WESTERN STATE COLLEGE OF COLORADO

FINANCIAL AND COMPLIANCE AUDIT

Fiscal years ended June 30, 2012 and 2011

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WESTERN STATE COLLEGE OF COLORADO

FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY

Fiscal years ended June 30, 2012 and 2011

Authority, Purpose and Scope

The audit of Western State College of Colorado was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all State agencies. The 2012 audit was conducted under contract with Dalby, Wendland & Co., P.C. The audit was made in accordance with audit standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Audit work was performed during June through October 2012.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of Western State College of Colorado for the year ended June 30, 2012 and to express an opinion on the financial statements. This included a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Audit Results and Summary of Major Audit Findings

Dalby, Wendland & Co., P.C. expressed an unqualified opinion on the financial statements for the year ended June 30, 2012. Dalby, Wendland & Co., P.C. The financial statements for the year ended June 30, 2011 were audited by another firm who expressed an unqualified opinion.

Description of Western State College of Colorado

Founded in 1911 as Colorado State Normal School, Western State College of Colorado (the College) is Colorado's oldest college west of the Continental Divide. Originally planned as a preparatory college for teachers, the College remained a Normal School until 1923 when it was renamed Western State College. The College is an undergraduate college of liberal arts and sciences. Section 23-56-101, C.R.S. provides that the College be a general baccalaureate institution with moderately selective admission standards. Western State College of Colorado shall offer undergraduate liberal arts and sciences, teacher preparation, and business degree programs and a limited number of graduate programs. Western State College of Colorado shall also serve as a regional education provider.

Through June 30, 2003, the College was a member of the State Colleges in Colorado and, as such, was governed by the Board of Trustees of the Office of State Colleges. Effective July 1, 2003, the State Colleges in Colorado were dissolved in accordance with House Bill 03-1093 and each member became an independent entity. As a result of the dissolution of the State Colleges in Colorado, the College has a separate Board of Trustees comprised of 9 members appointed by the Governor, with consent of the Senate, for 4 year terms, one faculty member elected by the faculty and one student member elected by the student body.

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

	2010	2011	2012
Resident Students	1,422.0	1,396.6	1,336.3
Nonresident Students	429.2	457.8	456.8
Total Students	1,851.2	1,854.4	1,793.1
Faculty FTEs	116.0	112.0	113.0
Staff FTEs	178.4	174.8	173.1
Total Staff and Faculty FTEs	294.4	286.8	286.1

Description of Western State College Foundation

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

FINANCIAL STATEMENTS SECTION

DALBY, WENDLAND & CO., P.C.
Grand Junction
CPAs and Business Advisors
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INDEPENDENT AUDITOR'S REPORT

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business type activities of Western State College of Colorado (the College), as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements as listed in the table of contents. The financial statements of the College as of and for the year ended June 30, 2011 were audited by other auditors whose report dated November 4, 2011 expressed an unqualified opinion. We did not audit the financial statements of the Western State College Foundation (the Foundation), a discretely presented component unit, discussed in note 1 to the basic financial statements, which represents 100 percent of total assets, total revenues, and net assets of the aggregate discretely presented component units as of and for the years ended June 30, 2012 and 2011, respectively. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they related to the amounts included for the Foundation, are based on the report of other auditors. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Western State College Foundation were not audited in accordance with the *Government Auditing Standards.* An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the discretely presented component unit of the College as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 5, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Revenues and Expenses for Enterprise Revenue Bonds is presented for purposes of additional analysis and is not a required part of the financial statements of the College. The Schedule of Revenues and Expenses for Enterprise Revenue Bonds is the responsibility of the College's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dalby, Wendland & Co, P.C.

DALBY, WENDLAND & CO., P.C.

December 5, 2012

This section of Western State College of Colorado's (the College) financial report presents management's discussion and analysis of the financial performance of the College during the years ended June 30, 2012 and 2011. This discussion focuses on current activities and known facts, and therefore should be read in conjunction with the accompanying financial statements and notes. A comparative analysis is presented for the year ended June 30, 2010.

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

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

Financial Highlights
The College's financial position declined during the fiscal year ended June 30, 2012 as evidenced by a decrease in net assets of $4.58 million, from $63.41 million at June 30, 2011 to $58.83 million, because the College incurred an increased operating loss due to a significant reduction in state support. In 2011, net assets increased by $15.78 million from $47.63 million at June 30, 2010.

The College's current assets of $49.2 million (2012), $69.2 million (2011) and $71.7 million (2010) were sufficient to cover current liabilities of $8.8 million (2012), $5.2 million (2011) and $4.0 million (2010). The current ratio of 5.62 (2012), 13.29 (2011) and 17.88 (2010) (current assets/current liabilities) demonstrates the liquidity of College assets and the relative availability of working capital to fund current operations.

An operating deficit of $8.2 million (2012), $3.2 million (2011) and $10.8 million (2010) resulted partly from the College's dependence on state appropriations for controlled maintenance and Pell grants for operations in 2012. The financial reporting model classifies certain grants and contracts and state appropriations as non-operating revenues. Additionally, depreciation is an expense for which Colorado higher education has not historically been funded.

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 the College's financial health when considered in conjunction with non-financial facts such as student enrollment and the condition of facilities.

Condensed Statements of Net Assets
June 30, 2012, 2011 and 2010
(in thousands)

	2012	2011	2010
Assets			
Current Assets	$ 49,240	$ 69,213	$ 71,703
Noncurrent Assets	107,111	90,697	71,900
Total Assets	156,351	159,910	143,603
Liabilities			
Current Liabilities	8,764	5,207	4,011
Noncurrent Liabilities	88,756	91,292	91,964
Total Liabilities	97,520	96,499	95,975
Net Assets			
Invested in Capital Assets	50,819	49,170	34,706
Restricted	4,426	7,294	5,094
Unrestricted	3,586	6,947	7,828
Total Net Assets	$ 58,831	$ 63,411	$ 47,628

At June 30, the College's total assets were $156.4 million (2012), $159.9 million (2011) and $143.6 million (2010). The largest asset category, the $105.2 million (2012), $87.0 million (2011) and $68.1 million (2010) in capital assets, includes land, buildings, equipment, library holdings, and construction in process. Construction in progress increased $22.0 million in fiscal year 2012, due to the continuation of a new student apartment project and a new field house project. The capital asset amount is net of accumulated depreciation of $51.4 million (2012), $48.0 million (2011) and $44.1 million (2010). Depreciation amortizes the cost of an asset over its expected useful life and represents the utilization of long-lived assets.

In fiscal years 2012, 2011 and 2010 the College's current assets of $49.2 million (2012), $69.2 million (2011) and $71.7 million (2010) were sufficient to cover current liabilities of $8.8 million (2012), $5.2 million (2011) and $4.0 million (2010) producing current ratios of 5.62 (2012), 13.29 (2011) and 17.88 (2010). The decrease of the current ratio in fiscal year 2012 was due to the expenditure of cash and incurring additional payables for bond related projects. Cash and cash equivalents (bank deposits, pooled cash with the State Treasurer, and highly liquid investments) comprised almost $47.9 million (2012), $67.7 million (2011) and $70.5 million (2010) in assets.

Bonds payable of $89.0 million (2012), $91.4 million (2011) and $92.1 million (2010) represent almost 91% (2012), 95% (2011) and 96% (2010) of the College's total liabilities of $97.5 million (2012), $96.5 million (2011) and $96.0 million (2010). The College issued $58.8 million in revenue bonds in fiscal year 2010 to finance a new student apartment complex, new sports complex/field house and an energy conservation project as discussed in Note E. The current portion of the bonds payable is $865,000 (2012), $775,000 (2011) and $745,000 (2010).

The College's financial position declined during the fiscal year as evidenced by the decrease in net assets of $4.58 million (see the Statement of Revenues, Expenses and Changes in Net Assets) from $63.41 million at June 30, 2011 to $58.83 million at June 30, 2012 due to a significant reduction in state support. Net Assets consisted of $50.8 million (2012), $49.2 million (2011) and $34.7 million (2010) in invested in capital assets net of related debt; $4.2 million (2012), $7.3 million (2011) and $5.1 million (2010) is externally restricted for specific purposes, and $3.8 million (2012), $6.9 million (2011) and $7.8 million (2010) is unrestricted and available for any lawful purpose of the College.

Statements of Revenue, Expenses and Changes in Net Assets

The Statements of Revenue, Expenses and Changes in Net Assets present the results of operations during the year. Activities are reported as either operating or non-operating. Operating revenues and expenses generally result from providing goods and services for instruction, research, public service and related support services to an individual or entity separate from the 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.

Net tuition and fee revenues in 2012 accounted for $12.7 million (the same as for 2011) of the $30.2 million in operating revenues. Tuition and fee revenue in 2011 was $12.7 million, a $2.7 million increase from 2010 due to an increase in tuition rates. The tuition and fee amount is net of scholarship allowances of $4.7 million (2012), $4.3 million (2011) and $3.6 million (2010). Scholarship allowances are defined as the financial aid awarded to students by the colleges that is used to pay college charges. The scholarship allowance is recognized as a direct reduction of revenue rather than an increase in financial aid expense, as previously reported.

An operating deficit of $8.2 million in fiscal year 2012, $3.2 million in fiscal year 2011 and $10.8 million in fiscal year 2010 was offset by state, federal and private grants because the financial reporting model classifies certain grants and contracts and state appropriations as non-operating revenues. The College had ending net assets at June 30, 2012 of $58.8 million, a decrease of $4.6 million from the previous year-end, because the College incurred an increased operating loss due to a significant reduction in state support. Ending net assets at June 30, 2011 were $63.4 million, an increase of $15.8 million from the previous year-end.

Condensed Statements of Revenue, Expenses, and Changes in Net Assets

June 30, 2012, 2011 and 2010
(in thousands)

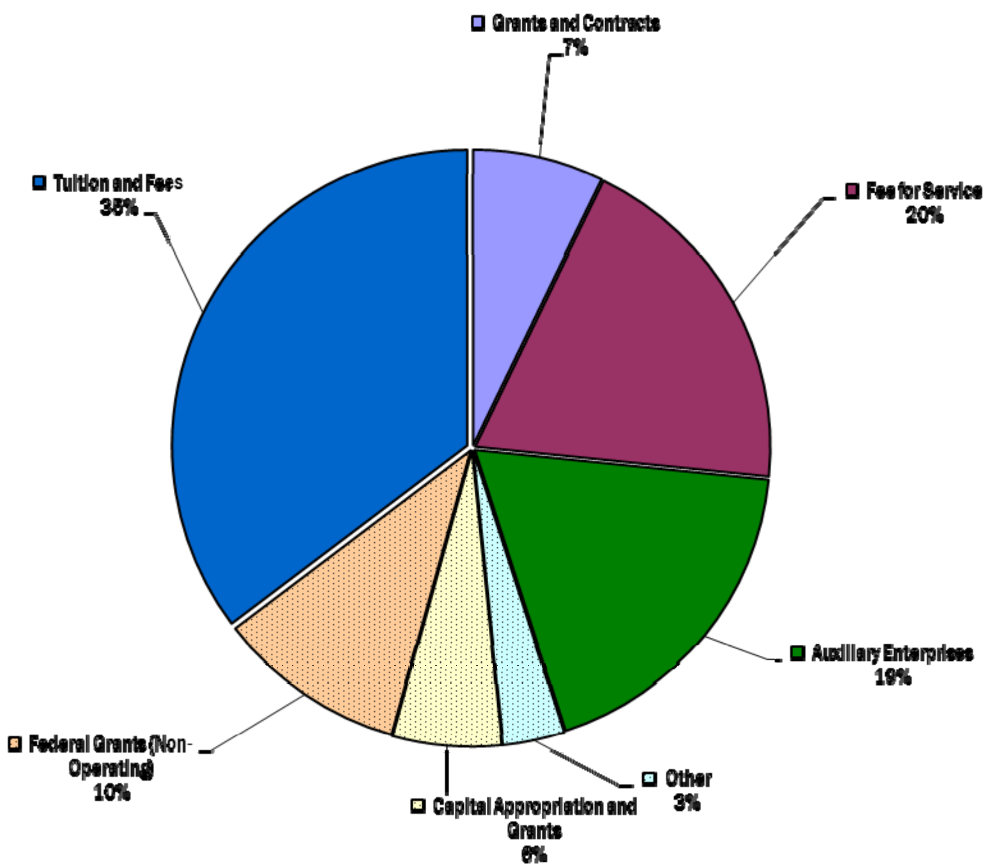
	2012	2011	2010
Operating Revenue			
Tuition and Fees, net	$ 12,742	$ 12,747	$ 10,022
Grants and Contracts	2,598	2,874	3,523
Fee for Service	7,009	8,368	4,049
Auxiliary Enterprises	6,647	7,581	7,145
Other	1,209	1,133	1,562
Total Operating Revenue	30,205	32,703	26,301
Operating Expenses			
Instruction	11,540	11,105	10,649
Academic Support	1,782	1,549	1,500
Student Services	3,895	3,727	3,641
Institutional Support	3,013	3,187	3,821
Operation and Maintenance of Plant	4,028	2,131	2,681
Auxiliary Enterprises	8,620	8,916	10,327
Depreciation	5,107	4,580	3,822
Other	465	716	701
Total Operating Expenses	38,450	35,911	37,142
Net Operating Loss	(8,245)	(3,208)	(10,841)

Nonoperating Revenue (Expense)			
Grants and Contracts	3,747	4,097	8,253
Interest Income	(89)	(69)	1,438
Other Nonoperating	(2,145)	(2,035)	(2,446)
Net Nonoperating Revenue	1,513	1,993	7,245
Gain (Loss) Before Other Revenue, Expenses, Gains, or Losses	(6,732)	(1,215)	(3,596)
State Appropriations, Capital	2,152	16,998	4,970
Other	-	-	6,000
Increase (Decrease) in Net Assets	(4,580)	15,783	7,374
Net Assets:			
Net Assets-Beginning of Year	63,411	407,628	40,254
Net Assets-End of Year	$ 58,831	$63,411	$ 47,628

The following is a graphic illustration of total revenue by source for the College for fiscal year 2012. Each major revenue component is displayed relative to its proportionate share of total revenues.

Revenue by Source – Fiscal Year 2012

Operating Revenues



Non-Operating Revenues

Capital Assets

At June 30, 2012, the College had approximately $105.2 million invested in capital assets, net of accumulated depreciation of $51.4 million. Depreciation charges were $5.1 million for the year ended June 30, 2012. At June 30, 2011, the College had approximately $87.0 million invested in capital assets, net of accumulated depreciation of $48.0 million. Depreciation charges were $4.6 million for the year ended June 30, 2011. Details of these assets are shown below.

Capital Assets, Net, at year-end:

	June 30, 2012	June 30, 2011	June 30, 2010
Land and Improvements	$ 2,599,499	$2,599,499	$2,599,499
Construction in Progress	28,791,365	6,789,603	4,841,949
Land Improvements, Net	407,041	437,193	467,344
Buildings and Improvements, Net	72,323,131	75,830,123	58,724,915
Furniture and Equipment, Net	555,564	664,579	739,403
Library Materials, Net	561,592	652,436	719,412
Total	$ 105,238,192	$86,973,433	$68,092,522

The following significant capital projects were in progress at June 30, 2012:

Student Apartment Complex	$ 19,039,598
Fieldhouse project	9,751,767
All are funded by 2010 bonds	$ 28,791,365

The following significant capital projects were in progress at June 30, 2011:

Student Apartment Complex	$ 2,322,374
Fieldhouse project	3,425,096
Energy Conservation project	1,042,133
All are funded by 2010 bonds	$ 6,789,603

Debt

At June 30, 2012, the College had approximately $89.0 million in debt outstanding, a decrease of $2.4 million from the prior year. The table below summarizes the amounts by type of debt.

Outstanding Debt at Year-End

	June 30, 2012	June 30, 2011	June 30, 2010
Auxiliary Revenue Bonds	$ 89,012,665	$ 91,430,568	$ 92,124,429
Total	$ 89,012,665	$ 91,430,568	$ 92,127,429

In fiscal year 2010, the College issued $58.8 million in revenue bonds to finance the construction of a new student apartment complex, new sports complex/field house and an energy conservation project.

Economic Outlook

The State changed the process of funding higher education institutions as directed by Senate Bill 04-189. General fund monies are no longer directly appropriated to higher education governing boards. Instead, stipends for tuition assistance are provided to eligible undergraduate students through the College Opportunity Fund, and the Department of Higher Education purchases educational services in rural areas in which the cost of delivering the services is not sustained by the amount received in student tuition, through fee-for-service contracts. For fiscal year 2013, the College is projected to receive $2.4 million in funds from the College Opportunity Fund program and $6.7 million in fee-for-service contracts, a decrease of $300 thousand from fiscal year 2012.

Enrollments for the College are projected to be flat in fiscal year 2013. However, tuition rate increases of $706 or 18.0% for full time Colorado resident students and $960 or 7.1% for nonresident students are projected to generate an additional $2.7 million in tuition revenue beyond fiscal year 2012 levels.

The College retained its enterprise status in fiscal year 2012 because its support from the State of Colorado was less than 10%. It is anticipated that the College will retain its enterprise status in fiscal year 2013. To qualify for enterprise status, the College had to meet three criteria including, 1) receiving less than 10% of annual revenue from state or local grants, 2) qualifying as a government-owned business, and 3) having the authority to issue revenue bonds. Under current standards, capital appropriations are considered state grants.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF NET ASSETS

As of June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 47,911,952**	$ 67,716,046
Short-term investments	**105,927**	-
Student accounts receivable, net	**232,143**	446,256
Other accounts receivable, net	**466,779**	514,900
Student loans receivable, net	**80,389**	75,492
Inventories	**373,074**	384,495
Prepaid expenses	**70,065**	76,349
Total Current Assets	**49,240,329**	69,213,538
Non-current Assets		
Restricted cash & cash equivalents	**-**	1,706,133
Student loans receivable, net	**1,044,131**	981,441
Other long-term assets	**828,744**	1,035,803
Total Non-Current Assets	**1,872,875**	3,723,377
Non-depreciable Capital Assets		
Land	**695,416**	695,416
Land improvements	**1,904,083**	1,904,083
Construction in progress	**28,791,365**	6,789,603
Total Non-Depreciable Capital Assets	**31,390,864**	9,389,102
Depreciable Capital Assets, Net		
Land improvements (less accumulated depreciation of $195,983 (2012) and $165,832 (2011)	**407,041**	437,193
Buildings and improvements, less accumulated depreciation of $44,212,330 (2012) and $41,022,411 (2011)	**72,323,131**	75,830,123
Furniture and equipment, less accumulated depreciation of $1,816,208 (2012) and $1,707,373 (2011)	**555,564**	664,579
Library materials, less accumulated depreciation of $5,196,461 (2012) and $5,061,108 (2011)	**561,592**	652,436
Total Depreciable Capital Assets, Net	**73,847,328**	77,584,331
Total Non-current Assets	**107,111,067**	90,696,810
Total Assets	**$ 156,351,396**	$ 159,910,348

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF NET ASSETS

As of June 30, 2012 and 2011

	2012	2011
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 4,776,116**	$ 1,351,584
Accrued liabilities	**2,379,189**	2,463,878
Deferred revenue	**410,446**	398,420
Student deposits	**227,737**	136,099
Bonds payable,current portion	**865,000**	775,000
Compensated absence liabilities, current portion	**105,955**	82,272
Total Current Liabilities	**8,764,443**	5,207,253
Non-current Liabilities		
Bonds payable	**88,147,665**	90,655,568
Compensated absence liabilities	**608,228**	636,245
Total Non-current Liabilities	**88,755,893**	91,291,813
Total Liabilities	**97,520,336**	96,499,066
NET ASSETS		
Invested in capital assets, net of related debt	**50,819,205**	49,169,665
Restricted for:		
Loans	**1,296,270**	1,354,657
Debt servive	**2,941,927**	5,939,892
Unrestricted	**3,585,644**	6,866,013
Unrestricted designated by Board	**188,014**	81,055
Total Net Assets	**$ 58,831,060**	$ 63,411,282

See accompanying notes.

WESTERN STATE COLLEGE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 415,423	$ 299,630
Investments	14,619,709	15,976,067
Contributions receivable, net of allowance of $1,588,000 (2012) and $95,000 (2011)	666,876	2,561,105
Other assets	245,897	202,946
Debt issuance costs	192,663	192,794
Property and equipment, net of accumulated depreciation	12,441,156	12,800,936
Total Assets	$ 28,581,724	$ 32,033,478
Liabilities		
Accounts payable	$ 22,209	$ 56,592
Bonds payable, including premium of $0 (2012) and $120,000 (2011)	7,504,113	8,392,094
Accrued interest	37,724	205,150
Total Liabilities	7,564,046	8,653,836
Net Assets		
Unrestricted	308,818	616,791
Temporarily restricted	5,513,462	8,080,193
Permanently restricted	15,195,398	14,682,658
Total Net Assets	21,017,678	23,379,642
Total Liabilities and Net Assets	$ 28,581,724	$ 32,033,478

The accompanying notes are an integral part of these statements.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUE		
Tuition and fees, including pledged for bonds of $4,817,118 (2012) and $4,652,902 (2011)	**$ 17,430,385**	$ 17,001,723
Less: scholarship allowances	**(4,688,092)**	(4,255,071)
Net Tuition and Fees	**12,742,293**	12,746,652
Federal, state, private grants and contracts	**2,598,299**	2,874,545
Fee for service	**7,008,490**	8,368,030
Sales and services of auxiliary enterprises, including revenue pledged for bonds of $6,844,187 (2012) and $7,798,635 (2011)	**6,913,260**	7,942,664
Less: scholarship allowances	**(265,962)**	(361,741)
Net Auxiliary Sales and Services	**6,647,298**	7,580,923
Other operating revenue, including $172,750 (2012) and $102,827 (2011) of revenue pledged for bonds	**1,208,563**	1,133,249
Total Operating Revenue	**30,204,943**	32,703,399
OPERATING EXPENSES		
Instruction	**11,539,848**	11,104,950
Research	**26,507**	23,481
Public service	**191,984**	161,077
Academic support	**1,781,559**	1,549,161
Student services	**3,895,333**	3,726,919
Institutional support	**3,013,119**	3,187,454
Operation and maintenance of plant	**4,028,460**	2,131,311
Scholarships and fellowships	**245,348**	531,655
Auxiliary enterprises	**8,620,497**	8,915,650
Depreciation	**5,107,290**	4,579,643
Total Operating Expenses	**38,449,945**	35,911,301
Operating Loss	**(8,245,002)**	(3,207,902)
NON-OPERATING REVENUE (EXPENSES)		
State fiscal stabilization	**-**	430,587
Pell grants	**2,508,701**	2,424,964
Federal interest subsidy, including $1,237,835 (2012) and $1,241,274 (2011) pledged to bonds	**1,237,835**	1,241,274
Investment and interest income(loss), including $154,279 (2012) and $220,261 (2011) of revenue pledged for bonds	**(88,691)**	(69,458)
Loss on disposal of assets	**(518,900)**	(252,274)
Interest expense on capital debt	**(1,521,991)**	(1,645,770)
Other non-operating expenses	**(104,350)**	(136,632)
Net Non-operating Revenue	**1,512,604**	1,992,691
Loss Before Other Items	**(6,732,398)**	(1,215,211)

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2012 and 2011

	2012	2011
Other Revenue, Expenses, Gains, Losses, or Transfers		
State appropriation, capital	**2,152,176**	16,998,513
Increase (Decrease) in Net Assets	**(4,580,222)**	15,783,302
Net Assets - beginning of the year	**63,411,282**	47,627,980
Net Assets - end of the year	**$ 58,831,060**	$ 63,411,282

See accompanying notes.

WESTERN STATE COLLEGE FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2012 and 2011

	2012	2011
Changes in Unrestricted Net Assets		
Revenues, gains and other support:		
Contributions	$ 211,344	$ 190,706
Investment income (loss)	(185,019)	2,673,677
Rental Income	14,482	14,482
	40,807	2,878,865
Net assets released from restrictions:		
Satisfaction of program restrictions	8,414,600	4,275,892
	8,455,407	7,154,757
Expenses:		
Programs	5,957,787	3,214,914
Management and general	1,030,262	1,072,878
Fund-raising	1,719,564	249,311
	8,707,613	4,537,103
Transfers	(55,767)	(2,496)
(Decrease) Increase in Unrestricted Net Assets	(307,973)	2,615,158
Changes in Temporarily Restricted Net Assets		
Revenues and gains:		
Contributions	5,734,369	3,239,095
Investment income (loss)	(20,557)	350,458
Royalties	77,307	72,537
	5,791,119	3,662,090
Net assets released from restrictions:		
Satisfaction of program restrictions	(8,414,600)	(4,275,892)
Transfers	56,750	(14,066)
Decrease in Temporarily Restricted Net Assets	(2,566,731)	(627,868)
Changes in Permanently Restricted Net Assets		
Revenues and gains:		
Contributions	513,723	379,552
Transfers	(983)	16,562
Increase in Permanently Restricted Net Assets	512,740	396,114
(Decrease) Increase in Net Assets	(2,361,964)	2,383,404
Net Assets - July 1	23,379,642	20,996,238
Net Assets - June 30	$ 21,017,678	$ 23,379,642

The accompanying notes are an integral part of these statements.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received		
Tuition and fees	**$ 12,924,010**	$ 12,687,373
Sales of services	**12,669,019**	14,719,154
Sales of product	**1,078,407**	1,113,348
Grants, contracts and gifts	**2,598,299**	2,874,545
Student loans collected	**14,600**	100,813
Other operating receipts	**1,256,685**	1,065,475
Cash Payments		
Payments to or for employees	**(20,693,451)**	(19,716,874)
Payments to suppliers	**(12,466,732)**	(11,050,478)
Scholarships disbursed	**(245,348)**	(531,655)
Student loans disbursed	**(229,240)**	(191,241)
Net Cash Provided (Used) by Operating Activities	**(3,093,751)**	1,070,460
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal, state, private grants & contracts	**3,642,186**	3,942,096
Other agency inflows (outflows)	**(104,350)**	(136,632)
Net Cash Provided by Noncapital Financing Activities	**3,537,836**	3,805,464
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State appropriations - capital	**2,152,176**	16,998,513
Acquisition or construction of capital assets	**(21,871,111)**	(22,917,827)
Principal paid on capital debt	**(570,000)**	(745,000)
Interest on capital debt	**(1,496,696)**	(970,581)
Net Cash Used by Capital and Related Financing Activities	**(21,785,631)**	(7,634,895)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	**-**	-
Investment earnings (interest/dividends)	**(88,691)**	(69,458)
Purchase of investments	**(79,990)**	-
Net Cash Used by Investing Activities	**(168,681)**	(69,458)
Net Increase (Decrease) in Cash and Cash Equivalents	**(21,510,227)**	(2,828,429)
Cash and cash equivalents - beginning of year	**69,422,179**	72,250,608
Cash and cash equivalents - end of year	**$ 47,911,952**	$ 69,422,179

See accompanying notes.

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and 2011

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	**$ (8,245,002)**	$ (3,207,902)
Adjustments to reconcile:		
Depreciation	**5,107,290**	4,579,642
Provision for uncollectable accounts	**91,434**	67,269
Decrease (increase) in assets	**(59,143)**	(319,499)
Increase (decrease) in liabilities	**11,670**	(49,050)
Net Cash Provided (Used) by Operating Activities	**$ (3,093,751)**	$ 1,070,460

See accompanying notes.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity
The accompanying financial statements reflect the financial activities of the College for the fiscal year ended June 30, 2012. 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, Denver, Colorado.

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

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, 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.

The Foundation's financial statements have been presented on the accrual basis and pronouncements of the Financial Accounting Standards Board (FASB) have been applied. Net assets of the Foundation are classified as unrestricted, temporarily restricted and permanently restricted.

Contributions including unconditional promises to give are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value.

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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
For the purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificate of deposits with financial institutions, pooled cash with the state treasurer and all highly liquid investments with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes restricted and unrestricted balances

Investments
Investments are carried at market value (GASB 31).

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

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

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

Restricted Cash and Cash Equivalents
Restricted cash and cash equivalents include amounts restricted for project construction and bond debt service reserves.

Capital Assets
Capital assets are stated at cost at date of acquisition or fair market value at date of donation. The College capitalizes only those assets with an initial cost or fair market value greater than or equal to $5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 20 to 40 years for buildings and building improvements and 3 to 10 years for equipment and library materials. State capital construction revenues are recognized only to the extent of current expenditures. Controlled maintenance (corrective repairs or replacements to existing facilities) funded by the state is recorded as state appropriated revenue and the assets are recorded to the extent that expenditures qualify for capitalization.

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

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

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

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

Non-operating Revenue – Non-operating revenue is that revenue that does not meet the definition of operating revenue. Non-operating revenue includes state appropriations for operations, gifts, investment income and insurance reimbursement revenue.

Scholarship Allowances
Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship allowances in the Statement of Revenue, Expenses and Changes in Net Assets. Scholarship allowances are the differences 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 revenue in the College's financial statements. To the extent that revenue from such programs is 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 years ended June 30 were $4,954,054 (2012) and $4,616,812 (2011)

Net Assets
The College's net assets are classified as follows:

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

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

Restricted net assets – nonexpendable – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Certain net assets are unrestricted but designated by the board of Trustees for certain purposes. The Statement of Net Assets for 2011 has been restated to make it more comparable to 2012.

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

Application of Restricted and Unrestricted Resources
The College's policy is to first apply an expense against restricted resources then to unrestricted resources, when both restricted and unrestricted resources are available.

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

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

Reclassifications
Certain reclassifications have been made to the 2011 Statement of Net Assets to conform to the 2012 presentation. The reclassification had no effect on the results of operations.

NOTE B - CASH AND INVESTMENTS

Cash
At June 30, the College had $47,028,558 (2012) and $67,344,549 (2011) 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:

	2012	2011
Cash on hand	$ 84,671	$ 145,992
Cash in checking accounts at bank	131,112	1,931,638
	$ 215,783	$ 2,077,630

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College does not have a deposit policy for custodial credit risk. The carrying amount of the College's cash on deposit was $131,112 (2012) and $1,931,638 (2011) and the bank balance was $1,879,853 (2012) and $2,552,944 (2011). Of this bank balance, $1,879,853 (2012) and $289,145 (2011) was covered by federal note depository insurance or by collateral held by the institution's agent in the institution's name.

Investments
Western 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. Western State College reports its share of the treasurer's unrealized gains/losses based on its participation in the State Treasurer's pool. All of the treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 20, 2012. 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 gain included in "Investment Income" reflects 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 Foundation had investments with a cost of $13,518,356 (2012) and $14,193,303 (2011) and a market value of $14,619,709 (2012) and $15,976,067 (2011).

NOTE C - RECEIVABLES AND PAYABLES

At June 30, receivable balances were as follows:

2012	Gross Receivable	Allowance for Uncollectible Amounts	Net Receivable
Student accounts receivable	$ 397,010	$ (164,867)	$ 232,143
Other accounts receivable	$ 466,779	$ -	$ 466,779
Student loans receivable	$ 109,048	$ (28,659)	$ 80,389
Non-current student loans receivable	$ 1,419,114	$ (374,983)	$ 1,044,131
2011			
Student accounts receivable	$ 566,703	$ (120,447)	$ 446,256
Other accounts receivable	$ 514,900	$ -	$ 514,900
Student loans receivable	$ 100,813	$ (25,321)	$ 75,492
Non-current student loans receivable	$ 1,312,748	$ (331,307)	$ 981,441

At June 30, accrued liabilities balances were as follows:

	2012	2011
Accrued payroll	$ 1,735,203	$ 1,788,490
Accrued interest payable	643,986	675,388
Total Accrued liabilities	$ 2,379,189	$ 2,463,878

NOTE D - CAPITAL ASSETS

The following presents changes in capital assets and accumulated depreciation for the years ended June 30, 2011 and 2012, respectively.

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Non-depreciable Capital Assets				
Land	$ 695,416	$ -	$ -	$ 695,416
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	6,789,603	23,760,290	(1,758,528)	28,791,365
Total Non-depreciable Capital Assets	$ 9,389,102	$ 23,760,290	$ (1,758,528)	$ 31,390,864
Depreciable Capital Assets				
Land Improvements	$ 603,025	$ -	$ -	$ 603,025
Buildings and improvements	116,852,534	1,758,528	(2,075,602)	116,535,460
Furniture and equipment	2,371,952	86,150	(86,331)	2,371,771
Library materials	5,713,543	44,510	-	5,758,053
Total Depreciable Capital Assets	125,541,054	1,889,188	(2,161,933)	125,268,309
Less: accumulated depreciation				
Land Improvements	(165,832)	(30,151)	-	(195,983)
Buildings and improvements	(41,022,411)	(4,746,620)	1,556,701	(44,212,330)
Furniture and equipment	(1,707,372)	(195,167)	86,331	(1,816,208)
Library materials	(5,061,108)	(135,353)	-	(5,196,461)
Total Accumulated Depreciation	(47,956,723)	(5,107,291)	1,643,032	(51,420,982)
Net Depreciable Capital Assets	$ 77,584,331	$ (3,218,103)	$ (518,901)	$ 73,847,327

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Non-depreciable Capital Assets				
Land	$ 695,416	$ -	$ -	$ 695,416
Land improvements	1,904,083	-	-	1,904,083
Construction in progress	4,841,949	23,506,240	(21,558,586)	6,789,603
Total Non-depreciable Capital Assets	$ 7,441,448	$ 23,506,240	$ (21,558,586)	$ 9,389,102
Depreciable Capital Assets				
Land Improvements	$ 603,025	$ -	$ -	$ 603,025
Buildings and improvements	96,211,308	21,558,586	(917,360)	116,852,534
Furniture and equipment	2,344,343	130,304	(102,695)	2,371,952
Library materials	5,637,260	76,283	-	5,713,543
Total Depreciable Capital Assets	104,795,936	21,765,173	(1,020,055)	125,541,054
Less: accumulated depreciation				
Land Improvements	(135,681)	(30,151)	-	(165,832)
Buildings and improvements	(37,486,393)	(4,201,104)	665,086	(41,022,411)
Furniture and equipment	(1,604,940)	(205,128)	102,695	(1,707,373)
Library materials	(4,917,848)	(143,259)	-	(5,061,107)
Total Accumulated Depreciation	(44,144,862)	(4,579,642)	767,781	(47,956,723)
Net Depreciable Capital Assets	$ 60,651,074	$ 17,185,531	$ (252,274)	$ 77,584,331

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

	2012	2011
Land	$ 38,225	$ 38,225
Buildings and improvements	14,382,888	14,382,888
Furniture and equipment	104,116	104,672
	14,525,229	14,525,785
Less: accumulated depreciation	(2,084,073)	(1,724,849)
	$ 12,441,156	$ 12,800,936

NOTE E - LONG-TERM LIABILITIES

The College's long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due within One Year
Bonds and Leases Payable:					
Bonds	$ 91,705,000	$ 12,730,000	$ 13,970,000	$ 90,465,000	$ 865,000
Premium/Discount	(92,725)	(29,353)	59,696	(181,774)	-
Gain/Loss on refunding	(181,707)	(1,321,384)	(232,530)	(1,270,561)	-
Total Bonds Payable	91,430,568	11,379,263	13,797,166	89,012,665	865,000
Other Liabilities:					
Compensated Absences	718,517	-	(4,334)	714,183	105,955
Total Other Liabilities	718,517	-	(4,334)	714,183	105,955
Total Long-Term Liabilities	$ 92,149,085	$ 63,391	$ 745,000	$ 92,149,085	$ 857,272

The College's long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due within One Year
Bonds and Leases Payable:					
Bonds	$ 92,450,000	$ -	$ 745,000	$ 91,705,000	$ 775,000
Premium/Discount	(94,470)	1,745	-	(92,725)	-
Gain/Loss on refunding	(228,101)	46,394	-	(181,707)	-
Total Bonds Payable	92,127,429	48,139	745,000	91,430,568	775,000
Other Liabilities:					
Compensated Absences	703,265	15,252	-	718,517	82,272
Total Other Liabilities	703,265	15,252	-	718,517	82,272
Total Long-Term Liabilities	$ 92,830,694	$ 63,391	$ 745,000	$ 92,149,085	$ 857,272

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

On June 29, 2010, the College issued $9,115,000 in Institutional Enterprise Revenue Bonds (Tax-Exempt), Series 2010A with an average interest rate of 4.017%. The 2010A bonds begin to mature on May 15, 2018 in increasing amounts through May 15, 2026. The bonds are to be paid from Institutional Enterprise Revenues.

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

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

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

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

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

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

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

Additionally, the College has agreements for the rental of copiers all of which are for a period 36 months and are in effect through December 2014. Total future rental obligations total $62,725.

Principal and interest requirements to maturity for the College are as follows:

Year Ending June 30	2009	2010	2011	Total
2013	$ 976,750	$ 3,827,095	$ 1,213,047	$ 6,016,892
2014	976,750	3,827,095	1,114,994	$ 5,918,839
2015	976,750	3,827,095	1,215,286	$ 6,019,131
2016	976,750	3,827,095	1,220,225	$ 6,024,070
2017	976,750	3,827,095	1,111,534	$ 5,915,379
2018-2022	4,883,750	23,628,278	5,811,791	$ 34,323,819
2023-2027	7,297,750	24,981,484	2,935,006	$ 35,214,240
2028-2032	9,598,250	23,366,950		$ 32,965,200
2033-2037	9,606,000	22,273,900		$ 31,879,900
2038-2042	3,840,000	23,711,650		$ 27,551,650
2043-2047		14,321,850		$ 14,321,850
Total Principal and Interest	40,109,500	151,419,587	14,621,883	206,150,970
Less interest	20,574,500	92,649,587	2,461,883	115,685,970
Total Principal	$ 19,535,000	$ 58,770,000	$ 12,160,000	$ 90,465,000

Long-term liabilities for the Foundation consist of the following as of June 30:

On August 30, 2006, the City of Gunnison issued its Revenue Bond (Western State College Foundation Project) Series 2006 to finance the construction of the Borick Business Building to be owned and operated by the Foundation and utilized by Western State College. The proceeds of the bond will be loaned by the city to the Foundation. The bond was issued in the aggregate principal amount of $6,000,000 at a 4.50% annual interest rate. On October 15, 2009, Western State College issued a Revenue Bond (Series 2009) of $19,535,000 to finance the construction of a new College Center (Note 13). The Foundation was included in the issue for a $6,000,000 bond issue (relating to its share of the project) at 6.1% annual interest rate, due July 15, 2019. On April 30, 2012, two series of bonds were issued designated as the “Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012A” in the aggregate principal amount of $6,023,043 which refunded the Series 2009 Bond (the “Series 2012A Bond”) and the “Gunnison County, Colorado Revenue Refunding Bond (Western State College Foundation Project) Series 2012B” in the aggregate principal amount of $1,481,069, which refunded the Series 2006 Bond (the “Series 2012B Bond” and together with the “Series 2012A Bond”, the “Series 2012 Bonds”). The initial maturity dates on the Series 2006 and Series 2009 remain the same with the “Series 2012 Bonds”. Interest was reduced to 2.86% per annum on the 2012A Bond and to 1.49% per annum on the 2012B Bond.

The future maturities of the Foundation bonds are as follows:

Years ending June 30	Borick Building	College Center	Total
2013	$ 985,877	$ 319,339	$ 1,305,216
2014	495,192	237,862	$ 733,054
2015	-	244,713	$ 244,713
2016	-	251,761	$ 251,761
2017	-	259,011	$ 259,011
Thereafter	-	4,710,358	$ 4,710,358

NOTE F - EXTINGUISHMENT OF DEBT

In fiscal year 1994, the College defeased 1992 series bonds by placing the proceeds of the 1994 series plus a portion of the 1992 series debt service reserve funds in an irrevocable trust to provide for all future debt service payments on the 1992 bonds. Accordingly, the trust-account assets and liabilities for the defeased bonds are not included in the College's financial statements. On June 30, 2012, the remaining \$3,215,000 of 1992 bonds outstanding is considered defeased.

In fiscal year 2003, the College defeased 1994 series bonds by placing the proceeds of the 2003A series in an irrevocable trust to provide for all future debt service payments on the 1994 bonds. Accordingly, the trust-account assets and liabilities are not included in the College's financial statements. On June 30, 2012, the remaining \$3,265,000 of 1994 bonds outstanding is considered defeased.

In fiscal year 2012, the College defeased 2003 series A and B bonds by placing the proceeds of the 2011 series A and B bonds plus the 2003 series debt series reserve funds in an irrevocable trust to provide for all future debt service payments on the 2003 bonds. Accordingly, the trust-account assets and liabilities are not included in the College's financial statements. On June 30, 2012, the remaining \$12,625,000 of the 2003 bonds outstanding is considered defeased.

NOTE G - COMPENSATED ABSENCE LIABLITY FOR ANNUAL AND SICK LEAVE

College employees may accrue annual and sick leave, based on length of service, and subject to certain limitations regarding the amount to be paid upon termination. The estimated cost of compensated absences for which employees are vested for the year ended June 30, 2012 is \$714,183. Current expenses include \$(4,334) for the decrease in the estimated compensated absence liability. The recording of the liability for compensated absences may result in fund-balance deficits, which will be funded by state appropriation, self-supporting funds, or other sources available in future years when the liability is paid.

NOTE H - EMPLOYEE PENSION PLANS

A. Optional Retirement Plan

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

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

The College's contributions to the ORP for fiscal years ending June 30, 2012, 2011, and 2010 were \$1,046,730, \$972,519, and \$997,208, respectively. These contributions were equal to the required contributions for each year. All ORP contributions are immediately invested in the employee's account. Normal retirement for the ORP is age 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.

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

B. Public Employees Retirement Association

1. Plan Description

The rest of the College's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by 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 an actuarial assessment and legislation by the General Assembly. The state plan, as well as the other divisions' plans, is included in PERA's financial statements, which may be obtained by writing PERA at PO Box 5800, Denver CO 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

Non-higher education 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 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.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

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. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as contributions to the PERA defined benefit plan.

Defined benefit plan member (except state troopers) vest after five years of service, and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 – age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on the original hire date, as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated at 2.5 percent times the number of years of services times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which the contribution were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between period. For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.
- Members who are disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full-time student) may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, financially dependent parents, beneficiaries or the member's estate may be entitled to a survivor's benefit.

2. 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.

Employees contribute 8.0 percent of their salary, as defined in CRS 24-51-101(42) to an individual account in the plan. Effective July 1, 2011 Senate Bill 11-076 extended the requirement for members in the State and Judicial Divisions to pay 2.5 percent additional member contributions through June 30, 2012. Employer contributions for members in these two divisions will be reduced by 2.5 percent.

From July 1, 2011, to December 31, 2011, the State contributed 12.25 percent (14.95 percent for State troopers and 14.86 percent for the Judicial Branch) of the employee's salary. From January 1, 2012, through June 30, 2012, the State contributed 13.15 percent (15.85 percent for State troopers and 14.86 percent for the Judicial Branch). During all of Fiscal Year 2011-12, 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, 2011, the division of PERA in which the State participates has a funded ratio of 57.7 percent and a 56 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly lower at 57.6 percent.

In the 2004 and 2010 legislative sessions, 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 for calendar years 2006 and 2007, with subsequent year increases of .4 percent of salary through 2017, to a maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

At a 103 percent funding ratio, both the AED and the SAED will be reduced by one-half percentage point, and for subsequent declines to below 90 percent funded both the AED and SAED will be increased by one-half percentage point. For the Judicial Division, if the funding ratio reaches 90 percent and subsequently declines, the AED and SAED will be increased by one-half percentage point.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The College's total contributions to the Defined Benefit Plan and the Health Care Trust Fund for the fiscal years ending June 30, 2012, 2011, and 2010 were $602,994, $572,384, and $658,872, respectively. These contributions were equal to the required contributions for each year.

C. Student-Employees Defined Contribution Plan

Beginning in fiscal year 1993, in accordance with the provisions of CRS 24-54.6-101 through 106 and as provided in IRC 403(b), the State of Colorado Department of Higher Education established the Colorado Student-Employees Defined Contribution Pension Plan administered by TIAA-CREF. Student-employees not currently attending classes are required to participate. The plan requires a 7.5 percent employee contribution and no employer contribution. For the fiscal year ended June 30, total payroll upon which the plan contributions were based was $344,373 (2012) and $337,601 (2011).

NOTE I - VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer 403(b) or 401(a) plans. The College offers each of these plans to employees.

NOTE J - POST-RETIREMENT HEALTH CARE 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. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, 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 http://www.copera.org.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Employees Health Care Trust Fund, which is maintained by employer's contributions as discussed above in Note H-B2. Beginning July 1, 2004, state agencies/institutions are required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The College contributed $51,386, $53,134, and $54,192 as required by statute for the fiscal years ended June 30, 2012, 2011 and 2010, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2011, there were 50,217 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2011, the Health Care Trust Fund had an unfunded actuarial accrued liability of $1.43 billion, a funded ratio of 16.5 percent, and a 49-year amortization period.

NOTE K - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The College is subject to risks of loss from liability from accident or acts of nature. Such risks for all agencies and institutions of the State of Colorado (University of Colorado excepted) are managed under statutory authority by the State Office of Risk Management (an agency formed by statute and funded by the Long Bill). The College does not retain risk of loss except for damage incurred to property belonging to the College, limited to a $1,000 deductible per occurrence.

NOTE L - SCHOLARSHIP ALLOWANCE

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

		Tuition and Fees	Auxiliary Revenue	Total
2012				
Gross revenue		$ 17,430,385	$ 6,913,260	$ 24,343,645
Scholarship allowances:				
Federal		(2,367,486)	(134,311)	(2,501,797)
State		(464,121)	(26,330)	(490,451)
Private		(346,919)	(19,681)	(366,600)
Institutional		(1,509,566)	(85,640)	(1,595,206)
	Total Allowances	(4,688,092)	(265,962)	(4,954,054)
	Net Revenue	$ 12,742,293	$ 6,647,298	$ 19,389,591
2011				
Gross revenue		$ 17,001,723	$ 7,942,664	$ 24,944,387
Scholarship allowances:				
Federal		(2,233,912)	(189,914)	(2,423,826)
State		(548,904)	(46,665)	(595,569)
Private		(314,875)	(26,769)	(341,644)
Institutional		(1,157,380)	(98,393)	(1,255,773)
	Total Allowances	(4,255,071)	(361,741)	(4,616,812)
	Net Revenue	$ 12,746,652	$ 7,580,923	$ 20,327,575

NOTE M - RELATED PARTY LEASE AGREEMENT

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

NOTE N - LEGISLATIVE APPROPRIATION

Appropriated Funds

The Colorado Legislature establishes spending authority for the College in its annual Long Appropriations Bill. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources. For the years ended June 30, funds appropriated to the College were $9,404,112 (2012) and $22,704,676 (2011). Actual appropriated revenue earned, including capital appropriations, totaled $9,393,807 (2012) and $21,505,616 (2011). Actual appropriated expenditures and transfers totaled $9,393,807 (2012) and $21,505,616 (2011).

Non-Appropriated Funds

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

SUPPLEMENTAL INFORMATION

STATE OF COLORADO
WESTERN STATE COLLEGE OF COLORADO

SCHEDULES OF REVENUE AND EXPENSES
FOR ENTERPRISE REVENUE BONDS

For years ended June 30, 2012 and 2011

	2012	2011
REVENUE		
College Service Fees	**$ 1,649,277**	$ 1,415,191
Extended Studies Tuition	**1,988,618**	1,995,444
10% of Education and General Fund Tuition	**1,256,015**	1,233,718
Federal Interest Subsidy	**1,237,835**	1,241,274
Bookstore Sales	**1,078,407**	1,113,348
Rental Income	**3,094,191**	3,661,331
Food Service Income	**2,009,956**	2,370,635
Sales/Service Auxiliaries	**757,591**	551,725
Interest Income	**154,279**	220,261
Total Revenues	**13,226,169**	**13,802,927**
EXPENSES		
Employee Compensation	**2,523,106**	2,011,727
Costs of Goods	**827,089**	825,666
Utilities	**500,231**	560,433
Rental	**21,547**	15,587
Contract Food	**1,517,100**	1,579,182
Travel	**89,484**	65,179
Supplies	**186,977**	198,836
Purchased Services-Personal	**885,635**	530,233
Financial Aid	**32,377**	68,764
Administrative Cost Allowance	**2,028,096**	2,074,500
Furniture & Equipment	**1,836**	30,624
Other Operating Expenses	**76,650**	573,750
Total Expenses	**8,690,128**	**8,534,481**
Net Revenues before Transfers	**4,536,041**	**5,268,446**
TRANSFERS		
Mandatory Transfers	**(1,857,523)**	(2,139,895)
Non-mandatory Transfers	**(93,532)**	(198,183)
Total Transfers	**(1,951,055)**	**(2,338,078)**
Net Revenue (Loss)	**$ 2,584,986**	**$ 2,930,368**

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

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

Members of the Legislative Audit Committee:

We have audited the basic financial statements of Western State College of Colorado (the College); a part of the State of Colorado, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. The financial statements of the College as of and for the year ended June 30, 2011 were audited by other auditors whose report dated November 4, 2011 expressed an unqualified opinion. The financial statements of Western State College of Colorado Foundation, a discretely presented component unit of the College, as of and for the years ended June 30, 2012 and 2011 were also audited by other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that reported on separately by those auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit, Western State College of Colorado Foundation, were not audited in accordance with the *Government Auditing Standards.*

<u>Internal Control Over Financial Reporting</u>

In planning and preforming our audit, we considered the College's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

December 5, 2012

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CPAs and Business Advisors
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AUDIT COMMITTEE COMMUNICATIONS

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities of Western State College of Colorado (the College) a part of the State of Colorado for the years ended June 30, 2012 and 2011, and have issued our report thereon dated December 5, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 6, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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 the 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 the year ended June 30, 2012. We noted no transactions entered into by the College during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

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

Difficulties Encountered in Performing the Audit

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

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 5, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

Dalby Wendland & Co, P.C.

DALBY, WENDLAND & CO., P.C.

December 5, 2012

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: 2110-12