Performance Evaluation of Western State Colorado University

Prepared for the Colorado Office of the State Auditor

January 31, 2017

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January 31, 2017

Members of the Legislative Audit Committee:

This report contains the results of a performance evaluation of Western State Colorado 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 Western State Colorado 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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Western State Colorado University **Performance Evaluation, February 2017**

OVERALL CONCLUSION

In recent years, Western has demonstrated healthy operating cash flow margins before factoring in interest and depreciation expenses. However, depreciation expenses (and the related capital renewal and replacement needs) and debt service requirements present a significant financial burden for the University to carry. Western's strategic priorities are focused on enrollment growth, which is a critical factor in Western's ability to improve its financial position, as well as building the operational capacity and physical infrastructure needed to achieve this growth.

KEY FACTS AND CONCLUSIONS

- Western generated between $3 and $5 million per year in operating cash flows before depreciation and interest during fiscal years 2013 through 2015. However, the University's debt service requirements, net of a federal interest subsidy, totaled about $5 million per year, thereby offsetting the positive cash flows from operations. Given its recent capital-intensive growth strategy and increased debt burden, Western cannot afford additional, large, debt-financed capital investments. Western needs to increase operating cash flows by $2 to $3 million above fiscal year 2015 levels to cover its debt service burden and capital renewal needs.
- Between fiscal years 2009 and 2015, Western incurred capital expenditures totaling $114.5 million, which were funded almost entirely by state capital appropriations, capital grants, and debt proceeds. Western's capital investments over the last several years have created a refreshed and renewed physical infrastructure with the capacity to support the growth of undergraduate enrollment by approximately 500 student FTE without additional significant capital expenditures and infrastructure costs.
- Western's net tuition revenue per full-time student FTE was about $6,817 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 Western's financial challenges.
- Western's 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 initiatives appear to target and build upon areas of programmatic and geographic strengths. However, in pursuing these initiatives, Western 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 1901, Western State Colorado University (Western or University) is a public institution of higher education located in Gunnison, Colorado. Western offers undergraduate liberal arts and sciences and professional degree programs, basic skills courses, and a limited number of graduate programs.

Western enrolled approximately 2,149 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 75% of Western's undergraduate students and nearly 80% of its graduate students are Colorado residents.

In fiscal year 2015, Western's revenues totaled approximately $45.4 million, and its expenses, net of a federal interest subsidy, totaled approximately $47.5 million. During fiscal year 2015, Western employed about 295 faculty and staff full-time equivalent positions.

Western 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 1901 and located in Gunnison, Colorado, Western State Colorado University (Western or University), formerly named Western State College, is a public institution of higher education. State statute [Section 23-56-101, et seq., C.R.S.] provides that Western shall: (1) be a general baccalaureate institution with selective admission standards; (2) offer undergraduate liberal arts and sciences and professional degree programs, basic skills courses, and a limited number of graduate programs; and (3) serve as a regional education provider.

Student Enrollment, Faculty, and Staff Positions

Occupying a campus size of approximately 350 acres and 29 buildings, Western enrolled approximately 2,149 full-time equivalent undergraduate and graduate students (student FTE) for academic year 2014-2015. Approximately 75% of Western's undergraduate students and nearly 80% of its graduate students are Colorado residents. During fiscal year 2015, Western employed about 295 faculty and staff full-time equivalent (FTE) positions. We provide additional analysis of Western's student enrollment in Chapter 2.

Revenues and Expenses

In fiscal year 2015, Western's revenues, including operating revenues, non-operating revenues, and capital contributions, totaled approximately $45.4 million. Western's expenses, including operating and non-operating expenses net of a federal interest subsidy, totaled approximately $47.5 million. We provide additional analysis of Western's 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 percent of the revenue per resident student FTE in fiscal year 2001. After adjusting for inflation, the State General Fund provided about 37 percent 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 Western for COF stipends and fee-for-service contracts totaled $10.6 million, which was about 25 percent of Western's total adjusted operating revenues. In fiscal year 2016, state funding appropriated to Western for COF stipends and fee-for-service contracts totaled $11.7 million, an increase of about 10 percent from the prior year.

Western 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, Western's state-funded capital appropriations totaled about $28.6 million for the five-year period from fiscal year 2013 through fiscal year 2017, the majority of which was for a major renovation of the Quigley Hall art and music building. We provide more discussion of Western's 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, Western 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 to Western declined by 24% from $12.2 million in fiscal year 2010 to $9.3 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, Western established a Financial Accountability Plan, which was approved by its Board of Trustees and CCHE. Western's Financial Accountability Plan relied on a combination of expenditure reductions, enrollment growth, reserve use, and tuition increases to ease the University's transition to lower levels of state support.

University Foundation

The Western State Colorado 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, Western reports that it received approximately $1.7 million directly from the Foundation and $1.4 million indirectly via payments on its behalf (e.g., fundraising and marketing expenses). 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 Western's 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

Western 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 who serves a two-year term. 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 largely decentralized, and individual governing boards have substantial independent authority over the management of their respective institutions. However, CCHE is the central policy and coordinating entity for Colorado's system of public higher education [Section 23-1-101, et seq., C.R.S.]. CCHE and the Department of Higher Education, which is the administrative home of and provides staff support for CCHE, oversee and approve core budgeting and financing matters for public institutions of higher education, including Western, 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 Western's 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 Western's audited financial statements for the last several fiscal years. The OSA used this performance evaluation to provide a more in-depth analysis of Western's 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 identify solutions to financial, operational, and strategic challenges.

Specifically, the objectives of this evaluation were to assess:

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

The scope of this evaluation focused solely on institution-specific decisions and the immediate context of Western's 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 Western State Colorado 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 Western's 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 Western's leadership and consider the impact of those changes when assessing performance trends and forming our conclusions.

Western's 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 Western's 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 Western's 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 predominantly 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. Western offers small master's degree programs for which graduate student enrollment totaled 208 student FTEs for the 2014-15 academic year. Accordingly, the peer set includes universities with small master's degree programs, as well as baccalaureate colleges with diverse fields and baccalaureate colleges with an arts and science focus. Exhibit 1 shows the list of Western's peer institutions that were identified and agreed upon by Western's leadership team through this process and used in our analyses in Chapter 2.

Exhibit 1: List of Peer Institutions
Western State Colorado University

University	Undergraduate Student FTE Enrollment (2013-14)	Graduate Student FTE Enrollment (2013-14)	Total Operating Expenses (FY2014)	Undergraduate Acceptance Rate (Fall 2014)
Western State Colorado University, CO	1,925	171	$ 44,437,286	97%
Black Hills State University, SD	2,934	240	$ 49,964,926	94%
Concord University, WV	2,430	223	$ 39,098,534	38%
Elizabeth City State University, NC	2,323	52	$ 74,328,813	49%
Fort Lewis College, CO	3,634	14	$ 70,967,229	91%
Lander University, SC	2,632	72	$ 47,981,105	58%
Mansfield University, PA	2,611	119	$ 64,076,831	91%
New College of Florida, FL	896	-	$ 35,097,114	60%
West Liberty University, WV	2,380	171	$ 40,250,930	72%

Source: Huron's analysis of IPEDS data.
Note: As reported in the IPEDS data, operating expenses include gross interest expense and do not include an adjustment to net any federal interest subsidies against interest expense.

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Chapter 2 – Assessment of Western State Colorado University

This chapter outlines the results of Huron Consulting Group's (Huron) financial, operational, and strategic assessments of Western State Colorado University (Western or University). Overall, Huron's analysis shows that Western generates positive operating cash flows that are a source of financial strength for the University. Positive trends in Western's financial data since fiscal year 2012, in particular, demonstrate that progress is being made. Western has also made significant capital investments to address specific deferred maintenance issues and build new infrastructure that University leaders believe to be critical to recruit and retain students. The effect of these investments has been that Western's debt service requirements and depreciation expenses have grown substantially, using up existing operating cash flows and leaving little for internally-funded capital needs or strategic initiatives. Using fiscal year 2015 as a baseline, Huron estimates that Western needs to increase operating cash flows by $2 to $3 million above fiscal year 2015 levels to maintain positive financial ratios given the University's significant debt burden and capital renewal needs. For fiscal year 2016, Western reported a $2.3 million increase in operating cash flows before depreciation and interest, which indicates notable progress toward financial stability. Western's strategic priorities are focused on enrollment growth as the critical factor for increasing revenues and on building the operational capacity to achieve this growth. For example, the University's capital investments over the last several years have resulted in a physical capacity to grow undergraduate enrollment by approximately 500 student FTE. Western's ongoing strategic challenge will be to translate its brand identity and value into enrollment growth and increased retention, thereby increasing revenue, without an equal increase in cost.

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 Western's 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 was focused on assessing Western's financial activity (i.e., revenues and expenses) and, except where specifically noted, our analysis excludes the financial activity of the Western State Colorado 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 Western's 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 Western's financial operations, Huron reclassified financial data to account for revenues and expenses that are categorized as non-operating amounts in Western's 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
- 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 and Qualified Energy Conservation 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 Western's 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 Western's 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 Western maintained annual operating cash flow surpluses before depreciation and interest in four of the past five years. After a decline in fiscal year 2012, the financial results of Western's operating activities have improved each year since. *Before* state fee-for-service revenues and state fiscal stabilization revenues, Western's operating cash flow deficits improved in recent years resulting in deficits declining from $7.7 million in fiscal year 2012 to $2.2 million in fiscal year 2015. Further, *after* state support, operating cash flow surpluses before depreciation and interest increased in each of the past four years rising from a deficit of $0.7 million in fiscal year 2012 to nearly $5.5 million in fiscal year 2015. These operating cash flows, as summarized in Exhibit 2, exclude operating activities within the Foundation.

In addition to operating cash flows before depreciation and interest expenses, the University recognized revenues from state appropriations for capital. Offsetting those amounts each year were outflows of cash and investments for capital expenditures and for debt service (principal and interest) payments, net of a federal interest subsidy. The net effect of these activities resulted in annual increases or decreases in cash and investments as reflected in the exhibit.

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

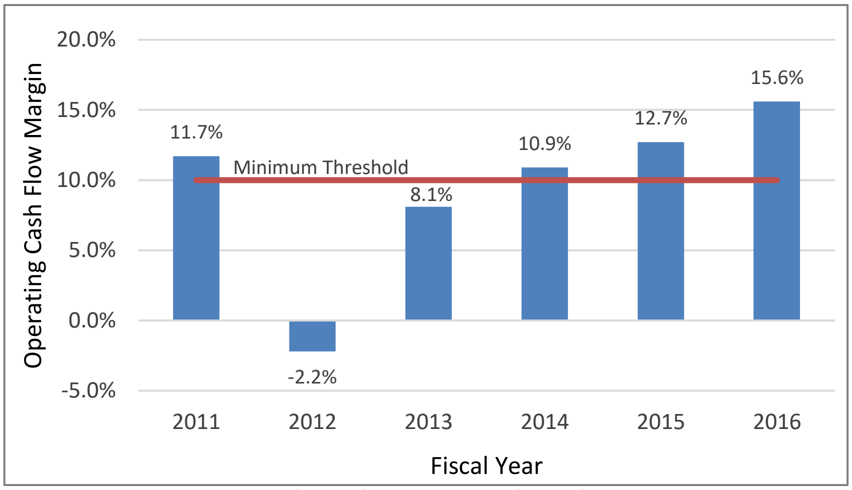
(in millions)	2011	2012	2013	2014	2015
Operating revenues, before state support	$ 24.3	$ 23.2	$ 25.7	$ 29.7	$ 32.8
Add: Pell Grant revenue and investment income	2.4	2.4	2.3	2.8	2.7
Less: Operating expenses, before depreciation and interest	(31.3)	(33.3)	(32.1)	(35.2)	(37.6)
Operating cash flow before depreciation expense, interest expense, state fee-for-service revenue, and state fiscal stabilization revenue[1]	**(4.6)**	**(7.7)**	**(4.1)**	**(2.8)**	**(2.2)**
Add: State fee-for-service revenue and state fiscal stabilization revenue[1]	8.8	7.0	7.0	7.1	7.6
Operating cash flow before depreciation and interest expenses	**4.2**	**(0.7)**	**2.8**	**4.3**	**5.5**
Operating cash flow margin	**11.7%**	**-2.2%**	**8.1%**	**10.9%**	**12.7%**
Add: State appropriations for capital	17.0	2.2	0.3	0.4	2.3
Less: Capital expenditures (including remaining spend-down of debt proceeds totaling $78 million in fiscal years 2009 and 2010)	(22.9)	(21.9)	(25.2)	(11.3)	(1.9)
Less: Principal and interest payments, net of federal interest subsidy[2]	(0.5)	(0.8)	(2.2)	(3.4)	(4.9)
Other activity and changes in working capital	(0.6)	(0.2)	(0.1)	0.5	(0.1)
Increase (decrease) in cash and investments	**$ (2.8)**	**$ (21.4)**	**$ (24.4)**	**$ (9.5)**	**$ 0.9**

Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: Totals may vary due to rounding.
[1]State 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.
[2]Federal interest subsidies for Build America Bonds and Qualified Energy Conservation Bonds averaged $1.2 million per year during fiscal years 2011 through 2015.

As noted previously, Western experienced a decline in operating cash flows in fiscal year 2012. This decline occurred due to several factors, including the following: (1) a drop in undergraduate enrollment, which led to declines in tuition revenues, College Opportunity Fund (COF) stipends, fees, and auxiliary (e.g., dining and housing) revenues; (2) a $1.8 million decline resulting from reductions in state fee-for-service revenue and the elimination of state fiscal stabilization funding; and (3) a $1.9 million increase in costs for the operation and maintenance of plant facilities. However, Western's operating cash flows, before and after state support, have improved each year since fiscal year 2012. Data from Western's recently released fiscal year 2016 audited financial statements (not shown in Exhibit 2) show a continuation of this positive trend.

Exhibit 3 shows that Western's operating activities resulted in operating cash flow margins (as a percentage of revenues) greater than 8% for each of the past six fiscal years except for fiscal year 2012. Specifically, Western's operating cash flow margin has improved significantly from a deficit of 2.2% in fiscal year 2012 to a high of 15.6% in fiscal year 2016, which is well above the 10% minimum threshold.

Exhibit 3: Operating Cash Flow Margin
Western State Colorado University
Fiscal Years 2011-2016



Source: Huron's analysis of data from Western State Colorado 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 accrual-based operating results. The adjusted operating margin should be above 0% to indicate that the University's revenues exceed its accrued expenses.

Overall, Western's adjusted operating margins have been affected by decisions to invest $114.5 million into its physical plant between fiscal years 2009 and 2015, of which $78.3 million, or 68%, was funded with debt proceeds from bond issuances in fiscal years 2009 and 2010. These capital investments and debt issuances increased depreciation and interest expenses. Specifically, as shown in Exhibit 4, the University's total adjusted operating expenses increased from $36.3 million in fiscal year 2011 to $47.4 million in fiscal year 2015, an increase of about 31%, driven largely by large increases in depreciation expense and net interest expense. Western's adjusted operating results (i.e., adjusted operating revenues minus adjusted operating expenses) grew from a deficit of $0.8 million in fiscal year 2011 to a deficit of $4.0 million in fiscal year 2013. The deficit then stabilized at about negative $4 million in each of fiscal years 2013, 2014, and 2015. Western's recently released fiscal year 2016 audited financial statements indicate a slight improvement to a deficit of negative $3 million (not shown in Exhibit 3).

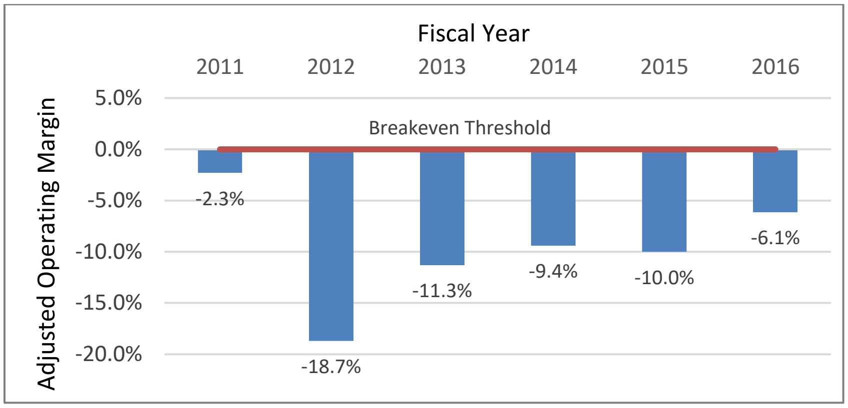
Exhibit 4: Adjusted Operating Results
Western State Colorado University
Fiscal Years 2011-2015

(in millions)	2011	2012	2013	2014	2015
Operating revenues, before state support	$ 24.3	$ 23.2	$ 25.7	$ 29.7	$ 32.8
Add: State fee-for-service revenue and state fiscal stabilization revenue[1]	8.8	7.0	7.0	7.1	7.6
Add: Pell Grant revenue and investment income	2.4	2.4	2.3	2.8	2.7
Adjusted operating revenues	**35.5**	**32.6**	**35.0**	**39.6**	**43.1**
Operating expenses, before depreciation and interest	31.3	33.3	32.1	35.2	37.6
Add: Depreciation expense	4.6	5.1	5.4	5.4	5.7
Add: Interest expense, net of federal interest subsidy[2]	0.4	0.3	1.4	2.7	4.1
Adjusted operating expenses	**36.3**	**38.7**	**38.9**	**43.3**	**47.4**
Adjusted operating results	**(0.8)**	**(6.1)**	**(4.0)**	**(3.7)**	**(4.3)**
Adjusted operating margin	**-2.3%**	**-18.7%**	**-11.3%**	**-9.4%**	**-10.0%**

Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: Totals may vary due to rounding.
[1]State 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.
[2]Federal interest subsidies for Build America Bonds and Qualified Energy Conservation Bonds averaged $1.2 million per year during fiscal years 2011 through 2015.

Exhibit 5 shows that Western has consistently reported negative adjusted operating margins (as a percentage of adjusted operating revenues), including margins ranging between negative 9.4% and negative 11.3% in fiscal years 2013, 2014, and 2015. Western's recently released fiscal year 2016 audited financial statements show that this margin improved to negative 6.1%; 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
Western State Colorado University
Fiscal Years 2011-2016



Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: The Adjusted Operating Margin is calculated as adjusted operating results *after* depreciation and net interest divided by 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, Western experienced a large increase in total net assets in fiscal year 2011 resulting from state capital appropriations. Subsequently, in fiscal years 2012 through 2015, Western's total change in net position and resulting annual returns on total net assets were negative primarily due to the University's operating deficits.

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

(in millions)	2011	2012	2013	2014	2015
Total change in net position	$ 15.8	$ (4.6)	$ (3.8)	$ (3.5)	$ (2.1)
Adjusted beginning net position[1]	$ 47.6	$ 63.4	$ 58.0	$ 54.2	$ 50.7
Return on total net assets	**33.1%**	**-7.2%**	**-6.5%**	**-6.5%**	**-4.2%**

Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: Totals may vary due to rounding.
[1]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 Western's 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 $0.8 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, Western 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, Western's primary reserve ratio declined in fiscal year 2012 and has been somewhat stable between 0.21 and 0.29 since that time. Expendable financial resources, as used in the calculation of this ratio, exclude the University's net investment in capital assets. Although Western needs to increase operating cash flows to support the burden of new and expanded capital facilities and related debt, its operating activity has been adequate to maintain stable expendable financial resources, resulting in a stable primary reserve ratio since fiscal year 2012.

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

Financial Ratio	2011	2012	2013	2014	2015
Primary Reserve Ratio (Expendable Financial Resources to Operations)	0.39	0.21	0.29	0.29	0.26

Source: Huron's analysis of data from Western State Colorado 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, Western's viability ratio has remained somewhat stable at low levels since fiscal year 2011 (excluding the one-time effect of the GASB adjustment referenced earlier). This ratio indicates that Western is a highly-leveraged institution, meaning that it has higher levels of debt relative to its assets. This results in debt service requirements that consume a large percentage of Western's operating cash flows, yielding ratios below the target. Western's operating cash flows before depreciation and interest have contributed to modest growth in its expendable financial resources and recent improvements in this ratio.

Exhibit 8: Viability Ratio
Western State Colorado University
Fiscal Years 2011-2015

Financial Ratio	2011	2012	2013	2014	2015
Viability Ratio (Expendable Financial Resources to Debt)	0.16	0.09	0.13	0.14	0.14

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

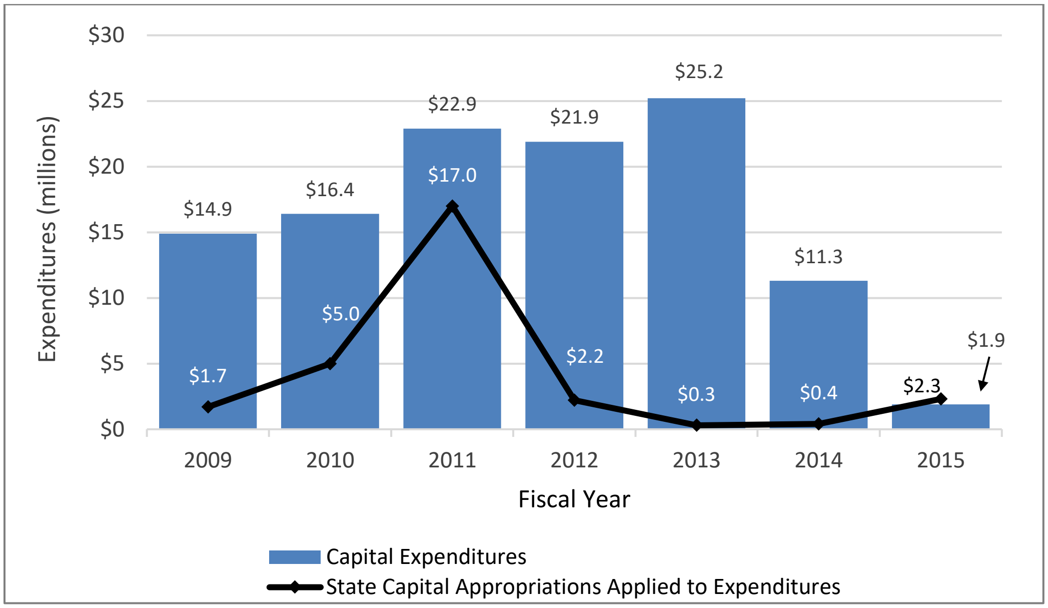
The figures in Exhibit 8 reflect the financial activities of the University. As part of the Composite Financial Index section later in this chapter, we also report viability ratios that are inclusive of both the University and the Foundation.

Capital Expenditures and Debt

Huron's financial ratio analyses highlighted the impact of Western's 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, Western incurred capital expenditures totaling $114.5 million, which was funded almost entirely by state appropriations, capital grants, and debt proceeds. Specifically, expenditures of state capital appropriations during that seven-year period totaled $28.9 million, of which $17.0 million, or 59%, occurred in fiscal year 2011. Major capital projects during those years included the University Center, Taylor Hall renovation, new student apartments, and the multi-purpose field house/student recreation center. Western's recently released fiscal year 2016 audited financial statements show an additional $17.4 million of state capital appropriations for expenditures.

Exhibit 9: Capital Expenditures by Fiscal Year
Western State Colorado University
Fiscal Years 2009-2015



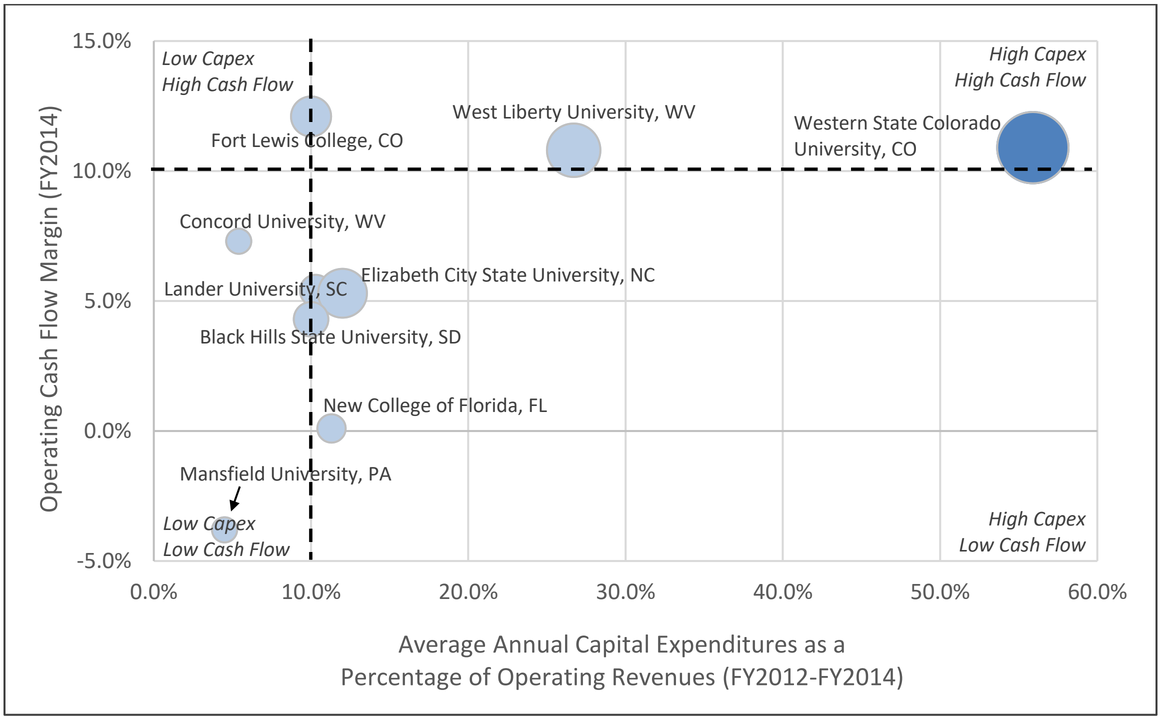
Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: State capital appropriations, as shown here, are from the financial statements recognized as funds applied toward capital expenditures.

Western also utilized debt proceeds that totaled $78.3 million from bond issuances in fiscal years 2009 and 2010. With the increase in debt, Western faces significant annual debt service requirements. In fiscal 2015, Western incurred $5.2 million in gross interest expense and paid $0.9 million in principal payments, which was offset by a $1.1 million federal interest subsidy resulting from Build America Bonds and Qualified Energy Conservation Bonds. Although the federal interest subsidy effectively reduces the debt service burden, Western's annual interest expense net of the subsidy comprised 9% of adjusted operating expenses, which is a high interest expense burden. Moody's Investors Service assigned a Baa1 underlying rating to Western in August 2016. Western's annual principal and net interest debt service requirements, as a percentage of operating expenses, were more than twice as high as the median percentage for other public universities having an underlying Baa credit rating.

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 the average annual capital expenditures as a percentage of operating revenues (i.e., capital intensiveness) on the horizontal axis. We utilized a three-year average for capital expenditures due to the volatility of expenditures from year to year. 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 capital intensiveness of about 10% (both indicated by the dashed lines in the exhibit). Infusions of cash from state capital appropriations and/or gifts may allow institutions to incur greater levels of capital investment.

Our analysis shows that Western's operating cash flow margin in fiscal year 2014 (10.9% on the vertical axis) is generally greater than most of its peers and is above the threshold of 10%. However, our analysis also shows that, relative to its peer group, Western has had significantly higher capital investment activity over the past three years (56% on the horizontal axis), which has been largely funded from debt proceeds.

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



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

Exhibit 10 represents average capital expenditures over a specific three-year period; therefore, Western's relative amount of capital expenditures will change year-to-year, as will the amount funded from state resources versus institutional resources (i.e., debt). Nonetheless, as summarized in the conclusions section below, Western still has identified large capital project needs for the next few years.

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 used for 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, Western is required to complete annual reporting of financial and non-financial data to the Higher Learning Commission (HLC), which is Western's 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 Western's 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. Overall, the conclusions from Huron's CFI analysis generally are consistent with prior reports by the HLC and showed that Western's CFI score for fiscal year 2015 was "In the Zone" for a third consecutive year based on the HLC's classification system. The net income ratio has been negatively impacted by increases in Western's depreciation and interest expenses, which pulled down the overall CFI calculation to a notable degree in recent years. As expected, consolidating the University's financial activity with the Foundation's financial activity generally yielded more positive financial ratios than the ratios shown in prior exhibits and that were based solely on Western's financial activities.

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

Financial Ratios	2010	2011	2012	2013	2014	2015
Net Income Ratio	-2.3%	4.2%	-15.6%	-14.4%	-7.6%	-11.5%
Return on Total Net Assets	13.9%	26.5%	-8.0%	-3.6%	-1.0%	-4.3%
Primary Reserve Ratio	0.47	0.56	0.29	0.42	0.42	0.36
Viability Ratio	0.19	0.23	0.14	0.19	0.21	0.20
Composite Financial Index	**2.5**	**4.3**	**-0.3**	**0.5**	**0.8**	**0.3**
Classification (Based on HLC Scale)	Above the Zone	Above the Zone	Below the Zone	In the Zone	In the Zone	In the Zone

Source: Huron's analysis of data from audited financial statements for Western State Colorado University and the Western State Colorado University Foundation through fiscal year 2015.
Note: Financial ratios and CFI scores include the financial activities of the Western State Colorado University Foundation.

In 2013 and 2015, the HLC required Western to submit "Financial Recovery Plans" that included detailed information on financial statements and policies, budget documents, financial strategic plans, and other data. The Plans were required due to prior year CFI scores that were either "Below the Zone" or "In the Zone" for two consecutive years. The Plans were assessed by a panel of higher education financial experts. Three outcomes are possible for this type of review: (1) full acceptance of the Plan where the issues are addressed at a satisfactory level and no follow-up is required; (2) acceptance of the Plan with qualifications where there remain issues of concern that may require follow-up; and (3) HLC follow-up where there are substantive concerns that may require a site visit. In both 2013 and 2015, Western's Plan was fully accepted with no qualifications.

Based on Huron's analysis of Western's recently released fiscal year 2016 audited financial statements, Western's CFI score in fiscal year 2016 exceeded 2.0 and was "Above the Zone" for the first time since fiscal year 2011, largely due to the recognition of state capital appropriations totaling $17.4 million and the corresponding increase in total net assets.

Conclusions from Financial Assessment

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

- **Western generates operating cash flow above the 10% benchmark before depreciation and interest** as demonstrated by increasing operating cash flow margins of 10.9%, 12.7%, and 15.6% in fiscal years 2014 through 2016, respectively. This indicates that Western generates sufficient revenues to cover its operating expenses. However, depreciation expenses, including the related capital renewal and replacement needs, and debt service requirements present a significant burden for the University to carry.

- **Western cannot afford additional, large, debt-financed capital investments** given its current operating cash flows and high levels of debt. Western generated between $3 and $5 million per year in operating cash flows before depreciation and net interest expenses in fiscal years 2013 through 2015. However, the University's debt service requirements alone, net of a federal interest subsidy, have risen to about $5 million per year, thereby offsetting the positive cash flows from operations. The University's physical plant and debt service requirements present a significant financial burden. Western's capital plans through fiscal year 2021 include state-funding requests for a $10.9 million library renovation and a $13.9 million investment in network fiber security. Western's plans also include a $7.5 million renovation of the press box at the Mountaineer Bowl stadium, a $5.4 million new housing facility for faculty and staff, and a $9.4 million renovation of Ute Hall (student residence hall) to be funded with institutional resources and/or additional debt. To the extent these capital plans require additional debt, Western should consider alternative avenues of financing as long as its capacity to incur additional debt is limited. The University has taken steps to allocate funds annually to minimize the accumulation of deferred maintenance needs.

- **Given its capital-intensive growth strategy and current debt burden, Western needs to continue to increase operating cash flows** to maintain positive financial ratios and help ensure financial sustainability. Western's operating revenues exceed operating expenses before depreciation and interest by a reasonable margin; however, using fiscal year 2015 as a baseline, an additional $2 to $3 million is needed above fiscal year 2015 levels to cover the University's significant debt burden and capital renewal needs, as well as to improve the accrued operating results. For fiscal year 2016, Western reported a $2.3 million increase in operating cash flows before depreciation and interest, which indicates notable progress toward financial stability. Huron's operational and strategic assessments, which are discussed in the remainder of this chapter, explored potential avenues to help Western achieve operating cash flow gains. Huron estimated that a net gain of about $2.6 to $3.9 million per year could result from enrollment growth of about 400 to 600 student FTE if corresponding operating cost increases can be restrained.

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 Western's 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 Western's 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 Western 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, Western increased its revenues by $7.6 million between fiscal year 2011 and fiscal year 2015. Most of this revenue growth can be attributed to net tuition and fees and the University's auxiliary enterprises (e.g., housing and dining services). Specifically, net tuition and fees increased by 48%, from $12.7 million in fiscal year 2011 to $18.8 million in fiscal year 2015. Net tuition and fees made up 44% of total adjusted operating revenues in fiscal year 2015, up from 36% in fiscal year 2011. Increases in tuition revenue were driven by enrollment growth and increases in average net tuition revenues per student which, in part, can be attributed to enrollment growth in graduate programs with higher tuition rates as compared to undergraduate programs. We provide more discussion of student enrollment trends and tuition and fee revenues in subsequent sections.

Exhibit 13: Adjusted Operating Revenues by Category
Western State Colorado University
Fiscal Years 2011 and 2015

	FY 2011		FY 2015			
REVENUE CATEGORIES	**$ in Millions**	**% of Total**	**$ in Millions**	**% of Total**	**$ Change FY 2011 to FY 2015**	**% Change FY 2011 to FY 2015**
Tuition and fees, net	$ 12.7	36%	$ 18.8	44%	$ 6.1	48%
State fee-for-service revenue	8.4	24%	7.6	18%	(0.8)	-10%
Sales and services of auxiliary enterprises, net	7.6	21%	9.0	21%	1.4	18%
Federal Pell grants	2.4	7%	2.5	6%	0.1	4%
Federal, state, and private grants and contracts	2.9	8%	3.4	8%	0.5	17%
State fiscal stabilization[1]	0.4	1%	--	0%	(0.4)	-100%
Net investment income	(0.1)	< -1%	0.2	< 1%	0.3	300%
Other[2]	1.2	3%	1.6	4%	0.4	33%
Adjusted Operating Revenues	**$ 35.5**	**100%**	**$ 43.1**	**100%**	**$ 7.6**	**21%**

Source: Huron's analysis of data from Western State Colorado University's audited financial statements.
Note: Totals may vary due to rounding.
[1]State 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.
[2]Includes revenues from summer camps (primarily sports related) and miscellaneous charges to students that do not fall under the definition of "fees" (e.g., activity charges, transcript charges, payment plan charges).

Student Enrollment Trends

Western earns its tuition and fee revenue by providing undergraduate and graduate programs to enrolled students. Therefore, trends in student enrollment have a substantial effect on the University's operating revenues.

As shown in Exhibit 14, Western's total student full-time equivalent (student FTE) enrollment increased by 3.5% from 2,077 students for the 2010-11 academic year to 2,149 students for the 2014-15 academic year. Western experienced a one-year decline of about 4.8% in undergraduate student enrollment in the 2011-12 academic year; however, undergraduate enrollment subsequently recovered in the 2013-14 and 2014-15 academic years to nearly equal its peak from the 2010-11 academic year.

Exhibit 14: Student Full-Time Equivalent (FTE) Enrollment
Western State Colorado University
Academic Years 2010-11 to 2014-15

	2010-11	2011-12	2012-13	2013-14	2014-15	% Change 2010-11 to 2014-15
Undergraduate Student FTE	1,961	1,866	1,865	1,925	1,941	-1.0%
Graduate Student FTE	116	161	158	171	208	+79.3%
Total Student FTE Enrollment	**2,077**	**2,027**	**2,023**	**2,096**	**2,149**	**+3.5%**

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

Exhibit 14 also shows that enrollment in Western's graduate programs, which are designed to be self-sustaining (i.e., tuition and fees should cover the full costs of programmatic delivery including overhead expenses), increased by 79% (92 student FTE) over the 5 years assessed and comprised nearly 10% of total student enrollment for the 2014-15 academic year. This growth in Western's graduate student enrollment is significant because, during our evaluation, Western reported that the loss of its graduate program in the late 1980s due to mandated changes in the University's role and mission put pressure on the University to replace those lost enrollments and funding streams with larger undergraduate programs. Western's graduate program authority was later re-established in 2007 through House Bill 07-1014. Western reports that since 2007, growth in its graduate programs has consistently produced revenues that contribute to a more robust cash flow margin for the University. For example, in fiscal year 2016, Western's graduate programs alone generated $2.4 million in net tuition revenue.

Based on data collected by the Colorado Department of Higher Education, in-state resident students consistently comprised about 75% of Western's total student enrollment throughout the five-year period between fall 2010 and fall 2014.

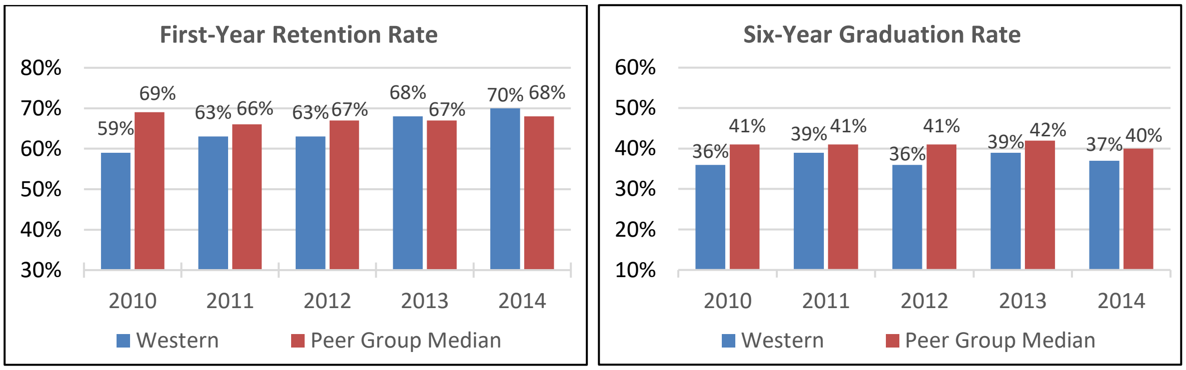
Huron's interviews with Western's leadership team highlighted recent changes, including an increased focus on marketing and recruitment activity, restructuring the admissions team, the hiring of dedicated recruiters along the Colorado Front Range Urban Corridor, and the implementation of a relationship management system (i.e., a software application used to manage communications with students, employees, and alumni). There are many variables affecting enrollment trends and data analysis establishing clear, direct causal relationships does not currently exist. Nonetheless, based on its experience in the higher education sector, Huron believes Western's initiatives likely contributed to the rebound in enrollment since 2012-13 and are important to the University's ability to further increase student enrollment.

Retention and Graduation Rates

New student enrollment is only a part of Western's ability to generate tuition revenue. Western also must sustain this tuition revenue by *retaining* enrolled students. As shown in Exhibit 15, Western increased its freshman-to-sophomore retention rate from 59% in fall 2010 to 70% in fall 2014. After years of trailing its peers, the recent improvements in Western's retention rate place Western above the peer median. Western further reports that the retention rate remained stable at 69% in fall 2015 and fall 2016.

Western's six-year graduation rate—the percentage of students that graduate within six years of beginning as full-time, first-time (freshman) students—fluctuated between 36% and 39% from 2010 to 2014. Although the gap has varied year to year, Western's six-year graduation rate has consistently trailed the peer median by a few percentage points. The University reported an improvement in its six-year graduation rate to 42% in 2015 and an estimated 46% in 2016; however, the IPEDS data for peer institutions are not yet available for those years.

Exhibit 15: Retention and Graduation Rates
Western State Colorado University and Peer Group
2010-2014



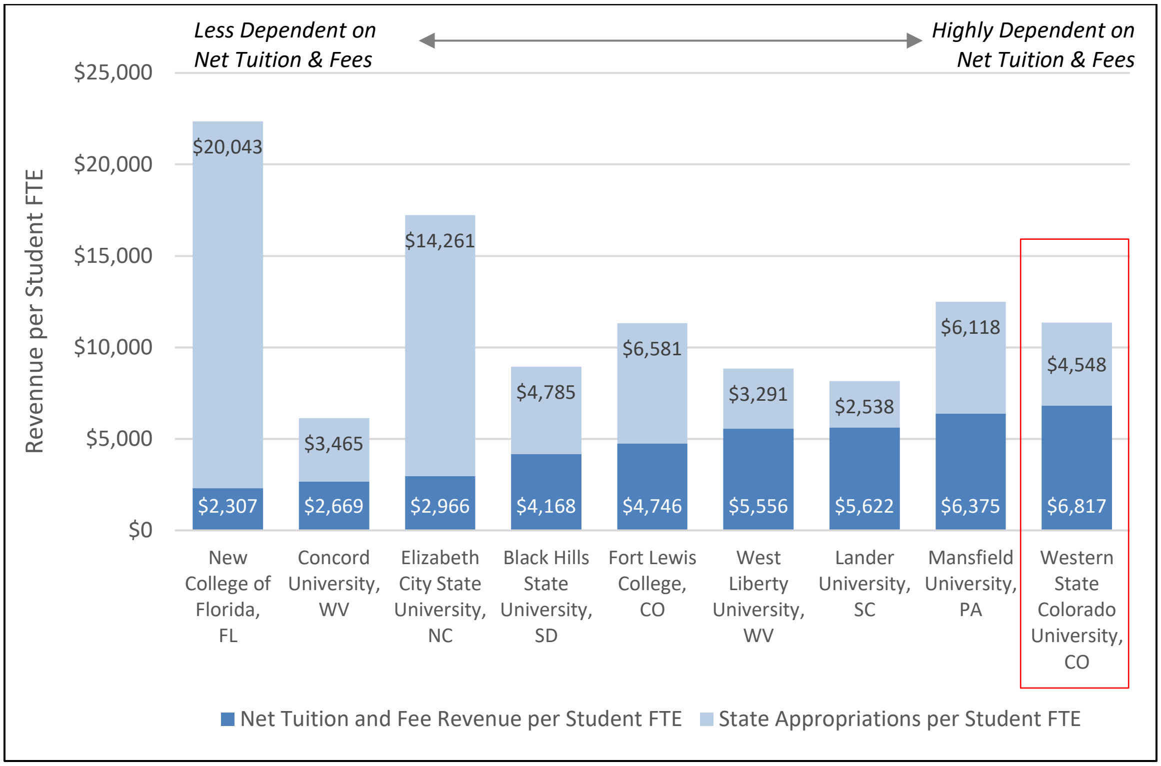
Source: Huron's analysis of IPEDS data.
Note: First-year retention rate represents the percentage of full-time, first-time (i.e., freshman) students that enrolled for a second year in fall of the year shown. Six-year graduation rate represents the percentage of bachelor's degree-seeking students graduating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

Over the past few years, to increase its student retention and graduation rates, Western increased expenditures for student support services and introduced various initiatives, such as an immersive and multi-phased first-year experience (beginning in 2012), a second-year live-on campus experience (beginning in 2013), and enhancements to early alert systems for academically at-risk students. Western's faculty and staff also began using new academic advising and degree audit tools in 2012. Degree audit and advising technologies support student success by clarifying, to students and to advisors, the implications of course enrollment decisions on progress towards earning a degree. Given the newness of these initiatives and the lack of some historical baseline metrics, Western cannot yet provide detailed impact measurements for each initiative. However, increases in overall retention rates reflect positively on the University's recent efforts.

Tuition and Fees Revenue

Western depends on net tuition and fee revenue (gross tuition and fees less financial aid) from students. Exhibit 16 illustrates average amounts of net tuition revenue and state support per student FTE for Western and its peers. For comparison purposes, COF stipends and state fee-for-service revenues for Western are compared to state appropriations for peers. On average, Western received about $11,365 in revenue per full-time student in fiscal year 2014—about 60% from net tuition charges (average $6,817), about 10% from COF stipends (average $1,159), and about 30% from state fee-for-service revenue (average $3,389). These amounts, of course, vary between resident and non-resident, scholarship and non-scholarship, and undergraduate and graduate students. For example, in fiscal year 2014, Western's net tuition revenue per undergraduate student averaged about $5,800, while graduate students averaged a higher amount, resulting in a combined average net tuition revenue of $6,817 per student, as noted previously. In summary, this analysis shows that Western relies more heavily on student tuition charges than do its peers.

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



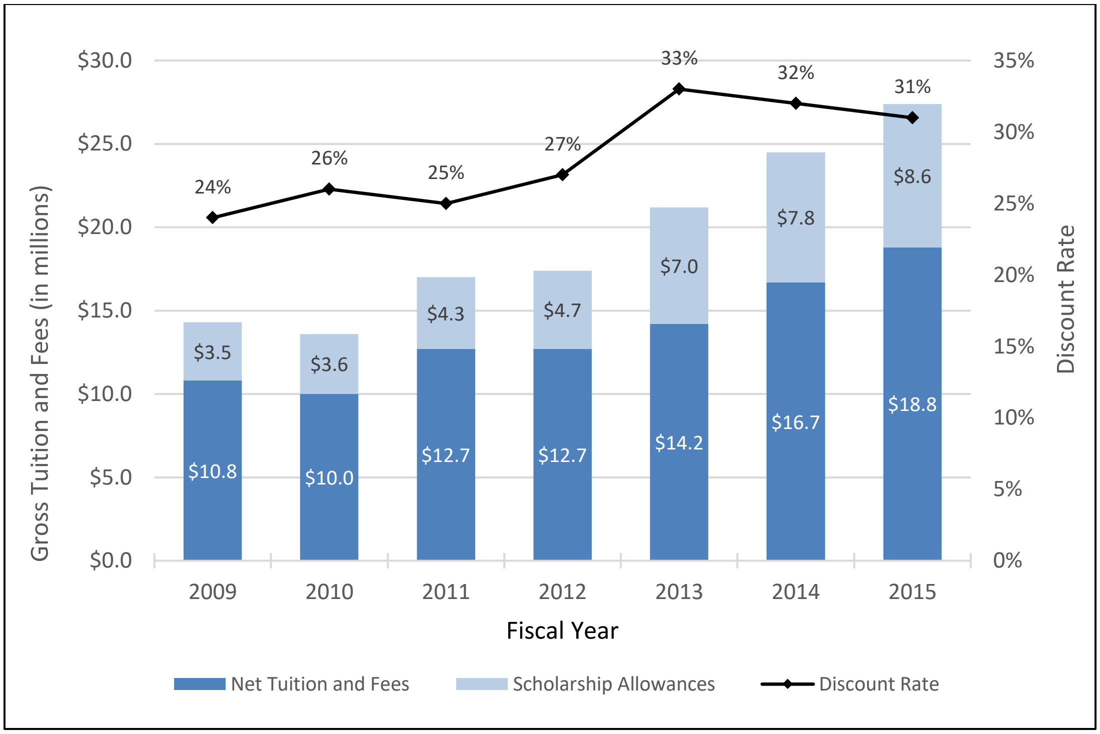
Source: Huron's analysis of Western State Colorado University's audited financial statements, peer financial statements, and IPEDS.
Note: Federal Pell grant revenue is in addition to the amounts reflected in this exhibit. State appropriations for Western and Fort Lewis College include state fee-for-service contract revenues and stipends provided to students through Colorado's College Opportunity Fund, which are then used to pay for university tuition. State appropriations for Fort Lewis College also include reimbursements for Native American tuition waivers.

Tuition Discounting

Tuition discounting is the process by which a university offsets 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 (i.e., the sticker price). 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 17, in recent years Western increased its financial aid to students while maintaining increases in net tuition and fee revenue, which increased from $10.8 million in fiscal year 2009 to $18.8 million in fiscal year 2015. Scholarship allowances, as a percentage of gross tuition and fees for undergraduate and graduate students, resulted in a consolidated discount rate of 31% in fiscal year 2015.

Exhibit 17: Net Tuition and Fees, Scholarship Allowances, and Discount Rate
Western State Colorado University
Fiscal Years 2009-2015



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

There are multiple perspectives to consider with regards to tuition discounting, including different strategies to attract resident and non-resident students, as well as varying approaches for undergraduate and graduate students. Since the COF stipend is not an out-of-pocket cost for students, Western appropriately calculates separate discount rates specific for undergraduate students based on financial aid as a percentage of adjusted tuition and fees (i.e., excluding COF stipends from gross tuition and fees). Excluding financial aid from external sources (e.g., Pell grants), Western calculated that, over the past five years, its institutionally-funded financial aid increased from 22% to 26% as a percentage of adjusted undergraduate tuition and fees.

In summary, in recent years Western has managed its use of tuition discounting by providing modest increases in institutional financial aid without compromising much-needed growth in total net tuition and fees.

Adjusted Operating Expenses

To better understand Western's operations and to identify potential opportunities for cost containment or cost reduction, it is important to analyze the University's operating expenses.

Exhibit 18 shows that Western's total adjusted operating expenses increased by $11.1 million or 31% between fiscal year 2011 and fiscal year 2015. When examined on a per student FTE basis, Western's total adjusted operating expenses increased by $4,577 per student FTE, from $17,485 per student FTE in fiscal year 2011 to $22,062 per student in fiscal year 2015.

Exhibit 18: Adjusted Operating Expenses by Function
Western State Colorado University
Fiscal Years 2011 and 2015

EXPENSE CATEGORIES	FY 2011 $ in Millions	FY 2011 % of Total	FY 2015 $ in Millions	FY 2015 % of Total	$ Change FY 2011 to FY 2015	% Change FY 2011 to FY 2015
Instruction	$ 11.1	31%	$ 14.8	31%	$ 3.7	33%
Auxiliary enterprises (e.g., dining services, bookstore, and other self-sustaining activities)	8.9	25%	9.6	20%	0.7	8%
Student services (e.g., admissions, career guidance, and financial aid administration)	3.7	10%	4.3	9%	0.6	16%
Institutional support (e.g., accounting, payroll, human resources, development, and technology)	3.2	9%	4.1	9%	0.9	28%
Academic support (e.g., libraries and academic department administration)	1.5	4%	2.0	4%	0.5	33%
Research and public service	0.2	<1%	0.3	1%	0.1	50%
Operation and maintenance of plant	2.1	6%	2.3	5%	0.2	10%
Scholarships and fellowships (separate from contra-revenue amounts)	0.5	1%	0.2	<1%	(0.3)	-60%
Depreciation	4.6	13%	5.7	12%	1.1	24%
Interest, net of federal interest subsidy[1]	0.4	1%	4.1	9%	3.7	>900%
Adjusted Operating Expenses	**$ 36.3**	**100%**	**$ 47.4**	**100%**	**$ 11.1**	**31%**
Adjusted Operating Expenses per Student FTE	**$ 17,485**		**$ 22,062**		**$ 4,577**	**26%**

Source: Huron's analysis of data from Western State Colorado University's audited financial statements and student FTE enrollment data (2,077 student FTE in fiscal year 2011 and 2,149 student FTE in fiscal year 2015).
Note: Totals may vary due to rounding.
[1]Federal interest subsidies for Build America Bonds and Qualified Energy Conservation Bonds averaged $1.2 million per year during fiscal years 2011 through 2015.

Most of the growth in Western's expenses over the last five fiscal years occurred due to a $3.7 million increase in instruction costs, which totaled 31% of adjusted operating expenses in fiscal year 2015, and increases of $3.7 million and $1.1 million in net interest and depreciation expenses, respectively. Interest expenses increased due to the addition of debt to finance major capital investments, which led to concomitant increases in depreciation expenses. Western's interest expenses, net of a federal interest subsidy, increased from 1% of total adjusted operating expenses in fiscal year 2011 to 9% of total adjusted operating expenses in fiscal year 2015. Depreciation remained somewhat stable as a percentage of total adjusted operating expenses.

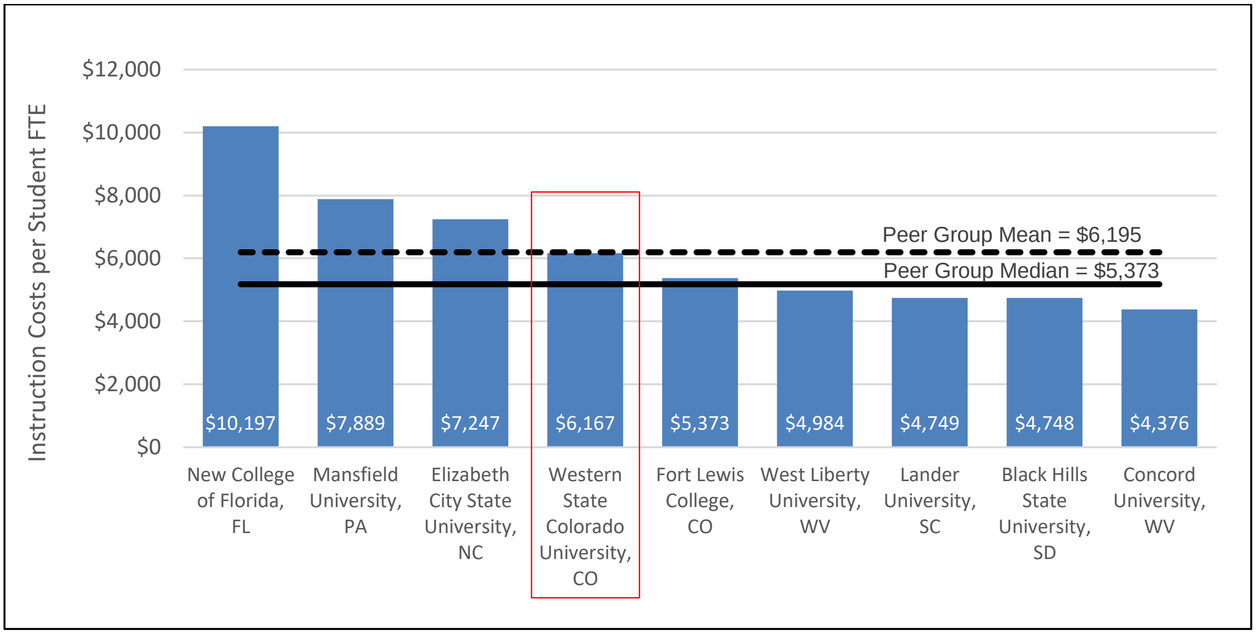
Huron analyzed changes in Western's operational expenses by functional and natural expense categories. Functional expenses identify the purpose of the expense (e.g., expenses to provide student services), whereas natural expenses define the type of expense (e.g., salaries, supplies, utilities, etc.). Between fiscal years 2011 and 2015, Western's largest increases occurred for instruction expenses and interest on indebtedness. During this same time there were only modest increases in expenses for auxiliaries and student services.

Finally, Huron compared Western's expenses per student FTE to its peer universities. To assess activities relating to instruction and retention at Western and its peers, Huron compared expenses for instruction, student services, institutional support, academic support, and public service. Western's operating expenses per student FTE for these activities totaled $11,640 in fiscal year 2014 and $12,486 in fiscal year 2015. Based on available IPEDS data, Western's operating expenses per student FTE equaled the median of its peers in fiscal year 2014; IPEDS data were not yet available to enable a peer group comparison for fiscal year 2015.

Instruction Costs

As noted in Exhibit 18, Western's instruction costs increased by 33% between fiscal year 2011 and fiscal year 2015, demonstrating that Western has invested in academic and instruction activities as its enrollment has grown over this same period. Based on available IPEDS data for fiscal year 2014, Exhibit 19 shows that Western's instruction costs (excluding allocations of interest, depreciation, and operation and maintenance of plant for instruction) were $6,167 per student FTE, which was $794 or about 14% higher than the median instruction cost per student FTE for the peer group. Allocations of interest, depreciation, and operation and maintenance of plant (not shown) for instruction-related facilities represent an additional $2,161 in instruction costs per student FTE.

Exhibit 19: Instruction Costs per Student FTE
Western State Colorado University and Peer Group
Fiscal Year 2014



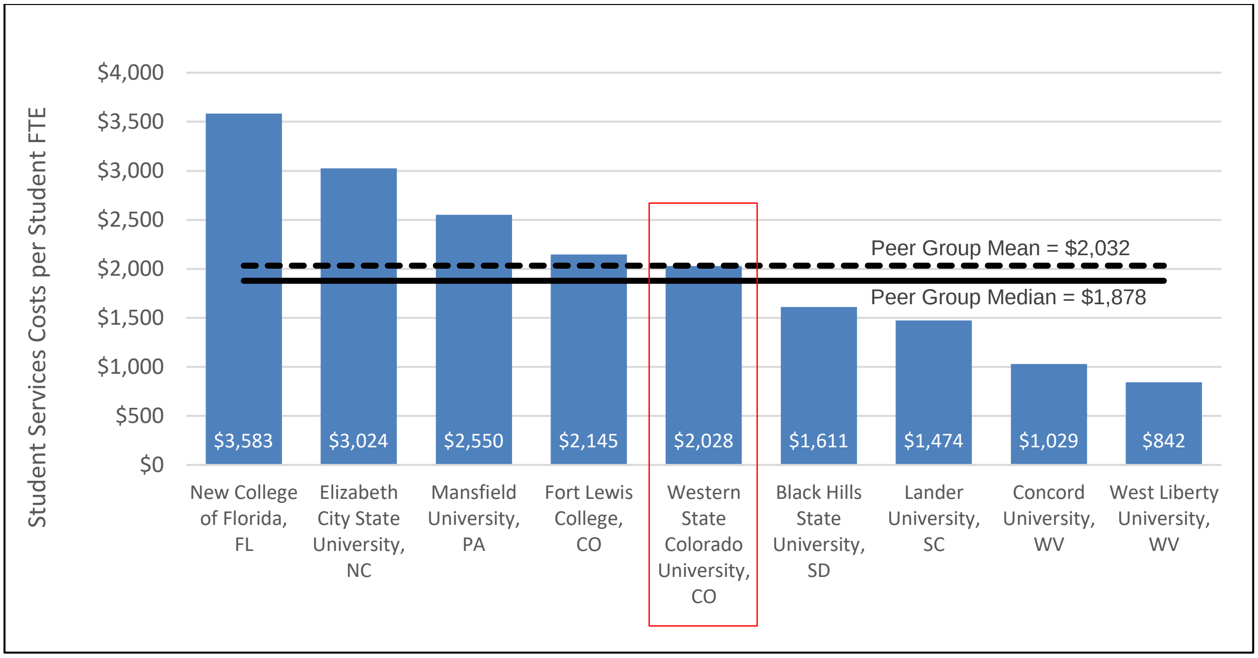
Source: Huron's analysis of IPEDS data.
Note: Amounts do not include allocations of interest, depreciation, and operation and maintenance of plant for instruction. Peer group median and mean excludes Western State Colorado University.

Overall, Western offers 23 undergraduate major courses of study, of which biology, business administration, exercise, and sport science are among those with the highest student enrollment. Although Western is roughly at the peer median of instruction cost per student FTE, 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, 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 (e.g., some faculty expenses are coded to departments, some to programs, and some to courses) meant that constructing nuanced, program-specific cost analyses was beyond what could be accomplished as part of this evaluation.

Student Services Costs

Western has invested in student services, including systems to improve the retention of degree-seeking students, resulting in a 16% increase in student services costs from fiscal year 2011 to fiscal year 2015. Based on available IPEDS data for fiscal year 2014, Exhibit 20 shows that Western's student services costs (excluding allocations of interest, depreciation, and operation and maintenance of plant for student services) were $2,028 per student FTE, which was $150 or about 8% higher than 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 $711 in student services costs per student FTE.

Exhibit 20: Student Services Costs per Student FTE
Western State Colorado 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 excludes Western State Colorado University.

Conclusions from Operational Assessment

Huron's operational assessment yielded three conclusions related to Western's overall financial sustainability:

- **Enrollment growth is a critical factor in Western's ability to improve its financial position.** Western's capital investments over the last several years have created a refreshed and renewed physical infrastructure with the capacity to support the growth of undergraduate enrollment by approximately 500 student FTE without additional significant capital expenditures and infrastructure costs. Additionally, the University's low student-to-faculty ratio of 16:1 represents an opportunity to grow enrollment without a significant commensurate increase in instructional costs. These factors should allow for marginal revenue to increase at a greater pace than marginal expense, if Western can increase its enrollment at the same or higher net tuition revenue per student without significantly increasing its recruiting costs.

- **Above-market tuition increases provide limited opportunities for increasing Western's 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. Although we did not directly assess the price-elasticity of demand for Western's various student constituencies, Western should be able to continue with normal market-based increases in its tuition rates. However, our analysis showed that Western's net tuition revenue generated per student FTE is already the highest when compared with the peer group used in our analysis. Therefore, we believe that unusually large increases in tuition rates are not likely to be a viable option for resolving Western's financial challenges.

- **Western 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. However, challenges with data limited our ability to directly assess Western's costs and revenue at the academic program level. Because programs may present different revenue opportunities and costs for the University, management needs a clearer picture of which programs are performing well financially and which programs require significant subsidies. Western should continue to assess its academic program portfolio and consider the financial impacts of individual programs when making realignments. As the University looks to increase student enrollment through new programmatic offerings, it may also consider eliminating or restructuring any financially under-performing programs as an expense reduction opportunity. To facilitate this type of analysis, Western should standardize the way its cost data are structured to allow for better quantification and analysis of revenues and instruction costs on a per-program basis, or even on a per-course basis.

Strategic Assessment

In this section, we discuss the results of our strategic assessment, which included a review of the strategies and initiatives put in place by Western that will help improve the University's financial position. A key component of our strategic assessment was interviews with University leaders to understand current strategies in the context of a range of factors, including institutional history and identity, market position, and geography. We focused on understanding Western's current strategic plan and the degree to which those strategies impact financial sustainability, the degree to which resources are aligned with strategic priorities, the specific calls on resources that new priorities make, and their impact on the University's ability to improve its financial health.

Western's Strategic Plan

In December 2014, Western adopted a 2015-2018 strategic plan that outlines goals and initiatives to raise the visibility and reputation of the University and better enable the University to fulfill its mission, while adhering to values of quality, achievement, innovation, growth, and fiscal responsibility. Specifically, Western's strategic plan identifies the following five strategic goals:

1. Increase Enrollment
2. Improve Institutional Outcomes (e.g., retention and graduation rates)
3. Increase Funding
4. Enhance Organizational Efficiency (e.g., regularly evaluate costs and returns on investment)
5. Improve Third-Party Assessments (e.g., reviews by accrediting bodies and awards, rankings, and evaluations from academic organizations, media, and other agencies)

Enrollment Growth

One of Western's key strategies to achieving revenue gains and ensuring fiscal sustainability is to increase enrollment by recruiting and retaining more students. As discussed previously in the financial assessment, Huron estimates that Western needs to increase operating cash flows by $2 to $3 million per year given its capital-intensive growth strategy and present debt burden. As discussed previously in the operational assessment, Western's capital investments over the last several years have resulted in a physical capacity to grow undergraduate enrollment by approximately 500 student FTE without significant additional capital expenditures and infrastructure costs.

Using analyses prepared by Western as a baseline, Huron estimates that marginal tuition, fees, and state fee-for-service revenue, net of scholarship allowances, would average about $8,800 per additional undergraduate student. Western's model also indicates that for every 1% increase in enrollment, operating costs would only need to increase by about 0.15%, which assumes fuller utilization of existing facilities and restricted growth in staff and faculty (i.e., an increase in the student-to-faculty ratio). We assume that marginal auxiliary revenues and expenses will be at least break-even.

As shown in Exhibit 21, given these assumptions, Huron estimates that if Western's undergraduate student enrollment increased by 400 students (e.g., about 100 more incoming freshmen per year for four years, plus transfers, less retention losses), this would generate about $3.5 million in additional revenues for the University. Such an increase in students (an approximate 20% undergraduate enrollment increase) would cause an estimated 3% increase in operating costs (about $0.9 million), excluding auxiliaries, depreciation, and interest. Therefore, the net impact of 400 additional students is an estimated gain of $2.6 million, and the net impact of 600 additional students is an estimated gain of $3.9 million. Huron believes that a significant enrollment increase is possible for resident and non-resident students; however, a thorough enrollment analysis was outside the scope of this evaluation.

Exhibit 21: Estimated Impact of Enrollment Growth
Western State Colorado University

	Undergraduate Enrollment Growth	
	400 Student FTE	600 Student FTE
Revenue Increase from Growth	$3.5 million	$5.3 million
Operating Cost Increase	$0.9 million	$1.4 million
Net Financial Impact of Growth	$2.6 million	$3.9 million

Source: Huron's analysis of financial and operational data provided by Western State Colorado University.

Huron did not directly assess the University's market position and the relative difficulty of growing enrollment. Nonetheless, our experience working in Colorado and nationally suggests that material growth in enrollment is achievable but difficult. Many universities are seeking enrollment growth, and technology is extending the geographic reach and changing the ability of institutions to scale to serve students. However, demographic data, including reports from the National Center for Education Statistics, indicate that there has been a shrinking pool of academically-qualified students graduating from high school. The University's ability to grow enrollment will be a function of its ability to create a strategic enrollment management plan and allocate resources to support its execution.

Marketing and Recruitment

In 2013, Western went through a rebranding process, which included changing its name and creating a new visual identity and new marketing collateral. Additionally, as discussed previously, Western has made significant capital investments to meet evolving expectations about the type and quality of facilities needed to attract students to a destination campus. During this time, the University created the division for Marketing and Institutional Advancement, which includes Western's existing Admissions, Student Financial Services, University Communications, and Alumni Relations departments. A primary responsibility of this division was to craft and communicate the value of an education at Western (i.e., value proposition) to prospective students and their families, the news media, the community, and other key constituents.

Relating to the rebranding effort and efforts to attract new students, Western and the Foundation have significantly increased expenditures in marketing and enrollment management functions. Western's leadership believes that the University previously was at a competitive disadvantage because it had underinvested in this area in prior years. Based on data provided by Western, marketing and recruitment costs increased by about 38% from $1.3 million in fiscal year 2010 to $1.8 million in fiscal year 2015. Additionally, the Foundation incurred $0.5 million of expenditures for communications, marketing, and student recruitment costs on behalf of the University.

Data from the National Association for College Admission Counseling indicates that, in 2013, universities spent an average of $2,231 to recruit each newly enrolled student, with public universities spending less than this amount on average and small universities (less than 3,000 students) generally spending more than this amount on average. Western calculated that the cost of its admissions office operations per newly enrolled freshman or transfer student was about $2,200 per student in fiscal year 2014, which is similar to the national average. In addition to the cost of admissions office operations, the University and the Foundation make expenditures for marketing, communications, and other efforts to promote Western to prospective students, donors, alumni, parents, and others. As Western aims to achieve enrollment growth, these additional expenditures by the University and the Foundation, which totaled about $1.0 million in fiscal year 2015, must be considered in the context of Western's current financial position, the role of the Foundation vis-à-vis the University's operations, and the unique challenges of attracting students to a rural campus location.

During our interviews, Western's leadership stated that one strategy of growing its enrollment is to more directly target prospective students from the Colorado Front Range Urban Corridor. Huron's work relating to enrollment optimization suggests that Western is going to face significant competition from in-state, regional, and national universities for students on the Front Range. For example, we understand that at least 12 universities from outside the state have full-time recruiters who live in and focus on the Front Range. Western's strategy, while logical and appropriate, presents challenges in terms of growing enrollment in a competitive marketplace where the University's growth may come at a decline in students enrolling at other institutions.

Our review of staffing in Western's admissions department identified six staff dedicated to admissions and recruitment, with most of the recruiters working off-campus within assigned school districts. The ratio of student applicants per recruiter at Western measures slightly below benchmark averages; however, given its remote location, the University faces unique challenges to maximize student applications per recruiter.

Conclusions from Strategic Assessment

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

- **Western's strategic priorities are focused on enrollment growth and on building the operational capacity to achieve this growth.** Western's leadership is focused on continuing to improve the University's capability to attract and retain students. In particular, the University's recent rebranding effort and increase in capital expenditures were deliberate efforts to continue to align the University's identity and infrastructure to what is demanded by students when choosing a college or university in a highly competitive market.

- **Western's ongoing strategic challenge will be to translate its brand identity and value proposition into enrollment growth and increased retention, increasing revenue, without an equal increase in costs.** The University's strategic initiatives appear to reinforce the University's identity and reputation by targeting and building upon areas of programmatic strengths and uniqueness (e.g., natural resource management), reputation (e.g., quality liberal arts education), and geographic strengths (e.g., accessibility to outdoor activities). However, in pursuing these initiatives, Western must also avoid common pitfalls in the higher education marketplace of allowing costs to increase as a result of trying to be all things to all students or by relying too heavily on tuition discounting to attract and retain students. The University's recent investments in scalable capabilities, such as a new relationship management system, reflect a proactive approach in this area.

- **Western should continue to refine its overall level of marketing expenditure and the mix of marketing priorities.** Western has identified and pursued strategic initiatives to expand its marketing and recruitment efforts. Included in this is taking appropriate steps to invest in direct marketing capabilities through Front Range recruiters, a new relationship management system, and greater use of targeted digital marketing to drive effective returns. Huron's experience is that the marginal return on a dollar spent on direct recruiting (when informed by a highly focused and data-driven strategy) is higher than that of a dollar spent on mass marketing.

  In the current arena, Western must increasingly compete for attention with larger and more well-known universities. With the recent change in its admission standard from "moderately selective" to "selective" through the enactment of House Bill 16-1083, Western should be able to better market itself as a quality institution worthy of consideration by high-achieving students. Given this change, Western should continue to reassess its marketing and enrollment expenditures, both in total and in the relative mix of marketing versus recruiting activities, to ensure that these investments produce the highest and best return. Increased brand awareness ultimately must translate into increased enrollment and student success.

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Western State Colorado University Response

Western expresses gratitude to the Office of the State Auditor and Huron Consulting Group for the time, energy, and resources undertaken to complete this evaluation. The process was collaborative, the varying perspectives informative, and the conclusions well-reasoned.

Western agrees with the conclusions made in the report. As mentioned in several sections of the report, understanding the causal forces that created the current fiscal challenges for Western is important to understanding where to look for solutions. Western is focused on the future; however, we think the historical context provided in various sections of the report is critical to assessing useful next steps. To summarize, we believe that three of the largest contributors to Western's fiscal challenges were the elimination of its graduate program authority in the late 1980s (and later reinstated in 2007), the large state funding cuts in 2011-12, and a lack of state capital appropriation for key projects to remain a competitive four-year institution in the state. These events were profound for Western and had a direct and dramatic impact on the fiscal ratios which are the chief focus of this review. We created and have been implementing a new strategic plan that is producing positive results for us and hope to continue that progress.

As it relates to our strategic initiatives of recent years, the focus has been around improving institutional outcomes and growing enrollment. We believe strongly that the associated outcomes of these initiatives have significantly advanced Western towards institutional viability and financial sustainability. The resurgence began in 2012 when Western launched several programs to improve first-year retention. Central to this was the implementation of the First Year Experience program, which immerses our freshmen students in a multi-faceted orientation program that includes service learning projects, introductions to academic resources and an exploratory majors program, enrollment into a first-year seminar, and access to living/learning communities within our residence halls. The underlying goal of this program is to engage and integrate our first-year students into their academic majors and into the greater campus and Gunnison community. During this same year, as mentioned in the Huron report, Western implemented a new online degree audit software, DegreeWorks, an efficient/effective tool for students and academic advisors to track and plan for progress to degree completion. In 2013, the University launched our Second Year Experience program, which includes a second-year live-on campus requirement; provides second-year students with opportunities to increase their campus, community, and career connections; and encourages participation in leadership opportunities.

These initiatives have increased retention as well as graduation rates and our efforts are consistent with Huron's conclusion that enrollment growth is a critical factor in Western's ability to improve its financial position. As mentioned in the report, Western's current freshman-to-sophomore retention rate is 69% (up from 59% in 2010), and our current six-year graduation rate is 45% (up from 36% in 2010). Perhaps the best demonstration of the success of Western's strategic initiatives can be found in a comparison of enrollment for the 4 years prior to 2012 (Western's financial/enrollment low point) to the 4 years since. Based on data from the Colorado Department of Higher Education, from fiscal year 2008 through 2012, Western had a decline in total student FTE, while the other public higher education institutions in Colorado (excluding Western) collectively experienced a significant increase in total student FTE. However, Western has seen this trend reverse over the last four years. From fiscal year 2012 through 2016, Western experienced an increase in student FTE, while the other public higher education institutions in Colorado (excluding Western) collectively have experienced a decrease in student FTE.

One of the conclusions in the Huron report is that Western has generated healthy operating cash flow margins and continued progress towards financial sustainability. Western is encouraged by the strong positive trends in this key financial indicator since fiscal year 2012. Specifically, Western is on its way toward realizing the additional \$2 to \$3 million (above fiscal year 2015 levels) discussed in the report's conclusions. Western's change in cash and investments in FY2015-16 was \$2.6 million (including both operating and non-operating revenue), which was up from \$0.9 million in FY2014-15 and was the second year in a row where this number was positive. The operating cash flow margin increased by almost 3 percentage points, from 12.7% to 15.6%, between FY2014-15 and FY2015-16. Also, Western's adjusted operating margin improved by nearly 4 percentage points, resulting in the smallest deficit margin since FY2010-11. More importantly, Western saw an increase in total net assets, something not experienced since FY2010-11. This was due in large part to the state capital appropriation for the renovation of the University's art and music building, Quigley Hall.

The Huron report highlights the significant capital investments that Western has made over the last decade, as well as their impact on Western's physical plant and debt service burden. These investments play a critical role towards advancing Western's strategic goals of enrollment growth and student retention. Many of the projects undertaken have erased what was a backlog of over \$26 million in deferred maintenance. The projects also addressed critical needs in academic space and student programming. For example, one project was the \$7.5 million construction of the Borick Business School which houses programs in business, accounting, and economics—our largest enrolled group of majors. This project represented the state's first, fully-funded academic building from private sources and provides quality, contemporary space to these anchor programs. The second project was the recently completed multi-purpose field house/student recreation center. This \$30 million, bond-financed facility provides academic space for our recreation and exercise and sport science programs (both undergraduate and graduate), programmatic space for our NCAA sports, and serves as the hub of student recreation activity. While some of the projects undertaken have significantly expanded Western's debt profile, the capital investments made over the last decade have helped Western address issues of deferred maintenance and has produced assets that will greatly assist in the recruitment and retention of students.

Western continues our commitment to identify ways to advance our financial position as it relates to our fixed assets. For example, just this past August, Western refinanced a significant portion of our institutional debt, realizing nearly \$5 million in cash flow savings and reducing our interest costs by over \$200,000 annually. We have also begun to set aside approximately \$400,000 annually towards deferred maintenance. While these are important, positive steps, Western recognizes the importance that state investments and maintenance of state assets plays in Western's overall financial picture. We will continue to experience the drag created by large depreciation costs as long as state capital appropriations vary dramatically from year to year. As an example, per the report, Western received $17.0 million in capital appropriation in FY2010-11 for the renovation of Taylor Hall and for the following four years afterward, received, on average, $1.3 million annually despite submitting requests (both capital construction and controlled maintenance) during those years that averaged over $30 million annually. It is important to note that, as a state institution, Western does not have a tuition pricing structure that incorporates the costs of maintaining state facilities. This is because Western, like all state-affiliated institutions, has relied on state appropriations to address capital and controlled maintenance needs. To the extent that state appropriations for capital and controlled maintenance are limited and Western's tuition pricing structure constrained by legislative mandates, offsetting this depreciation cost will be challenging.

In relation to marketing and recruitment, Western has been implementing an integrated approach over the past few years that creates leverage across all initiatives (i.e., synchronizes web-based, campus-based, and external recruiter efforts to generate greater yield than each channel could do acting independently) and provides scalability to grow without requiring proportional cost increases. For example, the University has experienced a 27% year-over-year increase in submitted applications, with significantly faster applications processing (i.e., days versus weeks), with only relatively minor year-over-year budget increases.

The relationship management system (or CRM) mentioned in the Huron report provides the real-time, centralized database to coordinate and execute all of our marketing/recruitment efforts, particularly with an external, field-based recruitment team. It also allows Western to purchase and utilize customer-specific information to target market our programs (i.e., instead of using a shotgun approach). The admissions/recruitment team has been restructured into internal sales (i.e., admissions counselors) and external sales teams (i.e., recruiters in the field, particularly on the Front Range), replacing the previous model where everyone was a jack-of-all-trades; all positions have been redefined to focus on the specific part of the recruitment funnel they are responsible for—field-based recruiters are responsible for front end of the process (i.e., generating application interest in the schools/externally), while the on-campus admissions counselors handle the application submission/admissions/deposit process further down the funnel.

This internal-external team approach allows our external recruiters to travel about 60%-80% of the time, particularly in the Front Range, versus about 20%-30% of the time previously, and also allows them to be located in the Front Range corridor, which is a four-hour drive from Gunnison. Given that two-thirds of Western's students come from the Front Range and with the Front Range experiencing much greater prospective student growth in the future, it was critical that we locate recruiters permanently there. As suggested by one of the conclusions in the Huron report, Western will continue to use a data-driven approach as we refine our overall marketing and recruitment priorities.

As it relates to data-driven decision making, Western recognizes that we have opportunities to support enrollment growth and financial sustainability by analyzing instructional costs on a per-program basis. Western has spent considerable time this past fiscal year developing a comprehensive dataset on academic program costs by discipline that will be used to inform decision making on programmatic offerings in the future.

Finally, the University is beginning work on our next strategic plan and expects that many of the same goals—enrollment growth, improved institutional outcomes, increased funding, enhanced operational efficiency—will remain a focus. Emphasis on these goals has served Western well in the past four years, resulting in marked improvements in areas such as cash flow changes, operating margins, retention and graduation rates, and overall enrollment growth. Execution and continual refinement of existing strategies are central to sustained success in these areas. We will continue to work closely with leadership in the executive and legislative branches to ensure Western's positive contributions to the state's economic and social vitality.