

FORT LEWIS COLLEGE

FINANCIAL AND COMPLIANCE AUDIT
Fiscal Years Ended June 30, 2004 and 2003

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2004 MEMBERS

Effective August 2, 2004

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**FORT LEWIS COLLEGE
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEARS ENDED JUNE 30, 2004 AND 2003**

Authority, Purpose and Scope

The audit of Fort Lewis College was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state agencies. The 2004 audit was conducted under contract with Wall, Smith, Bateman and Associates, Inc. The audit was made in accordance with audit standards generally accepted in the United States of America. Audit work was performed during June through September 2004.

The purposes and scope of the audit were to:

- Perform a financial and compliance audit of Fort Lewis College for the years ended June 30, 2004 and 2003 and to express an opinion on the financial statements. Review internal controls as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with rules and regulations governing the expenditures of federal and State funds.
- Express an opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2004.
- Evaluate progress in implementing prior audit recommendations.

Audit Results and Summary of Major Audit Findings

Wall, Smith, Bateman and Associates, Inc. expressed unqualified opinions on the financial statements for the years ended June 30, 2004 and 2003.

Wall, Smith, Bateman and Associates, Inc. also expressed an unqualified opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2004.

Required Auditor Communications to the Legislative Audit Committee

The auditor is required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Legislative Audit Committee in overseeing the financial reporting and

disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items, that no audit adjustments were required and there were no difficulties encountered in performing the audit.

SUMMARY OF FINDINGS

Recommendations and College Responses

There were no findings in the current year.

Summary of Progress in Implementing Prior Audit Findings

There were no findings in the prior year.

MISSION, HISTORY, ENROLLMENT, AND STAFFING

MISSION

The following mission statement has been adopted by the Board of Trustees for Fort Lewis College.

The mission of Fort Lewis College is to open minds and kindle thought and action by instilling in students knowledge, a desire to acquire knowledge, the tools for doing so, and an understanding of how knowledge can be put to use for a common good. The experiences students have here should help them learn to live wisely and should make a significant difference in their futures by enabling them to pursue their own educational goals throughout their lives. They should be able to demonstrate thoughtful scholarship in pursuing and weighing knowledge. They should be able to communicate and cooperate with others. The College should also play an active role in the community and the region as a multifaceted learning resource.

Fort Lewis College has chosen to pursue its mission via its historic role as an undergraduate, public, four-year liberal arts college. Because of the liberal arts focus, we require common general studies courses which include the fine arts, humanities, social sciences, mathematics, and the natural sciences in addition to more specialized junior and senior courses offered through the various majors. Our curriculum is designed both to ensure that students understand the values and assumptions implicit in their major fields of study and to prepare them for a rapidly changing world.

The College's first obligation is to create a personalized learning environment in which faculty and staff are accessible to all of its students. Therefore excellence in classroom teaching is our first priority. We are committed to hiring experienced faculty and professional staff dedicated to teaching and to working directly with students. The College also supports and encourages research, scholarly inquiry and creative performance by its faculty in order to enhance their work with students and the students' own work. We will continue to acquire the resources necessary to fulfill our primary mission.

It is essential to Fort Lewis College's mission that we contribute to the cultural diversity and economic development of the Four Corners region. To play an active role in the community, state and region, we must ensure that our programs fulfill the needs of our student population and the residents of our area. Our ethnic and regional heritage must be reflected in the make-up of our student body, in our special programs, and in our curriculum. Because of terms established in the original charter of the College, we have an honored tradition of providing tuition-free education for American Indian students. The College will continue to enhance educational opportunities for other minority groups, especially those originating in the Southwest. While a large percentage of our students should continue to come from Colorado, the College will encourage enrollment of students from other regions and from abroad in order to provide a diversified student body.

MISSION, HISTORY, ENROLLMENT, AND STAFFING

HISTORY

Fort Lewis College is named for Fort Lewis, a U.S. Army Post established in 1878 at Pagosa Springs, Colorado. Two years later, the military post moved to Hesperus, Colorado, a location more central to Indian settlements and pioneer communities. The U.S. government abandoned the site as a military post in 1891, and in its stead, established Fort Lewis as a school offering free education to Native American students.

By 1911, Congress had deeded the Hesperus site to the State of Colorado, which then established a high school of agriculture under the supervision of the State Board of Agriculture. The school began to offer some college-level courses in 1925, and in 1933, Fort Lewis began to offer college courses exclusively. In 1948, Fort Lewis was officially designated a junior college with its own president.

Fort Lewis moved to the Durango campus in 1956. The first baccalaureate degrees were granted in 1964. In 1986, Fort Lewis joined the Colorado State University System under the governance of the State Board of Agriculture. Colorado State University in Fort Collins and the University of Southern Colorado in Pueblo were sister institutions in the system. In 2002, the Board of Trustees for Fort Lewis College began governance of the College separate from the State Board of Agriculture.

Fort Lewis continues to honor its historic commitment to Native Americans by offering tuition scholarships to all qualified American Indians who meet admission requirements. It is the only college in Colorado to do so, as it has for more than 100 years.

Fort Lewis College's statutory authority is in the Colorado Revised Statutes (CRS) 23-52-101.

ENROLLMENT

Enrollment data for the past three years are presented below as student full-time equivalents (FTE.) Each FTE is equal to 30 credit hours during the fiscal year.

	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Resident FTE	2,727.0	2,783.9	2,799.6
Non-Resident FTE	<u>1,214.0</u>	<u>1,296.1</u>	<u>1,368.9</u>
Total FTE Students	<u>3,941.0</u>	<u>4,080.0</u>	<u>4,168.5</u>

MISSION, HISTORY, ENROLLMENT, AND STAFFING

STAFFING

Staffing data for the past three years are presented below as employee full-time equivalents (FTE.) Each faculty FTE is equal to 30 credit hours taught during the fiscal year. Each staff FTE is equal to working 2,080 hours each fiscal year.

	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Faculty FTE	216.4	219.1	221.9
Staff FTE	<u>286.6</u>	<u>306.6</u>	<u>302.1</u>
Total FTE	<u>503.0</u>	<u>525.7</u>	<u>524.0</u>

FINANCIAL STATEMENTS SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Legislative Audit Committee
Denver, CO

We have audited the accompanying basic financial statements of Fort Lewis College, a blended component unit of the State of Colorado, as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the management of Fort Lewis College. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Fort Lewis College Foundation, a component unit, which statements reflect total assets of \$16 million and \$14 million as of June 30, 2004 and 2003, respectively, and total revenues, gains and other support of \$4 million and \$3 million for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Fort Lewis College Foundation is based solely on the report of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Lewis College as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As is described in Note 1, Fort Lewis College implemented Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This resulted in the Fort Lewis College Foundation financial statements being included in the Fort Lewis College financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004 on our consideration of Fort Lewis College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

September 9, 2004

FORT LEWIS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2004 AND 2003

Fort Lewis College management is pleased to present this discussion and analysis of the College. It provides an analysis of the College's financial activities based on currently known facts, decisions, and conditions.

FINANCIAL HIGHLIGHTS

Year Ended June 30, 2004:

- The College's financial position, as a whole, improved during the year ended June 30, 2004. The combined net assets increased \$1,037,821 or 1.1% from the previous year.
- State General Fund appropriations decreased by 17.1% from the previous year. This was a result of a weak state economy and legal funding requirements for other state programs.
- Gross tuition and fee revenue increased by 2.8% from the previous year.

Year Ended June 30, 2003:

- The College's financial position, as a whole, improved during the year ended June 30, 2003. The combined net assets increased \$3,397,984 or 3.9% from the previous year. The increase is primarily attributable to an increase in capital assets.
- State General Fund appropriations decreased by 4.1% from the previous year. This was a result of worsening conditions in the state's economy.
- Gross tuition and fee revenue increased by 4.7% from the previous year.

This report consists of three basic financial statements, including the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. The statements provide information on the College as a whole and report on all of the College activities including instruction, research, public service, and support services. The Statements of Net Assets and the Statements of Revenues, Expenses, and Changes in Net Assets report financial position and financial activity using the accrual basis of accounting (reporting all of the year's revenues and expenses when earned or incurred, rather than when the cash is received or paid.) The financial statements and notes are presented for the reporting entity of the College that includes Fort Lewis College and the Fort Lewis College Foundation, a discretely presented component unit. (See Note 1 for additional information on the reporting entity.)

STATEMENTS OF NET ASSETS

The Statements of Net Assets report assets, liabilities, and net assets (the difference between assets and liabilities.)

Condensed Statements of Net Assets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current Assets	\$15,706,433	\$15,417,565	\$12,946,905
Noncurrent Assets	<u>99,206,029</u>	<u>100,074,881</u>	<u>98,426,583</u>
Total Assets	<u>114,912,462</u>	<u>115,492,446</u>	<u>111,373,488</u>
Current Liabilities	6,821,468	7,119,136	5,282,732
Noncurrent Liabilities	<u>15,920,858</u>	<u>17,240,995</u>	<u>18,356,425</u>
Total Liabilities	<u>22,742,326</u>	<u>24,360,131</u>	<u>23,639,157</u>
Net Assets:			
Invested in capital assets, net of related debt	78,894,271	78,070,871	75,236,209
Restricted	7,437,184	7,716,689	7,443,996
Unrestricted	<u>5,838,681</u>	<u>5,344,755</u>	<u>5,054,126</u>
Total Net Assets	<u>\$91,170,136</u>	<u>\$91,132,315</u>	<u>\$87,734,331</u>

FORT LEWIS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2004 AND 2003

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statements of Revenues, Expenses and Changes in Net Assets report the results of operating and nonoperating revenues and expenses during the year, as well as the resulting increase or decrease in net assets at the end of the year.

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

	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>	<u>Year Ended June 30, 2002</u>
Operating Revenues			
Tuition and Fees, Net	\$13,008,226	\$12,862,367	\$12,789,893
Grants and Contracts	14,324,200	14,120,591	11,940,379
Auxiliary Services, Net	11,102,097	11,316,455	11,045,195
Other	<u>506,149</u>	<u>502,880</u>	<u>446,125</u>
Total Operating Revenues	<u>38,940,672</u>	<u>38,802,293</u>	<u>36,221,592</u>
Operating Expenses	<u>47,236,026</u>	<u>49,986,137</u>	<u>47,129,484</u>
Net Operating Revenues (Expenses)	<u>(8,295,354)</u>	<u>(11,183,844)</u>	<u>(10,907,892)</u>
Nonoperating Revenues (Expenses):			
State Appropriations	7,435,161	8,967,628	9,354,415
Other Net Nonoperating Revenues	<u>426,867</u>	<u>347,356</u>	<u>1,297,414</u>
Net Nonoperating Revenues	<u>7,862,028</u>	<u>9,314,984</u>	<u>10,651,829</u>
Income (Loss) Before Other Revenues, Expenses, or Transfers	(433,326)	(1,868,860)	(256,063)
State Capital Contributions	711,258	5,150,011	3,936,102
Capital Grants and Gifts	759,889	77,670	190,982
Other	<u>0</u>	<u>39,163</u>	<u>0</u>
Increase (Decrease) in Net Assets	1,037,821	3,397,984	3,871,021
Net Assets:			
Net Assets – Beginning of Year, as Originally Reported	91,132,315	87,734,331	115,024,128
Cumulative Effect of Change in Accounting Principle	0	0	(31,160,818)
Net Assets – Beginning of Year, Restated	<u>91,132,315</u>	<u>87,734,331</u>	<u>83,863,310</u>
Net Assets – End of Year	<u>\$92,170,136</u>	<u>\$91,132,315</u>	<u>\$87,734,331</u>

FORT LEWIS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2004 AND 2003

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows report relevant information about the cash receipts and cash payments of the College during the year.

Condensed Statements of Cash Flows

	<u>Year Ended June 30, 2004</u>	<u>Year Ended June 30, 2003</u>	<u>Year Ended June 30, 2002</u>
Cash Provided (Used) by:			
Operating Activities	(\$3,858,962)	(\$4,085,316)	(\$5,621,344)
Noncapital Financing Activities	8,337,584	9,565,839	9,886,752
Capital and Related Financing Activities	(4,929,141)	(3,838,693)	(5,444,648)
Investing Activities	<u>170,831</u>	<u>970,539</u>	<u>1,057,744</u>
Net Increase (Decrease) in Cash	(279,688)	2,612,369	(121,496)
Cash, Beginning of Year	<u>16,769,248</u>	<u>14,156,879</u>	<u>14,278,375</u>
Cash, End of Year	<u>\$16,489,560</u>	<u>\$16,769,248</u>	<u>\$14,156,879</u>

CAPITAL ASSETS

At June 30, 2004, the College had approximately \$94.6 million invested in capital assets, net of accumulated depreciation of \$41.1 million. Depreciation charges were \$4.3 million for the year ended June 30, 2004. At June 30, 2003, the College had approximately \$94.7 million invested in capital assets, net of accumulated depreciation of \$37.1 million. Depreciation charges were \$4.1 million for the year ended June 30, 2003. Details of these assets are shown below.

Capital Assets, Net, at Year-End

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Land and Improvements	\$280,559	\$259,875	\$259,875
Construction in Progress	2,597,888	4,998,609	4,555,869
Collections	761,570	754,380	750,270
Land Improvements, Net	12,296,846	9,144,768	8,645,099
Buildings and Improvements, Net	76,650,083	77,698,650	76,708,997
Equipment, Net	1,250,601	1,107,509	1,313,471
Library Materials, Net	<u>717,708</u>	<u>736,439</u>	<u>783,483</u>
Total	<u>\$94,555,255</u>	<u>\$94,700,230</u>	<u>\$93,017,064</u>

FORT LEWIS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2004 AND 2003

Major capital additions completed in fiscal year 2003-04 and the resources that funded their acquisition include:

Fire Alarm System renovation, funded by State Controlled Maintenance Funds	\$1,409,802
Raider Avenue improvements, funded by State Controlled Maintenance Funds	1,220,862
CUB Chiller improvements, funded by the College	1,129,077
Hesperus Hall demolition and site restoration, funded by State Capital Construction Funds	692,034
Physical Plant Services Building renovation, funded by State Controlled Maintenance Funds	<u>509,171</u>
	<u>\$4,960,946</u>

The following significant capital projects were in progress at June 30, 2004.

Child Development Center, funded by the College	\$2,050,174
CUB Roof replacement and improvements, funded by revenue bonds	<u>289,138</u>
	<u>\$2,339,312</u>

Major capital additions completed in fiscal year 2002-03 and the resources that funded their acquisition include:

Gymnasium/Exercise Science and Athletic Facility, funded by State Capital Construction Funds	\$4,096,335
Irrigation System renovation, funded by State Controlled Maintenance Funds	<u>453,788</u>
	<u>\$4,550,123</u>

The following significant capital projects were in progress at June 30, 2003.

Fire Alarm System renovation, funded by State Controlled Maintenance Funds	\$1,400,023
CUB Chiller improvements, funded by the College	1,136,655
Hesperus Hall demolition and site restoration, funded by State Capital Construction Funds	656,897
Raider Avenue improvements, funded by State Controlled Maintenance Funds	<u>607,319</u>
	<u>\$3,800,894</u>

FORT LEWIS COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2004 AND 2003

DEBT

At June 30, 2004 and June 30, 2003, the College had approximately \$15.9 million and \$17.1 million in debt outstanding respectively. The table below summarizes these amounts by type of debt.

Outstanding Debt, at Year-End

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Auxiliary Revenue Bonds, Net	\$15,699,906	\$16,835,472	\$17,480,000
Capital Lease Obligations	157,718	217,850	298,160
Other Long Term Debt	<u>67,768</u>	<u>86,036</u>	<u>102,494</u>
Total	<u>\$15,925,392</u>	<u>\$17,139,358</u>	<u>\$17,880,654</u>

ECONOMIC OUTLOOK &
FORT LEWIS COLLEGE FUTURE

An important factor impacting the College's economic position is enrollment. In Fall 2002, the College implemented an initiative designed to increase student success by accepting incoming freshmen that are better prepared for college level work. Conversely, the College now defers admission to those students who are not yet ready to attend college. Ultimately, the increase in student quality will stabilize the size and quality of the freshman class and, therefore, increase the students' chances for success, as measured by retention and graduation rates. This policy change caused a decrease in enrollment in FY 2003-04. However, per projections, enrollment for Fall 2004 appears to have stabilized.

The State of Colorado budget continues to face economic strain. Without constitutional change, the State will need to cut approximately \$350 million from the budget over the next two years. The 2004 legislature passed the College Opportunity Fund bill, which will go into effect for the 2005-06 fiscal year. This program will shift the method of state funding for higher education to be more student driven. The legislation also aims to improve access to higher education for traditionally under-represented groups.

During FY 2003-04, the Board of Trustees successfully completed their search for a new President for the College. Dr. Brad Bartel, formerly Provost and Executive Vice President for Academic Affairs for Florida Gulf Coast University, started at the College June 1, 2004. Furthermore, the College completed an administrative reorganization effective July 1, 2004. The reorganization created a provost position, added a division for General and Exploratory Studies, and reorganized the academic departments into three schools. The new structure will enable the president to focus on fundraising and external matters.

Fort Lewis College
Statements of Net Assets
June 30, 2004
With Comparative Figures at June 30, 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$13,544,049	\$13,313,407
Student Accounts Receivable, Net	236,813	229,989
Accounts Receivable - Fort Lewis College Foundation	54,406	57,909
Other Accounts Receivable	865,106	833,655
Student Loans Receivable, Net	353,744	338,337
Inventories	587,852	588,957
Prepaid Expense	64,463	55,311
Total Current Assets	<u>15,706,433</u>	<u>15,417,565</u>
<u>Noncurrent Assets:</u>		
Restricted Cash and Cash Equivalents	2,945,511	3,455,841
Student Loans Receivable, Net	1,705,263	1,918,810
<u>Nondepreciable Capital Assets:</u>		
Land and Improvements	280,559	259,875
Construction in Progress	2,597,888	4,998,609
Collections	761,570	754,380
Total Nondepreciable Capital Assets	<u>3,640,017</u>	<u>6,012,864</u>
<u>Depreciable Capital Assets:</u>		
Land Improvements, Net	12,296,846	9,144,768
Buildings and Improvements, Net	76,650,083	77,698,650
Equipment, Net	1,250,601	1,107,509
Library Materials, Net	717,708	736,439
Total Depreciable Capital Assets, Net	<u>90,915,238</u>	<u>88,687,366</u>
Total Noncurrent Assets	<u>99,206,029</u>	<u>100,074,881</u>
Total Assets	<u>114,912,462</u>	<u>115,492,446</u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Accounts Payable	663,851	621,439
Accrued Liabilities	4,130,298	4,412,356
Deferred Revenue	391,647	461,886
Deposits Held for Others	227,668	255,580
Bonds Payable, Current Portion	1,175,000	1,165,000
Capital Leases Payable - Fort Lewis College Foundation, Current Portion	61,914	60,133
Other Long Term Liabilities, Current Portion	20,277	18,268
Compensated Absence Liabilities	150,813	124,474
Total Current Liabilities	<u>6,821,468</u>	<u>7,119,136</u>
<u>Noncurrent Liabilities:</u>		
Bonds Payable, Net	14,524,906	15,670,472
Capital Leases Payable - Fort Lewis College Foundation	95,804	157,717
Other Long Term Liabilities	47,491	67,768
Compensated Absence Liabilities	1,252,657	1,345,038
Total Noncurrent Liabilities	<u>15,920,858</u>	<u>17,240,995</u>
Total Liabilities	<u>22,742,326</u>	<u>24,360,131</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	78,894,271	78,070,871
<u>Restricted for Nonexpendable Purposes:</u>		
Endowment	141,649	141,649
<u>Restricted for Expendable Purposes:</u>		
Endowment	462,068	459,061
Debt Service	1,729,121	1,747,742
Other	5,104,346	5,368,237
Unrestricted	5,838,681	5,344,755
Total Net Assets	<u>\$92,170,136</u>	<u>\$91,132,315</u>

The accompanying notes are an integral part of this financial statement

Fort Lewis College Foundation, Inc.
Balance Sheets
June 30, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Pooled cash and investments	\$8,722,576	\$8,177,711
Grants receivable	2,600	200,000
Pledges receivable, net	180,000	11,262
Other current assets	8,405	26,858
Notes receivable	17,795	20,850
Net investment in property leased to Fort Lewis College	157,718	217,850
Segregated cash and investments	2,108,740	971,936
Tangible assets, net	<u>4,574,605</u>	<u>4,218,328</u>
Total assets	<u><u>\$15,772,439</u></u>	<u><u>\$13,844,795</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$10,304	\$29,351
Accounts payable - Fort Lewis College	54,406	57,909
Gift annuity obligation payable	<u>434,783</u>	<u>0</u>
Total liabilities	<u>499,493</u>	<u>87,260</u>
Net assets		
Unrestricted		
Board designated	11,052	0
Board designated endowment	274,814	269,516
Gifts-in-kind	377,854	379,604
General unrestricted	<u>470,661</u>	<u>607,829</u>
	<u>1,134,381</u>	<u>1,256,949</u>
Temporarily restricted		
Scholarships, awards and other	6,685,252	5,361,888
Gifts-in-kind and tangible assets	<u>1,615,201</u>	<u>1,257,174</u>
	<u>8,300,453</u>	<u>6,619,062</u>
Permanently restricted		
True endowments	3,256,562	3,299,974
Gifts-in-kind	<u>2,581,550</u>	<u>2,581,550</u>
	<u>5,838,112</u>	<u>5,881,524</u>
Total net assets	<u>15,272,946</u>	<u>13,757,535</u>
Total liabilities and net assets	<u><u>\$15,772,439</u></u>	<u><u>\$13,844,795</u></u>

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

Fort Lewis College
 Statements of Revenues, Expenses, and Changes in Net Assets
 For the Year Ended June 30, 2004
 With Comparative Figures at June 30, 2003

REVENUES	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Student Tuition and Fees (including pledged revenues of \$2,043,578 -2004 and \$2,082,413 -2003 and net of scholarship allowances of \$10,165,614 -2004 and \$9,678,397 -2003)	\$13,008,226	\$12,862,367
Federal Grants and Contracts	6,678,809	6,572,747
State Grants and Contracts	7,411,363	7,289,976
Local Grants and Contracts	135,093	83,325
Non-Governmental Grants and Contracts	98,935	174,543
Sales and Services of Educational Activities	416,506	411,294
Auxiliary Enterprises (including pledged revenues of \$10,909,117 -2004 and \$11,156,290 -2003 and net of scholarship allowances of \$946,669 -2004 and \$898,089 -2003)	11,102,097	11,316,455
Other Operating Revenues	89,643	91,586
Total Operating Revenues	<u>38,940,672</u>	<u>38,802,293</u>
 EXPENSES		
Operating Expenses:		
Instruction	14,116,176	14,558,521
Research	194,011	205,769
Public Service	1,106,376	940,924
Academic Support	3,781,280	4,104,253
Student Services	4,272,578	4,855,132
Institutional Support	3,112,262	3,122,749
Operation and Maintenance of Plant	3,413,357	4,964,966
Scholarships and Fellowships	1,906,702	1,879,542
Auxiliary Enterprises	11,029,216	11,231,697
Depreciation	4,304,068	4,122,584
Total Operating Expenses	<u>47,236,026</u>	<u>49,986,137</u>
Operating Income (Loss)	<u>(8,295,354)</u>	<u>(11,183,844)</u>
 NONOPERATING REVENUES (EXPENSES)		
State Appropriations	7,435,161	8,967,628
Gifts (including pledged revenues of \$48,114 -2004 and \$96,180 -2003)	940,651	575,455
Investment Income (including pledged revenues of \$29,702 -2004 and \$282,980 -2003)	159,504	970,539
Interest Expense on Capital Debt	(708,903)	(774,666)
Gain or (Loss) on Disposal of Assets	(27,611)	(441,484)
Other Nonoperating Revenues	63,226	17,512
Net Nonoperating Revenues	<u>7,862,028</u>	<u>9,314,984</u>
Income (loss) before other revenues, expenses, or transfers	<u>(433,326)</u>	<u>(1,868,860)</u>
 OTHER REVENUES, (EXPENSES), OR TRANSFERS		
State Capital Contributions	711,258	5,150,011
Capital Grants and Gifts (including pledged revenues of \$373,583 -2004 and \$50,633 -2003)	759,889	77,670
Transfer from Governing Board	0	39,163
Increase (Decrease) in Net Assets	<u>1,037,821</u>	<u>3,397,984</u>
 NET ASSETS		
Net Assets - Beginning of Year	<u>91,132,315</u>	<u>87,734,331</u>
Net Assets - End of Year	<u>\$92,170,136</u>	<u>\$91,132,315</u>

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

Fort Lewis College Foundation, Inc.
 Statements of Activities
 For the Years Ended June 30, 2004 and 2003

	2004			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
Net assets, beginning of year	\$1,256,949	\$6,619,062	\$5,881,524	\$13,757,535
Revenues, gains and other support				
Donations - cash	30,667	1,977,155	81,035	2,088,857
Donations - non-cash	65,028	28,707	-	93,735
Investment income	106,216	637,908	-	744,124
Special events:				
Income	78,873	389,109	-	467,982
Cost of direct benefits	(77,844)	-	-	(77,844)
Gain on sales of tangible assets				
Other income	8,030	177,248	-	185,278
Subtotal	210,970	3,210,127	81,035	3,502,132
Net assets released from restriction	1,641,920	(1,641,920)	-	-
Total revenues, gains, and other support	1,852,890	1,568,207	81,035	3,502,132
Expenses and losses				
Scholarships	600,863			600,863
Awards	3,114			3,114
Program expense:				
Debt forgiveness – FLC	65,713			65,713
Child Development Center	325,000			325,000
Other	831,774			831,774
Fund raising	78,879			78,879
Management and general	70,115			70,115
Loss on sales of tangible assets	-	-	-	0
Loss on uncollectible pledges	-	11,263	-	11,263
Total expenses and losses	1,975,458	11,263	0	1,986,721
Changes in donor restrictions	-	124,447	(124,447)	-
Change in net assets for the year	(122,568)	1,681,391	(43,412)	1,515,411
Net assets at end of year	<u>\$1,134,381</u>	<u>\$8,300,453</u>	<u>\$5,838,112</u>	<u>\$15,272,946</u>

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

2003

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$1,105,658	\$5,996,788	\$5,202,034	\$12,304,480
281,847	960,004	476,170	1,718,021
68,291	60,017	-	128,308
(95,691)	259,151	-	163,460
92,389	320,452	-	412,841
(64,408)	-	-	(64,408)
59,203	34,893	-	94,096
24,678	323,052	-	347,730
366,309	1,957,569	476,170	2,800,048
1,114,772	(1,114,772)	-	-
1,481,081	842,797	476,170	2,800,048
302,024			302,024
19,312			19,312
-			0
-			0
849,146			849,146
83,302			83,302
76,006			76,006
-	17,203	-	17,203
-	-	-	0
1,329,790	17,203	0	1,346,993
-	(203,320)	203,320	-
151,291	622,274	679,490	1,453,055
\$1,256,949	\$6,619,062	\$5,881,524	\$13,757,535

Fort Lewis College
 Statements of Cash Flows
 For the Year Ended June 30, 2004
 With Comparative Figures at June 30, 2003

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2004</u>	<u>2003</u>
Cash Received:		
Tuition and Fees	\$12,962,288	\$12,931,731
Sales of Products	2,864,572	2,700,184
Sales of Services	8,497,211	9,071,096
Grants and Contracts	14,376,979	13,799,445
Student Loans Collected	546,399	429,489
Other Operating Receipts	208,195	185,181
 Cash Payments:		
Scholarships Disbursed	(1,906,702)	(1,879,542)
Student Loans Disbursed	(490,022)	(365,797)
Payments to Suppliers	(12,489,487)	(13,665,569)
Payments to or for Employees	(28,373,048)	(27,202,345)
Other Operating Payments	(55,347)	(89,189)
Net Cash Provided (Used) by Operating Activities	<u>(3,858,962)</u>	<u>(4,085,316)</u>
 <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>		
State Appropriations - Noncapital	7,435,161	8,967,628
Gifts for Other Than Capital Purposes	938,574	551,780
Agency Receipts	12,817,470	12,815,676
Agency Payments	(12,853,621)	(12,808,408)
Transfer from Governing Board	0	39,163
Net Cash Provided by Noncapital Financing Activities	<u>8,337,584</u>	<u>9,565,839</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Capital Grants and Contracts	216,311	0
Capital Gifts	375,412	27,050
Net Proceeds from Bonds Issued to Refund Capital Debt	0	938,569
Bond Refunding	0	(706,010)
Proceeds from Sale of Capital Assets	3,500	0
Acquisition and Construction of Capital Assets	(3,419,174)	(2,303,694)
Principal Paid on Capital Debt	(1,165,000)	(1,030,310)
Interest on Capital Debt	(674,585)	(764,298)
Bond Arbitrage Rebate	(265,605)	0
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,929,141)</u>	<u>(3,838,693)</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Investment Earnings	170,831	970,539
Net Cash Provided by Investing Activities	<u>170,831</u>	<u>970,539</u>
 Net Increase (Decrease) in Cash	(279,688)	2,612,369
Cash - Beginning of Year	16,769,248	14,156,879
Cash - End of Year	<u>\$16,489,560</u>	<u>\$16,769,248</u>

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

Fort Lewis College
Statements of Cash Flows
For the Year Ended June 30, 2004
With Comparative Figures at June 30, 2003
(Continued)

	<u>2004</u>	<u>2003</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	(\$8,295,354)	(\$11,183,844)
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation Expense	4,304,068	4,122,584
Net increase in other Nonoperating revenues/expenses	63,226	17,512
Noncash Operating Transactions	(15,695)	1,170,849
Change in Assets and Liabilities (Operating Portions):		
Receivables, Net	164,954	77,894
Inventories	1,104	(21,776)
Prepaid Expense	(9,152)	(7,125)
Construction in Progress	13,354	140,282
Accounts Payable	88,419	(470,778)
Accrued Liabilities	(88,112)	2,009,267
Deferred Revenue	(21,654)	(171,556)
Deposits Held for Others	1,922	596
Bonds Payable	0	130,510
Compensated Absence Liabilities	(66,042)	100,269
Net Cash Provided (Used) by Operating Activities	<u><u>(\$3,858,962)</u></u>	<u><u>(\$4,085,316)</u></u>
 <u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u>		
State Capital Contributions	\$711,258	\$5,150,011
Capital Lease Payments Waived	\$65,713	\$0
Donations of Capital Assets	\$59,451	\$0
Loss on Capital Asset Deletions	\$31,111	\$446,129
Bond Refunding Transactions	\$0	\$96,932

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

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GOVERNANCE

Fort Lewis College (the College) is governed by the Board of Trustees for Fort Lewis College (the Board.) The Board is comprised of nine members. Seven members are appointed by the Governor of Colorado for four-year terms. An elected member of the student body of the College serves for a one-year term and an elected member of the faculty of the College serves for two-year terms.

REPORTING ENTITY AND COMPONENT UNIT

Fort Lewis College is an institution of higher education of the State of Colorado. Thus, for financial reporting purposes, the College is included as part of the State of Colorado's primary government. A copy of the State Comprehensive Annual Financial Report may be obtained from the State Controller's Office.

During fiscal years 2004 and 2003, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance for determining whether certain organizations, such as not-for-profit foundations, should be included in the College's financial reporting entity. The College has determined that the Fort Lewis College Foundation (the Foundation) meets the GASB Statement No. 39 criteria for inclusion in the College's financial statements.

The Foundation is a legally separate, tax-exempt component unit of Fort Lewis College. In December, 1969 the Foundation was organized and issued a Certificate of Incorporation under the Colorado Non-Profit Corporation Act. The purposes of the corporation are to "...assist in promoting, developing and enhancing the facilities and programs of Fort Lewis College...." (Per Articles of Incorporation III.) Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities, facilities, and programs of the College by the donors. Because these restricted resources held by the Foundation can only be used for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

The amount transferred from the Foundation to the College, during the fiscal year ended June 30, 2004, for the purposes stated above was \$1,382,076 and for the year ended June 30, 2003 was \$694,839. Complete financial statements for the Foundation can be obtained from the Controller's Office at the College.

As defined by GASB Statement No. 14, the College is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relationship with the College are such that exclusion would cause the College's financial statements to be misleading or incomplete.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING

The College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all FASB pronouncements issued after November 30, 1989, unless the FASB standards conflict with GASB standards. The College has elected not to apply FASB pronouncements issued after the applicable date.

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

Inventories of consumable supplies or goods held for resale are stated at the lower of cost or market, with cost being determined either on the first-in, first-out or average cost method. Consumable inventories are accounted for in accordance with State fiscal rules.

RESTRICTED CASH AND CASH EQUIVALENTS

Cash balances that are externally restricted as endowments, or for bond reserve, replacement, or rebate funds, or to purchase capital or noncurrent assets, are classified as noncurrent assets on the Statement of Net Assets.

CAPITAL ASSETS

Capital assets are recorded at cost for items purchased or at current market value at the date of acquisition for donated items. The College capitalizes equipment costing \$5,000 or more and having a useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 20-40 years for buildings, 20-50 years for improvements other than buildings, 3-10 years for equipment, and 15 years for library materials.

COMPENSATED ABSENCE LIABILITIES

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as compensated absence liabilities in the Statements of Net Assets and as a component of appropriate functional expense categories in the Statements of Revenues, Expenses, and Changes in Net Assets. The current portion of this liability is estimated based on historical trends.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

The College has classified its net assets according to the following criteria:

Invested in Capital Assets, Net of Related Debt – This category represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of this category.

Restricted Net Assets, Nonexpendable – This category consists of endowment funds that are required to be retained in perpetuity.

Restricted Net Assets, Expendable – This category includes resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Assets – Unrestricted Net Assets are those that do not meet the definition of “Restricted” or “Invested in Capital Assets, Net of Related Debt” as described above. Generally, these resources will be derived from student tuition and fees, state appropriations, sales and services of educational activities, and sales and services of certain auxiliary and self-funded activities.

CLASSIFICATION OF REVENUES

The College has classified its revenues as either operating or nonoperating according to the following criteria:

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

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

APPLICATION OF RESTRICTED AND UNRESTRICTED RESOURCES

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

NOTE 2: CASH AND CASH EQUIVALENTS

As of year-end June 30, 2004, the College had \$16,249,103 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office. At year-end, the carrying amount of the College's cash was \$240,457. The cash included petty cash and change funds of \$19,220 and bank deposits of \$221,237. The bank balance of the deposits was \$741,358. Of this bank balance, \$234,335 was covered by federal depository insurance or by collateral held by the institution's agent in the institution's name and \$507,023 was covered by collateral held by the bank or its agent in the State's name.

As of year-end June 30, 2003, the College had \$16,404,625 on deposit with the State Treasurer. On that date, the carrying amount of the College's cash was \$364,623. The cash included petty cash and change funds of \$19,640 and bank deposits of \$344,983. The bank balance of the deposits was \$783,112. Of this bank balance, \$236,988 was covered by federal depository insurance or by collateral held by the institution's agent in the institution's name and \$546,124 was covered by collateral held by the bank or its agent in the State's name.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 2: CASH AND CASH EQUIVALENTS (Continued)

The College deposits cash with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS.) The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The College reports its share of the Treasurer's unrealized gains and losses based on its participation in the State Treasurer's Pool. All of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at June 30, 2004. The State Treasurer does not invest any of the pool resources in any external investment pool, and there is no assignment of income related to participation in the pool. The unrealized gains/losses included in income reflect only the change in fair value during the current fiscal year. Additional information on the Treasurer's pool may be obtained in the State of Colorado's Comprehensive Annual Financial Report.

NOTE 3: FORT LEWIS COLLEGE FOUNDATION CASH AND INVESTMENTS

Under the Foundation's adopted investment policy, investments are identified and allocated using three asset classes. Asset allocation is reviewed at least annually by the Finance Committee. Asset classes include cash and cash equivalents, fixed income securities, and equities. For the years reported herein, cash and cash equivalents consist of demand deposits and money market accounts. Fixed income securities include GNMA pools, other government-back securities individually held and in mutual funds, bonds and bond funds, and preferred stocks. Equities include individual stocks and stock-based mutual funds.

Pooled cash and investments

Pooled cash and investments as of June 30, 2004 and 2003, are summarized as follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost Basis</u>	<u>Market Value</u>	<u>Cost Basis</u>	<u>Market Value</u>
Cash and Cash Equivalents	\$ 242,108	\$ 242,108	\$ 1,198,378	\$ 1,198,378
Marketable Securities				
Fixed Income	5,389,979	5,407,388	4,542,658	4,603,156
Equities	<u>2,842,422</u>	<u>3,073,080</u>	<u>2,555,870</u>	<u>2,376,177</u>
Total pooled cash and investments	<u>\$ 8,474,509</u>	<u>\$ 8,722,576</u>	<u>\$ 8,296,906</u>	<u>\$ 8,177,711</u>

Net unrealized gains of \$367,381 and \$110,696 were recognized on these marketable securities as of June 30, 2004 and 2003, respectively.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 3: FORT LEWIS COLLEGE FOUNDATION CASH AND INVESTMENTS (Continued)

Segregated cash and investments

Segregated cash and investments at June 30, 2004 and 2003 are summarized as follows:

	June 30, 2004		June 30, 2003	
	Cost Basis	Market Value	Cost Basis	Market Value
Title III Funds				
Money Market Funds	\$ 25,229	\$ 25,229	\$ 42,591	\$ 42,591
Fixed Income	308,631	318,014	313,963	321,349
Equities	<u>670,153</u>	<u>757,070</u>	<u>624,965</u>	<u>600,911</u>
Total Title III Funds	1,004,013	1,100,313	981,519	964,851
Gift Annuity Trust				
Money Market Funds	1,000,000	1,000,000	-	-
Schild Fund				
Equities	<u>4,528</u>	<u>8,427</u>	<u>4,265</u>	<u>7,085</u>
Total segregated cash and investments	<u>\$ 2,008,541</u>	<u>\$ 2,108,740</u>	<u>\$ 985,784</u>	<u>\$ 971,936</u>

Net unrealized gains of \$114,047 and \$43,572 were recognized on these marketable securities as of June 30, 2004 and 2003, respectively.

Total cash and investments

Total cash investments at June 30, 2004 and 2003 are summarized as follows:

	June 30, 2004			June 30, 2003		
	Cost Basis	Market Value	% of Total	Cost Basis	Market Value	% of Total
Cash and Cash Equivalents	1,267,337	\$ 1,267,337	12%	\$ 1,240,969	\$ 1,240,969	13%
Marketable Securities						
Fixed Income	5,698,610	5,725,402	53%	4,856,621	4,924,505	54%
Equities	<u>3,517,103</u>	<u>3,838,577</u>	<u>35%</u>	<u>3,185,100</u>	<u>2,984,173</u>	<u>33%</u>
Total	<u>\$ 10,483,050</u>	<u>\$ 10,831,316</u>	<u>100%</u>	<u>\$ 9,282,690</u>	<u>\$ 9,149,647</u>	<u>100%</u>

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 4: ACCOUNTS RECEIVABLE

Accounts Receivable balances are presented net of estimated allowance for doubtful accounts in the accompanying Statements of Net Assets. At June 30, 2004 and 2003 the Accounts Receivable balances are comprised of:

	<u>6/30/2004</u>	<u>6/30/2003</u>
Student Accounts Receivable	\$518,095	\$479,338
Less: Allowance for Doubtful Accounts	(281,282)	(249,349)
Student Accounts Receivable, Net	<u>236,813</u>	<u>229,989</u>
Student Loans Receivable	2,136,038	2,343,204
Less: Allowance for Doubtful Accounts	(77,031)	(86,057)
Student Loans Receivable, Net	<u>2,059,007</u>	<u>2,257,147</u>
Accounts Receivable - Fort Lewis College Foundation	54,406	57,909
Other Accounts Receivable		
Sponsored Programs	395,141	470,691
Vendor Credits	228,305	226,524
Conferences & Summer Programs	145,515	104,202
Other	96,145	32,238
Other Accounts Receivable	<u>865,106</u>	<u>833,655</u>
Total Receivables, Net	<u>\$3,215,332</u>	<u>\$3,378,700</u>

NOTE 5: CAPITAL ASSETS

The college's capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance 6/30/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>Balance 6/30/2004</u>
Land	\$259,875	\$0	\$0	\$0	\$259,875
Land Improvements	12,696,542	56,360	0	3,637,947	16,390,849
Buildings and Improvements	105,508,701	0	0	2,225,424	107,734,125
Construction in Progress	4,998,609	3,691,110	219,452	(5,872,379)	2,597,888
Equipment	4,747,298	588,309	288,867	9,008	5,055,748
Library Materials	2,855,361	80,631	38,565	0	2,897,427
Capitalized Collections	754,380	10,848	3,658	0	761,570
Total	<u>131,820,766</u>	<u>4,427,258</u>	<u>550,542</u>	<u>0</u>	<u>135,697,482</u>
Less Accumulated Depreciation:					
Land Improvements	3,551,774	521,545	0		4,073,319
Buildings and Improvements	27,810,051	3,273,992	0		31,084,043
Equipment	3,639,789	409,168	243,810		3,805,147
Library Materials	2,118,922	99,362	38,565		2,179,719
Total Accumulated Depreciation	<u>37,120,536</u>	<u>4,304,067</u>	<u>282,375</u>	<u>0</u>	<u>41,142,228</u>
Capital Assets, Net	<u>\$94,700,230</u>	<u>\$123,191</u>	<u>\$268,167</u>	<u>\$0</u>	<u>\$94,555,254</u>

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 6: FORT LEWIS COLLEGE FOUNDATION TANGIBLE ASSETS

Tangible assets include gifts-in-kind and purchased items held by the Foundation. Included in real estate are two condominiums which the Foundation is depreciating over a period of forty years using the straight-line method.

During the year ended June 30, 2003, the Foundation sold two condominiums near Durango, Colorado at a total loss of \$17,203. The Foundation also sold a vacant lot in Montrose, Colorado and a condominium in Arizona at a combined total gain of \$94,096.

At June 30, 2004 and 2003, tangible assets are comprised of the following:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>
Gifts-in-kind				
Real estate	\$ 81,500	\$ 392,000	\$ 81,500	\$ 392,000
Accumulated depreciation	(27,658)	(14,146)	(25,920)	(12,396)
Equipment and other	5,920	-	5,920	-
Collection items	<u>3,634,919</u>	<u>-</u>	<u>3,614,924</u>	<u>-</u>
Total gifts-in-kind	<u>3,694,681</u>	<u>377,854</u>	<u>3,676,424</u>	<u>379,604</u>
Purchased assets				
Real estate	339,770	-	-	-
Collection items	88,400	-	88,400	-
Concert piano	<u>73,900</u>	<u>-</u>	<u>73,900</u>	<u>-</u>
Total purchased assets	<u>502,070</u>	<u>-</u>	<u>162,300</u>	<u>-</u>
Total tangible assets	<u>\$ 4,196,751</u>	<u>\$ 377,854</u>	<u>\$ 3,838,724</u>	<u>\$ 379,604</u>

The Foundation's collections are made up of artifacts of historical significance and art objects that are held for educational, research, and curatorial purposes. Each of the items is cataloged, preserved, and cared for by Fort Lewis College staff, and activities verifying their existence and assessing their condition are performed continuously.

NOTE 7: ACCRUED LIABILITIES

At June 30, 2004 and 2003, the Accrued Liabilities balances, as presented on the Statements of Net Assets, are comprised of:

	<u>6/30/2004</u>	<u>6/30/2003</u>
Accrued Payroll & Benefits	\$3,801,264	\$3,895,472
Bond Arbitrage Liability	0	254,278
Accrued Interest Payable	171,626	181,786
Contractor Retainage	118,064	55,398
Other Liabilities	39,344	25,422
Total	<u>\$4,130,298</u>	<u>\$4,412,356</u>

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 8: LONG-TERM LIABILITIES

The College's Long-Term Liability activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>6/30/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2004</u>	<u>Current</u> <u>Portion</u>
Bonds and Leases Payable:					
Revenue Bonds	\$16,835,472	\$0	\$1,135,566	\$15,699,906	\$1,175,000
Lease Obligations	217,850	0	60,133	157,717	61,914
Total Bonds and Leases Payable	<u>17,053,322</u>	<u>0</u>	<u>1,195,699</u>	<u>15,857,623</u>	<u>1,236,914</u>
Other Liabilities:					
Compensated Absences	1,469,512	133,301	199,343	1,403,470	150,813
Other	86,037	0	18,268	67,769	20,277
Total Other Liabilities	<u>1,555,549</u>	<u>133,301</u>	<u>217,611</u>	<u>1,471,239</u>	<u>171,090</u>
 Total Long-Term Liabilities	 <u>\$18,608,871</u>	 <u>\$133,301</u>	 <u>\$1,413,310</u>	 <u>\$17,328,862</u>	 <u>\$1,408,004</u>

NOTE 9: BONDS PAYABLE

As of June 30, 2004 and 2003, the College has revenue bonds payable of \$15,825,000 (less unamortized deferred costs of \$125,094) and \$16,990,000 (less unamortized deferred costs of \$154,528) respectively. For those wishing further information, the College issues a separate report on revenue bond obligations and the operations supporting them. Principal and interest are payable solely from certain student fees and net revenues from operations supporting them. The revenue bonds bear interest at rates ranging from 2.0% to 5.0%, payable semi-annually, and are serial obligations that mature annually with a final payment due October 1, 2019. Funds sufficient to meet all reserve requirements have been placed in replacement and reserve funds. All earnings requirements were satisfied.

Required bond payments to maturity are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u> 2005	\$1,175,000	\$642,365	\$1,817,365
2006	1,210,000	609,065	1,819,065
2007	1,250,000	573,393	1,823,393
2008	1,270,000	534,444	1,804,444
2009	1,310,000	483,279	1,793,279
2010-2014	6,875,000	1,402,469	8,277,469
2015-2019	2,055,000	428,118	2,483,118
2020	680,000	17,000	697,000
Total	<u>\$15,825,000</u>	<u>\$4,690,133</u>	<u>\$20,515,133</u>

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 10: DEBT REFUNDING

Revenue Bonds - Series 1985

On September 30, 1985, the College issued the Auxiliary Facilities Acquisition and Refunding Revenue Bonds in the amount of \$7,490,000 for the purpose of obtaining capital for construction projects and refunding the College's existing debt as listed below:

- Refunding and Improvement Revenue Bonds, Series 4-01-63
- Housing System Revenue Bonds of 1966, Series A-D
- Revenue Bonds, Series 4-01-67
- Dormitory Renovation and Construction Revenue Bonds, Series 1973
- Housing System Revenue Bonds, Series 1978
- Dormitory Lease Participation Certificates, 6-01-83

The outstanding debt refunded was in the amount of \$7,998,000 and was accomplished by depositing in an escrow account a portion of the net proceeds of the new bond issue an amount fully sufficient, together with known minimum yield from investment of such monies, to pay principal, interest, and any redemption premium on the refunded issues. The balance of debt outstanding on the refunded issues at June 30, 2004, was \$2,601,000.

Revenue Bonds - Series 1998A

On September 1, 1998, the College issued the Auxiliary Facilities Enterprise Refunding Revenue Bonds, Series 1998A in the amount of \$5,130,000 for the purpose of refunding a portion of the College's existing Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1992. The outstanding debt refunded was in the amount of \$4,570,000 and was accomplished by depositing in an escrow account the net proceeds of the new bond issue and a portion of the 1992 Bond Reserve Fund to provide for all future payments on the refunded 1992 bonds. The balance of debt outstanding on the refunded bonds at June 30, 2004 was \$4,570,000. Interest payments have been made annually. The initial principal payment is due October 1, 2008.

FORT LEWIS COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004 AND 2003

NOTE 11: LEASE PURCHASE AGREEMENTS

In June, 1998, the College entered into a Lease/Purchase Agreement with the Fort Lewis College Foundation for the acquisition of a modular building for the principal amount of \$441,329 with payments to be made through October, 2006 with a variable interest rate. The variable rate is determined annually as the Prime Interest rate less 1.5 percent.

The following is a schedule by years of future minimum lease payments for the Fort Lewis College projects with the present value of the net minimum lease payments to their maturity.

Year Ending	
June 30:	
2005	\$65,472
2006	65,472
2007	<u>32,737</u>
Total remaining minimum	
lease payments	163,681
Less: interest	<u>5,963</u>
Present value of net payments	<u>\$157,718</u>
 Schedule of Leased Assets:	
Modular Building	\$441,329

NOTE 12: OPERATING LEASES

Certain equipment is being leased by the College under operating leases. The following is a schedule of all future minimum rental payments due on operating leases:

Year Ending June 30:	
2005	\$109,238
2006	22,523
2007	7,460
2008	<u>622</u>
Total	<u>\$139,843</u>

Rent expense for the year ended June 30, 2004 and 2003 was \$114,264 and \$129,083 respectively.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 13: ENCUMBRANCES

Outstanding purchase commitments not reflected in the financial statements at June 30, 2004 and 2003 are as follows:

	<u>6/30/04</u>	<u>6/30/03</u>
Education and General	\$168,247	\$127,481
Auxiliary Enterprises	265,967	555,995
Restricted Funds	115,011	7,199
Plant Funds	<u>24,407</u>	<u>26,921</u>
Total	<u>\$573,632</u>	<u>\$717,596</u>

NOTE 14: SCHOLARSHIP ALLOWANCE

Tuition, fees, auxiliary revenue, and the related scholarship allowances for the year ended June 30, 2003 and 2002 were as follows:

	Tuition and <u>Fees</u>	Auxiliary <u>Revenue</u>	6/30/04 <u>Total</u>	6/30/03 <u>Total</u>
Gross Revenue	\$23,173,840	\$12,048,766	\$35,222,606	\$34,755,308
Scholarship Allowances:				
Federal	(1,980,385)	(507,283)	(2,487,668)	(2,415,412)
State	(7,033,323)	(144,322)	(7,177,645)	(6,920,742)
Private	(315,895)	(80,917)	(396,812)	(187,605)
Institutional	(836,011)	(214,147)	(1,050,158)	(1,052,727)
Total Scholarship Allowances	<u>(10,165,614)</u>	<u>(946,669)</u>	<u>(11,112,283)</u>	<u>(10,576,486)</u>
Net Revenue	<u>\$13,008,226</u>	<u>\$11,102,097</u>	<u>\$24,110,323</u>	<u>\$24,178,822</u>

NOTE 15: EMPLOYMENT BENEFITS

Employees of the College participate in one of three retirement plans. Eligible student employees participate in a student retirement plan that is funded solely by contributions from the student employees. All other eligible employees of the College participate in either the PERA plan or an optional defined contribution plan.

The College's total payroll for the fiscal year ended June 30, 2004 and 2003 was and \$24,134,202 and \$25,136,543 respectively. The total payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was \$11,894,020, \$8,932,344, and \$393,278 respectively for June 30, 2004 and \$13,451,205, \$8,905,979, and \$372,077 respectively for June 30, 2003. The remaining employees were not eligible for participation in any of the College's plans.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 15: EMPLOYMENT BENEFITS (Continued)

PERA Defined Benefit Pension Plan

Plan Description - A portion of the College employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by the Public Employees' Retirement Association (PERA.) PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado 80203, by calling PERA at 303-832-9550 or 1-800-729-7372, or by visiting WWW.COPERA.ORG.

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

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

Funding Policy - College employees contribute 8.0 percent of their gross covered wages to an individual account in the plan.

During Fiscal Year 03-04, the College contributed 10.15 percent of the employee's gross covered wages. Effective January 1, 2003, 1.1 percent of the total contribution was allocated to the Health Care Trust Fund. Through May 31, 2004, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see below.) The balance remaining after allocations to the Matchmaker Program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The College's total contributions to PERA for the fiscal years ending June 30, 2004, 2003, and 2002 were \$1,207,243, \$1,350,501, and \$1,361,168 respectively. These contributions met the contribution requirement for each year.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 15: EMPLOYMENT BENEFITS (Continued)

PERA Matchmaker Program

Beginning on January 1, 2001, the Matchmaker Program established a College match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. For calendar year 2003, the match was 100 percent of up to 2 percent of employee's gross covered wages paid during the month. For calendar year 2004, through May 31, 2004, the match was 100 percent of up to 1 percent of employee's gross covered wages paid during the month. The PERA Board sets the level of the match with two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to one percent, and therefore, the match changed from 2 percent to 1 percent on January 1, 2004. Legislation passed in the 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are one hundred ten percent of actuarially accrued plan liabilities. PERA offers a voluntary 401K plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and the College offers a 403b plan. Members who contribute to any of these plans also receive the College match.

Optional Defined Contribution Plan

Certain full time faculty and professional staff of the College participate in an optional defined contribution plan as an alternative to PERA. Two vendor choices are offered through the defined contribution plan; Teachers Insurance Annuity Association (TIAA) and Variable Annuity Insurance Corporation (VALIC). The College's aggregate contribution to the above two vendors was equal to 11.4 percent of covered payroll or \$1,018,287 for the fiscal year ended June 30, 2004 and \$1,015,282 for the fiscal year ended June 30, 2003. The employee aggregate contribution to the above two vendors was equal to 8.0 percent of covered payroll or \$714,588 for the fiscal year ended June 30, 2004 and \$712,478 for the fiscal year ended June 30, 2003.

Student Employee Retirement Program

Eligible student employees contribute 7.5% of covered payroll to the student retirement program. All contributions are invested with one vendor, Teachers Insurance Annuity Association. The contribution by student employees for the fiscal year ended June 30, 2004 and 2003 was \$29,496 and \$27,906 respectively. The College is not liable for any matching contributions to the student retirement program.

Health Insurance Programs

The College's contribution to the various health insurance programs for the fiscal year ended June 30, 2004 and 2003 was \$1,560,283 and \$1,523,512 respectively.

FORT LEWIS COLLEGE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

NOTE 16: POST-EMPLOYMENT BENEFITS

PERA Post-Employment Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During Fiscal Year 03-04, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230 for members under age 65 and not eligible for Medicare), and it was reduced by 5 percent for each year of service fewer than 20. The Health Care Trust Fund is maintained by an employer's contribution as discussed in Note 15.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans, and with several health maintenance organizations providing services within Colorado. As of December 31, 2003 there were 37,067 enrollees in the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential Insurance Company and Anthem Life (formerly know as Rocky Mountain Life Insurance Company.) Members may join one or both plans, and they may continue coverage into retirement. Premiums are collected monthly by payroll deduction or other means.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Contracts have been entered into for the purpose of planning, constructing, or equipping certain building or land improvements with outstanding amounts totaling \$769,981 as of June 30, 2004. These improvements will be funded by appropriations from the State, revenue bonds, or internal transfers of funds. The amount of state capital appropriations unexpended was \$46,547 as of June 30, 2004.

The College receives significant amounts from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed amounts resulting from such audits could become a liability of the College. However, College management believes that any such disallowed amounts will not have a material adverse effect on any of the financial statements or on the overall financial position of the College at June 30, 2004.

The College is insured by the State of Colorado self-insurance program for liability, property, and workers compensation insurance.

NOTE 18: PRIOR YEAR RESTATEMENT

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

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

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the financial statements of Fort Lewis College, a blended component unit of the State of Colorado, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 9, 2004. We did not audit the financial statements of Fort Lewis College Foundation, a component unit, which statements reflect total assets of \$16 million and \$14 million as of June 30, 2004 and 2003, respectively, and total revenues, gains and other support of \$4 million and \$3 million for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Fort Lewis College Foundation is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Fort Lewis College Foundation were not audited in accordance with the *Government Auditing Standards*.

Compliance

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

Internal Control Over Financial Reporting

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

Wall, Smith, Bateman and Associates, Inc.

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.
Certified Public Accountants

September 9, 2004

September 9, 2004

Members of the Legislative Audit Committee
Denver, CO

We have audited the financial statements of Fort Lewis College for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 9, 2004. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated June 22, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fort Lewis College are described in Note 1 to the financial statements. For the fiscal years ended June 30, 2004 and 2003 the College appropriately implemented GASB 39, *Determining Whether Certain Organizations are Component Units*. We noted no transactions entered into by Fort Lewis College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no adjustments arising from the audit.

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit

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

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

FORT LEWIS COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2004

Introduction

Fort Lewis College is a state-supported institution of higher education located in Durango, Colorado.

The financial and compliance examination of the various state-funded student assistance programs at the College for the year ended June 30, 2004, was directed toward the objectives and criteria set forth in the Colorado Handbook for State-Funded Student Assistance Programs, issued by the Colorado Commission on Higher Education (CCHE). The State student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2004.

State-Funded Student Assistance Programs

The various state-funded student assistance programs at the College include the Colorado Student Grant Program, Colorado Work Study Program, Undergraduate Merit Award Program, Perkins Student Loan Matching Program, Diversity Grant Program, Governor's Opportunity Scholarship, CLEAP and SLEAP.

The state-funded student assistance awards made by the College were \$1,245,000 and \$1,478,000 for the fiscal years ended 2004 and 2003, respectively. In addition, total state-funded matching funds of \$10,300 during fiscal year 2004 and \$10,300 for fiscal year 2003 were transferred to the Perkins Student Loan Fund.

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

During the audit period Fort Lewis College obtained authorizations to award federal student financial aid funds of \$3,205,000 in the Pell Grant Program, \$325,000 in the Supplemental Educational Opportunity Grant Program, \$210,000 in the College Work-Study Program and \$482,000 in the Perkins Student Loan Program.

During the audit period Fort Lewis College obtained authorizations to award Colorado student financial aid funds of \$47,000 in the CLEAP and SLEAP Programs, \$515,000 in the Student Grant Program, \$251,000 in the Colorado Work Study Program, \$143,000 in the Merit Award Program, \$80,000 in the Diversity Grant Program, and \$198,000 in the Governor's Opportunity Scholarship.

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

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the accompanying Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Assistance Programs for Fort Lewis College for the year ended June 30, 2004. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The statements were prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2004 revision. The statements are a summary of cash activity of the state-funded student financial assistance programs with the exception of the College Work-Study Program and the Perkins Loan Program, and do not present certain transactions that would be included in the statements of the state-funded student financial assistance programs if presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statements are not intended to present the financial position or changes in financial position of Fort Lewis College in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the statements referred to above present fairly the appropriations, expenditures, transfers, and reversions of the state-funded student assistance programs of Fort Lewis College, in all material respects, for the year ended June 30, 2004, in conformity with the provisions of the Colorado Commission of Higher Education's *Colorado Handbook for State-Funded Student Financial Assistance Programs*.

Members of Legislative Audit Committee
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In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004 on our consideration of Fort Lewis College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Certified Public Accountants

September 9, 2004

FORT LEWIS COLLEGE
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS, AND REVERSIONS
FISCAL YEAR ENDED JUNE 30, 2004

	Total Colorado Financial Aid	Student Grant Program	Work Study Program	Undergraduate Merit Award Program	Perkins Loan Match	Diversity Grant Program	Governor's Opportunity Scholarship	CLEAP	SLEAP
Appropriations:									
Original	1,267,069	\$594,928	\$244,831	\$143,349	\$10,346	\$0	\$226,610	\$6,835	\$40,170
Supplementals	(21,874)		6,429				(28,303)		
Transfers	0	(80,146)				80,146			
Totals	1,245,195	514,782	251,260	143,349	10,346	80,146	198,307	6,835	40,170
Expenditures	1,245,195	514,782	251,260	143,349	10,346	80,146	198,307	6,835	40,170
Reversion to State	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

**FORT LEWIS COLLEGE
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND NOTES TO STATEMENT OF APPROPRIATIONS,
EXPENDITURES,
TRANSFERS AND REVERSIONS**

Basis of Accounting

The accounting systems of Fort Lewis College are structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Officers in its revised publication *Financial Accounting and Reporting Manual*.

All student aid is expensed on a cash basis except for the Perkins Loan Program and the College Work-Study Program. Perkins Student Loans are recorded as loans receivable when the funds are disbursed. College Work-Study is on the accrual basis in that the expense is recognized when the services are performed.

Note A

Colorado Student Incentive Grants comprise equal portions of federal and nonfederal funds. The amount shown is the combined total.

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