

COLORADO STATE UNIVERSITY SYSTEM

FINANCIAL AND COMPLIANCE AUDIT

Fiscal Year Ended June 30, 2002

**LEGISLATIVE AUDIT COMMITTEE
2002 MEMBERS**

Senator Jack Taylor
Chairman

Senator Ron Tupa
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Senator Stephanie Takis
Representative Val Vigil
Representative Al White
Representative Tambor Williams

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

TABLE OF CONTENTS

	PAGE
REPORT SUMMARY	1
Recommendation Locator.....	5
DESCRIPTION OF THE COLORADO STATE UNIVERSITY SYSTEM	6
FINDINGS AND RECOMMENDATIONS SECTION	
Colorado State University.....	10
Fort Lewis College.....	12
University of Southern Colorado.....	13
Disposition of Prior Audit Recommendations.....	15
INDEPENDENT AUDITOR’S REPORT	18
MANAGEMENT DISCUSSION AND ANALYSIS	20
FINANCIAL STATEMENTS SECTION	
Consolidated Statement of Net Assets.....	27
Consolidated Statement of Revenues, Expenses and Changes in Net Assets.....	29
Consolidated Statement of Cash Flows	30
Notes to Financial Statements.....	32

TABLE OF CONTENTS (CONTINUED)

	PAGE
Independent Auditor’s Report On Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	46
REQUIRED AUDITOR COMMUNICATIONS TO THE LEGISLATIVE AUDIT COMMITTEE	48
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION	
Introduction.....	51
Independent Auditor’s Report on the Statements of Appropriations, Expenditures, Transfers and Reversions.....	53
Statements of Appropriations, Expenditures, Transfers and Reversions.....	54
Summary of Significant Accounting Policies and Notes to Statement of Appropriations, Expenditures, Transfers and Reversions.....	60

**COLORADO STATE UNIVERSITY SYSTEM
FINANCIAL AND COMPLIANCE AUDIT
REPORT SUMMARY
FISCAL YEAR ENDED JUNE 30, 2002**

Authority, Purpose and Scope

The audit of the Colorado State University System (CSUS) was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all state agencies. The 2002 audit of CSUS was conducted under contract with Clifton Gunderson LLP. The audit was made in accordance with audit standards generally accepted in the United States of America. Audit work was performed June through September 2002.

The purposes and scope of the audit were to:

- Express an opinion on the consolidated basic financial statements of the Colorado State University System for the fiscal year ended June 30, 2002, including a review of the related internal control structure.
- Evaluate compliance with rules and regulations governing the expenditures of federal and State funds.
- Express an opinion on the Statements of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs for the fiscal year ended June 30, 2002.
- Evaluate progress in implementing prior audit recommendations.

In addition, separate independent auditor reports have been issued by Clifton Gunderson LLP for Colorado State University, by Grant Thornton LLP for the University of Southern Colorado and by Wall, Smith, Bateman and Associates, Inc. for Fort Lewis College to:

- Express an opinion on Colorado State University's Self-Liquidating Facilities financial statements, the University of Southern Colorado's Bond Funds financial statements, and Fort Lewis College's Auxiliary Facilities and Refunding and Improvement Revenue Bonds financial statements for the fiscal year ended June 30, 2002, including an evaluation of compliance with restrictive covenant provisions of bond indentures.

The financial statements and audit opinions on the bond funds financial statements of the three institutions are contained in separate reports. Schedules of federal financial assistance activity and applicable audit opinions and reports are included in the June 30, 2002 Statewide Single Audit Report issued under a separate cover by the Office of the State Auditor.

Audit Results and Summary of Major Audit Findings

Clifton Gunderson LLP expressed unqualified opinions on the consolidated basic financial statements of the Colorado State University System for the fiscal year ended June 30, 2002 and

on the financial statements of the Colorado State University Self Liquidating Facilities for the fiscal year ended June 30, 2002. Grant Thornton LLP, under contract with the State Auditor, has expressed an unqualified opinion on the University of Southern Colorado's Bond Funds financial statements for the fiscal year ended June 30, 2002. Wall, Smith, Bateman and Associates, Inc. under contract with the State Auditor, has expressed an unqualified opinion for the fiscal year ended June 30, 2002 on the Fort Lewis College's Auxiliary Facilities and Refunding and Improvement Revenue Bonds financial statements.

Clifton Gunderson LLP also expressed an unqualified opinion on the Statements of Appropriations, Expenditures, Transfers, and Reversions of State-Funded Student Assistance programs of the Colorado State University System for the fiscal year ended June 30, 2002.

Required Auditor Communications to the Legislative Audit Committee

The contract auditors are required to communicate to the Legislative Audit Committee certain matters related to the conduct of the audit and to ensure that the Legislative Audit Committee receives additional information regarding the scope and results of the audit that may assist the Legislative Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible. These matters have been communicated to the Legislative Audit Committee in this report and include among other items, that no audit adjustments were required and there were no difficulties encountered in performing the audit. Also included in this report is that there were uncorrected misstatements which would have increased assets by \$215,076, increased liabilities by \$507,273, and decreased net assets by \$292,197 on the system's consolidated basic financial statements at June 30, 2002. Management has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the consolidated basic financial statements taken as a whole. In addition, these uncorrected misstatements, in our judgment, are immaterial, both individually and in the aggregate, to the consolidated basic financial statements taken as a whole.

SUMMARY OF FINDINGS

Student and Commercial Accounts Receivable Allowances for Doubtful Accounts

Colorado State University has established a student billing plan for tuition, room and board, and other related costs. During the fiscal year ended 2002, the student accounts receivable decreased from approximately \$6,061,000 in the prior year to \$5,932,000 at year-end. The University performed an analysis of the student accounts receivable in the current year to estimate receivables that are not expected to be collectible. The allowance for doubtful accounts was adjusted accordingly. We noted that the allowance was adjusted from approximately \$2,227,000 to \$1,383,000 resulting in a reduction to bad debt expense of \$844,000.

The University also bills commercial entities for goods or services provided. During the fiscal year ended 2002, the commercial accounts receivable increased from approximately \$1,226,000 in the prior year to \$1,297,000 at year-end. An analysis of commercial accounts receivable was also performed to estimate uncollectible accounts. The allowance was adjusted from approximately \$586,000 to \$213,000 resulting in a reduction to bad debt expense of \$373,000.

Because University personnel had not adjusted the allowances in prior years based on their bad debt analysis, significant adjustments to the allowances were required in the current year. It is important that the University adjust the allowance account each year to ensure accurate receivable balances.

USC Perkins Loan Program

- Borrowers under the Federal Perkins Loan Program may be eligible for loan deferments or cancellations under certain circumstances as outlined in the Federal Perkins Loan Program guidelines. Our audit procedures included testing ten borrowers who had their loans deferred or canceled during the Fiscal Year Ended June 30, 2002. The tests determined whether appropriate documentation existed in the student loan files regarding the deferment or cancellation. For three out of ten borrowers who had their loans deferred or canceled, the University obtained signed statements from borrowers indicating financial hardship. However, the student's files did not contain adequate documentation supporting the financial hardship as required by University policies and procedures and federal guidelines.
- Loans under the Federal Perkins Loan Program, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on a 10-year repayment period. The lending institution is required to establish a repayment plan for the borrower in accordance with federal guidelines. Our audit procedures included testing the timely conversion of a student loan to repayment status for ten students who withdrew from the University or dropped below half-time status during the year. For ten out of ten students, the University's system incorrectly calculated the date that the student loan was placed into repayment status. Federal guidelines require a loan to be converted to repayment status nine months after a student ceases to be at least a half-time student. The University's system automatically calculates the date the loan converts to repayment status as the 15th day of the ninth month following the date the student actually withdraws or becomes less than a half-time student rather than on the ninth-month anniversary date. As a result, the date that a loan converts to repayment status in the system may be anywhere from one day to thirty days late. Accordingly, the University is not charging interest for the period between the ninth month anniversary date and the system's calculated repayment date.
- When a student withdraws from the University, he/she is required to notify the University's Admissions Department, Student Financial Aid Department and Records Department by providing each Department with a copy of a signed withdrawal form. When the Records Department receives the withdrawal form, the Department is required to transmit withdrawal information to the National Student Loan Data System in order to ensure that the student's loan database information is current for use by lenders and other universities. Our audit procedures included testing ten students who withdrew from the University during the year to determine that withdrawal information was appropriately transmitted to the National Student Loan Data System. For one of ten students, withdrawal information was not transmitted to the National Student Loan Data System, resulting in an incorrect student status within the national database.

Recommendations and College/University Responses

A summary of the recommendations for the above comments is included in the Recommendation Locator included at the end of this summary. The Recommendation Locator also shows the College/University's responses to the audit recommendations. A detailed description of the audit comments and recommendations is contained in the findings and recommendations section of the report.

Summary of Progress in Implementing Prior Audit Findings

The audit report of the Colorado State University System for the fiscal year ended June 30, 2001 included four recommendations. Disposition of these audit recommendations at September 27, 2002 was as follows:

Implemented	3
Partially Implemented	1
Not Implemented	<u>-</u>
	<u>4</u>

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1		Evaluate and adjust the allowance for doubtful accounts at least annually based on an analysis and estimate of uncollectible accounts receivable	Colorado State University	Agree	June 2003
2		a. Strengthen procedures to ensure that adequate documentation is obtained from borrowers to support financial hardship for deferment or cancellation of student loans.	University of Southern Colorado	Agree	November 2002
		b. Modify its loan collection program to ensure that the date a student loan enters repayment status is calculated in accordance with federal guidelines.	University of Southern Colorado	Agree	March 2003
		c. Strengthen procedures to ensure that student withdrawal information is reported to the National Student Loan Data System for all students.	University of Southern Colorado	Agree	January 2003

DESCRIPTION OF THE COLORADO STATE UNIVERSITY SYSTEM

Organization and Administration

The institutions that compose the Colorado State University System are established in Title 23, C.R.S. The State Board of Agriculture has control and supervision of three distinct institutions: Colorado State University – a land-grant university; Fort Lewis College – a liberal arts college; and the University of Southern Colorado – a regional university with a polytechnic emphasis. Effective September 1, 2002, Fort Lewis College will no longer be part of the Colorado State University System. During the 2002 Colorado legislative session, House Bill 02-1419 became law and created a Board of Trustees to be the governing authority for Fort Lewis College beginning September 1, 2002. The legislation transferred all assets and liabilities for Fort Lewis College from the State Board of Agriculture to the new Board of Trustees. The Colorado State University System consolidated basic financial statements as of June 30, 2002 include the financial data for Colorado State University, University of Southern Colorado, and Fort Lewis College. For all future years, the Colorado State University System consolidated basic financial statements will include Colorado State University and University of Southern Colorado only. Fort Lewis College will issue separate financial statements.

Effective July 1, 2003, the University of Southern Colorado will become Colorado State University – Pueblo. The Institution's role and mission will also change from that of a "general baccalaureate and polytechnic institution" to being a "regional, comprehensive university".

The Board is also responsible for the Colorado State University Agricultural Experiment Station, the Cooperative Extension Service, and the Colorado State Forest Service. The 15 member Board consists of:

- Nine voting members appointed by the Governor and confirmed by the Senate for four-year terms.
- Six advisory members representing the student bodies and the faculty councils for each of the three institutions, elected for one-year terms.

The Board administers the State Board of Agriculture Fund located in the State Treasury. The Board is authorized to fix tuition, pay expenses, and hire officials. The chief academic and administrative officers are the Chancellor of the Colorado State University System and the President of each institution.

Colorado State University – Fort Collins

In 1870, the Territorial Council and House of Representatives of the Territory of Colorado created the Agricultural College of Colorado. When the Territory became a state in 1876, the College was placed under the governance of the State Board of Agriculture.

The College began admitting its first students in 1879. It was also designated that year as Colorado's land grant college and recipient of federal endowment support under the Morrill Act of 1862. Subsequent federal legislation led to the establishment of the Agricultural Experiment Station and the Cooperative Extension Service of the University.

State legislation also made the University responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957.

OBJECTIVES AND PURPOSES

Resident Instruction

The following eight colleges offer more than 75 fields of study at the undergraduate level and 92 fields of study at the graduate level, as well as nine professional degrees.

- College of Agriculture Sciences
- College of Applied Human Sciences
- College of Arts, Humanities and Social Sciences
- College of Business
- College of Engineering
- College of Forestry and Natural Resources
- College of Natural Sciences
- College of Veterinary Medicine and Biomedical Sciences

Agricultural Experiment Station

The Agricultural Experiment Station provides a basis for agricultural research and study programs on the Fort Collins campus and at nine research centers located throughout the State. It is a public service organization that disseminates the results of its research to the public through the Cooperative Extension Service and various publications and conferences.

Cooperative Extension Service

The Cooperative Extension Service disseminates among the people of Colorado useful and practical information on subjects related to (a) agricultural production, marketing, and natural resources, (b) family living, (c) 4-H and other youth activities, and (d) rural and community development. The location of professional staff throughout the State permits the Cooperative Extension Service to respond to the needs of local communities.

Colorado State Forest Service

The Colorado State Forest Service provides management, protection, and utilization of Colorado State Forest lands.

FORT LEWIS COLLEGE – DURANGO

Fort Lewis College began operating as a two-year college in 1933. The Durango campus was opened in 1956. The first baccalaureate degrees were granted in 1964.

Its purposes are to offer a high-quality liberal arts education, to engage in experimental programs, to provide professional programs in business and education that are embedded in the liberal arts, to serve the Four Corners region, to further the higher education of Native American students, and to emphasize excellence in teaching.

UNIVERSITY OF SOUTHERN COLORADO – PUEBLO

The University of Southern Colorado was incorporated in 1935 as Southern Colorado Junior College. One year later, local citizens decided to support the institution with county taxes. They organized the Pueblo Junior College District, and the school was renamed Pueblo Junior College. In 1951, Pueblo Junior College became the first accredited junior college in Colorado.

In 1963, Colorado's General Assembly enacted legislation changing Pueblo Junior College to a four-year institution – Southern Colorado State College – to be governed by the Board of Trustees of State Colleges. By then, four new buildings had been erected on the new campus north of Pueblo's Belmont residential district. On July 1, 1975, the State Legislature granted the institution university status. Three years later, the Colorado State Board of Agriculture assumed governance of the University of Southern Colorado.

The University of Southern Colorado is accredited at the bachelor's and master's levels. The University has a threefold mission, with special emphasis on polytechnic education to:

1. Emphasize career-oriented technological and applied programs while maintaining strong programs in the liberal arts.
2. Engage in basic and applied research for the benefit of society.
3. Function as the major educational resource for cultural, industrial, and economic growth throughout the southeastern Colorado regions.

ENROLLMENT AND FACULTY

Total student FTEs (Full-Time Equivalents) for each of the past three years is as follows:

	Fiscal Year Ended June 30,		
	2002	2001	2000
Colorado State University			
Resident	16,593	16,021	16,057
Nonresident	4,875	4,691	4,764
Total	<u>21,468</u>	<u>20,712</u>	<u>20,821</u>
Fort Lewis College			
Resident	2,800	2,672	2,756
Nonresident	1,369	1,348	1,382
Total	<u>4,169</u>	<u>4,020</u>	<u>4,138</u>
University of Southern Colorado			
Resident	3,045	3,086	3,108
Nonresident	470	521	521
Total	<u>3,515</u>	<u>3,607</u>	<u>3,629</u>

Total faculty and staff Full-Time Equivalents for each of the past three years is as follows:

	Fiscal Year Ended June 30,		
	2002	2001	2000
Colorado State University			
Faculty	1,454	1,518	1,466
Staff	3,958	3,883	3,813
Total	<u>5,412</u>	<u>5,401</u>	<u>5,279</u>
Fort Lewis College			
Faculty	222	223	215
Staff	302	288	287
Total	<u>524</u>	<u>511</u>	<u>502</u>
University of Southern Colorado			
Faculty	207	225	218
Staff	197	205	203
Total	<u>404</u>	<u>430</u>	<u>421</u>

FINDINGS AND RECOMMENDATIONS SECTION

**COLORADO STATE UNIVERSITY SYSTEM
AUDITOR'S FINDINGS AND RECOMMENDATIONS**

COLORADO STATE UNIVERSITY

STUDENT AND COMMERCIAL ACCOUNTS RECEIVABLE ALLOWANCES FOR DOUBTFUL ACCOUNTS

Colorado State University has established a student billing plan for tuition, room and board, and other related costs. During the fiscal year ended 2002, the student accounts receivable decreased from approximately \$6,061,000 in the prior year to \$5,932,000 at year-end. The University performed an analysis of the student accounts receivable in the current year to estimate receivables that are not expected to be collectible. The allowance for doubtful accounts was adjusted accordingly. We noted that the allowance was adjusted from approximately \$2,227,000 to \$1,383,000 resulting in a reduction to bad debt expense of \$844,000.

The University also bills commercial entities for goods or services provided. During the fiscal year ended 2002, the commercial accounts receivable increased from approximately \$1,226,000 in the prior year to \$1,297,000 at year-end. An analysis of commercial accounts receivable was also performed to estimate uncollectible accounts. The allowance was adjusted from approximately \$586,000 to \$213,000 resulting in a reduction to bad debt expense of \$373,000.

Because University personnel had not adjusted the allowances in prior years based on their bad debt analysis, significant adjustments to the allowances were required in the current year. It is important that the University adjust the allowance account each year to ensure accurate accounts receivable balances.

Recommendation No. 1

Colorado State University should adjust the allowance for doubtful accounts at least annually based on the analysis and estimate of uncollectible accounts receivable.

Response:

Agree. Accounts Receivable Operations will follow existing procedures to evaluate the allowances for doubtful accounts and will adjust annually as appropriate.

FIRE MANAGEMENT ASSISTANCE GRANT

During fiscal year 2002, the Federal Emergency Management Agency (FEMA) awarded a \$20 million grant through the Colorado Office of Emergency Management (OEM) to Colorado State University (Colorado State Forest Service) for aiding fire-fighting efforts across the State. The costs related to the Fire Management Assistance Grant (CFDA #83.556) were incurred primarily during May, June, and July 2002 at 14 general locations. Subsequently, FEMA issued fourteen direct grant awards to the Colorado State Forest Service in July 2002 to replace the original grant awarded through the Colorado Office of Emergency Management. Accordingly, the original pass through grant from FEMA of \$20 million was eliminated in September 2002. The University recorded \$16.8 million of expenses in its accounting records for costs incurred through June 30, 2002. Of the \$16.8 million of expenses, the Colorado State Forest Service drew down \$12.8 million after June 30, 2002, which represents only a portion of the total costs considered reimbursable from FEMA.

The University is responsible for complying with applicable federal laws, rules and regulations for federal funds received under the FEMA Grant. Because this Grant met the requirements for audit under the Office of Management and Budget (OMB) Circular A-133 during fiscal year 2002, we attempted to determine the University's compliance with federal requirements. We encountered several problems and limitations to performing the necessary compliance testing for the Grant for fiscal year 2002:

- Allowability of Costs: The June 30, 2002 accrual of \$12.8 million in reimbursable expenditures was based on estimates developed by the Colorado State Forest Service in conjunction with FEMA. As of November 7, 2002, the University had received about \$5 million of actual billings from local governments and other entities, which is about 40 percent of the reimbursable amount. Therefore, documentation supporting a significant amount of the reimbursable expenditures (60 percent) was not available for testing at the completion of our audit. The Colorado State Forest Services stated that it does not expect to receive all the remaining billings for another two to three months, or possibly longer.
- Cash Management: The University did not receive any advances of federal funds during State Fiscal Year 2002. FEMA did advance the University \$12.8 million during fiscal year 2003. In addition, the Colorado State Forest must substantiate the \$12.8 million of expenses before receiving any additional funding it may be eligible for under the Grants. Thus, we could not test cash management controls during the year under audit and would need to test such controls during the following fiscal year (Fiscal Year 2003).
- Reporting Requirements: The performance periods for the Grants end between January and May 2003. The performance periods could be extended another three months if needed. The University must then file Financial Status Reports reflecting all costs incurred during the incidence periods and all administrative costs incurred during the performance periods. Consequently, these Reports will likely not be available for testing until June 2003, which is near the end of the State Fiscal Year 2003.

Because of the above limitations, we were unable to adequately test the primary compliance requirements for the Grants during our fiscal year 2002 audit. Therefore, we will test compliance for both State Fiscal Years 2002 and 2003 during the fiscal year 2003 audit.

**COLORADO STATE UNIVERSITY SYSTEM
AUDITOR'S FINDINGS AND RECOMMENDATIONS**

FORT LEWIS COLLEGE

There were no findings in the current year.

**COLORADO STATE UNIVERSITY SYSTEM
AUDITOR'S FINDINGS AND RECOMMENDATIONS**

UNIVERSITY OF SOUTHERN COLORADO

FEDERAL PERKINS LOAN PROGRAM

Federal Perkins loans are available to certain students meeting eligibility requirements established by the United States Department of Education. The loan program is partially funded by the Federal Department of Education. The Department of Education requires certain procedures to be followed by all institutions accepting Federal Perkins Loan Program funds including, but not limited to, (1) maintaining certain documentation in individual files for each borrower; (2) managing a revolving loan fund for the Program which includes the collection of loan payments; and (3) submitting data on borrowers to the National Student Loan Data System on a timely basis. If these procedures are not followed, the University risks losing these federal funds to support student attendance.

- Borrowers under the Federal Perkins Loan Program may be eligible for loan deferments or cancellations under certain circumstances as outlined in the Federal Perkins Loan Program guidelines. Our audit procedures included testing ten borrowers who had their loans deferred or canceled during the Fiscal Year Ended June 30, 2002. The tests determined whether appropriate documentation existed in the student loan files regarding the deferment or cancellation. For three out of ten borrowers who had their loans deferred or canceled, the University obtained signed statements from borrowers indicating financial hardship. However, the student's files did not contain adequate documentation supporting the financial hardship as required by University policies and procedures and federal guidelines.
- Loans under the Federal Perkins Loan Program, including accrued interest, are repayable in equal or graduated periodic installments in amounts calculated on a 10-year repayment period. The lending institution is required to establish a repayment plan for the borrower in accordance with federal guidelines. Our audit procedures included testing the timely conversion of a student loan to repayment status for ten students who withdrew from the University or dropped below half-time status during the year. For ten out of ten students, the University's system incorrectly calculated the date that the student loan was placed into repayment status. Federal guidelines require a loan to be converted to repayment status nine months after a student ceases to be at least a half-time student. The University's system automatically calculates the date the loan converts to repayment status as the 15th day of the ninth month following the date the student actually withdraws or becomes less than a half-time student rather than on the ninth-month anniversary date. As a result, the date that a loan converts to repayment status in the system may be anywhere from one day to thirty days late. Accordingly, the University is not charging interest for the period between the ninth month anniversary and the system's calculated repayment date.

- When a student withdraws from the University, he/she is required to notify the University's Admissions Department, Student Financial Aid Department and Records Department by providing each Department with a copy of a signed withdrawal form. When the Records Department receives the withdrawal form, the Department is required to transmit withdrawal information to the National Student Loan Data System in order to ensure that the student's loan database information is current for use by lenders and other universities. Our audit procedures included testing ten students who withdrew from the University during the year to determine that withdrawal information was appropriately transmitted to the National Student Loan Data System. For one of ten students, withdrawal information was not transmitted to the National Student Loan Data System, resulting in an incorrect student status within the national database.

Recommendation No. 2

The University of Southern Colorado should for the Federal Perkins Loan Program:

- a. Strengthen procedures to ensure that adequate documentation is obtained from borrowers to support financial hardship for deferment or cancellation of student loans.
- b. Modify its loan collection program to ensure that the date a student loan enters repayment status is calculated in accordance with federal guidelines.
- c. Strengthen procedures to ensure that student withdrawal information is reported to the National Student Loan Data System for all students.

University of Southern Colorado Response:

Agree. The University of Southern Colorado has made significant improvements in the management of the Federal Perkins Loan Program in the past fiscal year, and further improvements are planned:

- a. A supervisor will review and approve on all documentation from borrowers requesting a financial hardship deferment of their Federal Perkins Loan.
- b. This is a function of the software used to manage the Perkins program. We will review federal requirements applicable to the Perkins Loan Program.
- c. The University will work to strengthen the process with other University departments to ensure all student withdrawals are transmitted to the National Student Loan Data System.

DISPOSITION OF PRIOR AUDIT RECOMMENDATIONS

The following are the audit recommendations included in the prior audit report of the Colorado State University System for the fiscal year ended June 30, 2001, and their disposition at September 27, 2002:

COLORADO STATE UNIVERSITY

There were no audit recommendations in the prior year for Colorado State University.

FORT LEWIS COLLEGE

Recommendation	Disposition
1. The College should improve operations of its residence halls by accounting for costs of individual auxiliary activities, researching the capability of the Banner Computer System and have the athletic director sign the room waiver roster to signify authorization of the room waivers.	Implemented

UNIVERSITY OF SOUTHERN COLORADO

Recommendation

2. The University of Southern Colorado should: (a) implement procedures to ensure that the required addendum to the promissory notes is provided to all students and included with the promissory note in the borrower's Federal Perkins Loan file; (b) implement procedures to ensure that contact with borrowers during grace periods is performed on a timely basis; (c) implement procedures to ensure that adequate documentation is obtained from students to support deferment of payments or canceled loans; (d) implement procedures to ensure that contact and attempted contact with borrowers in default is performed as required by the Department of Education; (e) conduct exit counseling with borrowers either in person, by audiovisual presentation or by interactive electronic means shortly before the student graduates or drops below half-time enrollment as required by the Department of Education; (f) ensure that individuals responsible for due diligence related to the Federal Perkins Loan Program are properly trained and maintain current knowledge of Department of Education requirements; (g) consider outsourcing the database administration and collection function for Federal Perkins Loans to a third party.
3. The University of Southern Colorado should implement procedures to ensure that returns of Title IV funds are calculated for all applicable students, calculated accurately and returned to Title IV programs on a timely basis as required. The University should consider having a staff person familiar with returns of Title IV funds review the calculations made by other staff.

Disposition

Partially implemented. The University has implemented procedures to address all parts of the recommendation except for part (c). We noted instances in our current year testing where documentation supporting the reason for deferment or cancellation of loan payments was not evident in the student's loan file. See current year recommendation no. 2.

Implemented.

Recommendation

4. The University of Southern Colorado should: (a) revise the 10-year repair and replacement plan to more accurately reflect when repairs and replacements will take place; (b) have the Director of Residence Life and Housing review the reconciliations of resident students to student billings and review and approve all refund vouchers and forfeiture memos prepared by her assistant; (c) obtain and review the monthly reports for the Walking Stick Apartments as required by the operating and management agreement and request that the proposed budget and rental rates be submitted by the May 15 deadline as required by the operating and management agreement.

Disposition

Implemented.

Independent Auditor's Report

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the consolidated basic financial statements of the Colorado State University System, an institution of the State of Colorado, as of and for the year ended June 30, 2002. These consolidated basic financial statements are the responsibility of the Colorado State University System's management. Our responsibility is to express an opinion on these consolidated basic financial statements based on our audit.

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

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the financial position of the Colorado State University System at June 30, 2002, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Colorado State University System adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*; Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Government: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002 on our consideration of the Colorado State University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Clifton Gunderson LLP

Denver, Colorado
September 27, 2002

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Management Discussion and Analysis

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System for the fiscal year ended June 30, 2002. This discussion and analysis provides an analysis of the System's financial activities based on currently known facts, decisions or conditions. Since this is a transition year for this financial reporting format, only one year of financial data is presented. In future years, when prior-year information is available, a comparative analysis of financial data will be presented.

Financial Highlights

The financial position of the Colorado State University System improved during the fiscal year ended June 30, 2002. Net assets increased approximately \$41.7 million (7.3 percent). This is primarily attributable to an increase in investment in plant.

One area of concern is the continuing uncertainty of State revenues. During FY 2001-02, the State General Fund appropriation for the Colorado State University System was reduced mid-year by 3.68 percent. The State's economic condition has not yet stabilized, and we start FY 2002-03 with a General Fund restriction of 4.31 percent of our appropriation.

Another aspect of the deterioration of State revenues was realized through the State-funded capital construction process. The System began the year with 10 State funded capital construction projects; five of these projects were cancelled during the year. Similar to the operating budget, the outlook for capital construction funding remains uncertain.

The State's budgetary restriction, the Taxpayer's Bill of Rights, or TABOR, continues to provide fiscal challenges to the institutions. This limitation on the growth of all State revenues (including resident and nonresident tuition) will continue to provide a challenge for each of the institutions.

The most critical component in the financial health of the System remains enrollment, and enrollment increased by 2.9 percent in the year ending June 30, 2002 (resident and nonresident full-time equivalent over the prior year). Projections in this area remain strong.

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The Statement of Net Assets presents information at a specific point in time. The purpose of this statement is to present a financial snapshot of the System as of June 30, 2002. The Statement of Net Assets presents end-of-year data concerning Assets, Liabilities, and Net Assets (Assets minus Liabilities).

Colorado State University System
Condensed Statement of Net Assets
June 30, 2002
(000's Omitted)

	<u>CSUS Total</u>
Current Assets	\$ 269,845
Noncurrent Assets	<u>551,510</u>
 Total Assets	 <u>\$ 821,355</u>
 Current Liabilities	 \$ 100,812
Noncurrent Liabilities	<u>105,328</u>
 Total Liabilities	 <u>\$ 206,140</u>
 Net Assets:	
Invested in capital assets, net of related debt	\$ 438,480
Restricted	57,399
Unrestricted	<u>119,336</u>
 Total Net Assets	 <u>\$ 615,215</u>

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Statement of Revenues, Expenses and Changes in Net Assets

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

Colorado State University System
Condensed Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year Ended June 30, 2002
(000's Omitted)

	<u>CSUS Total</u>
Operating Revenues	
Tuition and Fees, Net	\$ 137,298
Grants and Contracts	201,604
Auxiliary Enterprises	122,158
Other	<u>33,801</u>
Total Operating Revenues	<u>494,861</u>
Operating Expenses	
Instruction	179,971
Research	119,014
Public Service	78,309
Academic Support	40,362
Student Services	27,683
Institutional Support	25,936
Operation and Maintenance of Plant	48,277
Scholarships and Fellowships	12,672
Auxiliary Enterprises	111,996
Depreciation	32,691
Other Expenses	<u>1,624</u>
Total Operating Expenses	<u>678,535</u>
Operating Loss	<u>(183,674)</u>
Nonoperating Revenues (Expenses)	
State Appropriations	151,156
Other Net Nonoperating Revenues	<u>26,864</u>
Net Nonoperating Revenues (Expenses)	<u>178,020</u>

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Income (Loss) Before Other Revenues, Expenses, Gains or Losses	<u>(5,654)</u>
State Capital Contributions	39,042
Capital Gifts	7,968
Transfers	(583)
Other	<u>998</u>
Increase in Net Assets	<u>\$ 41,771</u>
Net Assets:	
Net Assets - Beginning of Year	573,444
Net Assets - End of Year	615,215

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Statement of Cash Flows

The Statement of Cash Flows reports relevant information about the cash receipts and cash payments of the Colorado State University System during the fiscal year ended June 30, 2002.

Colorado State University System
Condensed Statement of Cash Flows
Fiscal Year Ended June 30, 2002
(000's Omitted)

	<u>CSUS Total</u>
Cash Provided (Used) by:	
Operating Activities	\$ (131,508)
Noncapital Financing Activities	166,241
Capital and Related Financing Activities	(32,109)
Investing Activities	14,619
Net Increase (Decrease) in Cash	17,243
Cash - Beginning of Year	200,061
Cash - End of Year	\$ 217,304

Capital Assets

At June 30, 2002, the Colorado State University System had approximately \$500.9 million invested in capital assets, net of accumulated depreciation of \$357.6 million. Depreciation charges were approximately \$32.7 million for the current year.

During FY 2001-02, the following State funded projects received their final appropriation:

- Colorado State University Chemistry/Biology Instructional Labs
- Fort Lewis College Hesperus Hall Replacement
- Fort Lewis College Exercise Science Building Renovation, Project 1
- University of Southern Colorado, Life Sciences and Physics/Math Building Renovation

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Due to the decrease in State revenues, the State delayed five State funded capital construction projects scheduled for FY 2001-02:

Colorado State University, University Center for the Arts
 Colorado State University, San Luis Valley Research Center Improvement
 Colorado State University, Information and Instructional Technology
 Fort Lewis College, Berndt Hall Reconstruction
 University of Southern Colorado, Health, Physical Education, Recreation Reconstruction

In addition, the System completed the following projects with no State funds:

Fort Lewis College, Student Life Center Building
 Colorado State University, Atmospheric Science Building Renovation and Addition

Colorado State University System
 Capital Assets, Net of Accumulated Depreciation
 June 30, 2002
 (000's Omitted)

	<u>CSUS Total</u>
Investment in Capital Assets, Net of Accumulated Depreciation	\$ 500,901
Accumulated Depreciation	357,594
Total	\$ 858,495
 Depreciation Charges for Current Year	 \$ 32,691
 Capital Assets, Net, at Year-End	
Land	\$ 7,939
Land Improvements	34,774
Buildings & Improvements	316,278
Leasehold Improvements	141
Construction in Progress	70,204
Equipment	43,103
Library Materials	26,410
Collections	2,052
 Total	 \$ 500,901

**COLORADO STATE UNIVERSITY SYSTEM
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2002**

Debt and Long Term Liabilities

At June 30, 2002, the Colorado State University System had approximately \$114,113 million of debt and long-term liabilities outstanding at June 30, 2002 (000's omitted.)

	<u>CSUS</u>
Revenue Bonds	\$ 72,630
Capital Lease Obligations	2,912
Other Long Term Liabilities	11,804
Compensated Absence Liabilities	<u>26,767</u>
 Total Debt and Long Term Liabilities:	 <u>\$ 114,113</u>

Economic Outlook/Future of the Colorado State University System

The State's economic condition remains in flux. State revenues have not yet rebounded, and we begin FY 2002-03 with a General Fund restriction of 4.31 percent. Current budgetary shortfalls suggest this restriction may increase at some point during the fiscal year.

Institutions continue to be challenged by the provisions of the Taxpayer's Bill of Rights (TABOR), which established a cap on all State revenues, including resident and nonresident tuition and most student fees.

Effective July 1, 2003, the University of Southern Colorado will become Colorado State University – Pueblo. The institution's role and mission will also change from that of a "general baccalaureate and polytechnic institution" to being a "regional, comprehensive university". The legislation also contemplates additional collaborations between Colorado State University and Colorado State University – Pueblo.

Effective September 1, 2002, Fort Lewis College was separated from the Colorado State University System and given its own governing board. The legislation provides that all assets and liabilities for Fort Lewis College be transferred to the new Board of Trustees. FY 2001-02 will be the last year Fort Lewis College is reported in the consolidated basic financial statements as a component of the Colorado State University System.

FINANCIAL STATEMENT SECTION

COLORADO STATE UNIVERSITY SYSTEM
CONSOLIDATED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2002

(Dollars in 000's)
June 30, 2002

ASSETS

Current Assets

Cash and Cash Equivalents	\$202,407
Student Accounts Receivable, Net	5,308
Other Accounts Receivable, Net	47,639
Student Loans Receivable, Net	3,635
Inventories	8,901
Prepaid Expenses	<u>1,955</u>
Total Current Assets	<u>269,845</u>

Noncurrent Assets

Restricted Cash and Cash Equivalents	14,897
Restricted Investments	14,555
Student Loans Receivable, Net	21,022
Prepaid Expenses	<u>135</u>
Total	<u>50,609</u>

Non-depreciable Capital Assets

Land	7,939
Land Improvements	2,019
Construction In Process	70,204
Collections	<u>2,052</u>
Total Non-depreciable Capital Assets:	<u>82,214</u>

Depreciable Capital Assets, Net

Land Improvements (Less Accumulated Depreciation of \$15,731)	32,755
Building and Improvements (Less Accumulated Depreciation of \$187,204)	316,278
Leasehold Improvements (Less Accumulated Depreciation of \$1,259)	141
Equipment (Less Accumulated Depreciation of \$113,846)	43,103
Library Materials (Less Accumulated Depreciation of \$39,554)	<u>26,410</u>
Total Depreciable Capital Assets, Net	<u>418,687</u>

Total Noncurrent Assets

551,510

TOTAL ASSETS

\$821,355

(Dollars in 000's)
June 30,2002

LIABILITIES

Current Liabilities

Accounts Payable	\$18,863
Accrued Liabilities	46,770
Deferred Revenue	23,011
Deposits Held for Others	3,383
Bonds Payable, Current Portion	5,445
Capital Leases Payable, Current Portion	1,437
Other Long Term Liabilities, Current Portion	147
Compensated Absence Liabilities, Current Portion	<u>1,756</u>
Total Current Liabilities	<u>100,812</u>

Noncurrent Liabilities

Bonds Payable	67,185
Capital Leases Payable	1,475
Other Long Term Liabilities	11,657
Compensated Absence Liabilities	<u>25,011</u>
Total Noncurrent Liabilities	<u>105,328</u>

TOTAL LIABILITIES \$206,140

NET ASSETS

Invested In Capital Assets, Net of Related Debt	438,480
Restricted for Nonexpendable Purposes - Endowment	17,392
Restricted for Expendable Purposes - Endowment	6,993
Restricted for Expendable Purposes - Other	33,014
Unrestricted	<u>119,336</u>

TOTAL NET ASSETS \$615,215

These financial statements should be read only in connection with
the accompanying notes to financial statements

COLORADO STATE UNIVERSITY SYSTEM
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30,2002

	(Dollars in 000's)
	<u>2002</u>
REVENUES	
Operating Revenues	
Student Tuition and Fees, (including \$14,456 of revenues pledged for bonds and net of scholarship allowances of \$37,925)	\$137,298
Grants and Contracts (including \$26,629 of revenues pledged for bonds)	201,604
Sales and Services of Educational Activities	12,920
Auxiliary Enterprises, (including \$83,162 of revenues pledged for bonds and net of scholarship allowances of \$3,610)	122,158
Other Operating Revenue	20,881
Total Operating Revenues	<u>494,861</u>
EXPENSES	
Operating Expenses	
Instruction	179,971
Research	119,014
Public Service	78,309
Academic Support	40,362
Student Services	27,683
Institutional Support	25,936
Operation and Maintenance of Plant	48,277
Scholarships and Fellowships	12,672
Auxiliary Enterprises	111,996
Depreciation	32,691
Other Expenses	1,624
Total Operating Expenses	<u>678,535</u>
Operating Loss	<u>(183,674)</u>
NON-OPERATING REVENUES AND EXPENSES	
State Appropriations	151,156
Gifts	15,947
Investment Income	14,411
Interest Expense on Capital Debt	(4,285)
Other Non-Operating Revenues	791
Net Non-Operating Revenues and Expenses	<u>178,020</u>
Loss Before Other Revenues, Expenses, Gains or Losses	<u>(5,654)</u>
OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS	
State Capital Contributions	39,042
Capital Grants	1,613
Capital Gifts	7,968
Loss on Disposal of Assets	(615)
Transfer (To)/From Governing Boards or Other Institutions	(583)
Total Other Revenues, Expenses, Gains, Losses or Transfers	<u>47,425</u>
Increase in Net Assets	<u>\$41,771</u>
NET ASSETS	
Net Assets - Beginning of Year, Restated	\$573,444
Net Assets - End of Year	\$615,215

These financial statements should be read only in connection with
the accompanying notes to financial statements.

COLORADO STATE UNIVERSITY SYSTEM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

(Dollars in 000's)
2002

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received	
Tuition and Fees	\$136,191
Student Loans Collected	5,122
Sales of Products	26,305
Sales of Services	108,830
Grants, Contracts and Gifts	185,425
Other Operating Receipts	20,147
Cash Payments	
Scholarships Disbursed	(29,527)
Student Loans Disbursed	(4,723)
Payments to or for Employees	(387,688)
Payments to Suppliers	(191,526)
Other Operating Payments	(64)
Net cash used by operating activities	<u>(131,508)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations - Non-capital	151,156
Gifts and Grants for Other than Capital Purposes	15,967
Agency (Direct Lending inflows)	69,934
Agency (Direct Lending outflows)	(69,922)
Other Agency (inflows)	25,026
Other Agency (outflows)	(25,317)
Transfers (to)/from other campuses, board, or institution	(603)
Net cash provided by non-capital financing activities	<u>166,241</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State Appropriations - Capital	34,818
Capital Grants, Contracts and Gifts	6,682
Proceeds from Sale of Capital Assets	329
Acquisition and Construction of Capital Assets	(62,399)
Principal Paid on Capital Debt	(7,292)
Interest on Capital Debt	(4,247)
Net cash used by capital and related financing activities	<u>(32,109)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale and maturities of investments	2,052
Investment earnings (interest, dividends)	14,765
Purchase of investments	(2,198)
Net cash provided by investing activities	<u>14,619</u>

Net Increase in Cash and Cash Equivalents	17,243
Cash and Cash Equivalents at the Beginning of the Year	200,061
Cash and Cash Equivalents at the End of the Year	<u>\$217,304</u>

	(Dollars in 000's)
	<u>2002</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	(183,674)
Adjustments:	
Depreciation Expense	32,691
Noncash operating transactions	934
Decrease (increase) in assets	
Receivables, net	(16,985)
Inventories and Prepaids	511
Increase (decrease) in liabilities	
Accounts payable	850
Accrued liabilities	28,240
Deferred revenue	360
Deposits held for others	(27)
Compensated absence liabilities	2,298
Other Long Term Liabilities	<u>3,294</u>
Net cash used by operating activities	<u>(131,508)</u>
NON CASH ACTIVITIES	
Equipment purchased through capital lease	<u>\$785</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

COLORADO STATE UNIVERSITY SYSTEM
CONSOLIDATED BASIC FINANCIAL STATEMENTS
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Governance: The Colorado State University System (the "System") is an institution of the State of Colorado. As of June 30, 2002, the "State Board of Agriculture" was the name of the governing board of the Colorado State University system. Effective July 1, 2002, the name of the governing board was changed to the "Board of Governors of the Colorado State University System." The governing board consists of nine members appointed by the Governor of Colorado and six non-voting representatives from the institutions. The annual appropriations and the funding for construction of capital facilities of the institutions are evidence of a financial burden of the State. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

Reporting Entity: The accompanying financial statements present the consolidated operations of the Colorado State University System. The system conducts its operations over the following three institutions:

Colorado State University – Fort Collins (CSU)
Fort Lewis College – Durango (FLC)
University of Southern Colorado – Pueblo (USC)

Since Colorado State University is the State's Land Grant Institution, it includes the Agriculture Experiment Station, Cooperative Extension Service and Colorado State Forest Service. In addition, the accompanying financial statements contain the financial position and change in financial position of the System Offices. Unaudited financial statements are available upon request from each of the component institutions.

Effective September 1, 2002, Fort Lewis College will no longer be part of the Colorado State University System. During the 2002 Colorado legislative session, House Bill 02-1419 became law and created a Board of Trustees to be the governing authority for Fort Lewis College beginning September 1, 2002. The legislation transferred all assets and liabilities for Fort Lewis College from the State Board of Agriculture to the new Board of Trustees. The Colorado State University System consolidated basic financial statements as of June 30, 2002 include the financial data for Colorado State University, University of Southern Colorado, and Fort Lewis College. For all future years, the Colorado State University System consolidated basic financial statements will include Colorado State University and University of Southern Colorado only. Fort Lewis College will issue separate financial statements.

Effective July 1, 2003, the University of Southern Colorado will become Colorado State University – Pueblo. The institution's role and mission will also change from that of a "general baccalaureate and polytechnic institution" to being a "regional, comprehensive university".

Any effort to reconcile this report with presentations made for other purposes, such as data submitted with the legislative budget request of the System, must take into consideration the differences in the basis of accounting and other requirements for the presentation of such information.

Financial Statement Presentation: In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The system also adopted Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government: Omnibus*, and Statement No 38 *Certain Financial Statement Disclosures*. The State of Colorado implemented GASB No. 34 for the year ended June 30, 2002. As a component unit of the State of Colorado, the Colorado State University System was also required to adopt GASB No. 34 and No. 35 for the year ended June 30, 2002. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Colorado State University System's assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group financial reporting perspective that was previously required.

The Colorado State University System has elected not to restate its prior year financial statements to conform with the new financial statement presentation. In future years, when prior year information is available, comparative financial statement information will be presented.

As a result of the adoption of GASB Statement No. 34 and 35, the system was required to make certain changes in accounting principles. The significant changes in accounting principles consisted of (1) adoption of depreciation on capital assets, (2) the reporting of deferred revenue for grants, and (3) the recording of certain summer session revenues between fiscal years rather than in the fiscal year in which the summer session was predominantly conducted. Beginning net assets for fiscal year 2002 were reduced by \$ 349,944,000 for the cumulative effect of the change in accounting principle on years prior to fiscal year 2002.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Colorado State University System does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity of three months or less. Cash equivalents on the Statement of Net Assets have been adjusted to reflect the unrealized gain on investments per GASB Statement No. 31. The adjustment to fair value is based on quoted market prices.

Inventories: Inventories, consisting of livestock, facilities and housing maintenance supplies, medical, pharmaceutical and laboratory supplies, food supplies, books, and soft-goods, are stated at the lower of cost or market; cost being determined either on the first in/first out, average cost, specific identification, or on the retail method. Livestock inventories have been recorded at lower of cost or market using unit livestock costing methods and estimated animal weights.

Investments: Investments are accounted for at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

Capital Assets: Property, buildings and equipment are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Capitalization limits vary at the three institutions. At Colorado State University, library books are valued at average acquisition cost. At Fort Lewis College and the University of Southern Colorado, library books are valued at actual cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for buildings, 20 to 50 years for land improvements, 10 to 15 years for library books, and 3 to 10 years for equipment.

During capital construction, interest cost is capitalized from the date of tax-exempt borrowing to the date the qualifying assets is ready for use. Once the capital asset is ready for use, the net cost of interest on the tax-exempt borrowing is capitalized and added to the acquisition cost of the asset.

Compensated Absence Liabilities: The compensated absence liability is determined assuming last-in-first-out (LIFO) usage of earned hours. The amount of compensated absence liability that is recorded as a current liability on the statement of net assets is the higher of the historical annual amount of separation payouts or the known amount of separation payouts. The remaining balance of the compensated absence liability is recorded as a long-term liability on the statement of net assets.

Net Assets: Net Assets are classified as follows:

Invested in capital assets, net of related debt: This represents the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

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

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

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational activities and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the system, and may be used to meet current expenses for any purposes. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Classification of Revenues: The system has classified revenues as either operating or nonoperating according to the following criteria:

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues: Generally result from providing goods and services for instruction, research, public service or related support services to an individual or entity separate from the institution.

Nonoperating Revenues: Are those revenues not included as operating or other revenues. Nonoperating revenues include State appropriations for operations, gifts, and investment income.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the emergency firefighting accrual.

NOTE 2 – CASH AND CASH EQUIVALENTS

With the exceptions noted later in this footnote, each institution manages its own cash. As of June 30, 2002, the System had \$209,752,000 on deposit with the State Treasurer. Interest earned on cash on deposit with the State for fiscal year ended June 30, 2002 was \$12,980,000. These amounts reflect an increase in cash of \$4,981,000 and an increase in investment income of \$1,912,000 as a result of recording unrealized gains on cash on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office. At June 30, 2002 the System's cash not on deposit with the State Treasurer was \$7,552,000. At June 30, 2002 cash included petty cash/change funds of \$213,000 and bank accounts of \$7,339,000. Of the \$15,963,000 balance per the banks for these accounts, \$13,633,000 was insured by the FDIC or the FSLIC or was fully collateralized with securities held by the State or its agent in the State's name. The remaining \$2,330,000 was uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. At June 30, the difference between the System's cash not on deposit with the State Treasurer and the balance per the banks was due to outstanding checks and deposits in transit.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying statement of net assets. At June 30, 2002 accounts receivable consisted of the following.

Student Accounts Receivable	\$ 7,798,919	
<i>Less: Allowance for Doubtful Accounts</i>	<u>(2,491,139)</u>	
Student Accounts Receivable, net		\$ 5,307,780
Student Loans Receivable	27,974,828	
<i>Less: Allowance for Doubtful Accounts</i>	<u>(3,318,114)</u>	
Student Loans Receivable, net		24,656,714
Other Accounts Receivable		
Sponsored Programs	21,246,872	
Vendor Credits	278,401	
Conferences and Summer Programs	2,392,355	
Athletics	346,383	
Other	<u>24,893,485</u>	
Total Other Accounts Receivable	49,157,496	
<i>Less: Allowance for Doubtful Accounts</i>	<u>(1,518,813)</u>	
Other Accounts Receivable, net		<u>47,638,683</u>
Total Accounts Receivable, net		<u>\$ 77,603,177</u>

NOTE 4 – INVESTMENTS

As of June 30, 2002, System investments with a fair value of \$14,555,000 were categorized to give an indication of the level of risk assumed by the System. Of this total, \$3,369,000 were investments insured or registered in the Universities' name or held by the Universities or their custodial agents in the Universities' name and \$11,186,000 were investments held by the Universities' Foundations, not evidenced by securities that exist in physical or book form. Of the \$14,550,000 in investments, \$3,369,000 was invested in U.S. Treasury obligations and \$11,181,000 was invested as part of the Institutions' Foundation Long Term Endowment Pool. The Foundations' Endowment Pool, recorded at fair value, included money market funds, U.S. Treasury bonds and notes, corporate bonds and notes, and common stock. Investment earnings for the fiscal year 2002 were \$212,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE – 5 CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2002:

	Year Ended June 30, 2002			
	Beginning			Ending
	Balance	Additions	Retirements	Balance
Land	\$ 5,713,188	\$ 2,231,712	\$ 6,255	\$ 7,938,645
Land Improvements	40,489,714	10,895,785	880,976	50,504,523
Buildings and Improvements	455,572,793	49,044,296	1,135,008	503,482,081
Construction In Progress	69,450,382	58,217,329	57,463,542	70,204,169
Leasehold Improvements	1,400,453	-	-	1,400,453
Equipment	160,676,017	14,733,330	18,460,344	156,949,003
Library Materials	60,475,529	5,758,365	269,785	65,964,109
Collections	1,937,995	220,537	106,792	2,051,740
Total Capital Assets	795,716,071	141,101,354	78,322,702	858,494,723
Less Accumulated Depreciation:				
Land Improvements	13,978,164	1,813,341	60,976	15,730,529
Buildings and Improvements	174,347,783	13,947,936	1,091,476	187,204,243
Leasehold Improvements	1,202,530	56,917	-	1,259,447
Equipment	107,762,588	12,674,410	6,590,691	113,846,307
Library Materials	35,625,566	4,197,922	269,786	39,553,702
Total Accumulated Depreciation	332,916,631	32,690,526	8,012,929	357,594,228
Total Capital Assets, net	\$462,799,440	\$108,410,828	\$ 70,309,773	\$500,900,495

NOTE 6 – ACCRUED LIABILITIES

The current Accrued Liabilities balance of \$ 46,770,341 presented on the Statement of Net Assets is comprised of:

Accrued Payroll & Benefits	\$ 17,659,820
Accrued Interest Payable	1,045,725
Emergency Firefighting Accrual	18,885,130
Other Liabilities	9,179,666
Total:	<u>\$ 46,770,341</u>

The emergency firefighting accrual of \$18,885,130 is based on estimates developed by the State Forest Service related the wild fires that took place during the year ended June 30, 2002.

NOTE 7 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Balance			Amounts	
	6/30/2001	Additions	Reductions	Balance	due within
				6/30/2002	one year
Bonds and capital lease obligations					
Revenue bonds and COP's payable	\$ 78,208,192	\$ -	\$ 5,578,192	\$ 72,630,000	\$ 5,445,000
Capital leases payable	3,851,825	784,783	1,723,831	2,912,777	1,437,417
Total bonds and capital leases	82,060,017	784,783	7,302,023	75,542,777	6,882,417

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2002

NOTE 7 – LONG-TERM LIABILITIES (Continued)

Other liabilities

Accrued compensated absences	24,469,150	2,437,321	138,956	26,767,515	1,756,212
Other	8,882,271	4,000,693	1,079,914	11,803,050	146,534
Total long-term liabilities	<u>\$115,411,438</u>	<u>\$ 7,222,797</u>	<u>\$ 8,520,893</u>	<u>\$114,113,342</u>	<u>\$ 8,785,163</u>

NOTE 8 – REVENUE BONDS, CERTIFICATES OF PARTICIPATION

Revenue Bonds and Certificates of Participation (COPS)

Revenue bonds and COPS payable consisted of the following at June 30, 2002:

	<u>Revenue Bonds Payable 2002</u>
<u>Colorado State University:</u> Colorado State University Auditorium-Gymnasium and Stadium Bonds of 1967, issued in the original amount of \$4,400,000 and mature in varying annual amounts to August 2002. Interest ranges from 4.50% to 5.00%, payable semi-annually.	\$ 265,000
Colorado State University Student Sports Recreational Facilities Bonds of 1993, issued in the original amount of \$7,750,000 and mature in varying annual amounts to April 2009. Interest ranges from 2.75% to 5.40%, payable semi-annually.	4,560,000
Colorado State University Student Sports Recreational Facilities Bonds of 1998, issued in the original amount of \$2,785,000 and mature in varying annual amounts to April 2017. Interest ranges from 3.80% to 5.125%, payable semi-annually.	2,370,000
Colorado State University Auxiliary Facilities Bonds of 1992, issued in the original amount of \$19,830,000 and mature in varying annual amounts to March 2017. Interest ranges from 3.00% to 6.40%, payable semi-annually.	8,170,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of \$17,380,000 and mature in varying annual amounts to March 2008. Interest ranges from 3.80% to 5.60%, payable semi-annually.	9,160,000
Colorado State University Auxiliary Facilities Bonds of 1997, issued in the original amount of \$13,420,000 and mature in varying annual amounts to March 2017. Interest ranges from 3.85% to 5.125%, payable semi-annually.	12,675,000
Colorado State University Research Building and Revolving Fund Bonds of 1997, issued in the original amount of \$4,420,000 and mature in varying annual amounts to December 2008. Interest ranges from 4.00% to 4.60%, payable semi-annually.	3,275,000
Colorado State University Research Building and Revolving Fund Bonds of 2001, issued in the original amount of \$6,965,000 and mature in varying annual amounts to December 2010. Interest ranges from 4.00% to 4.30%, payable semi-annually.	6,425,000
Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPS) for finance or refinance of construction, other acquisition and equipping of buildings with a value of \$4,709,000. The COPS bear interest ranges from 4.45% to 5.13%, payable semi-annually with a final maturity in 2018.	<u>4,180,000</u>
Total Colorado State University Revenue Bonds and Certificates of Participation	<u>\$51,080,000</u>
<u>Fort Lewis College</u> Auxiliary Facilities Refunding and Improvement Revenues Bonds, Series 1992, issued in the original amount of \$5,755,000, due serially on October 1 of each year in various amounts maturing in 2008. Interest rates ranges from 5.40% to 6.50%, payable semi-annually.	\$ 3,875,000
Auxiliary Facilities Enterprise Refunding Revenues Bonds, Series 1998A, issued in the original amount of \$5,130,000, due serially on October 1 of each year in various amounts maturing in 2012. Interest ranges from 3.85% to 4.70%, payable semi-annually.	5,115,000
Student Life Center Revenue Bonds, Series 1998B, issued in the original amount of \$5,740,000, due serially on October 1 of each year in various amounts maturing in 2012. Interest ranges from 3.85% to 4.70%, payable semi-annually.	5,400,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 8 – REVENUE BONDS, CERTIFICATES OF PARTICIPATION (Continued)

Student Life Center Revenue Bonds, Series 1998C, issued in the original amount of \$3,090,000, due serially on October 1 of each year in various amounts maturing in 2019. Interest ranges from 4.75% to 5.00%, payable semi-annually. 3,090,000

Total Fort Lewis College Revenue Bonds Payable \$17,480,000

University of Southern Colorado

Student Sports Recreational Facility Bonds, Series 1998B, issued in the original amount of \$1,555,000 and mature in varying annual amounts to May 2003. Interest ranges from 6.5% to 8.25%, payable semi-annually. \$ 310,000

Recreational Facilities Bonds, Series 1992, issued in the original amount of \$5,745,000 and mature in varying annual amounts to August 2011. Interest ranges from 3.4% to 6.375%, payable semi-annually. 3,760,000

Total University of Southern Colorado Revenue Bonds Payable \$ 4,070,000

System Total Revenue Bonds and Certificates of Participation \$ 72,630,000

Maturities of principal and interest requirements on revenue bonds and certificates of participation are as follows:

	Principal	Interest	Total Payments
2003	\$ 5,445,000	\$ 3,714,568	\$ 9,159,568
2004	5,115,000	3,439,688	8,554,688
2005	5,380,000	3,179,694	8,559,694
2006	5,665,000	2,900,881	8,565,881
2007	5,950,000	2,604,349	8,554,349
2008-2012	27,980,000	8,267,917	36,247,917
2013-2017	15,160,000	2,736,433	17,896,433
2018-2022	1,935,000	149,025	2,084,025
Totals	<u>\$72,630,000</u>	<u>\$ 26,992,555</u>	<u>\$99,622,555</u>

NOTE 9 - DEFEASED OBLIGATIONS

In 1984, Series 1984A and 1984B CSU Revenue bonds, retired during fiscal year 1995, were issued to refund the Student Housing, Student Center, Student Health, Furnishings and 1977 Series Veterinary Hospital Revenue Bonds. Funds sufficient to make all future principal and interest payments were placed in trust with an escrow agent. At June 30, 2002, only Student Housing has issues still outstanding.

On July 1, 1992, USC Auxiliary Facilities Refunding and Improvement Revenue Bonds refunded the 1986 Auxiliary Facilities Acquisition and Improvement Bonds. Funds sufficient to make all future principal and interest payments were placed in trust with an escrow agent.

Defeased Bond Obligations are as follows:

	Issue Amount	Remaining June 30, 2002
Colorado State University 1962-1974 Student Housing	\$16,835,000	\$ 2,875,000
Fort Lewis College Series 1992 Auxiliary Improvement and Refunding	4,570,000	4,570,000
Fort Lewis College Series 1963-83 Auxiliary Acquisition and Refunding	7,998,000	3,332,000
University of Southern Colorado Series 1972 and 1986	8,935,000	10,000
TOTAL	<u>\$38,338,000</u>	<u>\$10,787,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 10- CAPITAL LEASE OBLIGATIONS

The following is a schedule of the System's future minimum lease payments for obligations under capital leases for each of the five subsequent fiscal years and for five-year increments thereafter.

Fiscal Year	Total
<u>Ending June 30</u>	
2003	\$ 1,606,849
2004	735,197
2005	468,684
2006	302,009
2007	75,425
2008-2012	<u>38,019</u>
Minimum Future Lease Payments:	3,226,183
Less: Amount Representing Interest	<u>313,406</u>
Present Value of Minimum Lease Payments:	<u>\$ 2,912,777</u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2002, the System had capital lease obligations in effect with a capitalized asset cost of \$ 10,830,717, accumulated depreciation of \$5,897,809 and a related outstanding liability of \$ 2,912,777.

NOTE 11 - OPERATING LEASES

The following is a schedule of the System's aggregate minimum rental commitment for operating leases of real and personal property for each of the five subsequent fiscal years and for five-year increments thereafter.

Fiscal Year	Future Minimum
<u>Ended</u>	<u>Obligations</u>
	<u>Operating Leases</u>
2003	\$ 1,206,875
2004	367,355
2005	352,101
2006	236,473
2007	197,236
2008-2012	809,769
2013-2017	592,848
2018-2022	<u>166,616</u>
Total:	<u>\$ 3,929,273</u>

Rent expense was \$3,916,000 for fiscal year 2002.

NOTE 12 - ENCUMBRANCES

Outstanding purchase commitments against future funds not reflected in the financial statements at June 30, 2002 were \$55,208,000 for the System.

NOTE 13 - EMPLOYMENT BENEFITS

Employees of the System, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a student retirement plan, which is funded solely by contributions from the student employees. All other eligible employees of the System participate in one of two additional plans, the PERA plan or an optional defined contribution plan.

The System's total payroll for the fiscal year ended June 30, 2002 was \$370,827,414. Payroll for employees covered by the PERA plan, the optional defined contribution plan and the student retirement plan was \$149,179,771, \$155,998,751, and \$4,479,320 respectively. The remaining employees were not eligible for participation in any of the System's plans.

NOTE 13 - EMPLOYMENT BENEFITS (Continued)

PERA Defined Benefit Pension Plan

Plan Description - For eligible System employees participating in The Public Employees' Retirement Association plan (PERA), the plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State plan, as well as the other divisions' plans, is included in PERA's financial statements which may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA's Infoline at 1-800-759-PERA.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Reduced service retirement benefits are available at the following age and years of service: 50-25, 55-20 and 60-5. The benefit is calculated similarly to a service retirement benefit; however, it is reduced by percentages that vary from .25 to .5, depending on age and years of service, for each month before the eligible date for the full service retirement.

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

Funding Policy - Most employees contribute 8 percent of their gross covered wages to an individual account of the plan. During fiscal year 2001-02, the State contributed 9.9 percent of the employee's gross covered wages. Before January 1, 2002, 1.42 percent was allocated to the Health Care Trust Fund, and after January 1, 2002, 1.64 percent was allocated to the Health Care Trust Fund. Throughout the fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Voluntary Tax-Deferred Retirement Plans below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The System's contribution to PERA for the fiscal year ending June 30, 2002 was \$14,771,432. This contribution was equal to the contribution requirement.

Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3% of the employees' gross covered wages paid during the month. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to over-funding of the pension plan was available for the match. The State offers a 457 deferred compensation plan and institutions of the State offer a 403b plan. Members who contribute to any of these plans also receive the State match.

Optional Defined Contribution Plan

Under the optional defined contribution plan, full time faculty and administrative professionals of the System have the option of selecting a defined contribution plan as an alternative to PERA. Three vendor choices are offered through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC) and Fidelity Investments. The System's aggregate contribution to the above three vendors was equal to 9.9% of covered payroll or \$15,409,608 for the fiscal year ended June 30, 2002. The employee aggregate contribution to the above three vendors was equal to 8% of covered payroll or \$12,479,901 for the fiscal year ended June 30, 2002.

A Federal Retirement program covers some employees employed by the Cooperative Extension Service at Colorado State University. The System's contribution to this plan for the year ended June 30, 2002 was \$335,949.

NOTE 13 - EMPLOYMENT BENEFITS (Continued)

Student Employee Retirement Program

Eligible student employees contribute 7.5% of covered payroll to the student retirement program. All contributions are invested with one vendor, Teachers Insurance and Annuity Association. The contribution by student employees for the fiscal year ended June 30, 2002 was \$330,766. The System is not liable for any matching contributions to the student retirement program.

Health Insurance Programs

The System's contribution to the various health insurance programs was \$7,476,102 for the fiscal year ended June 30, 2002.

NOTE 14 – SELF-FUNDED INSURANCE

Five separate accounts currently make up the fund: health care, dental, long-term disability, post-retirement health care subsidy and an unallocated reserve fund. The University contracts claims processing and other day-to-day operations of the self-funded benefit plans to various third party administrators. Fund revenues are derived from premiums paid by benefit plan participants, with the exception of the Post-retirement Health Care Fund, which is funded by University contributions. The self-funded benefit plans are fully self-insured except for health care coverage, which is reinsured for plan expenses above \$200,000 per covered individual per year and 125% of projected annual aggregate claims. The Unallocated Reserve Account is a general contingency fund for miscellaneous and unanticipated expenses of the other four accounts.

Funding Policy – Funding for the healthcare, dental and long-term disability funds is provided through monthly contributions from participating employees. Participant contributions consist of payroll contributions and COBRA payments, which represent premiums for the associated coverages. Exempt employees may select from various benefit plans and elect to make contributions in the form of a pre-tax salary reduction of a payroll deduction. Funding for the retirement subsidiary fund is provided through a monthly contribution of 1% of covered payroll from CSU. CSU's contributions totaled \$1,302,000 for the year ending June 30, 2002.

The estimated claim liability of \$3,577,000 at June 30, 2002 is for incurred but not reported claims (IBNR). This estimate is made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines. The changes in the balance of claims liabilities are as follows:

	<u>2002</u>
Unpaid claims, beginning of year	\$ 3,084,000
Incurred claims (including IBNR's)	7,945,000
Claim payments	<u>(7,452,000)</u>
Unpaid claims, end of year	<u>\$ 3,577,000</u>

A liability equal to the recommended reserve of the actuarial report was recorded in the DCP Retirees Medical Premium Account.

	<u>2002</u>
DCP Liability	<u>\$ 8,447,000</u>

There have been no significant changes in insurance coverage in the past year.

NOTE 15 - POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

PERA Post-Employment Health Care Plan

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2001-002 the subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and it was reduced by 5% for each year of service fewer than 20. Medicare also affects the premium subsidy.

The Health Care Trust Fund is maintained by a State contribution of 1.42 percent of covered salary before January 1, 2002. After January 1, 2002, the contribution was increased to 1.64 percent of covered salary. During fiscal year 2001-02, the System paid \$2,280,603 into this Fund. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2001 there were approximately 34,235 participants, including spouses and dependents, from all contributors to the plan.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 15 - POST EMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

Life Insurance Program

PERA provides its members with access to two life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Members may join one or both plans and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some State colleges and universities but are small in comparison to the PERA plan for State employees. The State has no liability for any of these post-retirement health care and life insurance plans.

NOTE 16 - COMPENSATED ABSENCE LIABILITY

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested as of June 30, 2002 was \$26,767,000.

Expenditures for fiscal year at June 30, 2002, include \$2,298,000 for the increase in the estimated compensated absence liability.

NOTE 17 - RISK FINANCING AND INSURANCE-RELATED ACTIVITIES

The System is subject to risks of loss from liability from accident or acts of nature. Such risks for all agencies and institutions of the State of Colorado (University of Colorado excepted) are managed under statutory authority by the State Office of Risk Management, (an agency formed by statute and funded by the Long Bill). The System does not retain risk of loss except for damage incurred to property belonging to the System, limited to a \$1000 deductible per occurrence.

NOTE 18 - DIRECT STUDENT FINANCIAL AID REPORTING

During the fiscal year ended June 30, 1995, CSU began participation in the Federal Government's Direct Loan Program. This program provides loans from the Federal Government to qualifying students and their families for educational purposes. While CSU helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amount of Direct Loans disbursed during the fiscal year ended June 30, 2002 was \$69,922,000.

NOTE 19 – SCHOLARSHIP ALLOWANCE

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

	Tuition & Fees	Auxiliary Revenue	Total
Gross Revenue	\$ 175,222,737	\$ 125,768,180	\$ 300,990,917
Scholarship Allowances:			
Federal	11,281,423	1,507,805	12,789,228
State	13,097,655	741,223	13,838,878
Private	275,900	108,798	384,698
Institutional	13,269,882	1,252,090	14,521,972
Total Allowances	37,924,860	3,609,916	41,534,776
Net Revenue	\$ 137,297,877	\$ 122,158,264	\$ 259,456,141

NOTE 20 - SYSTEM FOUNDATIONS AND ENDOWMENTS

The System has associated non-profit foundations independent of the System that support the fund-raising activities at each of the respective institutions. The following foundations provide support.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 20 - SYSTEM FOUNDATIONS AND ENDOWMENTS (Continued)

Colorado State University Research Foundation

Colorado State University Research Foundation (CSURF) is a private, not-for-profit Colorado Corporation established in 1941 to aid and assist the three Institutions governed by the State Board of Agriculture in their research and educational efforts. The officers of the Foundation are appointed by the Board of Directors annually. The Board of Directors consists of five voting members and two non-voting members. No person who is an employee of the University is eligible to serve as an officer of the Foundation or as a voting member of the Board.

The major sources of Foundation revenues are royalties, rents, management fees, licensing fees and administration fees. The support provided by the Foundation to the Universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing through mortgage debt service, and land acquisition, development and management. During the year ended June 30, 2002, royalty revenues equaled \$394,258 and expenditures were \$256,252.

During the fiscal year ended June 30, 1993, CSURF, on behalf of the System, entered into a lease agreement for space in the Petroleum Building in downtown Denver. The System is sub-leasing space for the System offices, CSU's Continuing Education activities and Cooperative Extension Service programs. The total lease obligation equals \$3,604,000, with average annual lease payments of \$360,000. On March 26, 1982 the University Services Center was leased to CSU through June 30, 2003, with a total lease obligation of \$6,620,000. Rental payments are established annually as agreed on by lessor and lessee and were \$738,000 for the year ended June 30, 2002. The System asked CSURF to serve as an accommodation party in the Series 1991 Master Lease and Ground Lease to facilitate the financing for which the Series 1991 Certificates of Participation were issued. CSURF also serves as an accommodation party in the Series 1997 Master Lease Purchase Agreement to facilitate the financing for which the Series 1997 Certificates of Participation were issued.

At June 30, 2002, the Foundation debt to provide buildings for use by the University was \$6,741,775.

At June 30, 2002, the assets of the Foundation consisted of:

Cash and Current Assets	\$ 1,279,000
Property and Equipment	8,500,000
Other Assets	<u>9,813,000</u>
Total Assets	<u>\$19,592,000</u>

Financial statements of the Foundation are audited by *Sample & Bailey, P.C.* and are available at 410 University Services Center, P.O. Box 483, Fort Collins, Colorado 80522.

Colorado State University Foundation

The Colorado State University Foundation was established in 1970 as an independent 501(c) (3) organization. The primary purpose of the Foundation is to receive, manage and invest philanthropic gifts to Colorado State University. The officers of the Foundation are appointed by the Board of Directors. The Board of Directors consists of five voting members. Three voting members are elected by the Board and two voting members serve on the Board by virtue of the positions they hold: Vice Chancellor for Administration of the Colorado State University System and the President of the Foundation. The three ex-officio non-voting members of the Board serve by virtue of title: President of Colorado State University, Vice President for University Advancement, and Vice President for Administrative Services at the University. No person who is an employee of the University is eligible to serve as an officer of the Foundation or as a Board Member.

The major source for the Foundation's revenue is gifts. Of the \$26,120,000 in revenue for the 2001-02 fiscal year, gifts accounted for \$32,010,000. The difference is primarily due to losses on investments.

The support provided by the Foundation to the University is intended to assist in the promotion, development and enhancement of the facilities and educational programs and opportunities of the faculty, students and alumni of Colorado State University. Additionally, the Foundation receipts and invests philanthropic gifts.

Approximately \$22,201,000 was transferred to Colorado State University in pursuit of the above stated objectives. At June 30, 2002, the Foundation debt to provide buildings for use by the University was \$0.

At June 30, 2002, the assets of the CSU Foundation consist of:

Cash and Cash Equivalents	\$1,176,000
Receivables	13,472,000
Investments	126,796,000
Life Insurance Policies	129,000
Other Miscellaneous Assets	<u>898,000</u>
Total Assets	<u>\$142,471,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
 Year Ended June 30, 2002

NOTE 20 - SYSTEM FOUNDATIONS AND ENDOWMENTS (Continued)

Additionally, summarized, financial information extracted from the audited financial statements of the CSU Foundation at June 30, 2002 is presented below.

Net Assets at Beginning of Year - 07/01/01		\$ 127,109,000
Additions: Gifts, Pledges and Other Additions	32,127,000	
Investment Loss & Adj. To Market Value, Net	(6,007,000)	
Total Additions	<u>26,120,000</u>	
Deductions: Transfers to the University	22,201,000	
Support Services	1,406,000	
Total Deductions	<u>23,607,000</u>	
Net Increase for the Year		<u>2,513,000</u>
Net Assets at End of Year - 06/30/02		<u>\$ 129,622,000</u>

Financial statements for the Colorado State University Foundation are audited by *Sample & Bailey, P.C.* and are available at 410 University Services Center, Fort Collins, CO 80523.

Fort Lewis College Foundation (Unaudited)

In December 1969, the Fort Lewis College Foundation was organized and issued a Certificate of Incorporation under the Colorado Non-Profit Corporation Act. The purposes of said corporation are to "...assist in promoting, developing and enhancing the facilities and programs of Fort Lewis College..." (Per Articles of Incorporation III). Foundation officers are elected annually by the Foundation Executive Board. Two officers of the College serve as ex-officio members.

Transfers from Fort Lewis College Foundation to Fort Lewis College during the fiscal year ended June 30, 2002 consist of the financing of private scholarships, \$286,000; alternative tuition financing plan, \$50,000; program support, \$341,000; and reimbursement of alumni expenditures, \$28,000. The Foundation's sources of revenue are investment earnings, private fund raising and grants. The Foundation has incurred no debt for the College's benefit.

At June 30, 2002, the assets of the FLC Foundation consist of:

Pooled Cash and Investments	\$6,719,000
Pledges Receivable, Net	103,000
Net Investment in Leased Property	276,000
Other Current Assets	17,000
Notes Receivable	24,000
Segregated Cash and Investments	964,000
Tangible Assets	<u>4,376,000</u>
Total Assets	<u>\$12,479,000</u>

Copies of the most recent financial information for the Foundation may be obtained from the Controller's Office at the College.

University of Southern Colorado Foundation

The University of Southern Colorado Foundation was established in 1966 as an independent 501(c)(3) non-profit corporation. The Foundation was formed to advance and assist in the development, growth and operation of the University of Southern Colorado. Twenty-seven directors of the Foundation are elected by members of the Foundation and one officer of the University and one member of the State Board of Agriculture serve as ex-officio members.

The Foundation recorded \$1,523,598 in transfer of gifts and other assets to the University during the fiscal year 2002. During the same period the University made \$12,000 in in-kind support to the Foundation. Further, the University did not incur any expenses on behalf of the Foundation during the fiscal year ended June 30, 2002.

At June 30, 2002, the assets of the USC Foundation consist of:

Cash	\$677,000
Investments	14,157,000
Property and Equipment (net)	3,000
Other Assets	<u>2,750,000</u>
Total Assets	<u>\$17,587,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2002

NOTE 20 - SYSTEM FOUNDATIONS AND ENDOWMENTS (Continued)

The Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property and fund raising activities. The Foundation had \$139,508 in outstanding liabilities as of June 30, 2002.

The Foundation's financial statements are audited by *McPherson, Breyfogle, Daveline and Goodrich*. Copies of the most recent financial information for the Foundation may be obtained from the University of Southern Colorado Foundation office.

University of Southern Colorado Foundation Quasi-Endowment Funds

The University manages two quasi-endowment funds. Both funds retain 20% of earnings each year to build the corpus of the endowment and transfer 80% of the annual earnings to the University. The first endowment was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the University campus provides resources that support the academic mission of the University. To date, the University has sold three parcels of land with the proceeds from the sales being placed in a quasi-endowment fund. The Walking Stick Endowment Fund assets at June 30, 2002 were as follows:

Cash	\$ 595,615
Land	177,132
Due From Other Funds	<u>118,659</u>
Total Assets	<u>\$ 891,406</u>

On June 30, 2000 the University sold the KTSC-TV television license and certain related assets. The proceeds of the sale have been placed in a quasi-endowment fund to support the maintenance of the Buell Communication Center building, telecommunications equipment associated with the Mass Communications program of the University and scholarships. The KTSC Endowment Fund assets at June 30, 2002 were as follows:

Cash	<u>\$ 2,540,516</u>
Total Assets	<u>\$ 2,540,516</u>

NOTE 21 - LEGISLATIVE APPROPRIATIONS

The Colorado State Legislature establishes spending authority to the Colorado State Board of Agriculture in its annual Long Appropriations Bill and other special bills. Appropriated funds include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees and certain other revenue sources.

For the year ended June 30, 2002, appropriated expenditures were within the authorized spending authority. The System had a total appropriation of \$335,043,000. Actual appropriated revenues earned totaled \$332,786,000. Actual appropriated expenditures and transfers totaled \$321,857,000.

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

NOTE 22 - CHARTER SCHOOL FOR THE ARTS AND SCIENCES

The Pueblo School for the Arts and Sciences (PSAS) is a K-12 charter school in Pueblo, Colorado operated by the University of Southern Colorado (USC). PSAS began operation in the fall semester of 1994 with a mission to provide a balanced curriculum anchored in the arts and in harmony with the sciences. USC is responsible for the operation and management of the PSAS via a contractual arrangement with Pueblo School District No. 60. The charter agreement was renegotiated as of June 30, 2002 and extended for another five-year period, ending June 30, 2007. PSAS is administered by a Principal, who is responsible for management of all employees, operations, curriculum and related issues. The Principal reports through the Provost to the President of the University. The operation of grades 9-12 at PSAS was placed on hiatus at the end of the 2000-2001 and the reinstatement of those grades is currently under review.

School District No. 60 is the primary funding source for the PSAS. During the 2002 fiscal year, the District provided \$1,611,657 in funding for the PSAS, which represents 95% of the District's per pupil operating revenue for the students attending PSAS. This amount, less \$433,174 which was deferred into the 2003 fiscal year, plus \$696,308 attributable to 2001 deferred revenues totaled \$1,874,791 in funding provided by the District during fiscal 2002. Other sources of funding totaled \$5,033 all of which was earned during the fiscal year. Total fiscal 2002 earned revenues and expenditures for the PSAS were \$1,879,824. The budget is negotiated each year. School District No. 60 has agreed that the funding will not be less than 95% of the District's per pupil operating revenues that the District receives on behalf of the students attending PSAS in each of the future fiscal years covered under the current contract.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Year Ended June 30, 2002

NOTE 23 - CONTINGENCIES

Contingencies include those in which the System is a defendant in several lawsuits including various claims related to activities or employees of the System. The System believes that final settlement of matters not covered by insurance will not materially or adversely affect its financial condition.

NOTE 24 - UNIVERSITY OF SOUTHERN COLORADO GROUND LEASE

The University of Southern Colorado entered into an agreement in the Fall of 1996 with University Residence Solutions, LLP (URS) a Colorado limited liability partnership, to lease a portion of real property adjacent to the USC campus for the purpose of constructing on-campus apartment-style housing for USC students. Three apartment buildings were subsequently constructed at no cost to the University. The ground lease term is equal to 40 years from the date of occupancy, which was on or about September, 1, 1997. URS will pay USC a lease payment of \$1 per year for the term of the lease. The real property and the apartment buildings are owned by USC and leased to URS.

USC also entered into an agreement with URS on October 4, 1996 to operate and manage the apartment units. The management agreement term is 40 years from the date of occupancy. All net profits earned from rentals to students will be paid to URS until such time as URS has received net income equal to its total aggregate capital investment (approximately \$3.8 million), plus a preferred rate of return of 15% per year, compounded annually. After this obligation has been met, including all financing costs, 80% of all net profits will continue to be paid to URS and 20% will be paid to USC.

During fiscal 2002, URS realized net income of \$107,752.

**Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the consolidated basic financial statements of the Colorado State University System, an institution of the State of Colorado, as of and for the year then ended June 30, 2002, and have issued our report thereon dated September 27, 2002. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*; Statement No. 35, *Basic Financial Statements – Management's Discussion and Analysis – for Public Colleges and Universities*; Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Government: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Colorado State University System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Clifton Gunderson LLP

Denver, Colorado
September 27, 2002



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants

Members of the Legislative Audit Committee
Denver, Colorado

The purpose of this letter is to provide you with information about significant matters related to our audit of the consolidated basic financial statements of Colorado State University System for the year ended June 30, 2002, in order to assist you with your oversight responsibilities of the financial reporting process, and so that we may comply with our professional responsibilities to the Members of the Legislative Audit Committee. This letter is intended solely for the information and use of the Members of the Legislative Audit Committee and is not intended to be and should not be used by anyone other than this specified party.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America. Our audit of the consolidated basic financial statements of Colorado State University System for the year ended June 30, 2002, was conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the consolidated basic financial statements are free of material misstatement. Reasonable assurance in an audit is obtained by examining evidence supporting the amounts and disclosures in the consolidated basic financial statements on a test basis. An audit does not include verification of all transactions and account balances, nor does it represent a certification of the absolute accuracy of the consolidated basic financial statements.

In testing whether the consolidated basic financial statements are free of material misstatement, we focus more of our attention on items with a higher potential of material misstatement, and less on items that have a remote chance of material misstatement. For this purpose, accounting literature has defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, make it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated basic financial statement presentation. Although we may make suggestions as to the form and content of the consolidated basic financial statements, or even prepare them in whole or in part, the consolidated basic financial statements remain the representations of management. In an audit, our responsibility with respect to the consolidated basic financial statements is limited to forming an opinion as to whether the consolidated basic financial statements are a fair presentation of the Colorado State University System consolidated financial position, changes in financial position, and cash flows.

Significant Accounting Policies. The following is a description of significant accounting policies or their application which were changed during the year.

In June 1999, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. The State of Colorado implemented GASB No. 34 for the year ended June 30, 2002. As a component unit of the State of Colorado, the Colorado State University System was also required to adopt GASB No. 34 and No. 35 for the year ended June 30, 2002. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Colorado State University System’s assets, liabilities, net assets, revenues, expenses, changes in net assets, cash flows, and replaces the fund-group financial reporting perspective that was previously required. The System also adopted Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government: Omnibus* and Statement No. 38 *Certain Financial Statement Disclosures*, as of July 1, 2001.

As a result of the adoption of GASB Statement No. 34 and 35, the system was required to make certain changes in accounting principles. The significant changes in accounting principles consisted of (1) adoption of depreciation on capital assets, (2) the reporting of deferred revenue for grants, and (3) the recording of certain summer session revenues between fiscal years rather than in the fiscal year in which the summer session was predominantly conducted. Beginning net assets for fiscal year 2002 were reduced by \$ 349,944,000 for the cumulative effect of the change in accounting principles for years prior to fiscal year 2002.

There were no significant transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates. Accounting estimates are an integral part of the consolidated basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Management's use of estimates is disclosed in the notes to the consolidated basic financial statements, and include estimates for items such as allowances for doubtful accounts and compensated absences. We have performed analytical procedures and made inquiries related to significant estimates.

Significant Audit Adjustments. There were no adjustments arising from the audit that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity’s financial reporting process.

Uncorrected Misstatements

There were five uncorrected misstatements aggregated by us during our current audit and pertaining to the most recent period presented in the consolidated basic financial statements which would have increased assets by \$215,076, increased liabilities by \$507,273, and decreased

net assets by \$292,197 on the System's consolidated basic financial statements at June 30, 2002. Management has determined that these uncorrected misstatements are immaterial, both individually and in the aggregate, to the consolidated basic financial statements taken as a whole. In addition, these uncorrected misstatements, in our judgment, are immaterial, both individually and in the aggregate, to the consolidated basic financial statements taken as a whole.

Other Information in Documents Containing Audited Financial Statements. In connection with the Colorado State University System annual report, we did not perform any procedures or corroborate other information included in the annual report.

Disagreements With Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to the Colorado State University System consolidated basic financial statements or our report on those consolidated basic financial statements.

Consultations With Other Accountants. We were informed by management that they made no consultations with other accountants on the application of accounting principles generally accepted in the United States of America and auditing standards generally accepted in the United States of America.

Major Issues Discussed With Management Prior to Retention. There were no major issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Difficulties Encountered in Performing the Audit. We encountered no serious difficulties in dealing with management related to the performance of our audit.

We will be pleased to respond to any questions you have regarding the foregoing comments.

Clifton Gunderson LLP

Denver, Colorado
September 27, 2002

**STATE-FUNDED STUDENT ASSISTANCE
PROGRAMS SECTION**

**COLORADO STATE UNIVERSITY SYSTEM
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2002**

Introduction

Colorado State University System comprises three State-supported institutions of higher education:

- Colorado State University (CSU) located in Fort Collins
- Fort Lewis College (FLC) located in Durango
- University of Southern Colorado (USC) located in Pueblo

The financial and compliance examinations of the various State-funded student assistance programs at the Colorado State University System institutions for the year ended June 30, 2002, were directed toward the objectives and criteria set forth in the *Colorado Handbook for State-Funded Student Assistance Program*, issued by the Colorado Commission on Higher Education (CCHE). The State student financial assistance programs were examined simultaneously with the federal financial aid programs for the year ended June 30, 2002.

State-Funded Student Assistance Programs

Institutional participation in the various State-funded student assistance programs is illustrated in the following exhibit:

State-Funded Student Assistance Program	CSU	FLC	USC
Colorado Student Incentive Grant Program	X	X	X
Colorado Student Grant Program	X	X	X
Colorado Work-Study Program	X	X	X
Colorado Graduate Grant Program	X	-	X
Undergraduate Merit Award Program	X	X	X
Athletic Grant Program	X	X	-
Colorado Graduate Fellowship Program	X	-	-
Perkins Loan Matching Program	X	X	X
Colorado Diversity Grant Program	X	X	X
Extended Studies Tuition Grant Program	X	-	X
Colorado Part-Time Grant Program	X	X	X
Colorado Nursing Grant	-	-	X

**COLORADO STATE UNIVERSITY SYSTEM
STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
For the Year Ended June 30, 2002**

State-Funded Student Assistance Programs (continued)

The State-funded assistance awards made by the institutions during fiscal years 2002 and 2001, and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	Fiscal Year Ended	
	<u>June 30, 2002</u>	<u>June 30, 2001</u>
State-Funded Student Assistance Awards		
Colorado State University	\$ 8,629,000	\$ 8,182,000
Fort Lewis College	1,349,000	1,274,000
University of Southern Colorado	3,170,000	2,864,000
Perkins Loan Matching Program		
Colorado State University	\$ -	\$ 48,600
Fort Lewis College	10,300	10,900
University of Southern Colorado	36,300	38,300

The Director of Financial Aid of each institution is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the institution in federal and State financial aid programs. The responsibilities of each institution's controller for general ledger accounting, payments, and collections are also of assistance to financial aid directors in the financial management of the programs.

Federal Student Assistance Programs

During the audit period, the institutions also received the following funds for federal student financial aid programs:

	<u>CSU</u>	<u>FLC</u>	<u>USC</u>
Pell Grant Program	\$ 8,145,020	\$ 3,008,548	\$ 4,488,343
Supplemental Educational Opportunity Grant Program	997,500	283,586	471,713
College Work-Study Program	1,067,560	206,487	545,624
Perkins Loan Program			
Federal Capital Contribution	184,210	30,038	108,972
Stafford Loans			
Subsidized	-	-	7,328,078
Unsubsidized	-	-	5,029,720



**Independent Auditor's Report on the Statements of Appropriations,
Expenditures, Transfers and Reversions**

Members of the Legislative Audit Committee
Denver, Colorado

We have audited the statements of appropriations, expenditures, transfers, and reversions of the State-funded student financial assistance programs of the Colorado State University System, an institution of the State of Colorado, for the year ended June 30, 2002. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly the appropriations, expenditures, transfers, and reversions of the State-funded student financial assistance programs of the Colorado State University System for the year ended June 30, 2002, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Assistance Programs*.

Clifton Gunderson LLP

Denver, Colorado
September 27, 2002

**COLORADO STATE UNIVERSITY SYSTEM
STATEMENT OF APPROPRIATIONS, EXPENDITURES,
TRANSFERS AND REVERSIONS
Year Ended June 30, 2002**

COLORADO STATE UNIVERSITY

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work- Study Program
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
APPROPRIATIONS				
Original	\$ 8,639,580	\$ 241,847	\$ 3,931,986	\$ 1,651,517
Supplementals	(10,234)	(50,233)	-	-
Transfers	-	-	(2,533)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total appropriations	<u>8,629,346</u>	<u>191,614</u>	<u>3,929,453</u>	<u>1,651,517</u>
EXPENDITURES	8,629,346	191,614	3,929,453	1,651,517
REVERSIONS TO STATE GENERAL FUND	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>8,629,346</u>	<u>191,614</u>	<u>3,929,453</u>	<u>1,651,517</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

<u>Graduate Grant Program</u>	<u>Graduate Fellowship Program</u>	<u>Undergraduate Merit Award Program</u>	<u>Perkins Loan Program State Match</u>	<u>SLEAP</u>	<u>Governor's Opportunity Scholarship</u>
\$ 160,000	\$ -	\$ 2,002,582	\$ 45,891	\$ 45,000	\$ 560,757
-	-	-	(45,891)	47,233	38,657
<u>2,533</u>	<u>300,000</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>162,533</u>	<u>300,000</u>	<u>1,702,582</u>	<u>-</u>	<u>92,233</u>	<u>599,414</u>
162,533	300,000	1,702,582	-	92,233	599,414
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>162,533</u>	<u>300,000</u>	<u>1,702,582</u>	<u>-</u>	<u>92,233</u>	<u>599,414</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**COLORADO STATE UNIVERSITY SYSTEM
STATEMENT OF APPROPRIATIONS, EXPENDITURES,
TRANSFERS AND REVERSIONS
Year Ended June 30, 2002**

FORT LEWIS COLLEGE

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work- Study Program
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
APPROPRIATIONS				
Original	\$ 1,341,241	\$ 31,466	\$ 619,834	\$ 248,274
Supplementals	7,346	(3,000)	-	-
Transfers	<u> -</u>	<u> (21,631)</u>	<u> (155,000)</u>	<u> -</u>
Total appropriations	<u>1,348,587</u>	<u>6,835</u>	<u>464,834</u>	<u>248,274</u>
EXPENDITURES	1,348,587	6,835	464,834	248,274
REVERSIONS TO STATE GENERAL FUND	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
	<u>1,348,587</u>	<u>6,835</u>	<u>464,834</u>	<u>248,274</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u><u> \$ -</u></u>	<u><u> \$ -</u></u>	<u><u> \$ -</u></u>	<u><u> \$ -</u></u>

<u>Under-graduate Merit Award Program</u>	<u>Perkins Loan State Match</u>	<u>Diversity Grant Program</u>	<u>SLEAP</u>	<u>Governor's Opportunity Scholarship</u>
\$ 310,070	\$ -	\$ -	\$ 18,000	\$ 113,597
-	10,346	-	-	-
-	-	155,000	21,631	-
<u>310,070</u>	<u>10,346</u>	<u>155,000</u>	<u>39,631</u>	<u>113,597</u>
310,070	10,346	155,000	39,631	113,597
-	-	-	-	-
<u>310,070</u>	<u>10,346</u>	<u>155,000</u>	<u>39,631</u>	<u>113,597</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**COLORADO STATE UNIVERSITY SYSTEM
STATEMENT OF APPROPRIATIONS, EXPENDITURES,
TRANSFERS AND REVERSIONS
Year Ended June 30, 2002**

UNIVERSITY OF SOUTHERN COLORADO

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work- Study Program	Graduate Grant Program
APPROPRIATIONS					
Original	\$3,117,899	\$ 108,125	\$1,477,994	\$ 656,474	\$ -
Supplementals	52,118	(26,162)	-	-	-
Transfers	-	-	(138,100)	-	2,600
Total appropriations	<u>3,170,017</u>	<u>81,963</u>	<u>1,339,894</u>	<u>656,474</u>	<u>2,600</u>
EXPENDITURES	3,170,017	81,963	1,339,894	656,474	2,600
REVERSIONS TO STATE GENERAL FUND					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,170,017</u>	<u>81,963</u>	<u>1,339,894</u>	<u>656,474</u>	<u>2,600</u>
NET INCREASE (DECREASE) IN FUND BALANCE					
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Under-graduate Merit Award Program	Athletic Grant Program	Perkins Loan Program State Match	Diversity Grant Program	SLEAP	Governor's Opportunity Scholarship	Nursing Scholarship
\$ 346,478	-	\$ 36,324	\$ -	\$ 21,000	\$ 444,653	\$ 26,851
-	-	-	-	23,162	60,000	(4,882)
(21,980)	21,980	-	135,500	-	-	-
324,498	21,980	36,324	135,500	44,162	504,653	21,969
324,498	21,980	36,324	135,500	44,162	504,653	21,969
-	-	-	-	-	-	-
324,498	21,980	36,324	135,500	44,162	504,653	21,969
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**COLORADO STATE UNIVERSITY SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
AND NOTES TO STATEMENT OF APPROPRIATIONS, EXPENDITURES,
TRANSFERS AND REVERSIONS**

Basis of Accounting

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

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

Note A

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

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

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

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

Report Control Number 1452