current Liabilities	$ 8,609	$ 5,116	$ 4,916
Non-Current Liabilities	32,932	12,927	13,533
Total Liabilities	$ 41,541	$ 18,043	$ 18,449
Net Assets			
Invested in Capital Assets, net of related debt	$ 52,369	$ 49,357	$ 49,258
Restricted	2,953	2,300	8,618
Unrestricted	14,620	11,821	1,417
Total Net Assets	$ 69,942	$ 63,478	$ 59,293

At June 30, 2006, Mesa State College's total net assets were $69.9 million compared to $63.5 million at June 30, 2005. Capital assets (net of related debt) is the largest asset category with $52.4 million (2006) and $49.4 million (2005), which includes land, buildings, equipment, library holdings, and construction in process. The capital asset amounts are net of accumulated depreciation of $34.0 million (2006) and $31.4 million (2005). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In Fiscal Year 2006, Mesa State College's current assets of $25.2 million were sufficient to cover current liabilities of $8.6 million (producing a current ratio of 2.93). This compares to Fiscal Year 2005 with current assets of $17.9 million and current liabilities of $5.1 million, which produced a current ratio of 3.51. Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments with maturities of three months or less) comprised approximately $33.1 million (2006) and $16.6 million (2005) in assets per the Statement of Net Assets.

Bonds payable totaled $33.0 million (2006) and $12.8 million (2005) and represents 80% (2006) and 71% (2005) of Mesa State College's total liabilities of $41.5 million (2006) and $18.0 million (2005). The current portion of the bonds payable liability totals $985,000 (2006) and $610,000 (2005).

Mesa State College's financial position improved during the Fiscal Year as evidenced by the increase in net assets of $6.5 million (2006) and $4.2 million (2005) (see the Statement of Revenues, Expenses and Changes in Net Assets) to $69.9 million (2006) and $63.5 million (2005). Of the total net assets, $52.4 million (2006) and $49.4 million (2005) is invested in capital assets net of related debt, a total of $3.0 million (2006) and $2.3 million (2005) is restricted for specific purposes, and $14.6 million (2006) and $11.8 million (2005) is unrestricted and available for use at the discretion of the Board of Trustees.

Statement of Revenues, Expenses and Changes in Net Assets

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

Tuition and fee revenues accounted for $20.6 million of the $51.8 million in operating revenues (2006) and $10.0 million of the $31.3 million (2005). The tuition and fee amount is net of scholarship allowances of $8.2 million (2006) and $6.7 million (2005). Scholarship allowances are defined as the financial aid awarded to students by the College that is used to pay College charges. The scholarship allowance is recognized as a direct reduction of revenue. The large increase in tuition and fee revenues is primarily due to the College Opportunity Fund (COF) student stipend. Tuition revenues from COF student stipends were $9.7 million in Fiscal Year 2006. Operating revenues increased from $31.3 million in 2005 to $51.8 million in 2006. In addition to the COF tuition increase, CCHE Fee for Service operating revenues were $10.2 million in Fiscal Year 2006.

Operating expenses totaled $45.8 million (2006) and $43.2 million (2005). The breakdown of expenses by reporting category is as follows:

Fiscal Year:	2006	2005
Instruction	$16,041,762	$15,403,540
Research	580,852	611,494
Public Service	443,612	495,298
Academic Support	2,587,272	2,591,873
Student Services	2,894,313	2,706,650
Institutional Support	2,025,189	1,454,551
Operation and Maintenance of Plant	4,689,933	2,898,109
Scholarships and Fellowships (net)	1,056,538	2,250,097
Auxiliary Enterprises	12,637,978	11,788,378
Depreciation	2,805,202	2,981,620

Because the financial reporting standard classifies state appropriations as non-operating revenues, Mesa State College's dependency on state appropriations produced an operating deficit of $11.9 million in Fiscal Year 2005, compared to net operating income of $6.1 million in 2006 due to COF student stipends and the fee for service contract revenues with CCHE.

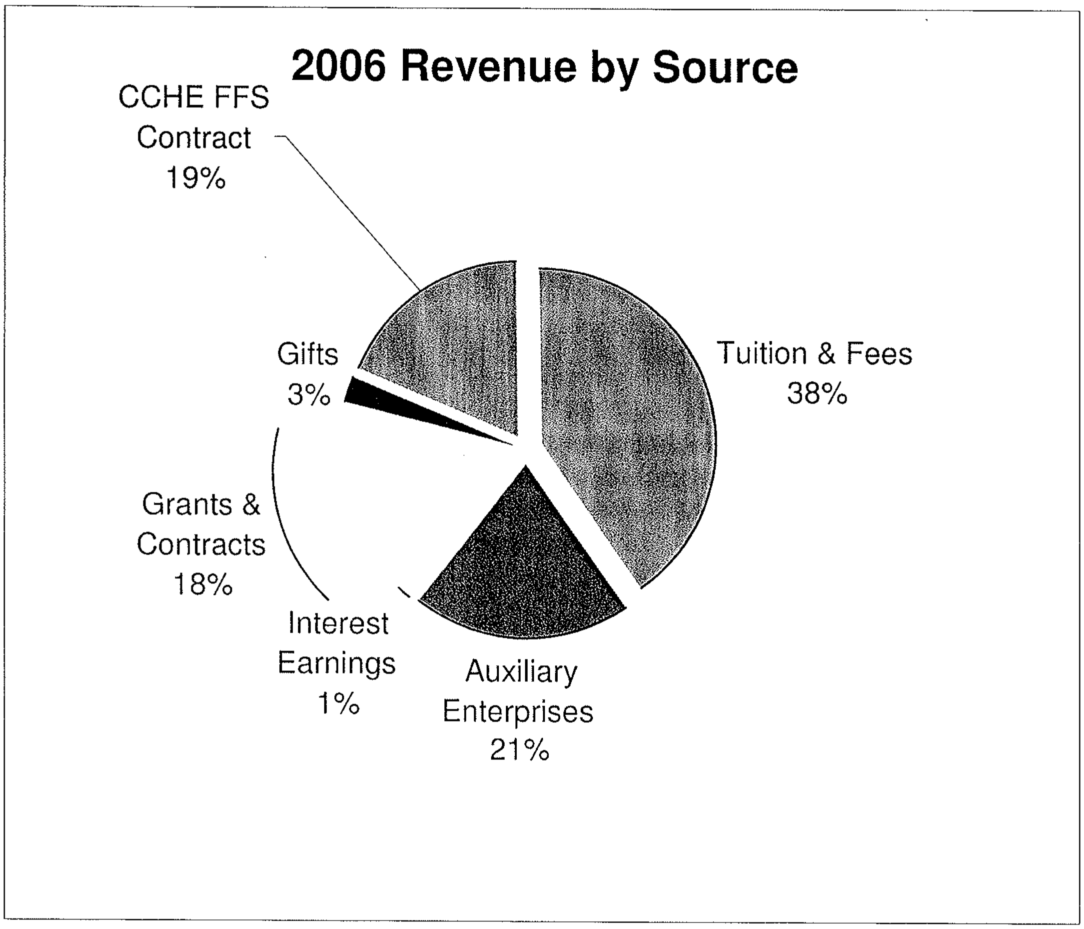
MESA STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS- UNAUDITED

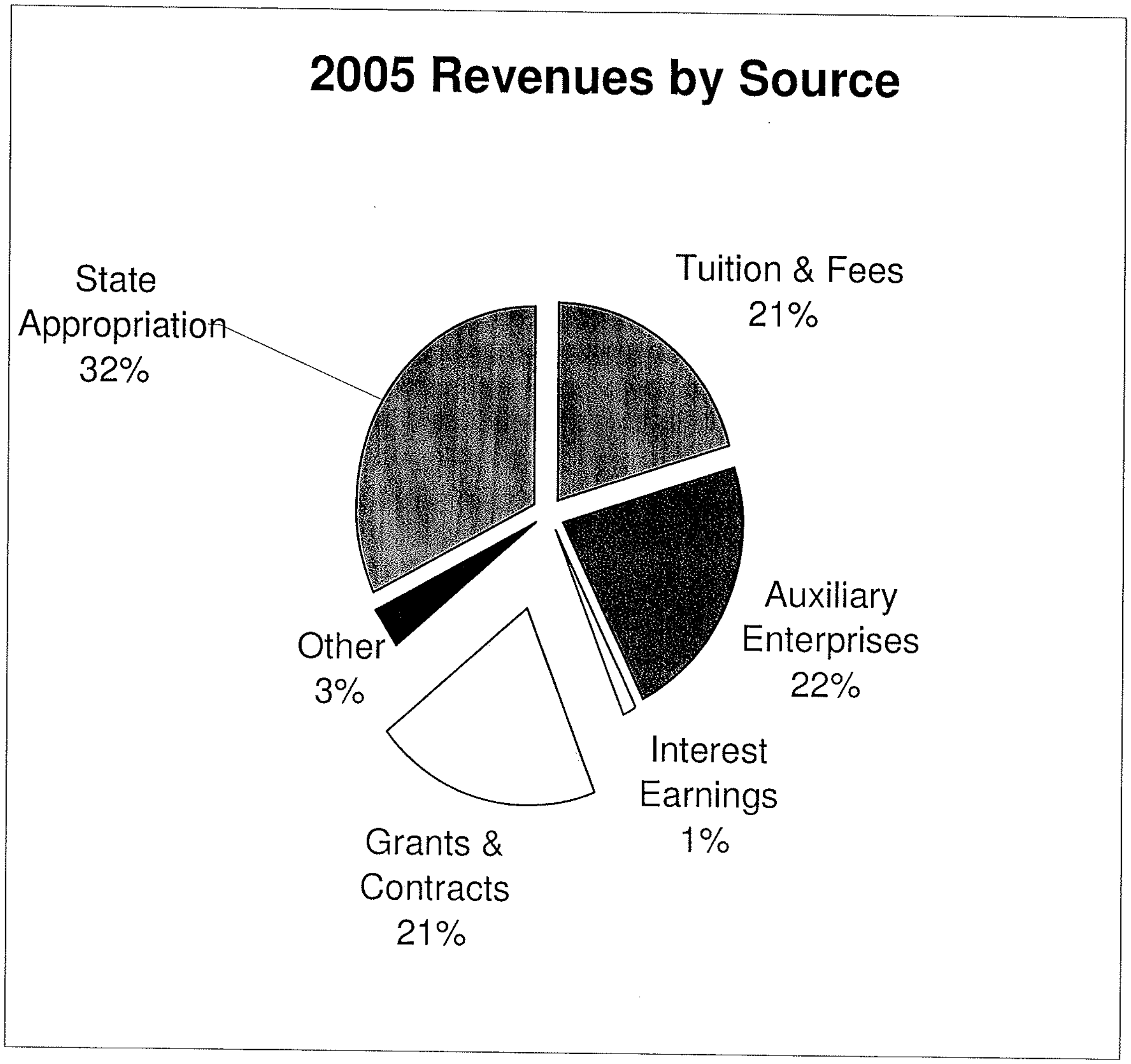
Years Ended June 30, 2006 and 2005

Condensed Statement of Revenues Expenses and Changes in Net Assets
Years Ended June 30,
(in Thousands)

	2006	2005	2004
Operating Revenues:			
Tuition and Fees (net)	$ 20,600	$ 10,032	$ 7,826
CCHE Fee for Service Revenues	10,155	-	-
Grants and Contracts	9,348	10,001	9,836
Auxiliary Enterprises (net)	11,138	10,592	10,369
Other	603	687	624
Total Operating Revenues	$ 51,844	$ 31,312	$ 28,655
Operating Expenses:	$ 45,763	$ 43,182	$ 43,368
Net Operating (Loss)	$ 6,081	$ (11,870)	$ (14,713)
Non-Operating Revenues (Expenses):			
State Appropriations	$ -	$ 15,775	$ 15,775
Interest Income	620	608	337
Other Non-Operating Income (Expense)	352	(254)	2,955
	$ 972	$ 16,129	$ 19,067
Income (Loss) Before Other Revenues Expenses Gains or Losses	$ 7,053	$ 4,259	$ 4,354
State Appropriations Capital	$ 12	$ 21	$ 345
Other	(601)	(95)	-
Increase (Decrease) in Net Assets	$ 6,464	$ 4,185	$ 4,699
Net Assets:			
Net Assets Beginning of Year	$ 63,478	$ 59,293	$ 54,594
Nets Assets End of Year	$ 69,942	$ 63,478	$ 59,293

Below is a graphic illustration of total revenues by source for Mesa State College. It reflects the change in from State Appropriations which account for approximately 32% in 2005 to Fee for Services revenues of 19% in 2006. Tuition and fees, including the COF student stipend, went from 21% of total revenues in 2005 to 38% of total revenues in 2006. Each major revenue component is displayed relative to its proportionate share of total revenues. Tuition and Fee revenues are shown net of scholarship allowance of $8.2 million (2006) and $6.7 million (2005).




2005 Revenues by Source
State Appropriation 32%
Tuition & Fees 21%
Auxiliary Enterprises 22%
Interest Earnings 1%
Grants & Contracts 21%
Other 3%

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, non-capital financing, and capital financing and related investing activities. It also helps statement users assess the College's ability to generate cash flows to meet financial obligations.

**Mesa State College
Condensed Statement of Cash Flows
Years Ended June 30,
(in Thousands)**

	2006	2005	2004
Net Cash Provided (Used) by:			
Operating Activities	$ 9,559	$ (9,753)	$ (11,609)
Non-Capital Financing Activities	(48)	16,313	16,081
Capital and Related Financing Activities	6,394	(3,997)	(2,938)
Investing Activities	620	607	335
Net Increase (Decrease) in Cash	16,525	3,170	1,869
Cash and Equivalents:			
Beginning of Year	16,556	13,386	11,517
End of Year	$ 33,081	$ 16,556	$ 13,386

Cash from operating activities and non-capital financing increased by $3.0 million in Fiscal Year 2006 compared to Fiscal Year 2005. Fiscal Year 2006 cash from capital and related financing activities increased by $10.4 million compared to the prior year due to the issuance of $20 million of Auxiliary Facilities System Enterprise Revenue Bonds, Series 2005. Major sources of operating cash included tuition and fees of $28.8 million (2006) and $17.1 million (2005); contracts and grants of $10.2 million in 2006 and $10.0 million in 2005; and auxiliary sales and services of $10.7 million in 2006 and $10.3 million in 2005; and Fee for Service contract revenues of $10.2 million. Primary uses of funds included payments to or for employees of $26.2 million (2006) and $26.1 million (2005); payments to suppliers of $15.3 million (2006) and $12.4 million (2005); and scholarships disbursed of $9.2 million (2006) and $8.9 million (2005).

Financing Activities

In September 2005, the Board of Trustees authorized the issuance of $20.0 million revenue bonds, Auxiliary Facilities System Enterprise Revenue Bonds, Series 2005, to finance the construction of a $14.3 million 288 bed residence hall that opened for the Fall 2006 semester. Remaining bond proceeds will be used to construct a parking facility and to improve and equip the auxiliary facilities system. Combined with the outstanding bonds issued from the 2005 series B bonds, total related capital debt was $33.2 million. Pledged net revenues and transfers were $2.6 million in Fiscal Year 2006, which were 216% of bond principal and interest payments of $1.2 million. The debt service coverage ratio of 216% for Fiscal Year 2006 compares to 234% in Fiscal Year 2005.

Economic Outlook

Undergraduate enrollments on a student FTE basis at Mesa State College decreased 2.2% in Fiscal Year 2006 after experiencing annual increases for the past several years including undergraduate gains of 7.4% (2005), and 3.16% (2004). Graduate enrollment was down 5.8 FTE in 2006 and was down by 4.8 FTE in 2005 after increases of 1.30% (2004), and 12.14% (2003).

As the result of SB 04-189, the General Assembly created The College Opportunity Fund, allowing the State to increase funding for higher education, primarily in the form of COF stipends and Fee for Service contracts with CCHE. Although enrollments decreased by about 2.2% in Fiscal Year 2006 compared to Fiscal Year 2005, operating and non-operating revenues increased by almost $6 million while expenses increased by only $3.5 million.

Increasing enrollment is vital to the College's long-term economic health and the College has developed goals and strategies that include:

- Increasing penetration in Western Colorado, contiguous states and select non-contiguous states.
- Improving student access through a combination of classroom, distance and hybrid delivery modes.
- Offering courses that meet the requirements of the State's guaranteed transfer general education program.
- Extend the college's technology network to enhance connectivity with other institutions in the region.
- Recruit and retain a highly-qualified and ethnically-diverse faculty whose highest commitment is to excellent instruction.

Mesa State College was approved as a TABOR-exempt enterprise for Fiscal Year 2006. Designation will be reviewed at the end of each year to determine that the colleges and universities continue to meet TABOR-exempt criteria. To meet enterprise status under TABOR, the College must receive less than 10 percent of its revenue from grants from all Colorado state and local governments combined and be authorized to issue revenue bonds. By achieving TABOR enterprise status, the Mesa State College Board of Trustees has greater flexibility in terms of pricing, recruitment, retention and seeking additional revenue sources to further its respective role and mission as educational providers.

STATE OF COLORADO
MESA STATE COLLEGE
Statements of Net Assets
For The Years Ended:

	June 30, 2006	June 30, 2005
ASSETS		
Current Assets		
Cash & Cash Equivalents (Note 2)	$ 22,506,190	$ 15,698,321
Student Accounts Receivable, Net	857,375	634,356
Other Accounts Receivable, Net	908,109	758,367
Student Loans, Net	356,522	228,806
Inventories	592,140	507,449
Prepaid Expenses	11,895	24,168
Total Current Assets	$ 25,232,231	$ 17,851,467
Non-current Assets		
Restricted Cash & Cash Equivalents (Note 2)	$ 10,574,466	$ 858,161
Student Loans, Net	688,711	811,739
Other Non-current Assets	627,742	323,662
Total Non-current Assets	$ 11,890,919	$ 1,993,562
Land	$ 1,979,684	$ 1,979,684
Construction in Progress	18,572,575	3,095,499
Total Non-depreciable Capital Assets	$ 20,552,259	$ 5,075,183
Depreciable Capital Assets, Net		
Land Improvements (less accumulated depreciation of $814,832 and $741,732)	$ 572,720	$ 536,539
Buildings & Improvements (less accumulated depreciation of $21,737,323 and $20,024,246)	46,689,964	49,096,712
Furniture and Equipment (less accumulated depreciation of $5,759,975 and $5,322,708)	3,182,080	3,447,029
Library Materials (less accumulated depreciation of $5,720,141 and $5,293,446)	3,362,802	3,520,062
Total Depreciable Capital Assets, Net	$ 53,807,566	$ 56,600,342
Total Non-current Assets	$ 86,250,744	$ 63,669,087
TOTAL ASSETS	$ 111,482,975	$ 81,520,554

continued

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

STATE OF COLORADO
MESA STATE COLLEGE
Statements of Net Assets (continued)

For The Years Ended:	June 30, 2006	June 30, 2005
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	$ 1,800,007	$ 321,792
Accrued Liabilities	4,327,558	2,851,624
Deferred Revenues	817,330	763,101
Deposits Held For Others	344,230	220,416
Student Deposits	225,176	228,777
Bonds Payable, Current Portion	985,000	610,000
Capital Leases Payable, Current Portion	15,911	15,226
Notes Payable, Current Portion	5,851	-
Compensated Absence Liability, Current Portion	88,251	105,203
Total Current Liabilities	$ 8,609,314	$ 5,116,139
Non-current Liabilities		
Bonds Payable (net of ($200,006) and $569,524 unamortized discount/premium)	$ 32,005,007	$ 12,185,477
Capital Leases Payable	-	15,911
Notes Payable	181,330	-
Other Long Term Liabilities	50,000	50,000
Compensated Absence	695,808	675,448
Total Non-current Liabilities	$ 32,932,145	$ 12,926,836
Total Liabilities	$ 41,541,459	$ 18,042,975
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 52,368,934	$ 49,356,654
Restricted For:		
Loans	1,170,254	1,159,352
Bonded auxiliaries	1,782,568	1,140,305
Unrestricted	14,619,760	11,821,268
Total Net Assets	$ 69,941,516	$ 63,477,579

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

MESA STATE COLLEGE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30,

	2006	2005
ASSETS		
Cash and cash equivalents	$ 817,036	$ 1,263,938
Investments, at fair value	8,023,129	6,307,580
Unconditional promises to give	524,566	326,623
Due From Mesa State College	50,000	50,000
Investments, at cost	7	7
Property held for sale	585,000	1,005,000
Property and equipment, net of depreciation	519,636	570,655
	$ 10,519,374	$ 9,523,803
LIABILITIES AND NET ASSETS		
Accounts payable	$ 10,551	$ 21,672
Deposits held for others	357,344	93,437
Line of credit	-	240,000
Trust annuity payable	118,323	132,884
Deferred gifts payable	27,915	27,915
	514,133	515,908
Unrestricted	127,021	137,918
Temporarily restricted	2,110,924	2,022,993
Permanently restricted	7,767,296	6,846,984
	10,005,241	9,007,895
	$ 10,519,374	$ 9,523,803

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

STATE OF COLORADO
MESA STATE COLLEGE
Statements of Revenues, Expenses, and Changes
For The Years Ended:

		June 30, 2006		June 30, 2005
REVENUES				
Operating Revenues:				
Tuition and Fees (including $1,598,282 (2006) and $1,462,081 (2005) pledged for bondsand net of scholarship allowances of $8,228,608 (2006) and $6,698,504 (2005)	$	20,600,043	$	10,031,948
CCHE Fee for Service Revenue		10,154,872		-
Federal, State, Private Grants and Contracts		9,347,924		10,001,131
Gifts		435,620		513,837
Auxiliary Enterprises (including $10,461,722 (2006) and $10,343,914 (2005) pledged for bonds)		11,138,499		10,591,715
Other Operating Revenues (including $3,000 (2006) and $3,000 (2005) pledged for bonds)		167,400		173,078
Total Operating Revenues	$	51,844,358	$	31,311,709
EXPENSES				
Operating Expenses:				
Instruction	$	16,041,762	$	15,403,540
Research		580,852		611,494
Public Service		443,612		495,298
Academic Support		2,587,272		2,591,873
Student Services		2,894,313		2,706,650
Institutional Support		2,025,189		1,454,551
Operation and Maintenance of Plant		4,689,933		2,898,109
Scholarships and Fellowships		1,056,538		2,250,097
Auxiliary Enterprises		12,637,978		11,788,378
Depreciation		2,805,202		2,981,620
Total Operating Expenses	$	45,762,651	$	43,181,610
Operating Income (Loss)	$	6,081,707	$	(11,869,901)
NON-OPERATING REVENUES (EXPENSES)				
State Appropriations	$	-	$	15,775,165
Gifts		945,446		774,923
Investment and Interest Income (including $172,882 (2006) and $333,118 (2005) pledged to bonds)		619,769		607,548
Interest Expense on Capital Debt		(596,766)		(520,729)
Other Non-operating Revenues (Expenses)		2,973		(508,336)
Net Non-operating Revenues (Expenses)	$	971,422	$	16,128,571
Income (Loss) Before Other Revenues or Expenses	$	7,053,129	$	4,258,670
Other Revenues, Expenses, Gains, Losses, or Transfers				
State Appropriations, Capital	$	11,597	$	21,223
Gain or (Loss) on Disposal of Assets		(555,197)		-
Transfers (To) From Governing Boards or Other Institutions		(45,592)		(95,022)
Increase (Decrease) in Net Assets	$	6,463,937	$	4,184,871
NET ASSETS				
Net Assets - Beginning of Year, As Restated	$	63,477,579	$	59,292,708
Net Assets - End of Year	$	69,941,516	$	63,477,579

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

MESA STATE COLLEGE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2006				2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT								
Contributions	$ 210,495	$ 1,075,972	$ 693,537	$ 1,980,004	$ 196,871	$ 1,224,533	$ 1,228,449	$ 2,649,853
Investment income (loss)	(66,764)	376,300	298,679	608,215	88,443	69,016	76,253	233,712
Net unrealized gains on investments	(3,129)	(115,546)	(18,320)	(136,995)	70,055	40,605	63,184	173,844
Administrative fee	-	-	-	-	117,393	-	-	117,393
Rental income, net of expenses of $22,263 and $51,171	62,568	-	-	62,568	-	39,642	-	39,642
Special events, net of expenses of $21,065 and $34,786	86,045	(16,520)	-	69,525	46,974	860	-	47,834
Loss on sale of property	4,277	-	-	4,277	(2,368)	-	-	(2,368)
Net assets released from restrictions:	1,144,166	(1,144,166)	-	.	1,006,952	(1,006,952)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	$ 1,437,658	$ 176,040	$ 973,896	$ 2,587,594	$ 1,524,320	$ 367,704	$ 1,367,886	$ 3,259,910
EXPENSES								
Program services	$ 1,144,166	$ -	$ -	$ 1,144,166	$ 990,582	$ -	$ -	$ 990,582
Supporting services:								
Management and general	328,715	-	-	328,715	311,668	-	-	311,668
Fundraising	48,420	-	-	48,420	33,811	-	-	33,811
TOTAL EXPENSES	1,521,301	-	-	1,521,301	1,336,061	-	-	1,336,061
CHANGE IN NET ASSETS BEFORE TRANSFERS	(83,643)	176,040	973,896	1,066,293	188,259	367,704	1,367,886	1,923,849
Transfers from liabilities	(58,072)	(10,875)	-	(68,947)	(15,708)	(1,356)	-	(17,064)
Transfers in equity	130,818	(77,234)	(53,584)	-	(1,084,552)	1,023,231	61,321	-
CHANGE IN NET ASSETS	(10,897)	87,931	920,312	997,346	(912,001)	1,389,579	1,429,207	1,906,785
Net Assets, beginning of year	137,918	2,022,993	6,846,984	9,007,895	1,049,919	633,414	5,417,777	7,101,110
Net Assets, end of year	$ 127,021	$ 2,110,924	$ 7,767,296	$ 10,005,241	$ 137,918	$ 2,022,993	$ 6,846,984	$ 9,007,895

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

STATE OF COLORADO
MESA STATE COLLEGE
Statements of Cash Flows
For The Years Ended:

	June 30, 2006	June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received:		
Tuition & Fees	$ 28,752,651	$ 17,141,609
Sales of Service	14,919,598	4,643,814
Sales of Product	5,931,218	5,691,822
Grants Contracts and Gifts	10,050,797	10,010,615
Student Loans Collected	167,839	157,375
Other Operating Receipts	638,548	221,611
Cash Payments:		
Payments to or for Employees	(26,209,777)	(26,054,859)
Payments to Suppliers	(15,258,607)	(12,404,199)
Scholarships Disbursed	(9,239,854)	(8,938,950)
Student Loans Disbursed	(185,000)	(219,249)
Other Operating Payments	(8,581)	(2,091)
Net Cash Provided (Used) by Operating Activities	$ 9,558,832	$ (9,752,502)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State Appropriations, Non-Capital	$ -	$ 15,775,165
Gifts/Grants for Other than Capital Purposes	-	513,837
Other Agency Inflows	32,372,385	17,246,993
Other Agency (Outflows)	(32,375,185)	(17,175,381)
Transfers from (to) Other Campuses, Board, or Institution	(45,593)	(47,511)
Net Cash Provided (Used) by Non-Capital Financing Activities	$ (48,393)	$ 16,313,103
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES		
State Appropriations, Capital	$ 11,598	$ 21,222
Capital Grants, Contracts, and Gifts	335,000	-
Acquisition and Construction of Capital Assets	(13,322,225)	(2,743,510)
Proceeds from Capital Debt	20,518,739	-
Principal Paid on Capital Debt	(679,778)	(686,681)
Interest on Capital Debt	(469,368)	(588,403)
Net Cash Provided (Used) by Capital & Related Financing Activities	$ 6,393,966	$ (3,997,372)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings (Interest/Dividends)	$ 619,769	$ 607,548
Net Cash Provided (Used) by Investing Activities	619,769	607,548
Net Increase (Decrease) in Cash & Cash Equivalents	16,524,174	3,170,777
Cash & Cash Equivalents - Beginning of the Year	16,556,482	13,385,705
Cash & Cash Equivalents - End of the Year	$ 33,080,656	$ 16,556,482

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

STATE OF COLORADO
MESA STATE COLLEGE
Statements of Cash Flows (continued)
For The Years Ended:

	June 30, 2006	June 30, 2005
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)	$ 6,081,707	$ (11,869,901)
Adjustments to Reconcile:		
Depreciation Expense	2,805,202	2,981,619
Grants classified on the Statement of Revenues, Expenses, and Changes in Net Assets as operating revenues	-	(513,837)
Provision for Uncollectible Accounts	(42,917)	72,726
Decrease (Increase) in Assets	252,337	(253,087)
Increase (Decrease) in Liabilities	632,713	286,271
Other Reconciling Items	(170,210)	(456,293)
Net Cash Provided (Used) by Operating Activities	$ 9,558,832	$ (9,752,502)

Supplemental Disclosure of Noncash Investing and Financing Activities:		
Donation of capital assets received from Mesa State College Foundation	$ 170,000	$ 429,797
Donation of capital assets received from City of Grand Junction	-	193,000
Additions to construction in progress included in accounts payable and accrued liabilities	2,464,307	-

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements reflect the financial activities of Mesa State College (the College) for the fiscal year ended June 30, 2006 and 2005. The College is an institution of higher education of the State of Colorado. Thus, for financial reporting purposes, the College is included as part of the State of Colorado's primary government. A copy of the state Comprehensive Annual Financial Report may be obtained from the State Controller's Office, Department of Personnel and Administration (DPA), Denver Colorado.

Applying GASB 39 criteria, the College has identified Mesa State College Foundation as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages as allowed by GASB 39.

The Mesa State College Foundation (the Foundation) is a separate non-profit corporation under Internal Revenue Code Section 501(c)(3) formed to provide financial assistance to Mesa State College students and to otherwise assist Mesa State College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the Mesa State College Board of Trustees. The Foundation's financial records are maintained separately from the College.

In May 2006, the Mesa State College Board of Trustees approved the articles of incorporation for the Mesa State College Real Estate Foundation (MSCREF). At the end of the current fiscal year, operations had not commenced and MSCREF had $17,784 in cash as its only asset. MSCREF does not meet GASB 39 criteria for a component unit for the current fiscal year because economic resources are not significant to the College. It is expected that MSCREF resources will grow over time and the required financial data will be presented in accordance with GASB 39.

Basis of Accounting

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the state treasurer, including unrealized gains and losses, and all highly liquid investments with an original maturity of three months or less, except those deposits and investments representing endowments. All endowment investments are considered long-term investments regardless of the liquidity or maturity of those investments.

Investments
Investments are stated at fair value.

Inventories
Inventories are stated at the lower of cost or market. The central stores inventory consists primarily of office supplies and other consumable goods. It is valued using the average cost method. The bookstore inventory includes instructional materials and soft goods held for resale. It is valued using the first-in-first-out method.

Capital Assets
Physical plant and equipment are stated at cost at date of acquisition or fair market value at date of donation. A physical inventory of all plant assets is updated annually with appropriate adjustments made to the financial records. Annual revisions of statement of values for insurance purposes are performed.

The College follows the policy of capitalizing only those plant assets with an initial cost or fair value equal to or greater than $50,000.

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. The College capitalizes assets with an initial cost exceeding $5,000.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a half-year convention for asset additions. Estimated useful lives range from 25-40 years for buildings, 10-20 years for improvements other than buildings, and 3-20 years for equipment, collections and library materials.

Summer Sessions
Summer session tuition and fees and related direct academic expenditures are recognized in the year they are earned and incurred.

Classification of Revenue
The College has classified its revenues as either operating or non-operating according to the following criteria:

- Operating revenues – Revenues generally resulting from providing goods and services for instruction, public service or related support services to an individual or entity separate from the College.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- Non-operating revenues – Non-operating revenues are those revenues that do not meet the definition of operating revenues. Non-operating revenues include state appropriations for operations, gifts, investment income and insurance reimbursements.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, 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 non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30 were $8,228,608 (2006) and $6,698,504 (2005).

Application of Restricted and Unrestricted Resources

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

Financial Statement Presentation - Net Assets

Net assets are classified as either Unrestricted (formerly unreserved/undesignated fund balance) or Restricted. Restricted net assets are further classified as expendable or non-expendable, i.e. permanent endowments. As of June 30, 2006, the College had no non-expendable restricted net assets. Restricted expendable net assets includes net assets (fund balances) of its bonded auxiliaries. Colorado Revised Statutes, CRS 23-05-103 specifically restricts the residual funds of the bonded auxiliaries, in excess of those required for operations and current year debt service, for the direct benefit of the bonded auxiliaries. At June 30, the restricted net assets of the bonded auxiliary operations totaled $1,782,075 (2006) and $1,140,305 (2005). Restricted expendable net assets also includes net assets (fund balances) of its Perkins loan program. Program guidelines require that net assets fund new loans, are written off in accordance with program guidelines, or are refunded to the federal government. At June 30, the restricted net assets related to the Perkins loan program totaled $1,170,254 (2006) and $1,159,352 (2005).

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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

Mesa State College deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The College reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2006 and 2005. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized losses included in "Investment Income" reflect only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

At June 30 the College had $22,153,929 (2006) and $15,691,151 (2005), including unrealized losses of $296,669 (2006) and $39,470 (2005), on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

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

	2006	2005
Cash on hand	$ 21,300	$ 20,700
Cash in checking accounts at bank	10,905,427	844,631
Total cash	$10,926,727	$ 865,331

The carrying amount of the College's cash on deposit was $10,926,727 (2006) and $865,331 (2005) and the bank balance was $10,864,998 (2006) and $1,617,418 (2005). Of this bank balance, $10,016,772 (2006) and $1,034,257 (2005) was covered by federal note depository insurance or by collateral held by the institution's agent in the institution's name. The difference between the College's cash on hand and the amount reported by the various banks was $61,729 (2006) and $752,087 (2005) in the form of outstanding checks. Of the total cash on deposit with banks, $10,574,466 (2006) and $533,161 (2005) was in an account restricted for capital construction and therefore unavailable for general operations. Other amounts presented as restricted cash relate to reserve and replacement and debt service requirements.

At June 30, 2006 and 2005, the College had no investments.

NOTE 3 – ACCOUNTS AND LOANS RECEIVABLE

The following schedule shows the status of accounts and loans receivable and related allowance for doubtful accounts at June 30, 2006:

	Total	Less Allowance for Doubtful Accounts	Net
Entity Wide			
Accounts Receivable	$ 3,474,731	$ (664,014)	$ 2,810,717

The following schedule shows the status of accounts and loans receivable and related allowance for doubtful accounts at June 30, 2005:

	Total	Less Allowance for Doubtful Accounts	Net
Entity Wide			
Accounts Receivable	$ 3,144,268	$ (711,000)	$ 2,433,268

Receivables reported on the statement of net assets may be aggregations of various components, such as balances due to or from students, vendors, other governments, and employees.

NOTE 4 – CAPITAL ASSETS

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

	Balance June 30, 2005	Additions/ Depreciation	Retirements CIP Transfers/ Depreciation	Balance June 30, 2006
Non-depreciable Capital Assets				
Land	$ 1,979,684	$ -	$ -	$ 1,979,684
Construction in Progress	3,095,499	15,477,076	-	$ 18,572,575
Total Non-depreciable Capital Assets	$ 5,075,183	$ 15,477,076	$ -	$ 20,552,259
Depreciable Capital Assets				
Land Improvements	$ 1,278,271	$ 109,281	$ -	$ 1,387,552
Buildings	69,120,958	-	(693,672)	68,427,286
Equipment	8,769,736	172,319	-	8,942,055
Library Materials	8,813,508	286,022	(16,587)	9,082,943
Total Depreciable Capital Assets	$ 87,982,473	$ 567,622	$ (710,259)	$ 87,839,836
Less: Accumulated Depreciation				
Land Improvements	(741,732)	(73,100)	-	(814,832)
Buildings	(20,024,246)	(1,851,552)	138,475	(21,737,323)
Equipment	(5,322,707)	(437,268)	-	(5,759,975)
Library Materials	(5,293,446)	(443,282)	16,587	(5,720,141)
Total Accumulated Depreciation	$(31,382,131)	$ (2,805,202)	$ 155,062	$(34,032,271)
Net Depreciable Capital Assets	$ 56,600,342	$ (2,237,580)	$ (555,197)	$ 53,807,565
Capital Assets, Net	$ 61,675,525	$ 13,239,496	$ (555,197)	$ 74,359,824

NOTE 4 – CAPITAL ASSETS - CONTINUED

Additions to construction in progress for the year ended June 30, 2006 includes $113,108 in capitalized interest as shown below.

Capitalized Interest	
Total interest expense	$ 616,975
Less premium amortization	(21,969)
Less interest earnings	(481,898)
Total capitalized interest	$ 113,108

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

	Balance June 30, 2004	Additions/ Depreciation	Retirements CIP Transfers/ Depreciation	Balance June 30, 2005
Non-depreciable Capital Assets				
Land	$ 1,979,684	$ -	$ -	$ 1,979,684
Construction in Progress	887,113	2,994,925	(786,539)	3,095,499
Total Non-depreciable Capital Assets	$ 2,866,797	$ 2,994,925	$ (786,539)	$ 5,075,183
Depreciable Capital Assets				
Land Improvements	$ 1,262,270	$ -	$ 16,001	$ 1,278,271
Buildings	68,431,079	-	689,879	69,120,958
Equipment	8,552,813	136,264	80,659	8,769,736
Library Materials	8,555,741	277,776	(20,009)	8,813,508
Total Depreciable Capital Assets	86,801,903	414,040	766,530	87,982,473
Less: Accumulated Depreciation				
Land Improvements	$ (647,462)	$ (94,270)	$ -	$ (741,732)
Buildings	(18,171,419)	(1,852,827)	-	(20,024,246)
Equipment	(4,740,632)	(582,075)	-	(5,322,707)
Library Materials	(4,861,008)	(452,447)	20,009	(5,293,446)
Total Accumulated Depreciation	(28,420,521)	(2,981,619)	20,009	(31,382,131)
Net Depreciable Capital Assets	$ 58,381,382	$(2,567,579)	$ 786,539	$ 56,600,342
Capital Assets, Net	$ 61,248,179	$ 427,346	$ -	$ 61,675,525

NOTE 5 – LONG-TERM LIABILITIES

- Lease Obligations:

The College currently has a capital lease for piano lab computer equipment and pianos, through October 9, 2006, at which time the title will be transferred to the College. The lease can be terminated due to lack of funding with 30 days written notice, and the College has an option to purchase at any time during the lease. The College paid off a capital lease for student ID equipment and an automated parking attendant machine on June 29, 2005. Title for equipment under the lease transferred to the College.

The following is a schedule of future minimum lease payments as of June 30, 2006:

Year Ending	June 30, 2006	June 30, 2005
Total Payments		
2006	$ -	$ 16,628
2007	16,627	16,628
Total principal and interest payments	16,627	33,256
Less amount representing interest	(716)	(2,119)
Total Principal Outstanding	15,911	31,137
Less Current Portion	(15,911)	(15,226)
Net Long Term Principal	$ -	$ 15,911

- Revenue Bonds Payable

The College issued Auxiliary Facilities System Enterprise Revenue Bonds Series 2005 in September 2005. The new debt issue totaled $20,842,434, including a net premium of $807,434 that will be amortized over the life of the bonds. After the costs of issuance, $19,468,388 was deposited into the Project Construction Fund. The 2005 Bond Resolution, which was adopted on August 17, 2005, relating to the issuance of the Series 2005 Bonds, established a Capitalized Interest Fund funded with $1,049,879 of the bond proceeds to pay interest through November 2006, after which any remaining funds will be transferred to the Project Fund. The Project Fund will be used to construct student housing and parking facilities, and to expand and equip the College's auxiliary facilities system.

Series 2005 bonds require annual debt service payments ranging from $616,975 to $1,294,250, including coupon interest of 3.5% to 5.0%, affecting a net interest rate of 4.38%. Final payments are due in May of 2035. The bonds are secured by the pledge of certain net revenues and other money in funds and accounts held by the Trustees of Mesa State College which are pledged and assigned for equal and ratable payment of the bonds.

A Reserve Fund requirement was satisfied by the purchase of a surety bond in an amount equal to the Debt Service Reserve Requirement that is equal to the lesser of (i) the combined maximum annual principal and interest payments on all bonds outstanding, (ii) the combined average annual principal and interest payments on all bonds, or (iii) ten percent (10%) of the original principal of each issue of Bonds Outstanding.

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

The College advance refunded the outstanding Series 1994 and Series 1996 bonds in March 2003 by issuing the 2002 Series A & B listed below. The new debt issue totaled $15,180,000 with the proceeds first applied to an escrow account for retirement of the now defeased Series 1994 and Series 1996 bonds with the remainder ($2,500,000) deposited to a capital improvement construction fund.

Mesa Auxiliary Facilities Revenue Bonds, Series A & B 2002, require annual debt service payments ranging from $745,500 to $1,409,150, including interest at 1.34% to 4.57%. Final payments are due in May of 2022. The bonds are secured by a first lien on and pledge of certain net revenues of the Mesa Auxiliary Facilities System. A $325,000 renewal and replacement reserve fund is maintained, as required by the bond resolution. Bonds maturing on or after May 15, 2014 are callable at 100% par value plus accrued interest at the discretion of the Board on or after May 15, 2014. Bonds maturing in 2020 and thereafter are subject to mandatory sinking fund redemption without premium.

The following is a schedule of future minimum bond payments as of June 30, 2006:

Fiscal Year-End:	2002 Series A	2002 Series B	2005 Series
2007	$ 637,050	$ 536,385	$ 1,290,461
2008	-	1,341,385	1,287,688
2009	-	1,342,065	1,289,563
2010	-	1,329,378	1,290,913
2011	-	1,338,910	1,290,725
2012-2016	-	6,800,050	6,450,125
2017-2021	-	3,736,200	6,454,500
2022-2026	-	745,500	6,447,750
2027-2032	-	-	7,736,750
2032-2035	-	-	3,861,250
Subtotals	$ 637,050	$ 17,169,873	$ 37,399,725
Less Interest Included Above	(17,050)	(5,034,873)	(17,364,725)
Total Principal Outstanding	620,000	12,135,000	20,035,000
Less Current Portion	(620,000)	–	(365,000)
Net Long Term Principal	$ -	$ 12,135,000	$ 19,670,000
Less Unamortized Discount and Premium	-	(585,458)	785,465
Bonds Payable Net	$ -	$ 11,549,542	$ 20,455,465

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

The following is a schedule of future minimum bond payments as of June 30, 2005.

Fiscal Year-End:	2002 Series A	2002 Series B
2006	$ 641,080	$ 536,385
2007	637,050	536,385
2008	–	1,341,385
2009	–	1,342,065
2010	–	1,329,378
2011-2015	–	6,791,560
2016-2020	–	4,334,100
2021-2025	–	1,495,000
Subtotals	$ 1,278,130	$ 17,706,258
Less Interest Included Above	(48,130)	(5,571,258)
Total Principal Outstanding	$ 1,230,000	$12,135,000
Less Current Portion	(610,000)	–
Net Long Term Principal	$ 620,000	$ 12,135,000
Less Unamortized Discount and Gain	–	(569,523)
Bonds Payable Net	$ 620,000	$ 11,565,477

The College leases copiers under an operating lease. The following is a schedule of all future minimum rental payments under the lease:

Year Ending June 30:	
2007	$ 95,204
2008	95,204
2009	95,204
2010	95,204
2011	71,403
Total	$ 452,219

Rent expense for fiscal year 2006 was $24,626.

NOTE 5 – LONG-TERM LIABILITIES – CONTINUED

Long-term Note Payable: As part of its campus expansion program in December 2005, the College acquired a property by issuing a long-term note payable. The principal balance was $190,000, payable in semi-annual payments at five percent interest. The following is a schedule of payments.

	Year Ending June 30, 2006
Total Payments:	
2007	$ 15,138
2008	15,138
2009	15,138
2010	15,138
2011	15,138
2012-2016	75,689
2017-2021	75,689
2022-2026	68,120
Total Principal and Interest Payments	$ 295,188
Less: Interest Included Above	(108,007)
Total Principal Outstanding	$ 187,181
Less: Current Portion	(5,851)
Net Long-term Principal	$ 181,330

- Other Long Term Liabilities

Under a memorandum of understanding between the College and the Mesa State College Foundation (the Foundation), the College is to grant and manage student loans made from designated Foundation funds. The College absorbs any associated costs in excess of loan interest collections, including loan write-offs and administrative expenses. Student loan fund assets at June 30, 2006, consisting primarily of loans receivable, are held by the College and represent a payable to the Foundation of $50,000.

- Compensated Absences

Employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount, which will be paid upon termination and/or retirement. The estimated costs of compensated absences for which employees are vested for the years ended June 30, 2006 and June 30, 2005, are estimated as $784,059 (including the current portion of $88,251 listed in note 6 below) and $780,651 respectively. Expenses include an increase of $3,408 (2006) and a increase of $51,409 (2005) for the estimated compensated absence liability.

NOTE 6 – SHORT-TERM LIABILITIES

Year-end accrued liabilities were as follows:

	June 30, 2006	June 30, 2005
Salaries and Benefits Payable	$ 3,203,777	$ 2,826,279
Retainage on Construction Contracts Payable	900,357	-
Other Payables	223,424	25,345
Total Payables	$ 4,327,558	$ 2,851,624

NOTE 7 – CONTINGENT LIABILITIES

Amounts expended under the terms of certain grants and contracts are subject to audit and possible adjustment by governmental agencies. In the opinion of college management, adjustments, if required, will not have a material impact on the accompanying financial statements.

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

NOTE 8 – PENSION PLAN OBLIGATIONS

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

A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Plan Description

Classified employees, and some faculty and exempt professionals participate in a defined benefit pension plan (the Plan). The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

NOTE 8 – PENSION PLAN OBLIGATIONS – CONTINUED

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

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

Defined benefit plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Persons hired on or after July 1, 2005, (except state troopers, plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

NOTE 8 – PENSION PLAN OBLIGATIONS - CONTINUED

Funding Policy

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

Most employees contribute 8.0 percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2005, to December 31, 2005, the state contributed 10.15 percent (12.85 percent for state troopers and 13.66 percent for the Judicial Branch) of the employee's salary. From January 1, 2006, through June 30, 2006, the state contributed these same percentage amounts plus an additional .5 percent for the Amortization Equalization Disbursement discussed below. During all of Fiscal Year 2006, 1.02 percent of the employees total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2004, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

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

The College's contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2006, 2005, and 2004 were $960,717, $846,152 and $862,049 respectively. These contributions met the contribution requirement for each year.

NOTE 8 – PENSION PLAN OBLIGATIONS - CONTINUED

B. OPTIONAL RETIREMENT PLAN (ORP)

Plan Description
The ORP is a defined contribution pension plan with three vendors (fund sponsors), Fidelity Investments, TIAA-CREF and VALIC, providing a range of investment accounts for participants. The College's contribution to the ORP is 11.4% of covered payroll and contributions by employees is 8 percent of covered payroll. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 65 with early retirement permitted at age 55. Benefits available to the employee at retirement are not guaranteed and are determined by contributions and the decisions made by participants for their individual investment accounts.

Several exempt employees of the College elected to continue as members with the Public Employees' Retirement Association of Colorado (PERA); the remainder participate in the ORP.

Funding Policy
The College's contribution to the ORP for fiscal years ended June 30, 2006, 2005, and 2004 were $1,223,000, $1,187,328, and $1,155,113 respectively.

C. STUDENT RETIREMENT PLAN

Beginning in Fiscal Year 1993, in accordance with the provisions of CRS 24-54.6 and as provided in section 403 (b) of the Internal Revenue Code, the State of Colorado Department of Higher Education established the Colorado Student Employees Defined Contribution Plan. Student employees not currently attending classes are required to participate. The plan requires a 7.5% contribution on the employee's part with no employer contribution. Total current year payroll covered by the plan was $376,188. Employee contributions were $28,214, or 7.5% of covered payroll.

NOTE 9 – VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401k plan that is entirely separate from the defined benefit plan. The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer one or more 403b plans. Eligible PERA members who contribute to any of these plans receive the state match.

In January 2001, the MatchMaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The PERA Board set the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of actuarially accrued plan liabilities. The condition was not met during Fiscal Year 2006.

NOTE 10 –POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 2006, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20.

Funding Policy

The Health Care Trust Fund is maintained by employer contributions as explained in Footnote 8A above. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services in Colorado. As of December 31, 2005, there were 41,080 enrollees in the plan.

Life Insurance

During Fiscal year 2005, PERA provided its members access to two group decreasing term life insurance plans offered by Prudential Insurance Company and Anthem Life. Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are collected monthly by payroll deduction or from an automatic deduction from a retiree's annuity check.

Other Programs

Separate post-retirement health care and life insurance plans exist for the employees not eligible for the PERACare Plan System, but participation is small in comparison to the PERA plans for state employees. The state has no liability for any of these other post-retirement health care and life insurance plans.

NOTE 11 – COMPONENT UNITS

Beginning with financial statements issued for years ending on or after June 30, 2004, GASB Statement 39 requires the inclusion of certain organizations as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support to the primary government or its other component units. If a separate entity is determined (by GASB 39 criteria) to be a component unit, its financial information should be discretely presented within the financial statements of the reporting entity.

Typically, discretely presented information is shown in a separate column on the same page as the information of the reporting entity. However, if a component unit uses a different GAAP reporting model (i.e., FASB Non-Profit) then GASB 39 states that the information "… need not be presented on the same page as the primary government, but may be presented on separate pages."

For Colorado institutions of higher education, either of these presentation options is acceptable if the component unit uses a different reporting model. Component Unit reporting must include a Statement of Net Assets (or Financial Position) and a Statement of Revenues, Expenses, and Changes in Net Assets (or Statement of Activities). A Statement of Cash Flows is not required.

For the year ended June 30, 2005, the College, using GASB 39 criteria, has identified the following entity as a component unit. Since the component unit uses a different reporting model (FASB Non-Profit), the required financial data is discretely presented on separate pages as allowed by GASB 39.

MESA STATE COLLEGE FOUNDATION

The Mesa State College Foundation (the Foundation) is a separate non-profit corporation under Internal Revenue Code Section 501 (c) (3) formed to provide financial assistance to Mesa State College students and to otherwise assist the College in serving educational needs. The Foundation engages in activities that may be beyond the scope of the College Board of Trustees. The Foundation's financial records are maintained separately from the College.

Under a memorandum of understanding between the College and the Foundation, the College is to grant and manage student loans made from designated Foundation funds. The College absorbs any associated costs in excess of loan interest collections, including loan write-offs and administrative expenses. Student loan fund assets at June 30, 2006, consisting primarily of loans receivable, are held by the College and represent a payable to the Foundation of $50,000. The corresponding amount is shown as a receivable on the Foundation financial statements.

The Foundation solicits and receives donations and other forms of support for the benefit of the College's intercollegiate athletic program as well as other programs and/or initiatives. Expenditures are primarily scholarships awarded. During Fiscal Year 2006, the Foundation awarded $372,081 in scholarship funds directly to MSC students. Since the funds were paid directly to students, the College did not record related revenue or expense.

NOTE 11 – COMPONENT UNITS - CONTINUED

The Foundation received donations to partially fund regular operations of various college departments. During Fiscal Year 2005 cash and in-kind donations totaled $609,134 and recorded as revenue and expense in the appropriate funds.

During Fiscal Year 2006, the Foundation donated real property, including land and buildings, to the College valued at $170,000. The donation was recorded in the appropriate balance sheet and revenue account and included as non-operating gift revenue on the College's financial statements. The same amount is included as expense and or revenue on the Foundation's financial statements.

The following is an excerpt from the Foundation's independent annual financial report. Note references for Fiscal Year 2005 follow those for Fiscal Year 2006.

FY 2006 NOTES:

FOUNDATION - INVESTMENTS – FY 2006

Investment return is summarized as follows:

	Cost	Fair Value	Excess of Fair Value Over Cost
Balance at end of year	$ 7,825,698	$ 8,023,129	$ 197,431
Balance at beginning of year	5,973,154	6,307,580	334,426
Increase (decrease) in unrealized appreciation			$ (136,995)
Interest and dividend income			$ 279,412
Realized losses on investments			380,175
Trust fees			(51,372)
Total			$ 608,215

Investments recorded at fair value are comprised of the following:

	Cost	Fair Value
Mutual Funds	$ 1,308,144	$ 1,339,448
Corporate Bonds and Notes	1,278,710	1,244,524
U.S. Government Securities and Agencies	1,017,829	990,097
Common Stock and other	4,221,015	4,449,060
	$ 7,825,698	$ 8,023,129

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

	Carrying Value
Corporate stocks	$ 7

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION - PROMISES TO GIVE – FY 2006

A summary of the unconditional promises to give at June 30 and expected years of completion follows:

Receivable in less than one year	$ 192,275
Receivable in one to five years	484,040
Total Unconditional Promises to Give	676,315
Less discounts to net present value	(93,464)
Less allowance for uncollectible promises receivable	(58,285)
Net Unconditional Promises to Give	$ 524,566

FOUNDATION - PROPERTY AND EQUIPMENT –FY 2006

Property and equipment consist of the following:

	Estimated Useful life	Amount
Purchased property to be later donated to Mesa State College		
Depreciable property with rental income	20-30 years	$ 550,581
Equipment	5-10 years	263,190
Memorial alcove	10 years	7,400
		821,171
Less accumulated depreciation		(301,535)
		$ 519,636

No properties were transferred to the College in this year.

FOUNDATION – NOTES PAYABLE – FY 2006

During the current year, the Foundation paid off all outstanding promissory notes. The outstanding balance at June 30, 2005 totaled $240,000 and was paid in full prior to June 30, 2006.

FOUNDATION – SPLIT INTEREST AGREEMENT – FY 2006

The Foundation administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled $111,660, with another $27,915 being recorded as a liability for 20% of the total gift, which is to go to other organizations at the end of the trust's term. Assets held in the charitable remainder trust totaled $359,965 at June 30, 2006 and are reported at fair value in the Foundation's Statement of Financial Position. On an annual basis, the Foundation will revalue the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($118,323 at June 30, 2006) is calculated using a discount rate of 5.2% and applicable mortality tables.

NOTE 11 – COMPONENT UNITS – CONTINUED

FY2005 NOTES:

FOUNDATION – INVESTMENTS – FY 2005

Investment return is summarized as follows:

	Cost	Fair Value	Excess of Fair Value Over Cost
Balance at end of year	$ 5,973,154	$ 6,307,580	$ 334,426
Balance at beginning of year	5,732,640	5,893,222	160,582
Increase in unrealized appreciation			$ 173,844
Interest and dividend income			$ 227,144
Realized losses on investments			43,254
Trust fees			(36,686)
Total			$ 233,712

Investments recorded at fair value are comprised of the following:

	Cost	Fair Value
Mutual Funds	$ 1,001,566	$ 982,630
Corporate Bonds and Notes	2,399,570	2,418,281
U.S. Government Securities and Agencies	546,087	542,280
Common Stock and other	2,025,931	2,364,389
	$ 5,973,154	$ 6,307,580

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

	Carrying Value
Corporate stocks	$ 7

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION - PROMISES TO GIVE – FY 2005

A summary of the unconditional promises to give at June 30 and expected years of completion follows:

Receivable in less than one year	$	157,944
Receivable in one to five years		253,515
Total Unconditional Promises to Give		411,459
Less discounts to net present value		(48,545)
Less allowance for uncollectible promises receivable		(36,291)
Net Unconditional Promises to Give	$	326,623

FOUNDATION - PROPERTY AND EQUIPMENT –FY 2005

Property and equipment consist of the following:

	Estimated Useful life		Amount
Purchased property to be later donated to Mesa State College			
Depreciable property with rental income	20-30 years	$	550,581
Equipment	5-10 years		263,190
Memorial alcove	10 years		7,400
			821,171
Less accumulated depreciation			(250,516)
		$	570,655

No properties were transferred to the College in this year.

FOUNDATION – NOTES PAYABLE – FY 2005

As part of its capital campaign, the Foundation has purchased certain properties with promissory notes to the sellers. Following is a summary of those notes at June 30 and one other promissory note:

Promissory Note of $240,000, due August 7, 2005, including interest at 6% secured by real property. The note allows borrowing up to $250,000.	$	240,000

NOTE 11 – COMPONENT UNITS – CONTINUED

FOUNDATION – SPLIT INTEREST AGREEMENT – FY 2005

The Foundation administers a charitable remainder trust. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the Statement of Activities as a temporarily restricted contribution in the period the trust is established. Such contributions totaled $111,660, with another $27,915 being recorded as a liability for 20% of the total gift, which is to go to other organizations at the end of the trust's term. Assets held in the charitable remainder trust totaled $346,602 at June 30, 2005 and are reported at fair value in the Foundation's Statement of Financial Position. On an annual basis, the Foundation will revalue the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments ($132,884 at June 30, 2005) is calculated using a discount rate of 5.2% and applicable mortality tables.

The Mesa State College Real Estate Foundation (MSCREF) is a separate 501(c)3 corporation that was organized to receive, hold, invest, and administer real and personal property, borrow money, and to make expenditures to or for the benefit of the College. MSCREF may receive gifts of real and personal property that persons and entities wish to donate for the benefit of the College in support and furtherance of the College's educational purposes. MSCREF may hold, maintain, improve, leverage, manage and lease such donated property in a manner consistent with donor intent until such time as MSCREF deems it advisable to convey, transfer, or otherwise dispose of the property and then donate to support the College.

Under an operating agreement with the College, the parties generally intend to satisfy MSCREF's need for financial capital by allowing MSCREF to retain a portion of proceeds on an approximate 20% (MSCREF), 80% (College) sharing. The Board of Trustees authorized a $25,000 loan that will be repaid from operating revenues to fund for start MSCREF start-up costs. MSCREF does not meet the GASB 39 criteria for a component unit for the current fiscal year because economic resources are not significant to the College. It is expected that MSCREF resources will grow over time and the required financial data will be presented as required by GASB 39.

NOTE 12 – LEGISLATIVE APPROPRIATION

The Colorado Legislature establishes spending authority for the Trustees Mesa State College in its annual Long Appropriation Bill. Prior to Fiscal Year 2006, appropriated funds included an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and other certain revenue sources. For the year ended June 30, 2005, the College received an appropriation allocation, net of scholarship allowance, from the State of $22,612,154. Actual appropriated revenues earned totaled $22,399,840. Actual appropriated expenditures and transfers totaled $22,767,004.

In Fiscal Year 2006, the Colorado Legislature appropriated $11,598 in capital construction funds for controlled maintenance projects. The funding difference from prior years was replaced with student stipends

NOTE 12 – LEGISLATIVE APPROPRIATION - CONTINUED

from the College Opportunity Fund totaling $9,662,535 and by the fee for services contract with the Colorado Commission on Higher Education (CCHE) for $10,154,872.

Prior years' appropriations were recorded as non-operating state appropriations and the student stipends and contract revenues from CCHE are shown as tuition revenue and as sales of services respectively. As a result, the College reported operating income of $6,081,707 in Fiscal Year 2006, compared to an operating loss of $11,869,900 in Fiscal Year 2005.

NOTE 13 – TABOR ENTERPRISE STATUS

In November 1992, the Colorado voters passed Section 20, Article X of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains revenue, spending, tax and debt limitations that apply to all local governments and to the State of Colorado, including Mesa State College. On August 10, 2005, the Colorado State Auditor issued an opinion that Mesa State College, along with nine other state colleges and universities, meet the TABOR requirements, and recommended that the Legislative Audit Committee approve them as TABOR-exempt enterprises. To qualify as a TABOR-exempt enterprise, a higher education institution needs to be a government-owned business authorized to issue its own revenue bonds and receiving less than 10 percent of its revenue grants from all Colorado state and local governments combined. Designation will be reviewed at the end of each year to determine that the colleges and universities continue to meet TABOR-exempt criteria. Further, so long as it is so designated as an enterprise, the institution shall not be subject to the spending limitation provisions of TABOR. The schedule below shows the TABOR Enterprise State support calculation for Fiscal Year 2006.

State Grants	
State appropriations	$ -
Capital appropriations	11,598
Total State Grants	$ 11,598
Total Revenues (gross operating, non-operating and other revenues)	$ 50,409,509
Ratio of State Grants to Total Revenues	0.02%

NOTE 15 – CHANGE IN GOVERNANCE AND FINANCIAL REPORTING

House Bill 03-1093, as enacted by the General Assembly of the State of Colorado, establishes an independent governing board for the College. Effective July 1, 2003, the powers, duties and functions formerly performed by the Trustees of the State Colleges in Colorado were transferred to the Board of Trustees of the College. For the years ending June 30, 2003 and later, the financial statements of the College are presented on a stand-alone basis. For the years ending on and prior to July 1, 2002, the financial statements of Mesa State College were included on a consolidated basis, which included Adams State College, Mesa State College, Metropolitan State College of Denver, the Office of State Colleges, and the Western Colorado Graduate Center.

NOTE 16 – RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

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

NOTE 17 – CORRECTION OF PRIOR PERIOD ERROR

In Fiscal Year 2005, depreciation expense for equipment and related accumulated depreciation was overstated by $436,798. Net assets invested are restated at June 30, 2005 as follows:

Total net assets previously reported at June 30, 2005	$ 63,040,781
Correction of Prior Period Error	
Accumulated Depreciation - Equipment	436,798
Total net assets restated at June 30, 2005	$ 63,477,579

In Fiscal Year 2005 restricted net assets included balances for loans, capital projects, and other purposes including board designated restrictions. During the current year these restricted net asset balances were restated to properly include only those net assets with externally imposed restrictions.

SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUE AND EXPENSES
FOR
ENTERPRISE REVENUE BONDS

MESA STATE COLLEGE
Auxiliary Facilities System - Enterprise Revenue Bonds
Schedule of Revenues and Expenses
For Year Ended June, 30

		2006
REVENUE AND NONMANDATORY TRANSFERS IN		
Residence Halls and Apartments	$	3,675,522
Food Service Income		2,800,473
College Center		677,966
Bookstore		3,237,278
Recreation Center		1,266,130
Campus Parking		304,021
Central Services		271,496
Total Revenues		12,232,886
OPERATING EXPENDITURES		
Residence Halls and Apartments	$	2,609,520
Food Services		2,683,687
College Center		377,477
Bookstore		3,083,147
Recreation Center		619,496
Campus Parking		145,731
Central Services		173,901
Total Operating Expenditures	$	9,692,959
Net Revenue before Transfers	$	2,539,927
TRANSFERS		
Mandatory transfers	$	(1,341,195)
Net Non-mandatory Transfers		(619,613)
Total Transfers	$	(1,960,808)
Increase (Decrease) in fund balance	$	579,119
Net operaing revenue	$	2,539,927
Bond Principal and Interest		1,177,465
Excess of net operaing revenues over debt service	$	1,362,462
Debt service coverage ratio		216%

CSD

INDEPENDENT AUDITORS' 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*

September 8, 2006

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Mesa State College, a blended component unit of the State of Colorado and its discretely presented component unit, as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 8, 2006. 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. The financial statements of the discretely presented component unit, Mesa State College Foundation, were not audited in accordance with *Government Auditing Standards.*

Compliance

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

Internal Control over Financial Reporting

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

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

Chadwick, Steinkirchner, Davis & Co., P.C.

225 North 5th Street, Suite 401
Grand Junction, CO 81501-2645

www.csdcpa.com
e-mail info@csdcpa.com

970/245-3000
FAX 970/242-4716
TOLL FREE 877/245-8080

Chadwick, Steinkirchner, Davis & Co., P.C. Consultants and Certified Public Accountants

AUDIT COMMITTEE COMMUNICATIONS

September 8, 2006

Members of the Legislative Audit Committee:

We have audited the financial statements of Mesa State College, a blended component unit of the State of Colorado, for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 8, 2006. As required by professional auditing standards, we are providing you with information related to our audit.

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

Our responsibility under professional standards is to plan and perform out audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Mesa State College's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mesa State College are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006 or 2005. We noted no transactions entered into by Mesa State College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

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

225 North 5th Street , Suite 401
Grand Junction, CO 81501-2645

www.csdcpa.com
e-mail info@csdcpa.com

970/245-3000
FAX 970/242-4716
TOLL FREE 877/245-8080

Members of the Legislative Audit Committee
September 8, 2006
Page Two

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Mesa State College's financial reporting process (that is, cause future financial statements to be materially misstated). We noted two adjustments that could have a significant effect on Mesa State College's financial reporting process. The College had set an accrual cut-off date of July 18, 2006. Subsequent to the cut-off date, a progress billing for $1,136,202 for construction in progress was received, for which the construction had been completed as of year-end, but the accrual had not been recorded. Also, during fieldwork it was discovered that a mechanical error of $436,297 was made in the prior year for depreciation for equipment. Both of these transactions are now reflected in the financial statements.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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 Mesa State College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the Legislative Audit Committee and management of Mesa State College 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.

Chadwick, Steinkirchner, Davis & Co., P.C.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report

Report Control Number 1800