

**Performance Evaluation of
Adams State University**

Prepared for the Colorado Office of the State Auditor

FEBRUARY 15, 2017

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February 15, 2017

Members of the Legislative Audit Committee:

This report contains the results of a performance evaluation of Adams State University. This evaluation was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. This report presents our analysis and conclusions along with the response of Adams State University.

Huron is a management consulting firm and not a CPA firm, and we do not provide attest services, audits, or other engagements in accordance with the AICPA Statements on Auditing Standards. We did not audit any financial statements or perform attest procedures with respect to information in conjunction with this engagement. Our services are not designed, nor should they be relied upon, to disclose weaknesses in internal controls, financial statement errors, irregularities, illegal acts, or disclosure deficiencies.

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REPORT HIGHLIGHTS

Adams State University

Performance Evaluation, February 2017

OVERALL CONCLUSION

In recent years, Adams has maintained positive annual operating cash flow margins before factoring in interest and depreciation expenses. However, capital renewal and replacement needs and debt service requirements present a significant financial burden for the University to carry. Given its current operating cash flows and high levels of debt, Adams needs to identify more significant cost-cutting and revenue-enhancement strategies to ensure its financial sustainability.

KEY FACTS AND CONCLUSIONS

- Adams generated between \$0.9 and \$3.6 million per year in operating cash flows before interest and depreciation during fiscal years 2011 through 2015. However, the University's debt service requirements, net of a federal interest subsidy, total more than \$4 million per year (i.e., \$4.6 million in fiscal year 2016), thereby offsetting the positive cash flows from operations. Adams cannot afford additional, large, debt-financed capital investments. Adams needs to increase operating cash flows by about \$3 million above fiscal year 2015 levels to improve its financial ratios and help ensure financial sustainability given its present debt burden and routine capital needs.
- Between fiscal years 2009 and 2015, Adams incurred capital expenditures totaling \$98.7 million, which were funded almost entirely by state capital appropriations and debt proceeds. Adams' capital investments helped to improve the physical campus environment. However, this capital-intensive strategy has also resulted in a significant increase in Adams' debt service obligations. In fiscal years 2013 through 2015, more than 5% of Adams' total adjusted operating expenses were for interest on capital debt, net of federal interest subsidies.
- Adams' net tuition revenue per student FTE was about \$5,636 in fiscal year 2014, which was the highest among the institutions included in the peer group used for this analysis. Above-market tuition increases are not likely to be a viable option for resolving Adams' financial challenges. Tuition pricing is especially important for universities, such as Adams, that serve regions or demographics that need a low-cost education provider.
- Adams' ongoing strategic challenge will be to achieve enrollment growth and increased retention, thereby increasing revenue, without an equal increase in costs. The University's strategic goals and initiatives target and build upon areas of programmatic, reputational, and geographic strengths. However, in pursuing these initiatives, Adams must also avoid the common pitfalls in the increasingly competitive higher education marketplace of allowing costs to increase as a result of trying to be all things to all students.

BACKGROUND

Established in 1921, Adams State University (Adams or University) is a public institution of higher education located in Alamosa, Colorado. Adams offers undergraduate liberal arts and sciences, teacher preparation, and business degree programs; a limited number of graduate level programs; and two-year transfer programs. Adams is also a federally designated Hispanic Serving Institution.

Adams enrolled approximately 2,797 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 82% of Adams' undergraduate students and nearly 60% of its graduate students are Colorado residents.

In fiscal year 2015, Adams' operating and nonoperating revenues, including state capital appropriations, totaled \$65.2 million, and its expenses, net of a federal interest subsidy, totaled \$59.2 million. During fiscal year 2015, Adams employed about 440 faculty and staff full-time equivalent positions.

Adams is independently governed by a Board of Trustees, that has full authority and responsibility for the control and governance of the University, including such areas as finance, academic programs, curriculum, admissions, role and mission, and personnel policies. The University President, who provides leadership and oversees University operations, reports directly to the Board of Trustees.

PROJECT APPROACH

This evaluation consisted of three key components: A **financial assessment** to determine appropriate cash flow levels and assess the impact of financing strategies, an **operational assessment** to understand the operational factors driving the University's financial outcomes, and a **strategic assessment** to understand and assess the strategies and initiatives put in place by the University to help improve its financial position.

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Chapter 1 – Overview

Established in 1921 and located in Alamosa, Colorado, Adams State University (Adams or University), formerly named Adams State College, is a public institution of higher education. State statute [Section 23-51-101, et seq., C.R.S.] provides that Adams shall: (1) be a general baccalaureate institution with moderately selective admissions standards; (2) offer undergraduate liberal arts and sciences, teacher preparation, and business degree programs, a limited number of graduate level programs, and two-year transfer programs with a community college role and mission; (3) provide access to teacher education in rural Colorado and serve as a regional education provider; and (4) preserve and promote the unique history and culture of the region. Adams is also a federally designated Hispanic Serving Institution, which means that it participates in a federal program designed to assist first-generation, majority low-income Hispanic students.

Student Enrollment, Faculty, and Staff Positions

Occupying a campus size of approximately 90 acres and 38 buildings, Adams enrolled approximately 2,797 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 82% of Adams' undergraduate students and nearly 60% of its graduate students are Colorado residents. During fiscal year 2015, Adams employed about 440 faculty and staff full-time equivalent (FTE) positions. We provide additional analysis of Adams' student enrollment in Chapter 2.

Revenues and Expenses

In fiscal year 2015, Adams' revenues, including operating revenues, non-operating revenues, student capital fees, and state appropriations for capital, totaled \$65.2 million, and Adams' expenses, including operating and non-operating expenses net of a federal interest subsidy, totaled \$59.2 million. We provide additional analysis of Adams' revenues and expenses in Chapter 2.

State Funding

The State has historically subsidized education at state higher education institutions based on the public benefits of providing educational access to all citizens and promoting a more educated population. Although policy makers may differ on the extent to which higher education should be an individual versus a public responsibility, Colorado has always expected that individuals and families who benefit from higher education bear at least some portion of the cost. Over the last 15 years, Colorado, like other states, has moved toward a funding model in which state funding has declined and the share of higher education costs borne by individuals and families has increased. According to analysis prepared by Joint Budget Committee staff, the State General Fund provided about 67% of the revenue per resident student FTE in fiscal year 2001. After adjusting for inflation, the State General Fund provided about 37% of the revenue per resident student FTE in fiscal year 2016.

Beginning in fiscal year 2006, through the enactment of Senate Bill 04-189, state funding to support Colorado higher education institutions' operations shifted from funding institutions to funding individual students and educational services. State General Fund dollars are allocated to higher education governing boards via two different mechanisms: (1) student stipends, which flow through the College Opportunity Fund (COF) for each credit earned by students and are recognized as part of the institution's tuition and fee revenue, and (2) fee-for-service contracts, which allocate funding to each state-supported higher education institution based on factors related to its institutional role and mission and various performance metrics. In fiscal year 2015, state funding appropriated to Adams for COF stipends and fee-for-service contracts totaled \$12.8 million, which was about 25% of Adams' total adjusted operating revenues. In fiscal year 2016, state funding appropriated to Adams for COF stipends and fee-for-service contracts totaled \$14.2 million, an increase of about 11% from the prior year.

Adams also receives state capital appropriations, which are classified as a non-operating capital contribution, to help fund investments in buildings and facilities. According to the Capital Development Committee's Fiscal Year 2016 Annual Report, Adams' state-funded capital appropriations total about \$29.5 million for the five-year period from fiscal year 2013 through fiscal year 2017. We provide more discussion of Adams' capital expenditures and debt in Chapter 2.

As a result of the economic downturn during fiscal years 2009 through 2012, and similar to other higher education institutions in Colorado, Adams experienced significant reductions in State General Fund support, as well as the expiration of the one-time state fiscal stabilization funds made available to states through the federal American Recovery and Reinvestment Act of 2009 for spending during state fiscal years 2009 through 2011. Specifically, non-capital state appropriations and COF stipends to Adams declined by 23% from \$14.6 million in fiscal year 2010 to \$11.2 million in fiscal year 2012. To provide some relief, Senate Bill 10-003 temporarily delegated tuition authority to higher education governing boards for the five-year period from fiscal year 2012 through fiscal year 2016. Under Senate Bill 10-003, higher education governing boards could increase resident undergraduate tuition rates up to 9% per year for fiscal years 2012 through 2014, and could implement larger tuition rate increases if they submitted a Financial Accountability Plan for approval by the Colorado Commission on Higher Education (CCHE) that explained the rationale for the tuition increase and how low- and moderate-income students would be protected. In accordance with Senate Bill 10-003, Adams established a Financial Accountability Plan, which was approved by its Board of Trustees and CCHE. Adams' Financial Accountability Plan, which was amended in March 2013, requested resident undergraduate tuition increases of 15% in fiscal year 2013, 16% in fiscal year 2014, and 9% in fiscal years 2015 and 2016.

University Foundation

The Adams State University Foundation (Foundation) is a separate 501(c)(3) organization, but is an important partner and provides aid, directly and indirectly, in support of the University. The Foundation is supported primarily through donor contributions. In fiscal year 2015, Adams received approximately \$1.3 million from the Foundation for scholarships, work study, and grants-in-aid. In addition, as reported in the financial statements, the Foundation expended funds for the

purchase of an insignificant quantity of supplies and other services from the University. Further, the Foundation incurred expenses for its operations that are not reflected in the University's financial statements. Huron's evaluation did not provide in-depth review of the Foundation's activities; the analyses presented in this evaluation were primarily focused on assessing Adams' core financial and operational activities. However, as described in more detail in Chapter 2, we include the Foundation's financial activities in the financial ratios used to calculate the Composite Financial Index score.

University Governance

Adams is independently governed by a Board of Trustees (Board or Trustees), consisting of the following: nine voting members who are appointed by the Governor with the consent of the Senate and serve four-year terms, an elected nonvoting member of the student body who serves a one-year term, and an elected nonvoting member of the faculty. The Board has full authority and responsibility for the control and governance of the University, including such areas as finance, academic programs, curriculum, admissions, role and mission, and personnel policies. The University President reports to the Board and is responsible for providing leadership and administering the policies and procedures adopted by the Trustees in all areas of operations. For financial reporting purposes, the University is included as part of the State of Colorado's primary government.

Authority over Colorado's higher education system is fairly decentralized, and individual governing boards have substantial independent authority over the management of their respective institutions. However, the Colorado Commission on Higher Education (Commission) is the central policy and coordinating board for Colorado's system of public higher education [see Section 23-1-101, et seq., C.R.S.]. The Commission and the Department of Higher Education (Department), which is the administrative home of and provides staff support for the Commission, oversee and approve core budgeting and financing matters for public institutions of higher education, including Adams, and serve as a bridge between the Governor, the General Assembly, and the governing boards of the state-supported institutions of higher education.

Project Purpose and Scope

This performance evaluation was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government.

On an annual basis, the Office of the State Auditor (OSA) contracts for an independent audit of Adams' financial statements. The impetus for this performance evaluation was a growing trend of operating losses (after factoring in interest and depreciation expense and removing state capital appropriations) the OSA observed in Adams' audited financial statements for the last several fiscal years. The OSA used this performance evaluation to provide a more in-depth analysis of Adams' overall financial position and its efforts to ensure future financial stability.

To perform this engagement, the OSA contracted with Huron Consulting Group (Huron) because of Huron's extensive experience in working with public university leaders and boards to assess financial performance and to identify solutions to financial, operational, and strategic challenges.

Specifically, the objectives of this evaluation were to assess:

- Adams' financial data and key drivers for recent trends.
- Operational and strategic opportunities for improving Adams' financial outlook.

The scope of this evaluation focused solely on institution-specific decisions and the immediate context of Adams' operating environment. This evaluation did not seek to address or take a position on the broader public policy dialogue about topics such as the role of state appropriations versus tuition and fees in support of higher education, ensuring access to education in rural communities, or the role that rural universities often play as hubs of local, regional, and statewide economic activity.

Approach and Methodology

Work on this evaluation engagement was performed from May through December 2016. We appreciate the assistance provided by the management and staff of Adams State University throughout the engagement.

To accomplish the project goals and objectives, Huron's approach to the evaluation consisted of three key components, as follows:

- **Financial Assessment** to determine appropriate cash levels and assess the impact of financing strategies.
- **Operational Assessment** to understand the operational factors driving the University's financial outcomes.
- **Strategic Assessment** to understand the strategies and initiatives put in place by the University to help improve its financial position.

In conducting our assessments, we relied on documentation and data from various sources, including the University, the Colorado Department of Higher Education, and the Higher Learning Commission, which is Adams' accrediting organization. We also used data from the Integrated Postsecondary Education Data System (IPEDS), which is a database comprising university-reported data maintained by the National Center for Education Statistics. Given that the IPEDS data are self-reported without third-party confirmation or audit, they are not considered as reliable as data from audited financial statements. However, we utilized IPEDS data to provide high-level analysis and peer benchmarking and believe the IPEDS data are reasonable to use for this purpose.

We also conducted an onsite visit to observe the University's facilities and hold in-person interviews with University management and staff, which provided important context and

perspective to help Huron understand the most recent decisions and changes made by Adams' leadership and consider the impact of those changes when assessing performance trends and forming our conclusions.

Adams' fiscal year 2016 audited financial statements were released in January 2017, just prior to finalization of this report. The primary focus of this evaluation was the five-year period from fiscal year 2011 through fiscal year 2015. However, some of the exhibits and narrative in this report reference these more recent data for the purpose of illustrating trends in Adams' financial and operational data.

Peer Benchmarking

Peer benchmarking was a significant component of our analysis and uses various measures (e.g., instruction costs per student) to make comparisons between universities. We worked with Adams' leadership team and used factors such as academic year student FTE enrollment, total operating expenses, and undergraduate acceptance rates to identify a list of public university peers for benchmarking purposes in our analyses. The selected peer universities have enrollments with at least 70% undergraduate students. We did not include universities with moderate or high research activity. We selected the peer group for this analysis with a preference for universities having rural or suburban geographic locations. Exhibit 1 shows the list of Adams' peer institutions that were identified and agreed upon by Adams' leadership team through this process and used in our analyses in Chapter 2.

**Exhibit 1: List of Peer Institutions
Adams State University**

University	Undergraduate Student FTE Enrollment (2013-14)	Graduate Student FTE Enrollment (2013-14)	Total Operating Expenses (FY2014)	Undergraduate Acceptance Rate (Fall 2014)
Adams State University, CO	2,074	737	\$ 55,224,254	98% ¹
Black Hills State University, SD	2,934	240	\$ 49,964,926	94%
Fairmont State University, WV	3,415	143	\$ 63,591,186	67%
Colorado State University-Pueblo, CO	4,267	1,794	\$ 79,829,996	93%
Lincoln University, MO	2,143	92	\$ 51,129,351	n/a
Mississippi Valley State University, MS	1,884	191	\$ 55,673,864	16%
Southeastern Oklahoma State University, OK	2,957	234	\$ 56,165,836	79%
Sul Ross State University, TX	1,574	552	\$ 54,141,057	93%
West Virginia State University, WV	2,122	37	\$ 48,268,054	41%

Source: Huron's analysis of IPEDS data.

Note: As reported in the IPEDS data, operating expenses shown in this exhibit include gross interest expense and do not include an adjustment to net any federal interest subsidies against interest expense.

¹Adams reported that its 2014 IPEDS data included incomplete applications, which resulted in an understated undergraduate acceptance rate. The undergraduate acceptance rate shown here is based on updated data provided by Adams.

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Chapter 2 – Assessment of Adams State University

This chapter outlines the results of Huron Consulting Group's (Huron) financial, operational, and strategic assessments of Adams State University (Adams or University). Over the last five fiscal years, Adams' expenses, especially depreciation and interest expenses, increased without adequate growth in revenues, resulting in annual adjusted operating deficits rising from \$1.1 million in fiscal year 2011 to \$8.9 million in fiscal year 2015. Adams' growing operating deficits have caused its financial position to become unstable. Adams had significant capital investments in fiscal years 2010 and 2011, which resulted in substantial increases in the University's depreciation expenses and debt service requirements, using up existing operating cash flows and leaving little for internally-funded capital needs or strategic initiatives. Huron estimates that Adams needs to increase operating cash flows by about \$3 million above fiscal year 2015 levels and, ideally, would increase operating cash flows to fully close its annual adjusted operating deficits.

The University is focusing on enrollment growth to bridge the operational gap. However, Adams experienced a decline in student enrollment over the past five years. The need for additional revenues led Adams to implement notable tuition increases in recent years, which exacerbated enrollment challenges in a geographic region with students of high financial need. At a time when higher education institutions require incremental resources to stay vibrant, make strategic investments, and maintain market-relevant programs, Adams has struggled to maintain a healthy balance sheet. To address the operating deficits and bring the University into a sustainable financial position, Adams' ongoing challenge will be to identify opportunities for proactively managing its costs while at the same time focusing on achieving revenue gains through increased student enrollment and retention.

Financial Assessment

Huron used the financial assessment to identify significant trends and factors affecting the University's overall financial position and to inform our subsequent operational and strategic assessments. The financial assessment included review and analysis of data from Adams' audited financial statements for fiscal years 2011 through 2015 and other financial data provided by the University. We prepared a five-year trend analysis of the University's operating margins, cash flows, and key financial ratios. The financial assessment focused on assessing Adams' core financial activity (i.e., revenues and expenses) and, except where specifically noted, our analysis excluded the financial activity of the Adams State University Foundation (Foundation), which is separate from the University from a governance and management perspective. However, we also recognize that the Foundation is an important partner and provides financial resources in support of the University that have an effect on Adams' overall financial position. As described later in this chapter, we include the Foundation's financial activities in the financial ratios used to calculate the Composite Financial Index score.

To properly analyze Adams' financial operations, Huron reclassified financial data to account for revenues and expenses that are categorized as non-operating amounts in Adams' audited financial statements, but are central to its operating activities. These adjusted amounts are calculated as follows, with specific figures shown in Exhibit 4 later in this section.

Adjusted operating revenues include:

- Operating revenues, including tuition net of scholarship allowances
- Student fees for capital
- Federal Pell grants
- Investment and interest income

Adjusted operating expenses include:

- Operating expenses, including depreciation
- Interest expense on capital debt, net of federal interest subsidies for Build America Bonds

Throughout this chapter, we reference our use of adjusted financial data by referring to adjusted operating revenues, adjusted operating expenses, adjusted operating margins, or adjusted operating results. The effects of the one-time accounting adjustment in fiscal year 2015 required by Governmental Accounting Standards Board Statement No. 68 (GASB 68) to report Adams' share of the State's net pension liability on the University's financial statements have been excluded from these analyses.

Financial Ratios

Financial ratios serve as a tool for understanding the financial performance and condition of an institution and provide insight into operations and resources while highlighting areas for deeper analysis. The focus of Huron's financial assessment was on the activities of the University. Therefore, Huron calculated a number of financial ratios based on Adams' revenues and expenses for the last five fiscal years, as described in the following sections.

Operating Cash Flow Margin

The operating cash flow margin is calculated as the adjusted operating results (i.e., adjusted operating revenues minus adjusted operating expenses) *excluding* depreciation and interest expenses, divided by adjusted operating revenues. This ratio describes the University's ability to generate cash to cover its operating expenses (e.g., salaries, benefits, utilities, and supplies) before accounting for depreciation and interest expenses. The operating cash flow margin generally needs to be at least 10% to indicate that the University's cash flows are available for routine capital needs, debt service, and strategic investments.

Exhibit 2 shows that Adams maintained positive annual operating cash flows before depreciation and interest for fiscal years 2011 through 2015. *Before* state fee-for-service revenues and state fiscal stabilization revenues, Adams' operating cash flow deficits fluctuated between \$5.3 million and \$8.7 million each year. *After* state support, operating cash flow surpluses before depreciation

and interest, rounded to millions, totaled between \$0.9 million and \$3.6 million each year. The most recent year's operating cash flows, before and after state support, continued in these ranges per the fiscal year 2016 financial statements.

Exhibit 2: Changes in Cash and Investments
Adams State University
Fiscal Years 2011-2015

(in millions)	2011	2012	2013	2014	2015
Operating revenues and student capital fees, before state fee-for-service revenue and state fiscal stabilization revenue ¹	\$ 27.6	\$ 30.1	\$ 32.3	\$ 34.3	\$ 35.3
Add: Pell Grant revenue and investment income	6.9	6.3	5.2	5.3	5.0
Less: Operating expenses, before depreciation and interest	(41.9)	(43.9)	(43.9)	(44.9)	(49.0)
Operating cash flow before depreciation expense, interest expense, state fee-for-service revenue, and state fiscal stabilization revenue¹	(7.4)	(7.5)	(6.5)	(5.3)	(8.7)
Add: State fee-for-service revenue and state fiscal stabilization revenue ¹	10.7	8.4	8.4	8.9	9.9
Operating cash flow before depreciation and interest expenses	3.3	0.9	1.9	3.6	1.2
Operating cash flow margin	7.2%	2.0%	4.1%	7.5%	2.5%
Add: State appropriations for capital	0.0	0.0	0.3	7.8	13.0
Add: Non-operating gifts and donations	1.8	1.9	2.0	2.0	1.9
Add: Proceeds from debt financing ²	0.1	13.4	-	-	-
Less: Capital expenditures (including remaining spend-down of debt proceeds totaling \$49 million in fiscal years 2009 and 2010)	(20.1)	(11.3)	(9.0)	(11.7)	(13.4)
Less: Principal and interest payments, net of federal interest subsidy ^{2,3}	(2.9)	(4.6)	(4.4)	(4.4)	(4.2)
Other activity and changes in working capital	(1.8)	(1.9)	(0.1)	(1.0)	2.6
Increase (decrease) in cash and investments	\$ (19.6)	\$ (1.6)	\$ (9.3)	\$ (3.7)	\$ 1.1

Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: Totals may vary due to rounding.

¹State fiscal stabilization revenue is one-time federal funding made available to states through the federal American Recovery and Reinvestment Act of 2009 for spending during state fiscal years 2009 through 2011.

²Proceeds from debt financing and principal payments shown here exclude the net effect of a refunding transaction in fiscal 2015, which consisted of \$19.2 million in proceeds to defease the 2009A bonds.

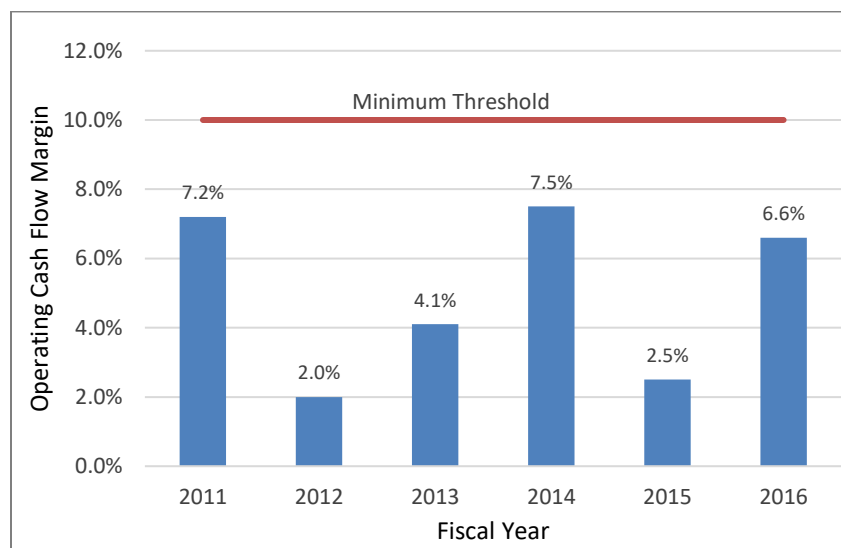
³Federal interest subsidies for Build America Bonds averaged \$0.6 million per year during fiscal years 2011 through 2015.

Adams' operating cash flows before depreciation and interest expenses have fluctuated at a low level over the past five years. The operating cash flows have been insufficient to cover annual debt service requirements in each of the last four years shown in Exhibit 2, as well as in fiscal year 2016.

Capital expenditures, meanwhile, have been funded primarily from state appropriations and debt financing. In fiscal years 2009 through 2012, Adams received proceeds from debt financing which then were used for capital expenditures in those and subsequent years.

Exhibit 3 shows that, over the last five fiscal years, Adams had operating cash flow margins (as a percentage of adjusted operating revenues) ranging between 2.0% and 7.5%. In fiscal year 2016, Adams' operating cash flow margin remained in this range at 6.6%, which remains below the 10% minimum threshold. These margins have resulted in operating cash flows that are insufficient to cover annual debt service requirements and capital renewal needs.

**Exhibit 3: Operating Cash Flow Margin
Adams State University
Fiscal Years 2011-2016**



Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: The Operating Cash Flow Margin is calculated as the adjusted operating results *before* depreciation and net interest, divided by adjusted operating revenues.

Adjusted Operating Margin (Net Income Ratio)

The adjusted operating margin, also referred to as the net income ratio, is calculated as adjusted operating results (i.e., adjusted operating revenues minus adjusted operating expenses including depreciation and interest) divided by adjusted operating revenues. This ratio measures the University's overall accrual-based operating results. The adjusted operating margin should be above 0% to indicate that the University's revenues exceed its accrued expenses.

Overall, Adams' adjusted operating margins have been affected by decisions to invest \$98.7 million into its physical plant between fiscal years 2009 and 2015, of which \$62.7 million (64%) was funded with debt proceeds from bond issuances between fiscal years 2009 and 2012. These capital investments and debt financing increased depreciation and interest expenses. Specifically, as shown in Exhibit 4, Adams has experienced significant operating deficits in recent years. Adams' total adjusted operating expenses increased from \$46.3 million in fiscal year 2011 to \$59.2 million in fiscal year 2015, an increase of about 28%. Over this same time period, Adams' total adjusted operating revenues only increased by about 11%, from \$45.2 million in fiscal year 2011 to \$50.3 million in fiscal year 2015. As a result, Adams' negative adjusted operating results (i.e., adjusted operating revenues minus adjusted operating expenses) grew from a deficit of \$1.1

million in fiscal year 2011 to a deficit of \$8.9 million in fiscal year 2015. Adams' recently released fiscal year 2016 audited financial statements indicate a slight improvement to a deficit of negative \$6.6 million (not shown in Exhibit 4).

Exhibit 4: Adjusted Operating Results
Adams State University
Fiscal Years 2011-2015

(in millions)	2011	2012	2013	2014	2015
Operating revenues and student capital fees, before state support	\$ 27.6	\$ 30.1	\$ 32.3	\$ 34.3	\$ 35.3
Add: State fee-for-service revenue and state fiscal stabilization revenue ¹	10.7	8.4	8.4	8.9	9.9
Add: Pell Grant revenue and investment income	6.9	6.3	5.2	5.3	5.0
Adjusted operating revenues	45.2	44.8	45.8	48.6	50.3
Operating expenses, before depreciation and interest	41.9	43.9	43.9	44.9	49.0
Add: Depreciation expense	4.5	5.6	6.4	6.7	7.0
Add: Interest expense, net of federal interest subsidy ²	(0.2)	1.0	2.8	3.0	3.1
Adjusted operating expenses	46.3	50.4	53.1	54.6	59.2
Adjusted operating results	(1.1)	(5.7)	(7.2)	(6.0)	(8.9)
Adjusted operating margin	(2.4%)	(12.6%)	(15.8%)	(12.4%)	(17.7%)

Source: Huron's analysis of data from Adams State University's audited financial statements.

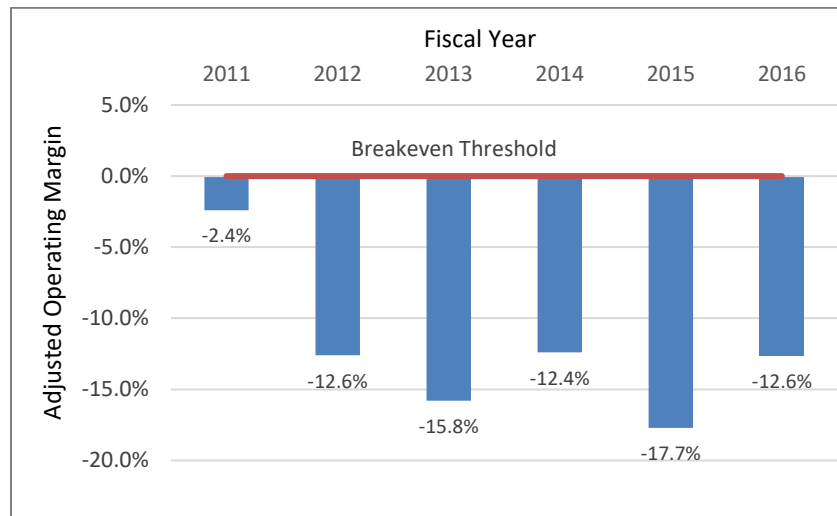
Note: Totals may vary due to rounding.

¹State fiscal stabilization revenue is one-time federal funding made available to states through the federal American Recovery and Reinvestment Act of 2009 for spending during state fiscal years 2009 through 2011.

²Federal interest subsidies for Build America Bonds averaged \$0.6 million per year during fiscal years 2011 through 2015. The subsidy exceeded interest expense recorded in fiscal year 2011.

Exhibit 5 shows that Adams reported increasingly negative adjusted operating margins (as a percentage of adjusted operating revenues) during the past five fiscal years, declining from negative 2.4% in fiscal year 2011 to negative 17.7% in fiscal year 2015. Adams' recently released fiscal year 2016 audited financial statements show that this margin improved to negative 12.6%. However, this is still below an ideal "breakeven" threshold of 0%. Universities with adjusted operating margins at or above 0% generate sufficient revenue to cover their full cost burden, including depreciation and interest expenses.

**Exhibit 5: Adjusted Operating Margin
Adams State University
Fiscal Years 2011-2016**



Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: The Adjusted Operating Margin is calculated as adjusted operating results after depreciation and net interest divided by the adjusted operating revenues.

The figures in Exhibits 4 and 5 reflect the financial activities of the University. As part of the Composite Financial Index section later in this chapter, we also report adjusted operating margins (i.e., net income ratios) that are inclusive of both the University and the Foundation.

Return on Total Net Assets

This ratio measures the total return on the University's financial assets as the result of all operating and non-operating activity and is calculated as the change in total net assets divided by the beginning net asset balance. The return on net assets ratio will often fluctuate with investment returns, but ideally the goal of the University should be to maintain a positive 3% to 4% return over the long term.

As shown in Exhibit 6, Adams experienced a slight positive return on total net assets of 1.1% in fiscal year 2011. However, Adams experienced negative returns on total net assets of -5.9% and -8.2% during fiscal years 2012 and 2013, respectively, primarily due to the University's increasingly negative operating margins. The negative returns on total net assets would have continued in more recent fiscal years were it not for the effect of state capital appropriations of \$7.8 million and \$13.0 million contributing to returns on total net assets of 6.7% and 10.2%, respectively, in fiscal years 2014 and 2015. With a reduction in state capital appropriations, Adams reported a return on total net assets of -8.6% in fiscal year 2016.

Exhibit 6: Return on Total Net Assets
Adams State University
Fiscal Years 2011-2015

(in millions)	2011	2012	2013	2014	2015
Total change in net position	\$ 0.7	\$ (3.8)	\$ (5.0)	\$ 3.7	\$ 6.0
Adjusted beginning net position ¹	\$ 64.2	\$ 64.9	\$ 60.4	\$ 55.5	\$ 59.2
Return on total net assets	1.1%	-5.9%	-8.2%	6.7%	10.2%

Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: Totals may vary due to rounding.

¹The effects of the one-time accounting adjustment in fiscal year 2015 required by Governmental Accounting Standards Board Statement No. 68 (GASB 68) to report Adams' share of the State's net pension liability on the University's financial statements have been excluded from these figures for year-to-year comparability. The changes in net position do not include a restatement of \$0.7 million made in fiscal year 2014 that reduced the beginning net position for fiscal year 2013.

The figures in Exhibit 6 reflect the financial activities of the University. As part of the Composite Financial Index section later in this chapter, we also report returns on total net assets that are inclusive of both the University and the Foundation.

Primary Reserve Ratio

This ratio is calculated as expendable financial resources divided by adjusted operating expenses. This ratio measures the University's available financial resources relative to its operating size and demonstrates how long the institution could operate without relying on additional revenue from operations. Ideally, Adams should target a level of expendable financial resources to result in a ratio of 0.25 or higher, which represents three months of coverage (i.e., one-fourth of a year).

As shown in Exhibit 7, Adams' primary reserve ratio declined from 0.32 in fiscal year 2011 to 0.18 in fiscal year 2015. The declines in this ratio primarily resulted from negative operating margins, which have led to declines in Adams' unrestricted net position.

Exhibit 7: Primary Reserve Ratio
Adams State University
Fiscal Years 2011-2015

Financial Ratio	2011	2012	2013	2014	2015
Primary Reserve Ratio (Expendable Financial Resources to Operations)	0.32	0.27	0.21	0.21	0.18

Source: Huron's analysis of data from Adams State University's audited financial statements.

The figures in Exhibit 7 reflect the financial activities of the University. As part of the Composite Financial Index section later in this chapter, we also report primary reserve ratios that are inclusive of both the University and the Foundation.

Viability Ratio

This ratio is calculated as expendable financial resources divided by total debt. This ratio measures the University's available resources relative to its outstanding debt. Institutions with a strong balance sheet commonly report a ratio of 1.50 or greater, while regional public institutions should aim for a ratio between 0.50 and 1.00.

As shown in Exhibit 8, Adams' viability ratio has remained at low levels with a decline from 0.26 in fiscal year 2011 to 0.14 in fiscal year 2015 (excluding the one-time effect of the GASB adjustment referenced earlier). Overall, this ratio shows that Adams is a highly-leveraged institution, meaning that it has high levels of debt relative to its assets. This results in debt service requirements that consume a large percentage of Adams' operating cash flows and negatively affect expendable financial resources.

**Exhibit 8: Viability Ratio
Adams State University
Fiscal Years 2011-2015**

Financial Ratio	2011	2012	2013	2014	2015
Viability Ratio (Expendable Financial Resources to Debt)	0.26	0.19	0.15	0.16	0.14

Source: Huron's analysis of data from Adams State University's audited financial statements.

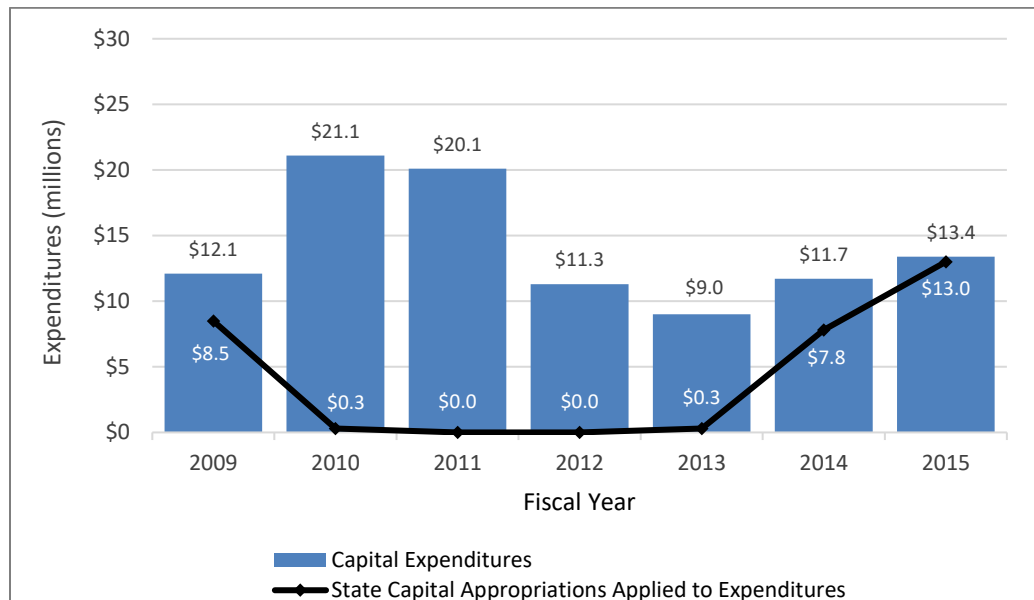
The figures in Exhibit 8 reflect the financial activities of the University. As part of the Composite Financial Index section later in this chapter, we also report viability ratios that are inclusive of both the University and the Foundation.

Capital Expenditures and Debt

Huron's financial ratio analyses highlighted the impact of Adams' capital expenditures and debt service on its financial position and prompted us to look more closely at the data.

As shown in Exhibit 9, between fiscal years 2009 and 2015, Adams incurred capital expenditures totaling \$98.7 million, which was funded almost entirely by state capital appropriations and debt proceeds. Specifically, expenditures of state capital appropriations during that seven-year period totaled \$29.9 million. Faced with a backlog of buildings that had not been sufficiently maintained, Adams implemented a student capital fee in fall 2008, followed by bond issuances to help fund numerous capital projects. During fiscal years 2009 through 2012, Adams increased its bonds payable and capital lease obligations from \$9.8 million to \$73.4 million. Major capital investments included the McDaniel Hall academic building transformation, Plachy Hall athletics gym renovation, the stadium housing project, the Music Building renovation, a high-altitude training center, dormitory remodels, campus signage, athletic fields, a campus redesign and street closure to address student safety, and parking lot projects. Adams' recently released fiscal year 2016 audited financial statements show an additional \$2.2 million of state capital appropriations for expenditures.

**Exhibit 9: Capital Expenditures by Fiscal Year
Adams State University
Fiscal Years 2009-2015**



Source: Huron's analysis of data from Adams State University's audited financial statements.
Note: State capital appropriations, as shown here, are recognized in the financial statements as funds are applied toward capital expenditures.

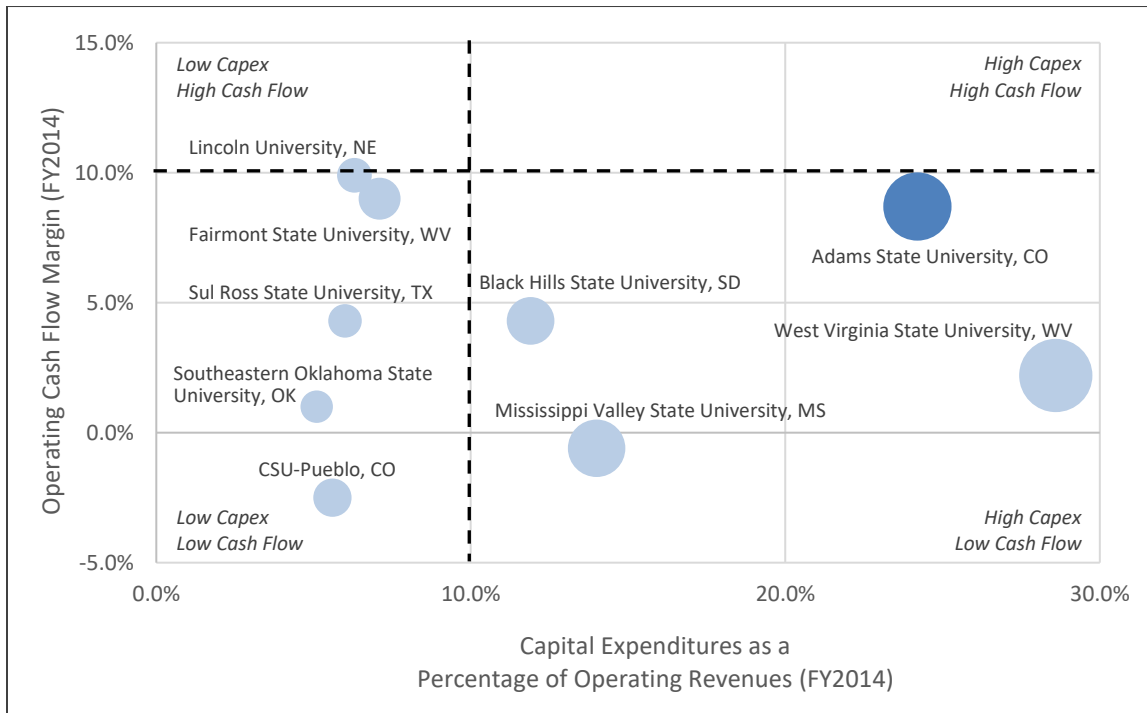
Adams' capital investments helped to improve the physical campus environment for students, faculty, and staff. However, this capital-intensive strategy resulted in a significant increase in the University's debt service obligations. In fiscal year 2009, less than 1% of Adams' total adjusted operating expenses went towards interest expenses; however, in fiscal years 2013 through 2015, more than 5% of Adams' total adjusted operating expenses were for interest on capital debt net of federal interest subsidies.

To assess the University's effectiveness at generating cash flows relative to its capital expenditures, Huron utilized an analysis comparing capital expenditures to cash flow margins. As shown in Exhibit 10, the analysis plots the operating cash flow margin on the vertical axis against annual capital expenditures as a percentage of operating revenues (i.e., capital intensiveness) on the horizontal axis. Huron recognizes that capital expenditures will fluctuate each year; nonetheless, a long-term stable position generally would be for an institution to have an operating cash flow margin of 10% or higher and average capital intensiveness of about 10% (both indicated by the dashed lines in the exhibit). Infusions of cash from state appropriations for capital and/or gifts may allow institutions to incur greater levels of capital investment.

Our analysis shows that Adams' operating cash flow margin in fiscal year 2014 (7.5% on the vertical axis) exceeded the median for its selected peer group, but remained below the ideal threshold of 10%. Our analysis also shows that, relative to its peer group, Adams had significantly higher capital investment activity than most of its peers in fiscal year 2014. As a percentage of adjusted operating revenues, Adams' capital expenditures totaled 24.2% (and averaged 28.0%

per year between fiscal years 2011 and 2015). Meanwhile, as discussed previously, Adams’ operating cash flow margin declined to 2.5% and 6.6% in fiscal years 2015 and 2016, respectively.

**Exhibit 10: Capital Expenditures and Operating Cash Flow Margin
Adams State University and Peer Group
Fiscal Year 2014**



Source: Huron’s analysis of audited financial statements for Adams State University and peer institutions.
Note: Bubble size represents each institution’s annual capital expenditures as compared to Adams. Capital expenditures include amounts funded by state appropriations for capital.

The Composite Financial Index

The Composite Financial Index (CFI) is a measure of overall financial health that synthesizes multiple ratios into a single value and is useful in assessing both point-in-time and long-term trends. The CFI is a composite score comprised of four key financial ratios discussed previously—net income ratio, return on total net assets ratio, primary reserve ratio, and viability ratio—based on a proprietary methodology defined in “Ratio Analysis in Higher Education: Measuring Past Performance to Chart Future Direction” by KPMG LLP and Prager, McCarthy & Sealy, LLC.

As part of maintaining its accreditation, Adams is required to complete annual reporting of financial and non-financial data to the Higher Learning Commission (HLC), which is Adams’ accrediting organization. The HLC uses the CFI score to assess the financial health of the institutions it accredits and to determine which institutions are potentially at risk and must submit additional documentation to the HLC and undergo further review by a financial peer review panel. Depending on the results of its review, the financial peer review panel can recommend to the HLC Board of Trustees’ Institutional Actions Council that an institution be required to provide interim reports on its finances or undergo a focused evaluation of its finances.

As shown in Exhibit 11, public institutions with a CFI of 1.1 or higher are classified as “Above the Zone” and deemed healthy with no further HLC review required. However, public institutions with a CFI between 0 and 1.0 are classified as “In the Zone” and must undergo further HLC review if they score in this range for two or more consecutive years. Lastly, public institutions with a negative CFI are classified as “Below the Zone” and must undergo further HLC review.

Exhibit 11: Higher Learning Commission CFI Score Classifications for Public Institutions

CFI Score	Zone Classification	Review by Financial Peer Review Panel Required?
1.1 to 10.0	Above the Zone	No
0 to 1.0	In the Zone	Yes, if the CFI is in this range for two or more consecutive years
-4.0 to -0.1	Below the Zone	Yes

Source: The Higher Learning Commission.

Huron calculated Adams’ CFI scores for fiscal years 2010 through 2015; the results, before adjustments, are provided in Exhibit 12. For purposes of the CFI calculation, and consistent with HLC’s methodology, we included the Foundation balances and activities. Also, consistent with HLC’s methodology, we utilized guardrails for each ratio such that the factored impact of each ratio could be no less than -4 and no more than +10. Because of these guardrails, the negative impacts of Adams’ significant operating deficits were limited. Huron’s analysis showed that Adams was “In the Zone” in fiscal year 2012 and “Below the Zone” in fiscal year 2013, followed by two years “Above the Zone” in fiscal years 2014 and 2015. Adams’ recent CFI scores benefited from the recognition of large capital appropriations in fiscal years 2014 and 2015 which increased total net assets.

**Exhibit 12: Composite Financial Index (CFI) Score and Financial Ratios
Adams State University and Adams State University Foundation
Fiscal Years 2010-2015**

Financial Ratios	2010	2011	2012	2013	2014	2015
Net Income Ratio	1.7%	-0.1%	-12.4%	-14.0%	-9.0%	-17.0%
Return on Total Net Assets	4.4%	3.4%	-4.6%	-5.3%	8.4%	8.7%
Primary Reserve Ratio	0.31	0.37	0.32	0.26	0.28	0.25
Viability Ratio	0.23	0.30	0.22	0.19	0.22	0.21
Composite Financial Index	1.7	1.5	0.2	(0.1)	1.4	1.3
Classification (Based on HLC Scale)	Above the Zone	Above the Zone	In the Zone	Below the Zone	Above the Zone	Above the Zone

Source: Huron’s analysis of audited financial statements for Adams State University and the Adams State University Foundation.

Note: Financial ratios and CFI scores include the activities of the Adams State University Foundation.

Based on Huron’s analysis of Adams’ recently released fiscal year 2016 audited financial statements, Adams’ CFI score in fiscal year 2016 totaled 0.1 and was “In the Zone.”

Although unrelated to its financial condition and CFI scores, Adams was recently assessed by the HLC with respect to the academic quality of its distance and correspondence education programs. Adams offers distance and correspondence education programs to increase educational access to those students who do not live within driving distance of the University. Subsequent to an advisory visit by an HLC team, Adams' accreditation was placed on probation due to questions regarding the academic integrity and quality of Adams' distance and correspondence education programs. HLC sent a notification on March 3, 2016, stating that Adams was out of compliance with the criteria for accreditation and placing the University on probation. A comprehensive HLC evaluation is due to be completed in November 2017.

Conclusions from Financial Assessment

Huron's financial assessment yielded two conclusions related to Adams' overall financial sustainability:

- **Adams cannot afford additional, large, debt-financed capital investments** given its current operating cash flows and high levels of debt. Each year between fiscal years 2011 and 2016, Adams generated between \$0.9 and \$3.6 million per year in operating cash flows before depreciation and interest. However, the University's principal and interest payments, net of federal interest subsidies, have risen to more than \$4 million per year, thereby offsetting all of the cash flows from operations. Adams' physical plant and debt service burden present a significant financial burden. To the extent that its capital plan requires any additional debt, Adams must consider alternative avenues of financing. Adams' capital plans through fiscal year 2021 include state-funding requests for a \$4.9 million HVAC upgrade and replacement at Plachy Hall (gym and event center), a \$14.4 million renovation of the Art Building, a \$1.9 million central technologies project, a \$14.5 million library renovation, and a \$7.5 million facilities services project.
- **Adams needs to increase operating cash flows by at least \$3 million above fiscal year 2015 levels** to improve its financial ratios and help ensure financial sustainability given its present debt burden and routine capital needs. Given recent history and trends, Huron expects Adams to generate operating cash flows before depreciation and interest of about \$2 to \$3 million per year. Additionally, Adams receives about \$2 million per year of gifts and donations, mostly for operating and scholarship purposes. These combined amounts (\$4 to \$5 million per year) are insufficient to cover debt service requirements of nearly \$5 million per year and capital renewal needs of \$2 to \$3 million per year, as well as new strategic initiatives. To achieve balanced accrued operating results, including fully funding depreciation, Adams would need to increase its operating cash flows by even more. Huron's operational and strategic assessments, which are discussed in the remainder of this chapter, explore potential avenues for Adams to achieve this result. In terms of enrollment growth, Huron estimates that Adams would need to enroll about 100 additional undergraduate students to increase its revenues by \$1 million.

Operational Assessment

This section presents the results of Huron's operational assessment, which includes analyses of the University's revenues and expenses beyond what was done in the financial assessment. The goal of the operational assessment is to better understand the key components of revenues and expenses, assess the drivers of these key components, and identify opportunities for revenue growth and expense management, both of which are important for improving Adams' operating cash flow margins to a level that will sustain its current debt load while also providing resources for internally-funded capital needs and strategic initiatives.

Huron's operational assessment included an analysis of financial and non-financial data, including data on student enrollment, retention and graduation rates, tuition and fees, operating revenues and expenses, and instructional and student services costs, to identify operational areas that might be affecting Adams' overall financial position. In analyzing these data, we also considered factors such as the economic condition of the region and the mission of the University. We also conducted interviews with members of the University's administration and leadership. For analyses involving comparisons between Adams and its peer group, Huron relied on the peer group median, as opposed to the peer group mean, so that an outlier institutional metric would not have a disproportionate impact on the calculation.

Adjusted Operating Revenues

Overall, as illustrated in Exhibit 13, Adams' increased its adjusted operating revenues by \$5.1 million between fiscal year 2011 and fiscal year 2015. Most of Adams' revenue growth can be attributed to net tuition and fees, which increased by 43% from \$14.8 million in fiscal year 2011 to \$21.2 million in fiscal year 2015. Tuition and fee revenue comprised 42% of total adjusted operating revenues in fiscal year 2015, up from 33% in fiscal year 2011, which indicates that Adams increasingly relies on net tuition and fee revenue to support its operations.

Adams' revenue growth from tuition and fees was offset by a combined \$0.8 million decline in state fee-for-service revenue and state fiscal stabilization funding and a \$2.4 million decline in Federal Pell grant revenue between fiscal year 2011 and 2015. During our evaluation, Adams reported that the University's students were negatively affected by changes in federal regulations for financial aid, such as new dollar limits, changes in eligibility requirements, and the removal of Pell grant funding for summer courses. The resulting loss of revenue to Adams was significant because the University, located in a region where most students rely on financial assistance, serves the highest percentage of Pell-eligible students in the state. Adams also reported that these changes in Pell grant eligibility negatively affected institutional outcomes because many students near their degree completion were no longer eligible for the Pell grants they relied on to help pay for the classes needed to complete or earn their degree. We provide more discussion of student enrollment trends and tuition and fee revenues in subsequent sections.

Exhibit 13: Adjusted Operating Revenue by Category
Adams State University
Fiscal Years 2011 and 2015

REVENUE CATEGORIES	FY 2011		FY 2015		\$ Change FY 2011 to FY 2015	% Change FY 2011 to FY 2015
	\$ in Millions	% of Total	\$ in Millions	% of Total		
Tuition and fees ¹ , net	\$ 14.8	33%	\$ 21.2	42%	\$ 6.4	43%
State fee-for-service revenue	10.3	23%	9.9	20%	(0.4)	-4%
Sales and services of auxiliary enterprises, net	7.1	16%	7.1	14%	0.0	0%
Federal Pell grants	7.2	16%	4.8	10%	(2.4)	-33%
Federal and state grants and contracts	4.9	11%	6.0	12%	1.1	22%
State fiscal stabilization ²	0.4	1%	--	0%	(0.4)	-100%
Net investment income	(0.3)	(1%)	0.1	< 1%	0.4	> 100%
Other ³	0.9	2%	1.0	2%	0.1	11%
Adjusted Operating Revenues	\$ 45.2	100%	\$ 50.3	100%	\$ 5.1	11%

Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: Totals may vary due to rounding.

¹Fee revenue includes student capital fees. Tuition revenue includes state funding for student stipends through the College Opportunity Fund that is recognized on the audited financial statements as part of the institution's tuition and fee revenue.

²State fiscal stabilization revenue is one-time federal funding made available to states through the federal American Recovery and Reinvestment Act of 2009 for spending during state fiscal years 2009 through 2011.

³Includes revenues from items such as transcript fees, late payment fees, matriculation fees, athletic game guarantees, application fees, and library fines.

Student Enrollment Trends

Due to the heavy reliance on tuition and fee revenue generated from undergraduate and graduate programs, student enrollment trends have a substantial effect on Adams' operating revenues.

As shown in Exhibit 14, Adams' total student full-time equivalent (student FTE) enrollment declined by 1.6% from 2,843 students in the 2011-12 academic year to 2,797 students in the 2014-15 academic year. Undergraduate student FTE enrollment declined by 9.4% from 2,202 students in fall 2011 to 1,994 students in fall 2014. Meanwhile, Adams' graduate student FTE enrollment increased by 25.3% over the same time period, offsetting some of the decline in undergraduate student FTE. Graduate students comprised 29% of Adams' total student enrollment in the 2014-15 academic year.

**Exhibit 14: Student Full-Time Equivalent (FTE) Enrollment
Adams State University
Academic Years 2011-12 to 2014-15**

	2011-12	2012-13	2013-14	2014-15	% Change 2011-12 to 2014-15
Undergraduate Student FTE	2,202	2,115	2,074	1,994	-9.4%
Graduate Student FTE	641	690	737	803	+25.3%
Total Student FTE Enrollment	2,843	2,805	2,811	2,797	-1.6%

Source: Huron's analysis of student enrollment data from IPEDS and Adams State University.

Based on data collected by the Colorado Department of Higher Education, in-state resident students comprised about 74% of Adams' total student enrollment in fall 2014, down from about 81% in fall 2011.

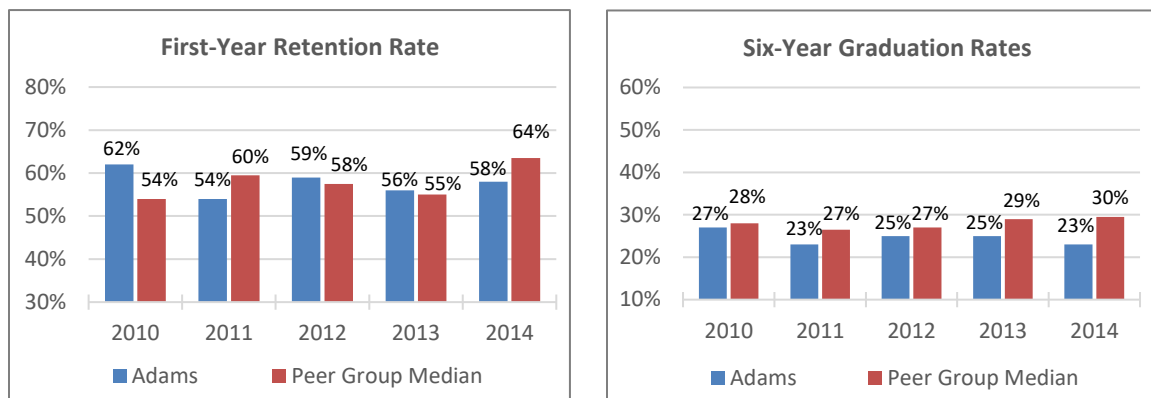
Adams' undergraduate enrollment declined during the last four years primarily due to a decline in first-time, full-time degree-seeking students (i.e., students without prior postsecondary experience attending an institution for the first time). Adams' athletic student enrollment increased over the past few years (e.g., athletic student headcount increased by 11% from 580 students in fall 2011 to 644 students in fall 2013), which curbed the overall student enrollment decline. Among other athletic team additions in the last decade, Adams began playing NCAA men's and women's lacrosse in fall 2010, and resumed men's baseball in spring 2013 after a 35-year hiatus.

Adams provides credit hours to students for extended studies programs, such as for non-degree seeking undergraduate students or teacher professional development credits to meet licensure requirements. Credit hours for extended studies programs are not included as part of the student FTE data reported through IPEDS, which is the data source for Exhibit 14 and several other exhibits in this section. For context, Adams reported a total of about 34,844 credit hours, or approximately 1,000 student FTE, for extended studies programs in fiscal year 2015. Extended studies credit hours comprised about 17% of Adams' total gross tuition and fee revenues in fiscal year 2015. The University incurs expenses for its extended studies programs; however, the predominance of instruction, academic support, and student services expenses are incurred in support of degree-seeking students.

Retention and Graduation Rates

New student enrollment is only a part of Adams' ability to generate tuition revenue. Adams also must sustain this tuition revenue by *retaining* enrolled students. As shown in Exhibit 15, Adams has fallen below the peer median for freshman-to-sophomore retention rates and six-year graduation rates. Adams' freshman-to-sophomore retention rate declined from 62% in fall 2010 to 58% in fall 2014. Adams' six-year graduation rate, which indicates the percentage of students that graduate within six years of beginning as full-time, first-time (freshman) students, declined from 27% in 2010 to 23% in 2014.

**Exhibit 15: Retention and Graduation Rates
Adams State University and Peer Group
Academic Years 2010-2014**



Source: Huron's analysis of IPEDS data.

Note: First-year retention rate represents the percentage of full-time, first-time (i.e., freshman) students that enrolled for a second year in fall of the year shown. Six-year graduation rate represents the percentage of bachelor's degree-seeking students graduating within six years of first-time enrollment by August of the year shown. Peer group medians exclude Adams State University.

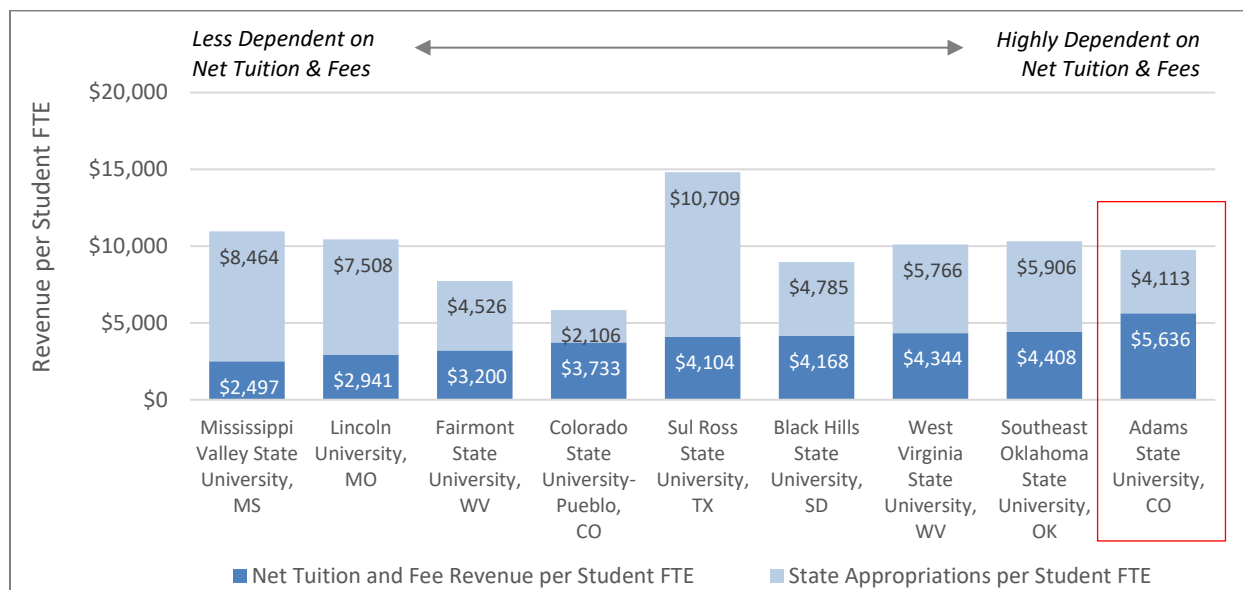
Three factors that tend to create a negative pull on Adams' retention and six-year graduation rates are the fact that (1) the University is located in a rural location; (2) about 65% of Adams' students are in academic developmental programs (e.g., programs that prepare students for college-level courses, especially in math and English); and (3) Adams serves a large, low-income student population as indicated by the number of Pell-eligible students. According to IPEDS data, 48% of Adams' students were Pell-eligible for the 2013-14 academic year, which is slightly above the median of the selected peer set. Adams' recent investments in its First Year Immersion program and efforts to support students through developmental programs, such as interest groups for first-year students, appear to have helped the University maintain student retention in recent years; however, Adams still has room for improvement compared to its peers.

Adams reported that the retention rate across all first-time, full-time students from the first year to the second year of enrollment was 54% in 2015 and 59% in 2016. With respect to graduation rates, Adams reported that its six-year graduation rate for all first-time, full-time students in the 2010 student cohort was 29% as of May 2016.

Tuition and Fees Revenue

Adams depends on net tuition and fee revenue (gross tuition and fees less financial aid) from students, which comprises 42% of the University’s total adjusted operating revenues. Exhibit 16 illustrates average amounts of net tuition revenue and state support per student FTE for Adams and its peers. For comparison purposes, COF stipends and state fee-for-service revenues for Adams are compared to state appropriations for peers. On average, Adams received about \$9,749 in revenue per full-time student in fiscal year 2014—about 58% from net tuition charges (average \$5,636), about 10% from COF stipends (average \$932), and about 32% from state fee-for-service revenue (average \$3,181). These amounts, of course, vary between resident and non-resident, scholarship and non-scholarship, and undergraduate and graduate students. In total, this analysis shows that Adams relies more heavily on student tuition charges than its peers.

**Exhibit 16: Net Tuition and Fee Revenue (NTR) and State Appropriations per Student FTE
Adams State University and Peer Group
Fiscal Year 2014**

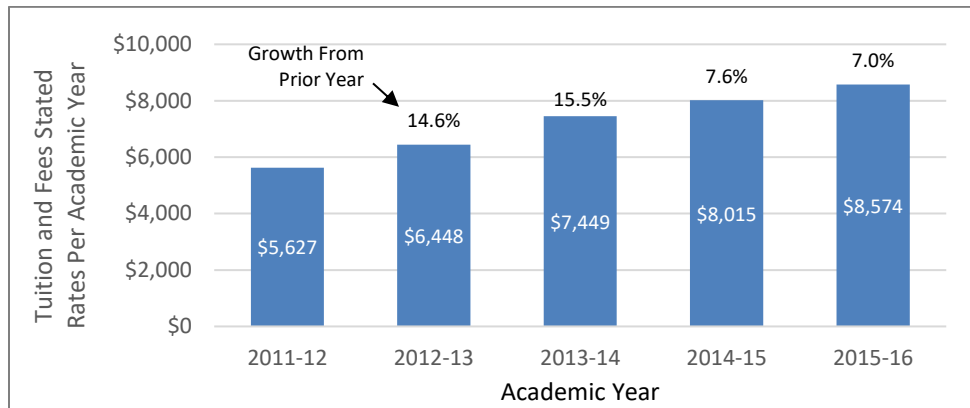


Source: Huron’s analysis of data from Adams State University’s audited financial statements, peer financial statements, and IPEDS.

Note: Federal Pell grant revenue is in addition to the amounts reflected in this exhibit. For Adams, state fee-for-service contract revenues and stipends provided to students through the College Opportunity Fund, which are then used to pay for university tuition, are reflected as state appropriations in this exhibit.

Exhibit 17 shows that Adams significantly increased the stated tuition and fee rates in recent years. The stated annual tuition and fees for a Colorado resident student increased by 52% from \$5,627 in the 2011-12 academic year to \$8,574 in the 2015-16 academic year.

**Exhibit 17: Colorado Resident Undergraduate Tuition and Fees Per Academic Year
Adams State University
Academic Years 2012-2016**



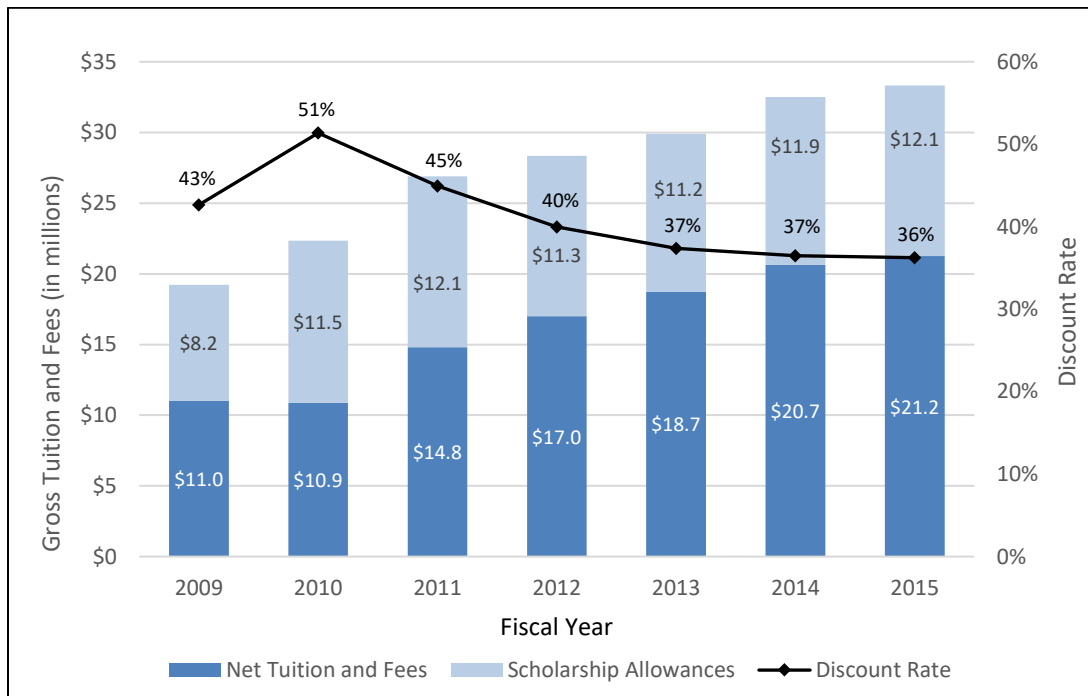
Source: Adams State University rates for a Colorado resident, new, full-time student with 15 credit hours per semester (net of the COF stipend), including the college service fee, technology fee, capital fee, and parking fee.

Tuition Discounting

Tuition discounting is the process by which a university offsets its gross tuition and fees with financial aid, such as grants and scholarships. Institutional discounts (i.e., the allocation of institutional resources to reduce the cost to students) result in foregone revenue to the University, whereas aid provided by third-party sources (e.g., federal, state, and private) constitute a funded discount for the student that still results in full income to the University. Financial aid can be a critical factor for universities to remain competitive when attracting and retaining students, especially as tuition and fees increase. The discount rate is defined as financial aid divided by gross tuition and fees. Managing the discount rate, particularly the institutional share, is important because relying too heavily on tuition discounting to attract and retain students can result in a situation in which increases in tuition rates or enrollments do not result in additional net revenue.

As shown in Exhibit 18, Adams has demonstrated the ability to increase stated tuition and fee rates without a corresponding increase in its discount rate, which has allowed Adams to increase net tuition and fee revenue. Adams' net tuition and fees revenue, including student capital fees, increased by 93%, from \$11.0 million in fiscal year 2009 to \$21.2 million in fiscal year 2015. Over this same period, scholarship allowances increased only modestly, resulting in an overall decline in the discount rate to 36% in fiscal year 2015. Excluding extended studies programs, the discount rate in fiscal year 2015 was approximately 43%—almost all scholarship allowances related to degree-seeking students.

**Exhibit 18: Net Tuition and Fees, Scholarship Allowances, and Tuition Discount Rate
Adams State University
Fiscal Years 2009-2015**



Source: Huron’s analysis of data from Adams State University’s audited financial statements.

Adjusted Operating Expenses

Exhibit 19 shows that Adams’ total adjusted operating expenses increased by \$12.9 million or 28% between fiscal year 2011 and fiscal year 2015. Much of Adams’ growth in expenses over the last five fiscal years occurred due to a \$3.8 million increase in instruction costs, a \$1.9 million increase in student services costs, and a \$1.5 million increase in expenses for auxiliary enterprises. Also, as was highlighted in the financial assessment, Adams’ interest expenses, net of federal interest subsidies, increased by \$3.3 million due to the addition of debt to finance capital investments, which also led to a \$2.5 million increase in depreciation expenses.

Exhibit 19: Adjusted Operating Expenses by Function
Adams State University
Fiscal Years 2011-2015

EXPENSE CATEGORIES	FY 2011		FY 2015		\$ Change FY 2011 to FY 2015	% Change FY 2011 to FY 2015
	\$ in Millions	% of Total	\$ in Millions	% of Total		
Instruction	\$ 15.8	34%	\$ 19.6	33%	\$ 3.8	24%
Auxiliary enterprises (e.g., dining, housing, and bookstore)	12.1	26%	13.6	23%	1.5	12%
Student services (e.g., admissions, career guidance, and financial aid administration)	3.3	7%	5.2	9%	1.9	58%
Institutional support (e.g., accounting, payroll, human resources, development, and technology)	3.6	8%	3.9	7%	0.3	8%
Academic support (e.g., libraries and academic department administration)	2.3	5%	2.7	5%	0.4	17%
Research and public service	0.0	<1%	0.2	<1%	0.2	>1000%
Operation and maintenance of plant	2.7	6%	3.7	6%	1.0	37%
Scholarships and fellowships (separate from contra-revenue amounts)	2.2	5%	0.3	<1%	(1.9)	-86%
Depreciation	4.5	10%	7.0	12%	2.5	56%
Interest, net of federal interest subsidy ¹	(0.2)	(<1%)	3.1	5%	3.3	>1000%
Adjusted Operating Expenses	\$ 46.3	100%	\$ 59.2	100%	\$ 12.9	28%

Source: Huron's analysis of data from Adams State University's audited financial statements.

Note: Totals may vary due to rounding.

¹Federal interest subsidies for Build America Bonds averaged \$0.6 million per year during fiscal years 2011 through 2015.

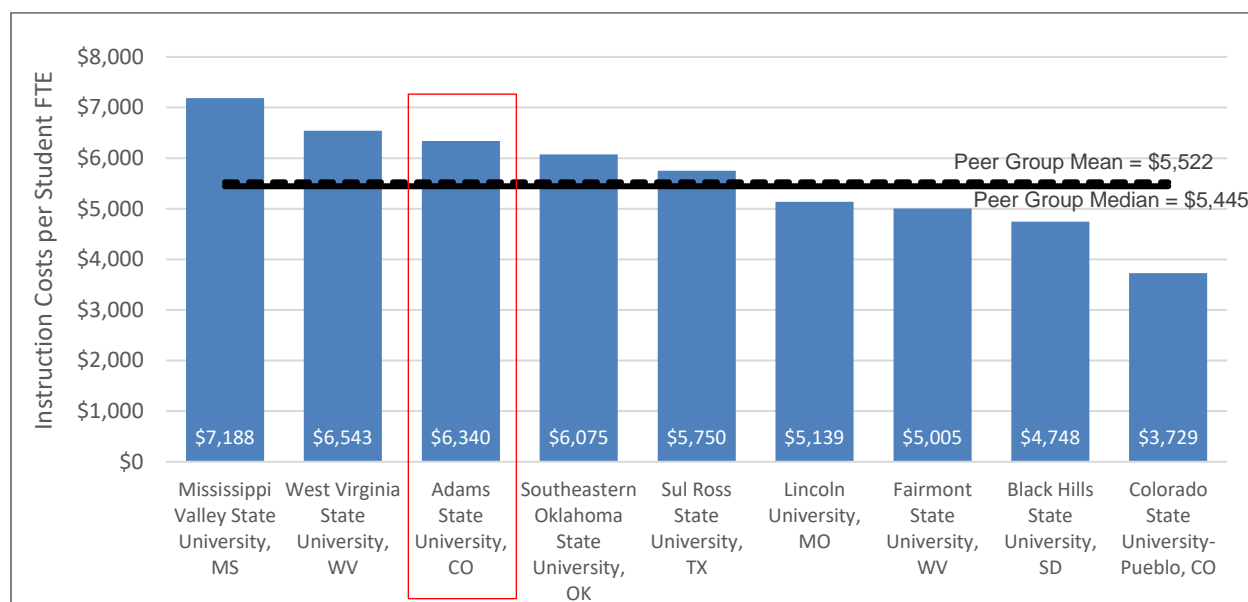
Huron analyzed changes in Adams' operational expenses by functional and natural expense categories. Functional expenses identify the purpose of the expense (e.g., expenses to provide student services), whereas natural expenses define the type of expense (e.g., salaries, supplies, utilities, etc.). Between fiscal years 2011 and 2015, Adams' largest expense increases occurred for instruction, interest on indebtedness, depreciation, and student services—with only modest increases in expenses for administrative institutional support. During that same period, expenses for auxiliary enterprises increased while related auxiliary revenues were stable, which contributed to declining net results.

Instruction Costs

As noted in Exhibit 19, Adams' instruction costs increased by 24% between fiscal year 2011 and fiscal year 2015, demonstrating that Adams has invested in academic and instructional activities. Some of the increase resulted from increased salaries for faculty initiated by Adams' prior administration to raise faculty salaries to be closer to comparable average salaries per the College and University Professional Association for Human Resources. Also, Adams' increased instruction costs by more than \$2 million during the past five years to support the University's distance and correspondence education and extended studies programs.

Based on available IPEDS data for fiscal year 2014, Exhibit 20 shows that Adams' instruction costs (excluding allocations of interest, depreciation, and operation and maintenance of plant for instruction) averaged \$6,340 per student FTE, which was \$895 or about 16% higher than the median instruction cost per student FTE for the peer group. This is largely due to expenses incurred for extended studies programs for non-degree seeking students, such as teacher professional development programs to meet licensure requirements. Allocations of interest, depreciation, and operation and maintenance of plant (not shown) for instruction-related facilities represent an additional \$2,059 in instruction costs per student FTE for Adams.

**Exhibit 20: Instruction Costs per Student FTE
Adams State University and Peer Group
Fiscal Year 2014**



Source: Huron's analysis of IPEDS data.

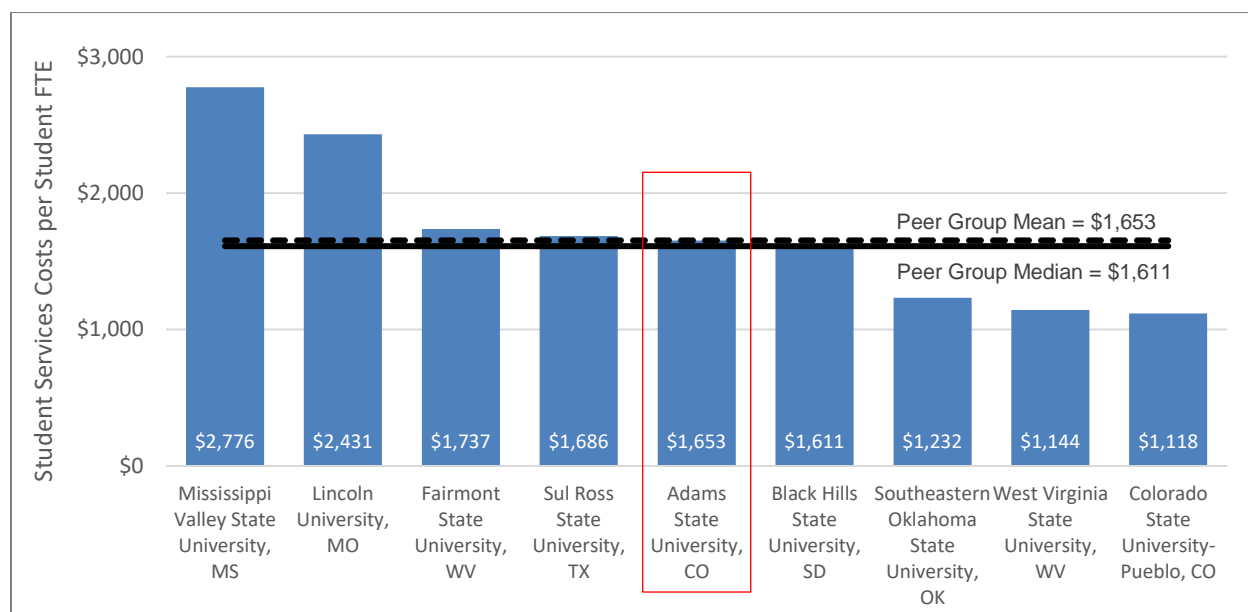
Note: Amounts do not include allocations of interest, depreciation, and operation and maintenance of plant for instruction. Peer group median and mean exclude Adams State University.

Adams offers 28 undergraduate programs. The majors with the highest student enrollment are exercise science, business administration (including multiple concentrations), and sociology. Pre-nursing and interdisciplinary studies, which is comprised of coursework across many disciplines, also have high enrollments. Adams exceeds the peer median of instruction costs per student FTE, indicating that there may be opportunities to restructure higher-cost academic programs and change targeted student enrollments by program. Huron sought to assess the University's academic programs and to evaluate the relative contribution of cash flow margin per program (i.e., revenue generated per program and the direct expenditures required to earn that revenue). However, for the years included in our analysis, there were challenges in calculating instructional costs and related revenues on a per-program basis because of the University's data structures. Though not uncommon in higher education, the University's approach to cost allocation meant that constructing more nuanced, program-specific cost analyses was beyond what could be accomplished as part of this evaluation.

Student Services Costs

Adams has invested in student services, such as counseling and first-year immersion programs offered by the student life offices, resulting in a 58% increase in student services costs from fiscal year 2011 to fiscal year 2015. Adams reported that a majority of the increase was funded by external grants, such as U.S. Department of Education Title V grants designed to assist Hispanic Serving Institutions to enhance academic offerings, program quality, and institutional stability, and grants to assist with migrant education. These grants are included in Adams’ adjusted operating revenues in Exhibit 4. Based on available IPEDS data for fiscal year 2014, Exhibit 21 shows that Adams’ student services costs (excluding allocations of interest, depreciation, and operation and maintenance of plant for student services) were \$1,653 per student FTE, which was near the median for the peer group. Allocations of interest, depreciation, and operation and maintenance of plant (not shown) for student services-related facilities represent an additional \$537 in student services costs per student FTE.

**Exhibit 21: Student Services Costs per Student FTE
Adams State University and Peer Group
Fiscal Year 2014**



Source: Huron’s analysis of IPEDS data.

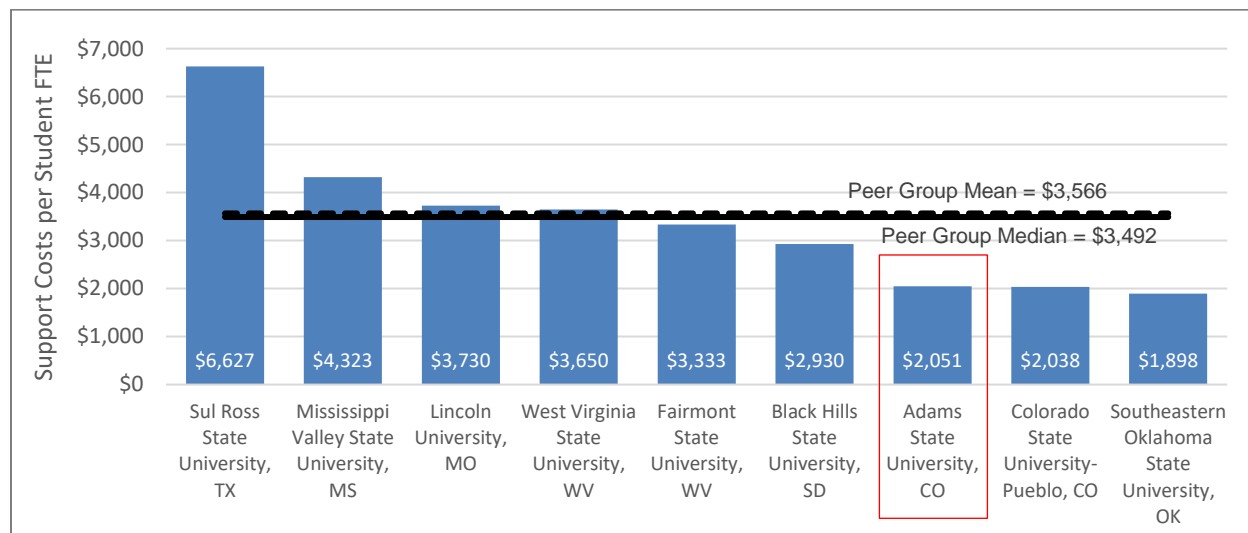
Note: Amounts do not include allocations of interest, depreciation, and operation and maintenance of plant for student services. Peer group median and mean exclude Adams State University.

Academic Support and Institutional Support Costs

Adams’ combined costs for academic support and institutional support increased by about 12%, from \$5.9 million in fiscal year 2011 to \$6.6 million in fiscal year 2015. Academic support includes costs for academic department administration and libraries. Institutional support includes costs for accounting, payroll, human resources, development, and information technology. Based on available IPEDS data for fiscal year 2014, Exhibit 22 shows that Adams’ academic and institutional support costs (excluding allocations of interest, depreciation, and operation and

maintenance of plant for student services) were \$2,051 per student FTE, which was \$1,441 or 41% lower than the median for the peer group. Allocations of interest, depreciation, and operation and maintenance of plant (not shown) represent an additional \$666 in academic and institutional support costs per student FTE.

**Exhibit 22: Academic Support and Institutional Support Costs Per Student FTE
Adams State University and Peer Group
Fiscal Year 2014**



Source: Huron's analysis of IPEDS data.

Note: Amounts do not include allocations of interest, depreciation, and operation and maintenance of plant for academic and institutional support. Peer group median and mean exclude Adams State University.

Conclusions from Operational Assessment

Huron's operational assessment yielded three conclusions for improving Adams' overall financial sustainability:

- Tuition price increases provide limited opportunities for increasing Adams' revenues.** Over the past few decades, the higher education industry's primary response to competitive, technological, and other market forces has been to use incremental revenue gained through raises in tuition and fees to offset reductions in state appropriations, add student services and amenities, and fund institutional priorities. We did not assess the price-elasticity of demand for Adams' various student constituencies; however, our analysis showed that Adams' net tuition revenue per student, at \$5,636 per student FTE, is the highest of its peer group. Thus, we believe that above-market price increases are not an optimal path for future revenue growth.
- Continuing to pursue structural changes in the delivery of student services will be a critical factor in Adams' ability to manage its operating costs and improve institutional outcomes.** The historically underserved student population at Adams requires more efficient and effective investments in student services to help students achieve academic success. In recent years, Adams has made investments in student services. In particular, expenses for student services increased by 58% between fiscal

year 2011 and fiscal year 2015. With increased investments, Adams' student services costs per student FTE are near the peer median; however, desired improvements in institutional outcomes such as student retention and graduation rates are lagging. Huron believes that the manner in which student services have historically been delivered at Adams may be dampening the effect of the increased financial investment in student services on institutional outcomes. Specifically, during our interviews, University leadership and staff pointed to a former siloed culture at Adams. Student services were decentralized and distributed across multiple departments, which made it difficult for students to figure out where to go or who to contact for support. Additionally, Adams reported that the majority of the increase in student services costs was funded through individual grants, which has added to the fragmentation. Adams could potentially benefit from a more coordinated and consolidated delivery model for student services. For example, Adams' retention rate for the athletic student cohort is about 10 percentage points higher than the retention rate for other student cohorts. Huron noted that the student-athlete cohort accesses student services in a more consolidated and coordinated manner—every athlete is associated with a coach who serves as a student's point of contact for student services. Adams reports that, under its new leadership, it has taken steps to better coordinate the delivery of student services for improved efficiency and effectiveness, but that continued work in this area is needed, especially as many of these grant-funded services become more established and funding must shift to other institutional revenue sources. A more coordinated and consolidated student services delivery model should result in positive benefits for students as well as provide opportunities for Adams to further optimize its operating costs.

- **Adams has an opportunity to improve decision making in support of enrollment growth and financial sustainability by analyzing instruction costs on a per-program basis.** The mix of academic programs and courses serves as a significant cost driver for universities. Because programs may present different revenue opportunities and costs for the institution, management needs a clearer picture of which programs are performing well financially and which programs require significant subsidies. Adams should continue to assess its academic program portfolio and consider the financial impacts of individual programs when making realignments. Specifically, Adams should continue to leverage available financial data to better quantify and analyze revenues and instructional costs on a per-program basis, or even on a per-course basis. As the University looks to increase student enrollment through new programmatic offerings or realignment of existing programs, it can use these data to help allocate resources strategically by considering eliminating or restructuring any financially under-performing programs as an expense reduction opportunity and investing in those financially high-performing programs that are most sustainable and impactful.

Strategic Assessment

In this section, we discuss the results of our strategic assessment, which included a review of the strategies outlined by the University's 2020 Strategic Plan (ASU 2020) and initiatives put in place by Adams that will help improve the University's financial position. In addition to a review of the strategic plan, our strategic assessment included in-person interviews with University leaders to understand current strategies in the context of the institution's mission, geographic location, market position, and financial health.

Adams' Strategic Plan

In December 2015, the Board of Trustees for Adams State University approved strategic initiatives outlined in ASU 2020, the University's strategic plan covering 2015 through 2020. Each goal outlined in the plan includes a set of associated strategic initiatives and activities. The strategic plan also includes outcomes and measures assessment, and monthly reports keep the Board of Trustees updated on progress toward the goals.

Adams' strategic plan identifies the following five strategic goals:

1. **Academic Excellence.** Adams will provide challenging and responsive curricula that educate, serve, and inspire its diverse populations.
2. **Student Success.** Adams will address diverse student needs by offering varied learning opportunities and support services for all students to achieve educational, personal, and career successes.
3. **Personal and Professional Development.** Adams will provide educational and professional development opportunities for faculty and staff.
4. **Access and Affordability.** Adams will develop innovative pricing and aid strategies that will maximize opportunities for its diverse and historically underserved students for all levels and delivery models.
5. **Community Relations.** Adams will collaborate with the community to provide culturally responsive and sustainable development opportunities that mutually benefit the campus and the San Luis Valley community.

Each of these strategic goals appears well-aligned with the University's mission and with Huron's understanding of the needs of the types of student populations served by Adams. However, the University's success is dependent on translating these goals into increased enrollment and retention outcomes, as outlined in Adams' Recruitment and Retention Plan.

Student Enrollment and Revenue Growth

Adams experienced a decline in enrollments over the past five years, during which time its reliance on tuition and fees as a primary source of operating revenue increased. Adams' ability to achieve revenue gains and ensure fiscal sustainability is dependent upon its ability to increase enrollments by recruiting and retaining more students. Of the strategic goals defined in ASU 2020, the first two goals—academic excellence and student success—were designed, at least in part, to improve the retention and graduation of students.

Adams has multiple initiatives in process to improve enrollment and retention, which include the recent establishment of a guaranteed tuition policy where the price of tuition and fees remains locked for four years for the entering student cohort each year. Adams provides dedicated scholarships to students from Texas and Wyoming; and the University participates in the Western Undergraduate Exchange, which offers discounted tuition to students from California, Nevada, New Mexico, Utah, and other western states. During our interviews, admissions staff also reported plans to increase Adams' recruitment activity along the Colorado Front Range Urban Corridor.

To understand the effect of an increase in net revenues, Huron calculated Adams' financial ratios for two hypothetical scenarios—increases of \$1 million and \$5 million in net tuition and fee revenue resulting from pro forma enrollment increases of approximately 100 students and 500 students, respectively. Exhibit 23 shows that, keeping everything else constant, a \$1 million increase in net tuition and fees would increase Adams' operating cash flow margin to 4.4%, and a \$5 million increase in net tuition and fees would increase Adams' operating cash flow margin to 11.3%. However, even with an optimistic \$5 million increase in net tuition revenues, Adams would still have an adjusted operating margin of negative 7.0%, reflecting Adams' significant debt burden and depreciation expenses.

Exhibit 23: Estimated Effect of Increased Net Tuition and Fee Revenue
Adams State University
Fiscal Year 2015 Baseline

Financial Ratio	Fiscal Year 2015 Actual	Scenario #1 \$1 million increase in net tuition and fees revenue	Scenario #2 \$5 million increase in net tuition and fees revenue
Operating Cash Flow Margin	2.5%	4.4%	11.3%
Adjusted Operating Margin (Net Income Ratio)	(17.7%)	(15.4%)	(7.0%)
Return on Total Net Assets	10.2%	11.8%	18.6%
Primary Reserve Ratio	0.18	0.20	0.26
Viability Ratio	0.14	0.16	0.21

Source: Huron's analysis of fiscal year 2015 financial and operational data provided by Adams State University.
Note: Financial ratios shown here exclude the balances and activities of the Adams State University Foundation.

Conclusions from Strategic Assessment

Huron's strategic assessment yielded three conclusions related to financial sustainability:

- **Adams' critical strategic challenge will be to achieve revenue gains through increased enrollment without equal increases in costs.** The University's strategic goals and initiatives should target areas of programmatic, reputational, and geographic strengths. For example, Adams has a strong, accredited counselor education department, special programs for migrants, and partnerships to support teacher education programming. With targeted strategies, Adams can avoid the common pitfalls of trying to be all things to all students or relying too heavily on tuition discounting to attract and retain students. Having a sound tuition pricing strategy is especially important for universities, such as Adams, that serve regions needing a low-cost education provider.
- **Adams may have opportunities to refine its marketing and recruiting strategy in support of increased student enrollment and retention.** First, Huron's experience is that the marginal return on a dollar spent on direct recruiting (when informed by a focused, data-driven strategy) is higher than that of a dollar spent on mass marketing. Thus, Adams may benefit from more analysis of existing student data to determine the characteristics of in-state and out-of-state students who succeed at Adams, and then using the results to help target its recruiting resources where they will bring the greatest success. Second, Adams may have opportunities to better leverage student athletics in the University's visual identity and marketing materials. For example, Adams had three of its student-athletes participate in the latest Summer Olympics, which fits well with the "Great Stories Begin Here" approach highlighted in Adams' strategic plan. Finally, a market study done by Adams identified that education, business, and healthcare/service industries are the top three areas for employability in the Alamosa region. Adams can use this information to make connections for prospective students and their families between Adams' academic offerings and students' post-graduation employment.
- **Given its large deficit and enrollment challenges, Adams needs to identify cost-cutting and/or revenue-enhancement strategies to ensure its financial sustainability.** As discussed previously, even with a \$5 million increase in net tuition and fees revenue, Adams would still have an adjusted operating deficit. Our interviews indicated that Adams' new leadership team is highly attuned to and recognizes the financial position of the University and the need to make changes to achieve financial stability. Thus, Adams should continue working with its key constituencies, including the Board of Trustees, to identify and evaluate more significant cost-cutting and revenue-enhancement strategies, as well as potentially transformative, structural changes. For example, some institutions are consolidating academic offerings with other universities. Others are outsourcing or consolidating administrative functions such as information technology, human resources, procurement, and facilities management. Also, universities are increasingly analyzing financial margins on a per-program basis and making strategic decisions to downsize or eliminate low-revenue and/or high-cost programs.

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Adams State University Response

Adams State University appreciates the Office of the State Auditor contracting with Huron Consulting Group for this evaluation. Our financial condition is currently one of our top priorities and we are working to improve our financial standing. An external evaluation of our current standing brings new perspective to this priority. This report will help us focus on additional changes that we need to implement.

While this report states that it “did not seek to address or take a position on...the role of state appropriation versus tuition and fees in support of higher education,” that piece is critical to understanding what led to our financial situation. Our unique role and mission, serving historically underserved students in rural Colorado, does not enable us to raise tuition without an effect on our student population. The effect that reductions in state funding have had on our students was made more severe by cuts to the federal Pell programs. As we increased tuition, many of our potential students decided that college was not financially attainable, and opted not to attend any higher education institution.

In the past, faced with cuts in state funding, Adams State responded with tuition increases. Several years of non-existent or insufficient state capital and controlled maintenance funding left us having to fill a deficit in order to maintain our buildings and facilities to stay competitive. We responded to this with the implementation of a student capital fee.

While cuts were made, such as the freezing of positions and reductions to operating budgets, this was not sufficient as some cuts were one-time expenses. This was further exacerbated by enrollment declines offsetting much of the revenue anticipated from tuition and fee increases. In addition, we are heavily reliant on state support. Thus, when our state support is cut by what appears to be a small percentage, it is a larger percentage of our total budget.

Adding to our challenges, Adams State was placed on probation by the Higher Learning Commission, as the Huron report mentioned. We are working diligently to correct all the issues and reverse that status, and are confident that we will. However, recruitment and retention are even more challenging to address when on probationary accreditation status.

Adams State had a change of presidency starting in fiscal year 2015-2016. Our new President understood the University’s financial situation and immediately began containing costs where possible. However, major cost structure changes take time. We ended fiscal year 2016 with noticeable improvement over 2015, although there is more improvement still needed.

One area where we are striving to improve and increase revenues is in increased student retention. Some of these initiatives, such as our first year immersion program and a revamping of our new student orientation, are referenced in Huron’s report. We are also working to implement new software to improve advising for students and faculty. We began implementation in January and hope to have it complete by fall 2017.

In another effort to improve retention and completion, we are undergoing a revision of our remedial education program. We have gathered campus representatives from across a broad range of

departments to identify and implement initiatives to make remediation more student-centered and effective. Some examples are as follows: evaluating the need for additional supplemental instruction, establishing a policy having students declare a major within 45 credit hours (studies show students with declared majors have a higher success rate), moving to a different testing approach that will better assess and help place students in math classes and allow students to learn and test out of remedial math on their own, and developing training in supplemental instruction and best practices in advising for our faculty and advisors.

Other initiatives include increasing dual and concurrent opportunities for high school students, re-designing our summer course offerings to allow students to complete more general education courses in one summer, developing more transfer agreements with local community colleges, and developing a predictive model to better identify the student population that is most successful at Adams State. These types of initiatives to improve student retention take time before the impact will be visible on our financial statements, but we are hopeful they will positively impact our position.

An effort to help both retention and recruitment was implemented in the fall of 2016, when Adams State launched a four-year guaranteed tuition rate. This will allow our students and their families to better anticipate and plan for the total cost of the degree. It will also encourage students not only to stay and persist, but also to complete in four years.

Adams State is working on making improvements on the cost side of the financial statements as well. Although we still have more analysis to do in this area, some cuts have already been implemented. We eliminated positions at the beginning of fiscal year 2016 (summer and fall 2015) during a restructure by our then new president. Also, in July 2016, Adams State moved from managing our bookstore internally to outsourcing the operation to Follett Higher Education Group.

Adams State appreciates Huron's acknowledgement of the needs of our student population with regard to student services. Adams State has implemented many initiatives over the past six years, most starting with grant funds. Some of the initiatives are now funded with general fund dollars, although 70% of our increases in student services expenditures are still funded by grant dollars. While we strive to leverage federal funding to develop successful student service operations, we also recognize that many of these initiatives have had the unintended effect of decentralizing and appearing to duplicate services across campus. As Huron suggested, we will be looking to better coordinate and consolidate our delivery of student services and communicate this accordingly.

Currently, Adams State is in discussions with our financial advisor on possible ways to restructure our debt. This is not for new capital funding, but an effort to reduce our costs and realize any potential savings for which we may be eligible. While this will help, it is important to note that 69% of our buildings are state general funded buildings, and our ability to address deferred maintenance is highly dependent on the ability of the state to invest in capital construction and controlled maintenance.

Adams State agrees with Huron's recommendations and will continue to look for ways to improve our financial health. However, it is important to mention the population we serve and our reliance on state support hinders our ability to get to ideal ratios solely with internal changes. Our long-term viability also depends on the continued ability of the state to invest in rural higher education.