

Colorado State University – Global Campus
(A University within the Colorado State University System)
Financial Statements and Independent Auditor’s Reports
Financial Audit
Years Ended June 30, 2013 and 2012

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Legislative Audit Manager

BKD, LLP
Contract Auditors

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December 4, 2013

Members of the Legislative Audit Committee:

We have completed the financial statement audits of Colorado State University – Global Campus as of and for the years ended June 30, 2013 and 2012. Our audits were conducted 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.

We were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

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Colorado State University-Global Campus
(A University within the Colorado State University System)
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Colorado State University-Global Campus
(A University within the Colorado State University System)

Report Summary

Year Ended June 30, 2013

Purposes and Scope of Audit

The Office of the State Auditor engaged **BKD, LLP** (BKD) to conduct a financial audit of Colorado State University – Global Campus (CSU-Global) for the year ended June 30, 2013. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The purposes and scope of the audit were to:

- Express opinions on the financial statements of CSU-Global as of and for the years ended June 30, 2013 and 2012, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2013.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2013.
- Issue a report on CSU-Global’s internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audits of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2013.

Audit Opinions and Reports

The independent auditor’s reports included herein expressed unmodified opinions on CSU-Global’s financial statements as of and for the year ended June 30, 2013 and 2012.

No material weaknesses in internal control over financial reporting were identified.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

There are no findings and recommendations reported for the year ended June 30, 2013.

Significant Audit Adjustments

There were eight proposed audit adjustments identified during the audit for the year ended June 30, 2013. Three of these adjustments were made to the financial statements and five were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets by \$32,928, increase current liabilities by \$13,505, increase beginning of the year net position by \$7,435 and decrease operating expenses by \$12,038 as of and for the year ended June 30, 2013.

**Colorado State University-Global Campus
(A University within the Colorado State University System)**

Report Summary

Year Ended June 30, 2013

Summary of Progress in Implementing Prior Audit Recommendations

The audits for the years ended June 30, 2012, 2011 and 2010, identified one recommendation. This audit recommendation was implemented as of June 30, 2013.

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Colorado State University-Global Campus
Description of the Colorado State University-Global Campus
Year Ended June 30, 2013

Organization and Administration

Colorado State University-Global Campus (CSU-Global) is a Colorado public institution, and one of three universities within the Colorado State University System (the System). It is not only the newest university to the System, but also Colorado's most recently formed public university. CSU-Global is a 100% online university for bachelor's degree completion and master's degrees. On June 30, 2011, CSU-Global was officially granted independent regional accreditation status by the Higher Learning Commission of the North Central Association of Colleges and Schools. The role and mission of CSU-Global is established in Title 23, C.R.S.

The Board of Governors of the Colorado State University System (the Board) has control and supervision of CSU-Global. The Board consists of 15 members: Nine voting members appointed by the Governor and confirmed by the Senate for four-year terms and six advisory members representing the student bodies and the faculty councils elected for one-year terms.

The Board is authorized to set 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.

Academic Degree Programs

CSU-Global currently offers 13 online undergraduate programs that lead to bachelor of science degrees in the following disciplines:

- Accounting
- Applied Social Sciences
- Business Management
- Communication
- Criminal Justice and Law Enforcement Administration
- Healthcare Administration and Management
- Human Services
- Information Technology
- Interdisciplinary Professional Studies
- Marketing
- Organizational Leadership
- Project Management
- Public Management

CSU-Global also currently offers nine graduate level degree programs in the following disciplines:

- Master of Science in Management
- Master of Science in Organizational Leadership
- Master of Science in Teaching and Learning
- Master of Criminal Justice and Law Enforcement Administration
- Master of Finance
- Master of Healthcare Administration and Management
- Master of Information Technology Management
- Master of International Management
- Master of Project Management

Colorado State University-Global Campus
 Description of the Colorado State University-Global Campus
 Year Ended June 30, 2013

Colorado State University-Global Campus

Colorado State University-Global Campus (CSU-Global) was created by the Colorado State University System Board of Governors in 2007, and initiated its student instruction in Fall 2008. As the first and only 100% online, fully accredited public university in the United States, CSU-Global is focused on facilitating adult success in a global marketplace through career-relevant education. Embracing the land grant heritage as part of the Colorado State University System, CSU-Global sets the standard for quality and innovation in higher education through its expert faculty trained in working with adults in an online learning environment, and through its dedication to student retention, graduation, and workplace success.

CSU-Global reports full-time equivalent (FTE) for student, faculty and staff for three continuous years as follows:

Colorado State University - Global Campus
Full-Time Equivalent (FTE) Student Enrollment

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal year:			
2012–2013	2,300	1,407	3,707
2011–2012	2,046	544	2,590
2010–2011	1,485	262	1,747

Colorado State University - Global Campus
Full-Time Equivalent (FTE) Faculty and Staff

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal year:			
2012–2013	160	94	254
2011–2012	144	71	215
2010–2011	98	47	145

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Colorado State University-Global Campus
Auditor's Findings and Recommendations
Year Ended June 30, 2013

There are no findings and recommendations for the year ended June 30, 2013.

Colorado State University-Global Campus

Disposition of Prior Audit Recommendations

Years Ended June 30, 2012, 2011 and 2010

Summary of Progress in Implementing Prior Audit Recommendations

The audit for the years ended June 30, 2012, 2011 and 2010, noted one recommendation that had been partially implemented as of June 30, 2012. The disposition of this audit recommendation as of June 30, 2013 was as follows:

No.	Recommendation	Disposition
1	CSU – Global should strengthen its accounting review policies and procedures by requiring that reviewers analyze supporting documentation necessary to gain an understanding of the transactions and determine that the resulting accounting entries are appropriate, including those entries made to record activity captured in the CampusVue system into the COFRS system. Training on relevant accounting standards should also be provided to staff to ensure that financial transactions and financial reporting are accurate and complete.	Implemented

Independent Auditor's Report on Financial Statements

Members of the Legislative Audit Committee
State of Colorado
Denver, Colorado

Report on Financial Statements

We have audited the accompanying basic financial statements of Colorado State University – Global Campus (CSU-Global), a university within the Colorado State University System, State of Colorado (the CSU System), which comprise statements of net position as of June 30, 2013 and 2012, statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The management of CSU-Global is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the statements 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSU-Global as of June 30, 2013 and 2012 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of CSU-Global are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the CSU System that is attributable to the transactions of CSU-Global. They do not purport to, and do not, present fairly the financial position of the CSU System as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Description of the Colorado State University-Global Campus listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, on our consideration of CSU-Global's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSU-Global's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 4, 2013

Colorado State University-Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012
(Unaudited)

Management's Discussion and Analysis

This section of the financial report presents management's discussion and analysis of the financial performance of Colorado State University-Global Campus (CSU-Global) for the fiscal years ended June 30, 2013 and 2012. CSU-Global began offering classes to students in fiscal year 2009 and achieved a positive net position (total assets in excess of total liabilities) in fiscal year 2012. Management's comments will primarily focus on the periods ending June 30, 2011, through June 30, 2013, when revenues increased significantly. This discussion provides an analysis of the university's financial activities based on currently known facts, decisions, or existing conditions, and should be read in conjunction with CSU-Global's financial statements and notes thereto, which are also presented in this document. The analyses in this section of the report are unaudited.

Enrollment and Financial Highlights

The following accomplishments occurred during the fiscal years ended June 30, 2013, 2012 and 2011:

- Student enrollment (unduplicated headcount) increased 47% between fiscal year 2012 and 2013 and 44% between fiscal year 2011 and fiscal year 2012.
- Student enrollment (FTE) increased 36% and 56% between fiscal year 2012 and 2013 and between fiscal year 2011 and 2012, respectively.
- Unique course offerings to our students increased 44% and 38% between fiscal year 2012 and 2013 and between fiscal year 2011 and 2012, respectively.
- CSU-Global's net position improved from a deficit \$(5.8) million at June 30, 2011 to a \$2.9 million surplus at 2012 and a \$14.9 million surplus by June 30, 2013.
- CSU-Global repaid \$12 million in start-up loan funds by the close of its fourth (4th) year of offering classes.

The Basic Financial Statements

The enclosed financial statements are designed to provide readers with a broad overview of CSU-Global's financial activities. The statement of net position, statement of revenues, expenses and changes in net position, and the statement of cash flow compose the basic financials of CSU-Global.

Financial Analysis

Statement of Net Position

The statement of net position presents the financial position of CSU-Global and includes all assets and liabilities of the university at a point in time. CSU-Global assets exceeded liabilities resulting in positive net position by \$14,874,009 and \$2,912,012 at June 30, 2013 and 2012, respectively. This was not the case for the period ended June 30, 2011, as liabilities exceeded assets resulting in a deficit net position of (\$5,826,769). At June 30, 2013, the majority (88%) of CSU-Global's assets are held as cash and cash equivalents. Surplus reserves or net positions are primarily designated to fund strategic initiatives such as enrollment growth and exceptional customer service, to maintain financial stability as required by our Board and Higher Learning Accrediting Authorities and for the development of new and maintenance of existing online courses and degree programs.

Colorado State University-Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012
(Unaudited)

Summary of Net Position

	June 30		
	2013	2012	2011
Current assets	\$ 18,291,358	\$ 4,822,858	\$ 3,336,150
Capital	177,990	-	-
Total assets	<u>\$ 18,469,348</u>	<u>\$ 4,822,858</u>	<u>\$ 3,336,150</u>
Current liabilities	\$ 3,325,941	\$ 1,622,511	\$ 933,309
Noncurrent liabilities	269,398	288,335	8,229,610
Total liabilities	<u>\$ 3,595,339</u>	<u>\$ 1,910,846</u>	<u>\$ 9,162,919</u>
Net position:			
Net investment in capital assets	\$ 177,990	\$ -	\$ -
Restricted for expendable purposes			
Scholarships	15,000	-	-
Other	21,750	-	-
Unrestricted	<u>14,659,269</u>	<u>2,912,012</u>	<u>(5,826,769)</u>
Total net position	<u>\$ 14,874,009</u>	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>

Continued expansion of new courses and degree programs followed by strong enrollment growth contributed to the increase of CSU-Global assets. Cash and cash equivalents increased 350% or \$12.6 million in 2013 over that of 2012. For this same period, net student accounts receivable increased approximately \$745,000 or 64%.

Cash and cash equivalents increased \$1.2 million or 52% and net student accounts receivable increased approximately 209,000 or 22% in 2012 over that of 2011. At June 30, 2013 CSU-Global collected approximately 95% of billable tuition for fiscal year 2012–13 and historically 97% over the last two fiscal years.

In 2013, total liabilities increased \$1.7 million. Current liabilities increased \$1.7 million due to higher payroll accruals, the recognition of deferred revenue, and timing of accounts payable. Noncurrent liabilities decreased approximately \$19,000 due to increased payouts of compensated absence liabilities.

In 2012, total liabilities decreased \$7.3 million. Current liabilities increased \$689,000 due to higher payroll accruals and the recognition of deferred revenue. No deferred revenue was recognized in fiscal year 2011 because no classes overlapped fiscal years 2011 and 2012. Noncurrent liabilities decreased \$8.0 million due to loan payments to Colorado State University – Fort Collins and Colorado State University – Pueblo in connection with advances made to establish CSU-Global. The loan was paid in full by June 30, 2012.

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the financial operating results of CSU-Global for the reporting period. Operating and nonoperating revenues and expenses and the resulting increase/decrease (changes in net position) during the year are shown in this statement.

Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30		
	2013	2012	2011
Operating revenues			
Student tuition and fees	\$ 34,683,974	\$ 24,433,014	\$ 16,682,535
Nongovernmental grants	36,750	-	-
Other operating revenue	452,281	46,779	54,308
Total operating revenues	<u>35,173,005</u>	<u>24,479,793</u>	<u>16,736,843</u>
Operating expenses			
Instruction	6,769,971	4,165,980	3,175,828
Academic support	2,598,913	2,050,645	1,490,751
Student services	7,303,544	5,869,570	4,564,118
Institutional support	5,820,294	3,364,809	820,083
Operation and maintenance of plant	182,158	164,366	101,554
Scholarships and fellowships	4,728,181	2,966,981	1,928,708
Total operating expenses	<u>27,403,061</u>	<u>18,582,351</u>	<u>12,081,042</u>
Operating income	<u>7,769,944</u>	<u>5,897,442</u>	<u>4,655,801</u>
Nonoperating revenues (expenses)			
Investment income (loss)	7,707	(8,877)	23,795
Federal nonoperating grants and contracts	4,728,181	2,966,981	1,928,708
Net nonoperating revenues	<u>4,735,888</u>	<u>2,958,104</u>	<u>1,952,503</u>
Income before other revenues (expenses) or transfers	12,505,832	8,855,546	6,608,304
Other revenues (expenses) or transfers			
Payments to governing boards or other institutions	(543,835)	(116,765)	(34,000)
Total other revenues, (expenses) or transfers	<u>(543,835)</u>	<u>(116,765)</u>	<u>(34,000)</u>
Increase in net position	11,961,997	8,738,781	6,574,304
Net position (deficit), beginning of year	<u>2,912,012</u>	<u>(5,826,769)</u>	<u>(12,401,073)</u>
Net position (deficit), end of year	<u>\$ 14,874,009</u>	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>

The introduction of new courses and degree programs combined with strong enrollment growth led to significant increases in operating revenues and expenses. CSU-Global offers fixed tuition pricing. Once

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

(Unaudited)

a student enrolls in a degree program, the tuition rate is locked as long as the student remains in classes and in good academic standing. From June 30, 2011, through June 30, 2013, total student enrollment increased 113%. During this same period, tuition revenue grew from \$17.0 million to \$34.7 million, an increase of 104%. Undergraduate tuition rates were unchanged between the period of June 30, 2011, and June 30, 2013, while graduate and military tuition rates increased slightly and applied only to first-time new students entering the University.

As the interest and demand grew for CSU-Global online course offerings, so did its operating costs. From June 30, 2011, through June 30, 2013, the number of instructors (full-time equivalent) increased 63%. The number of non-teaching or support staff employees (full-time equivalent) increased 100% during this same period. CSU-Global invests approximately 41% of its operating budget on academic related activities such as online instruction, and course design, maintenance, and development. Between fiscal years 2011 and 2013, an average of 38% of CSU-Global's operating costs was spent on student enrollment and retention services, while an average of 19% was spent on administration, technology and facilities.

Nonoperating revenues increased to \$4.7 million dollars in 2013 from \$3.0 million in 2012 or 57% and from \$2.0 million in 2011 to \$3.0 million in 2012 or 50%. This increase is attributable to the increased number of undergraduate students eligible for federal grants. Nonoperating revenues for CSU-Global primarily consist of federal Pell Grant awards received on behalf of students. Reporting standards require the receipt of these resources to be recognized as nonoperating revenue while the actual disbursement to students is reported as an operating expense.

As a result of increased enrollment and revenues in excess of costs, CSU-Global's increase in net position amounted to \$12.0 million and \$8.7 million for the fiscal years ended June 30, 2013, and June 30, 2012, respectively.

Statement of Cash Flows

The statement of cash flows provides information about CSU-Global's operating results by reporting sources and uses of cash. The basis of presentation for this statement is the direct method, which illustrates cash flows from operating, non-capital financing, capital and related financing, and investing activities.

Economic Outlook for Colorado State University-Global Campus

Quality, convenience, flexibility and affordability are the growing demands of the educational consumer, particularly among the adult nontraditional students that CSU-Global's mission is focused on. The university's data-driven approach to all university activities, its introduction of market relevant courses and degree programs, its emphasis on career services, and its dedication to student retention and success are expected to continue to fuel the university's growth and reputation.

Management believes CSU-Global will experience unabated strong enrollment growth as newly accredited programs are more widely introduced across the nation, and as students continue to demand educational opportunities that provide access, affordability, and high academic quality. Although CSU-Global is a Colorado public university, it receives no state funding but instead relies on its own operational excellence and efficiencies. Therefore, the threat of reduced or limited state support will not

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

(Unaudited)

encumber the operational abilities of CSU-Global. It is the intent of management, as evidenced by its strong and favorable net position on June 30, 2013, to employ a fiscal policy of adding to its cash reserves while maintaining minimal long-term debt. Given CSU-Global's mission and focused initiatives, its leadership position in higher education innovation, and its understanding of the educational market, management believes that the University's financial position will remain strong.

As in any industry, there are uncertain economic and political factors that may restrict the growth and threaten the financial viability of an organization. With CSU-Global's operational flexibility and scalability, minimal long-term debt load, low operating costs, and revenue diversification initiatives, management believes that it is well-positioned for adverse and unforeseeable events.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University-Global Campus's finances for all those with an interest in CSU-Global's finances and to demonstrate CSU-Global's accountability for money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the attention of the Chief Financial Officer, Colorado State University-Global Campus, 7800 East Orchard Road, Suite 200, Greenwood Village, Colorado, 80111.

Colorado State University-Global Campus

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 16,241,524	\$ 3,609,150
Student accounts receivable, net	1,914,956	1,170,567
Grant and other accounts receivable, net	36,464	43,141
Prepaid expenses	98,414	-
Total current assets	18,291,358	4,822,858
Capital assets		
Software, net	38,875	-
Leasehold improvements, net	139,115	-
Total capital assets	177,990	-
Total assets	\$ 18,469,348	\$ 4,822,858
Liabilities		
Current liabilities		
Accounts payable	\$ 486,904	\$ 139,382
Accrued liabilities	1,625,952	886,626
Deferred revenue	958,466	290,454
Deposits held for others	235,122	306,049
Compensated absences, current portion	19,497	-
Total current liabilities	3,325,941	1,622,511
Noncurrent liabilities		
Compensated absence liabilities	269,398	288,335
Total noncurrent liabilities	269,398	288,335
Total liabilities	\$ 3,595,339	\$ 1,910,846
Net Position		
Net investment in capital assets	\$ 177,990	\$ -
Restricted for expendable purposes		
Scholarships	15,000	-
Other	21,750	-
Unrestricted	14,659,269	2,912,012
Total net position	\$ 14,874,009	\$ 2,912,012

Colorado State University-Global Campus
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
	<u> </u>	<u> </u>
Operating revenues		
Student tuition and fees, net	\$ 34,683,974	\$ 24,433,014
Nongovernmental grants	36,750	-
Other operating revenue	452,281	46,779
	<u>35,173,005</u>	<u>24,479,793</u>
Operating expenses		
Instruction	6,769,971	4,165,980
Academic support	2,598,913	2,050,645
Student services	7,303,544	5,869,570
Institutional support	5,820,294	3,364,809
Operation and maintenance of plant	182,158	164,366
Scholarships and fellowships	4,728,181	2,966,981
	<u>27,403,061</u>	<u>18,582,351</u>
Total operating expenses		
Operating income	7,769,944	5,897,442
Nonoperating revenues (expenses)		
Investment income (loss)	7,707	(8,877)
Federal nonoperating grants and contracts	4,728,181	2,966,981
	<u>4,735,888</u>	<u>2,958,104</u>
Net nonoperating revenues		
Income before other revenues, expenses or transfers	<u>12,505,832</u>	<u>8,855,546</u>
Other revenues (expenses), or transfers:		
Payments to governing boards or other institutions	<u>(543,835)</u>	<u>(116,765)</u>
Total other revenues (expenses), or transfers	<u>(543,835)</u>	<u>(116,765)</u>
Increase in net position	11,961,997	8,738,781
Net position (deficit), beginning of year	<u>2,912,012</u>	<u>(5,826,769)</u>
Net position, end of year	<u><u>\$ 14,874,009</u></u>	<u><u>\$ 2,912,012</u></u>

Colorado State University System-Global Campus

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash received		
Tuition and fees	\$ 34,536,670	\$ 23,922,749
Nongovernmental grants	36,750	-
Other operating receipts	458,958	9,767
Cash payments		
Scholarships disbursed	(4,728,181)	(2,966,981)
Payments to employees	(12,291,058)	(9,411,066)
Payments to suppliers	(9,394,828)	(5,153,549)
Net cash provided by operating activities	8,618,311	6,400,920
Cash flows from noncapital financing activities:		
Agency (direct lending inflows)	37,907,684	23,547,826
Agency (direct lending outflows)	(37,907,684)	(23,547,826)
Other agency (inflows)	395,437	230,465
Other agency (outflows)	(395,437)	(232,193)
Payments to governing boards or other institutions	(543,835)	(8,116,764)
Other nonoperating revenues	4,728,181	2,966,981
Net cash provided by (used in) noncapital financing activities	4,184,346	(5,151,511)
Cash flows from capital financing activities:		
Acquisition and construction of capital assets	(177,990)	-
Net cash used in capital financing activities	(177,990)	-
Cash flows from investing activities:		
Investment earnings (losses)	7,707	(8,877)
Net cash provided by (used in) investing activities	7,707	(8,877)
Net increase in cash and cash equivalents	12,632,374	1,240,532
Cash and cash equivalents, beginning of the year	3,609,150	2,368,618
Cash and cash equivalents, end of the year	\$ 16,241,524	\$ 3,609,150

Colorado State University System-Global Campus

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 7,769,944	\$ 5,897,442
Adjustments:		
Bad debt expense	767,011	766,547
Decrease (increase) in assets:		
Receivables, net	(1,504,723)	(1,012,724)
Inventories and prepaids	(98,414)	-
Increase (decrease) in liabilities		
Accounts payable	347,522	(41,546)
Accrued liabilities	739,326	267,028
Deferred revenue	668,012	290,454
Deposits held for others	(70,927)	174,994
Compensated absences liabilities	560	58,725
Net cash provided by operating activities	\$ 8,618,311	\$ 6,400,920
Noncash activities		
Unrealized losses on investments	\$ (2,650)	\$ (8,877)

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(1) Governance and Reporting Entity

Governance

Colorado State University-Global Campus (CSU-Global) is a Colorado public institution and one of three universities within the Colorado State University System (the CSU System). The CSU System is an institution of higher education of the State of Colorado. The Board of Governors (the Board) is the governing board of the CSU System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. In addition to these financial statements, CSU-Global's financial activity is also included in the basic financial statements of the Colorado State University System.

Reporting Entity

The accompanying financial statements present the operations of CSU-Global. As a higher education institution of the State of Colorado, the income of CSU-Global is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of CSU-Global would be subject to tax under IRC Section 511(a)(2)(B). CSU-Global had no material unrelated business income for the years ended June 30, 2013 and 2012.

(2) Basis of Presentation

During the year ended June 30, 2013, CSU-Global adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement places all applicable pre-November 30, 1989 FASB and AICPA pronouncements within the authoritative GASB literature.

During the year ended June 30, 2013, CSU-Global implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 changes the organization of the statement of net position, formerly the statement of net assets. Under this new standard, the statement of net position includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities and will report net position instead of net assets.

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

(3) Measurement Focus, Basis of Accounting, and Summary of Significant Accounting Policies

For financial reporting purposes, CSU-Global is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the basic financial statements of CSU-Global have been presented using the economic resources measurement focus and the accrual basis of accounting. Presentation is also in accordance with the State of Colorado Higher Education Accounting Standard No. 17. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

Cash and Cash Equivalents

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

Student Receivables

Student receivables are carried at cost, less an allowance for doubtful accounts. Management believes that the allowance for doubtful accounts is adequate. Management uses available information to recognize losses on student receivables. Future additions to the allowance may be necessary based on changes in economic conditions and other factors.

Capital Assets

Capital assets are stated at cost. Depreciation on furniture, fixtures, equipment and improvements is provided on a straight-line basis over the estimated useful lives as described in the table below:

<u>Asset Class</u>	<u>Useful Life</u>
Furniture and Other Equipment	5–7 years
Computer Hardware and Software	3–5 years
Leasehold Improvements	Shorter of term of lease or useful life

Amounts spent for repairs and maintenance are charged to expense as incurred. When assets are sold or retired, the associated cost and accumulated depreciation are removed. Any gain or loss from such disposition is recorded as a component of other non-operating revenues and expenses on the Statements of Revenues, Expenses and Changes in Net Position.

Compensated Absence Liabilities

The amount of compensated absence liabilities that are recorded as a current liability on the statements of net position are the known amount of separation payouts at June 30. The remaining balance of the compensated absence liabilities is recorded as a noncurrent liability on the statements of net position.

Net Position

Net positions of the System are classified as follows:

Net investment in capital assets – This represents the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations, if any, related to those capital assets.

Restricted net position – nonexpendable – Nonexpendable restricted net position consists 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. The University has no non-expendable assets as of June 30, 2013 or 2012.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

Restricted net position – expendable – Restricted expendable net positions include resources in which the System is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or debt agreements.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees, state fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of CSU-Global and may be used to meet current expenses for any purpose. Unrestricted net assets may be designated by actions of the Board.

Classification of Revenues

CSU-Global has classified revenues as either operating or non-operating according to the following criteria:

- Operating revenues consist of services related to teaching, including tuition and application fees from students (after reduction for bad debt and scholarship allowances provided with institutional funds).
- Operating expenses represent the full cost of providing the services and goods associated with operating revenues. These expenses are accrued when incurred and measurable and reported using functional classifications.
- Non-operating revenues consist primarily of investment income that are relied upon and budgeted for support of operating expenses. Also included in non-operating revenues are federal Pell Grants.

Deferred Revenue

CSU-Global defers a portion of the tuition revenue for courses whose duration spans two fiscal years. The amount recognized or deferred is based on the number of teaching days that occur after June 30.

Application of Restricted and Unrestricted Resources

This application is made on a case-by-case basis by management depending on overall program requirements and resources. Generally, management applies restricted resources then unrestricted resources when both restricted and unrestricted resources are available to pay an expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain reclassifications have been made to the 2012 financial statements to be consistent with the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(4) Cash and Cash Equivalents

CSU-Global deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (C.R.S). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2013, CSU-Global had cash on deposit with the State Treasurer of \$7.5 million, which represented approximately .10 percent of the total \$7.26 billion of fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2012, CSU-Global had cash on deposit with the State Treasurer of \$1.1 million, which represented approximately 0.02 percent of the total \$6.5 billion fair value of deposits in the Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of CSU-Global's participation in the Pool, CSU-Global reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

The difference between CSU-Global's cash carrying value, deposits with the State Treasurer and balances at other banks is due to outstanding checks and deposits in transit. CSU-Global earned interest of \$10,537 for the fiscal year ended June 30, 2013, and no interest on deposits with the State for the fiscal years ended June 30, 2012. However, CSU-Global recognized the occurrence of increases in cash and cash equivalents and increases or decreases in investment income as a result of unrealized gains or losses on deposits with the State Treasurer. CSU-Global reflected a cumulative unrealized gain of \$12,000 and \$15,000 on cash and cash equivalents on deposit with the State Treasurer for fiscal years ended June 30, 2013 and 2012, respectively. The unrealized loss on investment income for the fiscal year ended June 30, 2013, was \$3,000, and the unrealized loss on investment income for June 30, 2012, was \$9,000. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2013, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Custodial credit risk for deposits is the risk that in the event of a bank failure, CSU-Global's deposits may not be returned to it. To manage custodial risk, deposits with financial institutions are made in accordance with the Colorado Public Deposit Protection Act (PDPA) of 1975. PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having a market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under PDPA are considered to be collateralized with securities held by the pledging institutions in CSU-Global's name. Deposits held in money market funds are not PDPA eligible deposits.

At June 30, 2013 and 2012, CSU-Global's book and bank balance value of cash not on deposit with the State Treasurer was \$8.8 million and \$2.6 million respectively. Cash includes petty cash or cash on hand

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

and cash in bank accounts. Bank account balances per the bank at June 30, 2013 and 2012, are \$8.1 million and \$2.6 million, respectively. Of the June 30, 2013, deposits, \$250,000 were covered by depository insurance and were not exposed to custodial credit risk, and the remaining \$7.9 million were collateralized with securities held by the pledging institution's trust department. Deposits in bank accounts at June 30, 2012, were covered by depository insurance and were not exposed to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies, which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2013, approximately 88.5 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$41.1 million of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2012, approximately 89.0 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$12.1 million of corporate bonds rated lower medium these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2013, the weighted average maturity of investments in the Pool was 0.037 years for Commercial Paper (1.0 percent of the Pool), 1.32 years for US Government Securities (63.9 percent of Pool), 3.371 years for Asset Backed Securities (16.0 percent of the Pool), and 3.100 years for Corporate Bonds (19.1 percent of the Pool). As of June 30, 2012, the weighted average maturity of investments in the Pool was 0.090 years for Commercial Paper (2.1 percent of the Pool), 0.803 years for U.S. Government Securities (75.2 percent of the Pool), 2.379 years for Asset Backed Securities (6.6 percent of the Pool), and 3.252 years for Corporate Bonds (16.1 percent of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years ended June 30, 2013 or 2012.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the fiscal years ended June 30, 2013 and 2012.

(5) Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying statements of net position.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

	June 30	
	2013	2012
Student accounts receivable	\$ 3,925,672	\$ 2,419,827
Less: allowance for doubtful accounts	(2,010,716)	(1,249,260)
Student accounts receivable, net	\$ 1,914,956	\$ 1,170,567
Other accounts receivable, net	\$ 36,464	\$ 43,141

(6) Capital Assets

Capital assets as of June 30, 2013 and 2012, consist of the following:

	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Depreciable capital assets:				
Software	\$ -	\$ 38,875	\$ -	\$ 38,875
Leasehold improvements	-	139,115	-	139,115
Total capital assets	-	177,990	-	177,990
Less accumulated depreciation				
Software	-	-	-	-
Leasehold improvements	-	-	-	-
Total accumulated depreciation	-	-	-	-
Total capital assets, net	\$ -	\$ 177,990	\$ -	\$ 177,990

As of June 30, 2013, no depreciation expense was recognized on leasehold improvements. The work is in progress and represents tenant finishing costs for CSU-Global's new office space (see Note 9).

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(7) Accrued Liabilities

The current accrued liabilities balances as of June 30 2013 and 2012, were composed of:

	June 30,	
	2013	2012
Accrued payroll and benefits	\$ 1,318,441	\$ 886,626
Other accrued liabilities	307,511	-
Total current accrued liabilities	\$ 1,625,952	\$ 886,626

(8) Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2013, was as follows:

	Balance 6/30/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
Accrued compensated absences	\$ 288,335	\$ 98,060	\$ 97,500	\$ 288,895	\$ 19,497

Long-term liability activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/2011	Additions	Reductions	Balance 6/30/2012	Amounts due within one year
Accrued compensated absences	\$ 229,610	\$ 93,166	\$ 34,441	\$ 288,335	\$ -
Other - start-up loan	8,000,000	-	8,000,000	-	-
Total long-term liabilities	\$ 8,229,610	\$ 93,166	\$ 8,034,441	\$ 288,335	\$ -

(9) Operating Lease Commitment

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

Fiscal year ending June 30:

2014	\$	172,121
2015		440,079
2016		443,969
2017		445,800
2018		451,521
2019-2022		322,583
Total	\$	<u>2,276,073</u>

In May 2013 CSU-Global entered into a new five-year lease for office space, with an estimated commencement date of October 18, 2013. The lease provides an option to renew the terms of the lease for two consecutive additional periods of five years each. The lease includes base rent payable net of property tax credits of \$2,224,488 beginning in March 2014. CSU-Global will receive a monthly property tax credit in the amount of \$4,749 beginning on March 1, 2014 through the duration of the lease.

Total rent expense for the years ended June 30, 2013 and 2012, was \$182,100 and \$163,005, respectively.

(10) Net Position

CSU-Global is subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions and State of Colorado statutes.

Student loan money is expended according to external restrictions imposed by the program funding sources. The federal programs are administered according to Department of Education Blue Book guidelines.

CSU-Global periodically receives nongovernmental grants or monies restricted for certain scholarships or programs. Amounts received with these restrictions are reflected in restricted net position.

Although other amounts reflected in unrestricted net position are not externally restricted, they may be internally designated by CSU-Global's Board or executive management for strategic and mission-related purposes.

(11) Employment Benefits

CSU-Global employees who are eligible for retirement benefits participate in either the Public Employees' Retirement Association Defined Benefit Plan (PERA) or an Optional Retirement Plan (ORP), subject to eligibility criteria defined by PERA and the University for each separate governing entity.

CSU-Global's total payroll for the fiscal years ended June 30, 2013 and 2012, was approximately \$11.7 million and \$8.0 million, respectively. Payroll for employees covered by the PERA plan and the optional defined contribution plan was approximately \$628,000 and \$673,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(a) PERA Defined Benefit Pension Plan

Plan Description

Employees of CSU-Global deemed eligible under PERA's membership rules for institutions of higher education may participate in the Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide lifetime retirement income to PERA annuitants and/or their families in the 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 PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

Prior to legislation passed in 2006, all classes of employees, except classified staff, may have participated in Social Security, PERA's Defined Benefit Plan, or the institution's Optional Retirement Plan (ORP) at institutions of higher education (excluding community colleges and School of Mines). Currently, higher education employees, except for classified staff, are required to participate in their institution's ORP, if available, unless they have been an active PERA participant with at least 12 months of service credit, an inactive member with that amount of service credit or a current PERA retiree. In that case, they may elect either PERA or their institution's optional retirement plan.

PERA members electing the defined contribution plan are allowed an irrevocable election between the second and fifth year to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to the rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same as the contributions to the PERA defined benefit plan.

Vesting for plan members occurs after five years of service and members are eligible for retirement benefits based on their hire dates as follows:

- Hired before July 1, 2005 – at age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2006 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credits as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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

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

- Hired before January 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index (CPI) increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by a 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are disabled, who have five or more years of service credit, six months of which have been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

age of 18 (23 if a full-time student) are entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

Funding Policy

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

Prior to July 1, 2010, employees contributed 8 percent of their salary, as defined in CRS 2451-10 I (42), to an individual account in the plan. Effective July 1, 2010, Senate Bill 10-146 required members in the State to pay 2.5 percent additional member contributions through June 30, 2011. Effective July 1, 2012, the temporary contribution rate increase of 2.5 percent for members in the State and Judicial Divisions to replace the 2.5 percent reduction in employer contributions effective for Fiscal Years 2010–11 and 2011–12 expired.

From July 1, 2012, to December 31, 2012, CSU-Global contributed 15.65 percent of the employees' salary. From January 1, 2013, through June 30, 2013, CSU-Global contributed 16.55 percent. During all of Fiscal Year 2012–13, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes CRS 24-51-211(1), an amortization period of 30 years is deemed actuarially sound. At December 31, 2012, the division of PERA in which the State participates had a funded ratio of 59.2 percent and a 53-year amortization period based on current contribution rates. The funded ratio on the market value of assets was higher at 60.2 percent.

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

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

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

CSU-Global's contributions to PERA for the fiscal years ending June 30, 2013 and 2012 were \$95,000 and \$86,000, respectively. These contributions met the contribution requirement for each year.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. CSU-Global provides certain of its employees with pension benefits through the State's PERA defined benefit retirement program.

GASB Statement No. 68 requires cost-sharing employers participating in the PERA program, such as CSU-Global, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. CSU-Global has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact CSU-Global's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in their Comprehensive Annual Financial Report.

Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer 403(b) or 401(a) plans. The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan, which was established for state and local governmental employees in 1981. At July 1, 2009, the state's administrative functions were transferred to PERA, and all cost of administration and funding are borne by the plan participants.

University Optional Retirement Plan - The Defined Contribution Plan for Retirement (DCP)

Under the University's optional retirement plan, all Academic Faculty, and Administrative Professionals are required as a condition of employment under Colorado law to participate in either the University's Defined Contribution Plan (DCP) for Retirement or, in very limited cases, in the PERA Defined Benefit plan (as eligibility permits). DCP participants may select from two investment companies as follows:

1. Teachers Insurance and Annuity Association (TIAA)
2. Variable Annuity Life Insurance Corporation (VALIC)

The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 CRS). As a university of the Board of Governors for the Colorado State University System, CSU-Global employees are eligible to participate in the System's retirement plan. The Defined Contribution Retirement Plan is a qualified plan under Section 401(a) of the IRC. CSU-Global participants contribute the required 8 percent of eligible salary. CSU-Global provides a matching contribution of 11.1 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. CSU-Global's aggregate contribution to the above two vendors was equal to 11.1 percent and 11.1 percent of covered payroll or approximately \$1.1 million and \$767,000, for the fiscal years ended June 30, 2013 and 2012, respectively. The employee aggregate contribution to the above two vendors was equal to 8.0 percent and 8.0 percent of covered payroll or approximately \$842,000 and \$588,000 for the fiscal year ended June 30, 2013 and 2012, respectively.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

Health and Life Insurance Programs

CSU-Global's contribution to the various health insurance programs was approximately \$706,000 and \$554,000 for the fiscal years ended June 30, 2013 and 2012, respectively.

(12) Compensated Absences Liability

CSU-Global 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 liability of compensated absences for which employees are vested as of June 30, 2013 and 2012, was \$289,000 and \$288,000, respectively.

Overall, net expenses increased by \$1,000 for the fiscal year ended June 30, 2013, and \$59,000 for the fiscal year ended June 30, 2012, for the estimated compensated absences liabilities.

(13) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2013 and 2012, CSU-Global participated 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-Global 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 amounts of Direct Loans disbursed during the fiscal years ended June 30, 2013 and 2012, were \$37.9 million and \$23.5 million, respectively.

(14) Scholarship Allowance

Tuition and fees revenues and the related scholarship and bad debt allowances for the years ended June 30, 2013 and 2012, were as follows:

	2013	2012
Gross revenue	\$ 35,826,054	\$ 25,383,898
Bad debt allowance	767,011	766,547
Scholarship allowances:		
Institutional	375,069	184,337
Total allowances	<u>1,142,080</u>	<u>950,884</u>
Net revenue	<u>\$ 34,683,974</u>	<u>\$ 24,433,014</u>

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(15) Commitments and Contingencies

At June 30, 2013, CSU-Global had an open commitment to fund approximately \$1.5 million toward a new venture capital fund created by the Colorado State University System to support innovation and promote collaboration in higher education.

(16) Related-Party Transactions

As one of three universities of the Colorado State University system, CSU-Global made payments to its sister institutions for certain activities noted in the table below. In years prior to fiscal year 2010, CSU-Pueblo and CSU-Fort Collins advanced \$12 million as a start-up loan to create CSU-Global. Other than the principal payments on the start-up loan, the amounts below are included in operating expenses. For the periods ending June 30, 2013 and 2012, payments were made as follows:

	2013	2012
Colorado State University - Pueblo		
Principal Payments on Loan	\$ -	\$ 730,421
Interest Payments on Loan	-	110,865
Revenue Share for Course Curriculum	-	74,362
Student Financial Aid Processing Services	-	18,000
Military Outreach Services	-	16,667
Subtotal	-	950,315
Colorado State University - Fort Collins		
Principal Payments on Loan	-	7,269,579
Interest Payments on Loan (A)	1,267,543	-
Revenue Share for Course Curriculum	-	408,037
Subtotal	1,267,543	7,677,616
Total	\$ 1,267,543	\$ 8,627,931

(A) In prior years, the advance from CSU-Fort Collins did not include any interest. Subsequent to preparation of the 2012 financial statements, it was determined that because of the financial stability obtained by CSU-Global, interest would be retroactively charged on the advance from Fort Collins. Thus during 2013, the interest was accrued and paid to CSU-Fort Collins.

(17) Risk Management

CSU-Global is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets or information; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Insurance coverage for claims arising from such matters including those related to workers' compensation and natural disasters is purchased from the State of Colorado's Risk Management program. Settled claims have not exceeded this coverage in 2013 or 2012. Claims are administered by the Colorado Division of Risk Management.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

(18) Subsequent Events

Subsequent events have been evaluated through December 4, 2013, which is the date the financial statements were available to be issued.

Payment to Venture Capital Fund

In August 2013, CSU-Global paid \$1,402,930 to Colorado State University System for a new venture fund to promote innovation (See Note 15).

Recipient of Grant Award

In September 2013, the Venture Capital Fund created by the CSU System awarded a grant of \$330,000 designated for a new program called Colorado Policy, Analytics, and Learning at Scale (CO-PALS). The program is administered by CSU-Global and reflects a collaborative effort with the Colorado Community College System and College In Colorado.

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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System, State of Colorado (the CSU System) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise CSU-Global’s basic financial statements and have issued our report thereon dated December 4, 2013, which contained an explanatory paragraph indicating the financial statements do not purport to, and do not, present the CSU System’s financial position, changes in financial position, or, where applicable, cash flows.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CSU-Global’s internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSU-Global’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CSU-Global’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of CSU-Global’s financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention of those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members of the Legislative Audit Committee

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CSU-Global's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSU-Global's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Legislative Audit Committee, Office of the State Auditor, the Colorado State University System Board of Governors, the Colorado State University Board of Governors' Audit Committee and Colorado State University – Global's management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Denver, Colorado
December 4, 2013

Independent Auditor's Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audits of the financial statements of Colorado State University – Global Campus (CSU-Global), a university within the Colorado State University System (the CSU System) as of and for the year ended June 30, 2013, we wish to communicate the following to you.

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*

An audit performed 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 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements and compliance does not relieve management or those charged with governance of their responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

CSU-Global's significant accounting policies are described in Note 3 of the audited financial statements.

Members of the Legislative Audit Committee

Alternative Accounting Treatments

- No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Scholarship allowance
- Compensated absences

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Related-party transactions

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded:

- Prepaid expenses and accounts payable
- Deferred revenue and nongovernmental grants
- Pell revenue and expense

Proposed Audit Adjustments Not Recorded:

- The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets by \$32,978, increase current liabilities by \$13,505 and increase beginning of the year net position by \$7,435 as of June 30, 2013, and decrease operating expenses for the year ended June 30, 2013, by \$12,038.

Members of the Legislative Audit Committee

Auditor’s Judgments About the Quality of CSU-Global’s Accounting Principles

During the course of the audit, we made the following observation regarding CSU-Global’s application of accounting principles:

- No matters are reportable.

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter

* * * * *

This letter is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Colorado State University Board of Governors, the Colorado State University Board of Governors’ Audit Committee and Colorado State University – Global’s management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Denver, Colorado
December 4, 2013

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