KPMG

COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

Year ended June 30, 2005

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COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2005

Purpose and Scope

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado State University System (the System) for the year ended June 30, 2005. KPMG performed this 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. KPMG was not engaged to audit the System's discretely presented component unit, the Colorado State University Foundation (the Foundation). The Foundation was audited by other auditors as disclosed in our Independent Auditors' Report, and the audit was not performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards.*

We conducted the related fieldwork from May to October 21, 2005. The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the Colorado State University System as of and for the year ended June 30, 2005. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards.*
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Report on the Colorado State University System's internal control over financial reporting and compliance and other matters based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards.*
- Report on the Colorado State University System's compliance with applicable bond covenants.
- Express an opinion on the Statement of 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, 2005.
- Evaluate progress in implementing prior audit findings and recommendations.

The System's schedule of expenditures of federal awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2005 Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the System's basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2005.

Seven audit adjustments were proposed and made to the basic financial statements, which had a net effect on net assets of approximately ($370,000). Five additional audit adjustments were not made to the basic financial statements, which had a net effect on net assets of approximately ($2,445,200). These passed differences are not considered material to the System's basic financial statements.

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COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2005

We issued a report on the System's internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards.* This report did not address the Foundation, which was audited by other auditors. We noted no matters involving the internal control over financial reporting of the System and its operation that we consider to be a material weakness. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic 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 did note, however, certain areas where the System could improve its internal control and compliance procedures, which are described in the Findings and Recommendations section of this report.

Summary of Key Findings

Monitoring and Reporting of Vacation/Sick Time

At the end of fiscal year 2005, the compensated absence liability for Colorado State University was approximately $28,700,000. Currently, the University tracks and monitors its vacation and sick time using a decentralized and manual process. Each department is responsible for tracking the vacation and sick time accrued and used by their employees during the year using a manual spreadsheet. During the year, the amount of annual leave for some employees was not calculated correctly, nor were the proper leave approval forms always obtained when required. None of the errors created a significant impact on the financial statements due to the fact that the compensated absences accrual is based upon an estimate. Yet, by not properly tracking and approving leave, the University may grant employees more leave time than they have actually earned.

Financial Reporting

Colorado State University – Pueblo (CSUP) is responsible for preparing their financial statements for the purpose of consolidating their information with Colorado State University and the System for inclusion in the Colorado State University System's financial report. CSUP currently makes up a total of approximately 9% of the System's total assets and approximately 7% of the System's total revenues. Initial drafts of CSUP's financial statements had errors that needed to be corrected prior to the consolidation process.

Recommendations and the System's Responses

A summary of the recommendations for all comments is included in the Recommendation Locator beginning on page 4. The Recommendation Locator also shows the System's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Findings and Recommendations Section of our report.

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2004 included 23 recommendations. The disposition of these audit recommendations as of October 21, 2005 was as follows.

Implemented	19
Partially implemented	3
Not implemented	1
	23

Recommendation Locator						
Rec. No.	**Page No.**	**Recommendation Summary**	**University Addressed**	**Financial Statement (FSA) or Single Audit (SA)**	**University Response**	**Implementation Date**
1	16	Consider implementing a centralized, automated vacation and sick time reporting system that would formalize the approval of leave as well as more accurately track the year-end balances. In addition, the automated system should require employee leave balances to be reported on employees' pay remittances. If a centralized, automated system is determined not to be cost beneficial, implement policies and procedures requiring each department to obtain approved leave slips that can be reconciled to their year-end worksheet. This should include a formal review process over the year-end spreadsheet.	CSU	FSA	Agree	July 2005 and January 2006
2	17	Ensure the formal review process over the incurred but not reported claims (IBNR) calculation is being performed, including a detailed review of the mathematical accuracy as well as tie-out to all supporting documentation. Continue to consult with an actuary when needed.	CSU	FSA	Agree	June 2006
3	18	Evaluate current procurement policy to require proof of receipt of goods or services prior to payment. In only limited circumstances should policy allow payment without first verifying proof of receipt of the good or service.	CSU	FSA	Partially Agree	June 2006

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COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2005

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
4	18	Ensure the formal review process over journal entries is being performed by all departments of the University.	CSU	FSA	Agree	March 2006
5	19	In order to strengthen access controls surrounding information systems, consider: a) Establishing password parameters over all information system applications to ensure appropriate restriction to the University's information. This is in addition to the mainframe password parameters already in place; b) Revising its policy to require passwords to expire every 90 days; c) Implementing a procedure that ensures terminated employees are removed from all applications within two weeks of their termination; and d) Performing periodic reviews of the appropriateness of employees' access rights to certain systems.	CSU	FSA	Partially Agree	August 2005, October 2005, and February 2006

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COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2005

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
6	21	Implement a formal change management policy over the Students Account Receivable System (SARS). This policy should provide a step-by-step process for how all changes should be uniformly handled. The policy should be documented, clearly communicated to the users of SARS, and should require: a) Documenting approvals of the change; and b) Retaining supporting documentation of testing performed.	CSU	FSA	Not Applicable	System to be replaced in May 2006
7	21	Strengthen the controls over financial reporting by: a) Modifying the Financial Reporting Checklist to include requirements of GASB Statement No. 33 and other applicable accounting and reporting standards. b) Implementing a year-end footnote review process which requires all footnotes to be agreed to the final, adjusted financial statements and other supporting documentation.	CSU-P	FSA	Agree	May – August 2006

(Continued)

Recommendation Locator						
Rec. No.	**Page No.**	**Recommendation Summary**	**University Addressed**	**Financial Statement (FSA) or Single Audit (SA)**	**University Response**	**Implementation Date**
		c) Developing and implementing cash flow statement preparation guidelines.				
		d) Performing a formal review of the financial statement package prior to submission for consolidation. This review should be performed by someone at least one level above the preparer of the reporting package and the review should be documented.				
8	23	Perform timely reviews of the calculation and return of Title IV funds to ensure accurate returns of funds are being made within the required timeframe.	CSU	SA	Agree	March 2005
9	24	In order to strengthen the controls surrounding cash management, the University should consider:	CSU-P	SA	Agree	September 2005, November 2005, and March 2006
		a. Requiring a full-time employee versus a student employee to process periodic draw downs.				
		b. Continuing to require a segregation of duties between calculating the draw downs, processing the draw downs, and reviewing the draw downs.				

(Continued)

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
		c. Implementing a monitoring control for draw downs made during peak enrollment periods. Each day after the draw down, the University should review the amount of the draw down, the amount of the daily disbursements, and the forecasted amounts of the disbursements to be made during the remaining seven-day period.				
		d. Ensuring that the University's procedure regarding the reconciliation of total aid disbursed per the PowerFaids system (Student Account and Financial Aid System) to the total cash draw downs per the EdGAPS system is performed timely. This reconciliation should be reviewed by someone at least one level above the preparer.				
10	26	Establish procedures to ensure Title IV funds are being returned promptly and correctly by ensuring total semester days are calculated by the appropriate personnel, that the calculation is reviewed and approved by someone who is knowledgeable other than the preparer, and that total semester days are clearly communicated to the employees responsible for calculating the return of Title IV funds.	CSU-P	SA	Agree	February 2006

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Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
11	27	Implement monitoring procedures over the verification process. These procedures should include someone separate from the verification process selecting a sample of verified data, reviewing the information for completeness and accuracy, and documenting this review.	CSU-P	SA	Agree	February 2006
12	27	Continue to implement procedures to ensure all elements of the Fiscal Operations Report and Application to Participate are accurate.	CSU-P	SA	Agree	September 2006
13	28	Insert a clause for all Governor Opportunity Scholarship (GOS) contracts, which a student must sign prior to receiving aid, stating that the student agrees not to obtain loans while receiving the GOS aid.	CSU-P	SA	Agree	March 2006
14	29	Insert information in the Governor Opportunity Scholarship (GOS) contracts, which the student must sign prior to receiving aid, stating the requirements surrounding student support services/peer mentoring participation. Also, implement a procedure for monitoring the students' participation in such programs.	CSU-P	SA	Agree	2006 Fall Semester

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Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
15	30	Colorado State University – Pueblo should implement a reconciliation control over the completion of the Student Unit Record Data System report (SURDS). This process should reconcile the information reported in the SURDS report to both the information in the general ledger and information reported in other Colorado Commission of Higher Education reports. The reconciliation should be reviewed by someone at lease one level above the preparer to ensure that the reconciliation is performed timely and accurately.	CSU-P	SA	Agree	2006 Fall Semester
16	31	Ensure required reports are being submitted timely and accurately. The University should ensure it is adhering to its current policy of: a. Reviewing all grant agreements upon initiation to determine reporting requirements. b. Assigning responsibility for completing the required reports timely. In addition, current policy should be amended to include a secondary review of the report by another individual knowledgeable of the program prior to its submission.	CSU	SA	Agree	March 2006

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COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2005

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
17	32	CSU should continue to review the Excluded Parties List System for all vendors prior to contracting with the vendor.	CSU	SA	Agree	September 2004

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2005

Organization and Administration

The institutions that compose the Colorado State University System (the System) are established in Title 23, C.R.S. The Board of Governors (the Board) has control and supervision of two distinct institutions: Colorado State University – a land-grant University and the Colorado State University – Pueblo – 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 13-member Board consists of:

- Nine voting members appointed by the Governor and confirmed by the Senate for four-year terms.
- Four advisory members representing the student bodies and the faculty councils for each of the two 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 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.

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 (the College). 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 College.

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

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. The mission of the Agricultural Experiment Station is to conduct research that addresses the economic viability, environmental sustainability, and social acceptability of activities impacting agriculture, natural resources, and consumers in Colorado. 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 mission of the Cooperative Extension Service is to provide information and education, and encourage the application of research-based knowledge in response to local, state, and national issues affecting individuals, youth, families, agricultural enterprises, and communities of Colorado. 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) 4H 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.

Colorado State University – Pueblo

Colorado State University – Pueblo 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. In July 2003, the university was renamed to Colorado State University – Pueblo.

Colorado State University – Pueblo (CSUP) is accredited at the bachelor’s and master’s levels. CSUP is a regional, comprehensive university, with moderately selective admissions standards displaying excellence in teaching and learning. CSUP emphasizes professional, career-oriented, and applied programs at the undergraduate and graduate levels while maintaining strong programs in the liberal arts and sciences. CSUP has received the federal government’s designation as a Hispanic Serving Institution granted to universities with at least 25% of the student population of Hispanic descent.

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Enrollment and Faculty

Enrollment and faculty and staff information is presented below. Enrollment information was obtained from the Format 30 of the Budget Data Book for fiscal year 2004-2005, prepared for the Colorado Commission on Higher Education (CCHE).

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

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

	Resident	Nonresident	Total
Fiscal year:			
2004 – 2005	18,214	4,680	22,894
2003 – 2004	17,830	4,795	22,625
2002 – 2003	17,363	4,923	22,286

Colorado State University
Full-Time Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2004 – 2005	1,474	4,043	5,517
2003 – 2004	1,451	4,029	5,480
2002 – 2003	1,437	4,137	5,574

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

Colorado State University – Pueblo
Full-Time Equivalent (FTE) Student Enrollment

	Resident	Nonresident	Total
Fiscal year:			
2004 – 2005	3,267	349	3,616
2003 – 2004	3,158	376	3,534
2002 – 2003	3,030	418	3,448

Colorado State University – Pueblo
Full-Time Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2004 – 2005	204	324	528
2003 – 2004	192	308	500
2002 – 2003	209	312	521

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Colorado State University Foundation (the Foundation)

During the 2004 fiscal year, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*. As a result, in addition to the two institutions described above, the System's reporting entity includes the Foundation as a discretely presented reporting unit. The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU. The Foundation is governed by its board of directors, which includes five voting members and three ex-officio nonvoting members. No person who is an employee of the University is eligible to serve as an officer of the Foundation or as a voting Board member.

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005. In planning and performing our audit of the basic financial statements, we considered the System's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States, we also have issued our report dated October 21, 2005 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since October 21, 2005. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

Our procedures were designed primarily to enable us to form an opinion on the basic financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We have attempted, however, to use our knowledge of the System gained during our work to make comments and suggestions that we hope will be useful to the System.

During our current year engagement, we noted certain matters involving internal control and other operational matters that are presented for the System's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the System's management, are intended to further improve internal control or result in other operating efficiencies.

Colorado State University

Monitoring and Reporting of Vacation/Sick Time

Colorado State University (CSU) tracks and monitors its vacation and sick time for employees using a decentralized and manual process. Each department is responsible for tracking the vacation and sick time accrued and used by their employees during the year using a manual spreadsheet. Departments require employees to submit vacation and sick time authorization forms to each department's business office where the forms are signed off by both the employee and the employee's supervisor. These forms are used by each department to manually track each employee's vacation and sick time accrual balance.

At the end of the year, each department head certifies their report and submits it to Human Resources where the cumulative results are used to estimate the annual year-end compensated absences liability. At the end of fiscal year 2005, the compensated absence liability for CSU was estimated at approximately $28,700,000.

We selected a sample of 30 employees in order to verify that their vacation/sick time accrual and usage was approved and accurately calculated for the 2005 fiscal year. During our testwork we observed the following:

- Total current sick leave hours earned for the year-ended June 30, 2005 were not calculated correctly based upon days taken and days earned for two employees selected for testing.
- The amount of annual leave did not agree from the approved forms to the amount recorded as taken per the manual tracking sheet for five of the employees selected for testing.
- No annual leave requests were completed or available for our review for six of the employees selected for testing.

None of the above errors created a significant impact in the total compensated absences accrual for financial statement purposes due to the fact that the accrual is based on management's estimate. Management's estimate includes considering the number of employees, average daily pay for types of employees, and average accumulated leave for the previous fiscal year, which is most often the maximum days to be accrued. Yet, by not properly tracking and approving leave, the University may grant employees more leave time than they have earned due to the fact that they do not have the proper support for actual leave taken.

Recommendation No. 1

Colorado State University should consider implementing a centralized, automated vacation and sick time reporting system that would formalize the approval of leave as well as more accurately track the year-end balances. By implementing this process, leave balances owed to employees would be more accurately tracked, and management would be able to determine the year-end compensated absence accrual based upon actual hours instead of using numerous man hours to determine the year-end estimate. In addition, the automated system should require employee leave balances to be reported on each employee's pay remittances. This would serve as an additional control since employees would report errors if found when reviewing their pay remittances.

If CSU believes an enhanced vacation and sick time reporting system would not be cost beneficial to its current operations, CSU should implement policies and procedures requiring each department to obtain proper, approved leave slips that can be reconciled to year-end worksheets. These year-end worksheets should be reviewed at year-end for accuracy, and departments should formally report year-end leave balance to employees.

Colorado State University Response

Agree. Implemented July 2005 and January 2006.

Colorado State University implemented an automated sick and annual leave reporting system for Faculty and Administrative Professionals in July 2005 and for State Classified employees in January of 2006. This system tracks leave balances and reports them on employee pay stubs.

The University has already considered implementing a central automated system that would formalize the approval of leave. Because of technological constraints and the vast geographical distributions of employees and supervisors, an automated approval system was not determined to be cost beneficial.

Incurred But Not Reported Liability

For fiscal year 2005, Colorado State University was self-insured for the following risk-related activities: workers' compensation, property, healthcare, dental, long-term disability, and short-term disability. As of June 30, 2005, CSU reported incurred but not reported claim liabilities (IBNR) for these activities of approximately $11,000,000. The IBNR liabilities are estimates calculated by CSU based on numerous factors, including payment lag data from the third party administrator and estimated new claims. During our review of CSU's calculations to estimate these liabilities, we noted the following:

(1) For the healthcare IBNR, two mathematical errors were noted. In addition, certain lag data was not correctly entered into the calculation. These errors caused a $63,000 understatement of the liability.

(2) For the long-term disability IBNR, an incorrect administrative fee rate percentage was applied in the calculation, resulting in a $40,000 overstatement of the liability.

(3) For the workers' compensation IBNR, the total estimated new claims factor for 2005 was incorrectly calculated, resulting in an error of approximately $500,000. Also, the claims-not-paid factor used in the calculation included an invoice for approximately $117,000 that had already been expensed and did not include an invoice for $156,000 that should have been included, resulting in an error of $30,000.

Per discussion with the University, there is a formal review policy for the IBNR calculations, but in the above instances, this control was not implemented effectively.

Recommendation No. 2

Colorado State University should ensure the formal review process over the IBNR calculation is being performed, including a detailed review of the mathematical accuracy and tie-out to all supporting documentation. This review should include documentation of issues resolved and should be evidenced by signature approval. Lastly, CSU should continue to consult with an actuary when needed.

Colorado State University Response

Agree. Implementation date – June 2006.

Procurement Three-Way Match Control

A strong internal control structure over the procurement function usually includes: 1) authorization prior to purchase and 2) proof of receipt prior to payment. During our testwork performed over procurement internal controls, we noted that the University's procurement policy required proof of receipt of goods and services for some types of purchases prior to payment, but for other types of purchases, it did not require proof of receipt prior to payment. For example, items purchased on an open purchase order did not require proof of receipt prior to payment. In these instances, the invoice was required to be approved by the ordering department after payment had been made to ultimately prove receipt of the good or service. By not obtaining proof of receipt prior to payment, the University could pay for a good or service that was never received.

Recommendation No. 3

Colorado State University should evaluate its current procurement policy to require proof of receipt of goods or services prior to payment in most cases. Only in limited circumstances should the policy allow payment without first verifying proof of receipt of the good or service.

Colorado State University Response

Partially Agree. The University believes this standard is currently being met; however, we will document the present practices and validate the cost and risk assumption of this policy with management. Implementation date – June 2006.

Review and Approval of Journal Entries

Colorado State University's general ledger system utilizes manual journal entries as a significant source for processing transactions within the University. In the prior year, we observed that there were numerous instances where manual journal entries were initiated and posted without the review of another employee prior to posting the entries. The University agreed to implement a more rigorous review process over manual adjustments to the general ledger. According to the University, the new control process was implemented in March 2005.

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During or testwork over manual journal entries, we observed that certain June 2005 manual journal entries posted by the Office of Sponsored Projects (OSP) were posted without sufficient review by a second knowledgeable employee until October 2005. Upon further discussion with personnel, the current review process at OSP is retrospective in nature. All transactions are posted and then reviewed. The current review procedures at OSP is inconsistent with the University's established policy for manual journal entries effective March 15, 2005.

While none of the journal entries reviewed appeared to be improper or inconsistent with the operations of the University, a strong internal control structure requires there be a segregation of duties regarding journal entry creation and approval prior to posting to the general ledger. The risk to the University is that an entry could be recorded that is inaccurate, does not represent a valid business transaction, or does not properly reflect the intent of the initiator.

Recommendation No. 4

Colorado State University should ensure that the formal review policy in place over journal entries is being performed by all departments of the University.

Colorado State University Response

Agree. Implemented March 2006.

Access Controls to Information System Applications

In order to achieve the appropriate restriction of access to an entity's information systems, an entity should have numerous controls in place including:

- Password parameters to access application systems in addition to password parameters to access mainframe systems
- Policy requiring passwords to be changed at least once every 90 days
- Procedures in place to remove terminated employees' access to application systems in a timely manner
- Review procedures that assess current employees' access rights to the various application systems to ensure appropriateness

Colorado State University has numerous application systems, which include Financial Reporting System (FRS), Human Resources System (HRS), Student Accounts Receivable System (SARS), and Campus Information System (CIS). During our testwork, we noted:

- There were no password restrictions required to access the applications listed above, only password restrictions in order to enter the mainframe.
- The mainframe passwords have an expiration of 120 days versus the industry-recommended 90-day expiration.
- As of May 2005, employees who were terminated prior to April 1, 2005 still had access rights to certain application systems. Seven terminated employees still had access rights to HRS, and two terminated employees still had access rights to FRS.

- For HRS, the University was not reviewing access rights to the system on a timely basis to ensure only the appropriate employees had access rights. For FRS and CIS, the University stated access rights were reviewed on a weekly basis, yet there was no evidence that this was being performed.

Recommendation No. 5

In order to strengthen access controls surrounding information systems, Colorado State University should consider the following:

a) Establishing password parameters over all information system applications to ensure appropriate restriction to the University's information. This is in addition to the mainframe password parameters already in place;

b) Revising its policy to require passwords to expire every 90 days;

c) Implementing a procedure that ensures all terminated employees are removed from all applications within two weeks of their termination; and

d) For HRS, FRS, and CIS, performing periodic reviews of employees' access rights to these systems. The review should be performed by someone who is knowledgeable of both the system and the employees' job function. The review and the results of the review should be documented on a timely basis.

Colorado State University Response

Partially Agree.

(a) The University has considered this recommendation and believes the tight access controls provided by the mainframe are adequate and provide the necessary protection against inappropriate access. Password parameters on the University's mainframe legacy applications would be extremely difficult and expensive to implement, and these systems are slated to be replaced in the near future.

(b) The University has considered this recommendation and believes that the 120-day expiration of passwords is an adequate security measure and that there would be little to be gained by changing it to 90 days.

(c) and (d) Partially Agree. The University already performs periodic reviews of employee access rights for HRS, FRS, and CIS.

The HRS system automatically ends HRS access upon termination of employment or the transfer of an employee to another department. The seven terminated employees who still had access identified in the audit report were due to an improper security system setting. This setting was corrected in August 2005. In addition, the University implemented an additional control over this process in February 2006. This control generates an automated e-mail alert that notifies the Oracle Help Desk when HRS users no longer have active assignments associated with them. This control will provide an additional control over this process in the event there is any future system failure of the automated access termination process.

The FRS and CIS systems also have control processes that end access upon termination of employment. The exceptions noted in the audit report were attributable to an error in the weekly query of terminated employees. This error was corrected in October of 2005, and this process is in place and is being utilized to successfully revoke the system access of terminated employees.

Information Systems Change Management Controls

Entities often implement system changes for a variety of reasons. In order to ensure the appropriate employees are notified, approvals are obtained, and proper testing is performed, entities should have a formal change management policy in place over all systems. This policy should be clearly communicated to users. In addition, the change management policy should require documentation to be maintained to support that the proper approvals were obtained and that proper testing was performed prior to the change being placed into production. During our testwork, we noted that there was no formal change management policy in place over the Students Accounts Receivable System (SARS). We also noted that there was one change made to SARS during the fiscal year, but evidence of testing and prior approvals was not retained.

Recommendation No. 6

Colorado State University should implement a formal change management policy over SARS. This policy should provide a step-by-step process for how all changes should be uniformly handled. The policy should be documented, clearly communicated to the users of SARS, and should require:

a) Documenting approvals of the change. This should be obtained prior to the change being placed into production.

b) Retaining supporting documentation of testing performed prior to the change being placed into production.

Colorado State University Response

Not Applicable. The SARS system will be replaced in May of 2006. Since this system is about to be replaced, the University has determined that the implementation of a formal change management policy for this system would not be cost beneficial. The University believes that existing processes and procedures are adequate to maintain this system for its remaining lifetime.

Colorado State University – Pueblo

Financial Reporting

Colorado State University – Pueblo (CSUP) is responsible for preparing its financial statements including the statement of net assets, the statement of changes in net assets, the statement of cash flows, and appropriate footnote disclosures. These financial statements are used to consolidate with Colorado State University and the System for inclusion in the Colorado State University System's financial report. Total assets for Colorado State University - Pueblo were $74,700,000, or approximately 9%, of the System's total assets. Total operating revenues and state appropriations of the Colorado State University – Pueblo were $47,900,000 or 7% the System's total revenues. During our audit procedures performed at Colorado State University – Pueblo we noted:

1. Approximately $880,000 in student receivables were inappropriately classified as noncurrent.

2. Multiple footnotes did not initially reconcile to the amounts reported on the financial statements or to other supporting documentation.

3. Initial drafts of the cash flow statement had errors in amounts reported.

4. An erroneous journal entry caused deferred tuition revenue to be misstated by $480,000.

5. A review of grant revenue deferrals was not performed timely to ensure the revenue should be deferred in accordance with Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB Statement No. 33). This led to an adjustment for approximately $280,000.

All of the above were corrected prior to consolidation by the System.

Recommendation No. 7

Colorado State University – Pueblo should strengthen the controls over financial reporting by:

a. Modifying the University's Financial Reporting Checklist to include requirements of GASB Statement No. 33 and other applicable accounting and reporting standards.

b. Implementing a year-end footnote review process which requires all footnotes to be agreed to the final, adjusted financial statements and other supporting documentation. The University should add this step to its current Closing Calendar to ensure this is performed.

c. Developing and implementing cash flow statement preparation guidelines. These guidelines should document how each number was determined so that the preparer in the following year can consistently draft the statement. The guidelines should also include certain tests to perform to ensure accuracy of the statement. The guidelines should also document common errors in order to avoid such errors in the future.

d. Performing a formal review of the financial statement package prior to submission for consolidation. This review should be performed by someone at least one level above the preparer of the reporting package and the review should be documented. The review should consist of performing analytical procedures, reviewing unusual balances or variances, ensuring footnotes agree to the financial statements, ensuring accuracy of the cash flow statement, and determining that the financial statements are consistent with the reviewer's understanding of the University. The University should add this step to its current Closing Calendar to ensure this is performed.

Colorado State University – Pueblo Response

Agree. The CSUP Controller and the Director of Business Financial Services will formalize the procedures and review processes for preparation of the year-end financial statements. These guidelines will include revising the financial reporting checklist to include all applicable accounting and reporting standards; implementing a year-end footnote review process; developing and implementing cash flow statement preparations guidelines; formally reviewing the financial statement package prior to submission for review and consolidation. Implementation date: May 1 through August 31, 2006.

(Continued)

<u>Colorado State University – Federal Student Aid Cluster</u>

Federal Student Aid Cluster (FSA) – Cash Management of Title IV Funds

Criteria:	When a student who has received Title IV aid withdraws from an institution, the institution must return the lessor of (1) the total amount of unearned Title IV assistance; or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. Returns of Title IV funds are required to be deposited within 30 days after the date the institution determines that the student withdrew. An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: 1) payment period or period of enrollment; 2) academic year in which the student withdrew; or 3) education program from which the student withdrew. A school is responsible for establishing and maintaining internal control processes that promote responsible calculation and return of Title IV funds. (34 CFR 668.22 (e) – (j))
Condition:	The University miscalculated the number of total days in the Spring 2005 semester. As a result, the percentage of aid earned by students was miscalculated. The error was identified and corrected in March 2005. Although the error was corrected, additional funds that had to be returned were beyond the 30-day requirement.
Questioned Costs:	Total amount of Title IV funds that were submitted beyond the 30-day requirement that was approximately $90. The questioned cost is the amount of interest earned on this $90 from the point in time of the student's withdrawal date through March 2005 when the error was noted.
Context:	In a sample of 25 students, five students' return of Title IV funds calculations were incorrect. Of those five, four students' funds had been returned beyond the 30-day requirement.
Effect:	Lack of timely review controls over the calculation and return of Title IV funds resulted in incorrect calculations and funds being returned beyond the 30-day requirement.

Recommendation No. 8

Colorado State University should perform timely reviews of the calculation and return of Title IV funds to ensure accurate returns of funds are being made within the required timeframe. Evidence of the timely review should be documented.

Colorado State University Response

Agree. Procedures were implemented in March of 2005 to insure that review procedures are performed timely and that evidence of the review is maintained.

Colorado State University – Pueblo – Federal Student Aid Cluster

Federal Student Aid Cluster – Cash Draw Downs

Criteria:	An institution is responsible for establishing and maintaining internal control processes that promote sound cash management of Title IV program funds. (34 CFR 668.161(a))
Condition:	During our testwork over the cash management process, we noted the following weaknesses in the internal control structure: • Draw downs were being calculated and performed by a student employee who had access to the EdGAPs System. Four out of seven draw downs were not reviewed by management. The University did not implement the management review control until October 2004. • The two largest Pell Grant draw downs for the year were calculated based upon the amount awarded rather than the amount actually disbursed. For theses draws made during periods of peak enrollments, there were no formal procedures in place to monitor the excess cash balance held by the University during the seven-day period to ensure compliance with cash management requirements. • The University's policy is to perform routine draws based upon negative cash balances within their general ledger system versus using disbursement rosters produced by the PowerFaids system (Student Account and Financial Aid System). Although the PowerFaids system's transactions interface with the general ledger system, there are no monitoring procedures to ensure unrelated or erroneous activity is not being posted to the applicable general ledger accounts. Thus, the amounts of the draws being made could be overstated as there are no reconciliation procedures being performed between PowerFaids and total cash draw downs per the EdGAPS system.
Questioned Costs:	None
Context:	In a sample of seven draw downs, four had not been reviewed by management. These four draws had not been reviewed due to the fact that the review control had not been implemented by the University until October 2004, and these draws were prepared prior to October 2004. In addition, of two large Pell Grant cash draw downs tested, both were calculated based upon amount awarded rather than the amount actually disbursed. Also, for the two draw downs, there were no formal controls to ensure compliance with cash management requirements. Lastly, of one reconciliation to be tested, one was not performed.

(Continued)

Effect:	Although there were no significant compliance issues noted, without sufficient controls in place, the University increases the risk of noncompliance of drawing down excess cash and failing to disburse excess cash (to students or return it to the federal government) within the required time frame.

Recommendation No. 9

In order to strengthen the controls surrounding cash management, Colorado State University – Pueblo should consider:

a) Requiring a full-time employee versus a student employee to process periodic draw downs. Student employees are typically temporary in nature with limited experience in positions where they are responsible for processing significant transactions.

b) Continuing to require a segregation of duties between calculating the draw downs, processing the draw downs, and reviewing the draw downs. This control was implemented by the University during October 2004. If the University determines that requiring a full-time employee to perform the cash draw downs is not cost beneficial, the review function should be more robust in nature.

c) Implementing a monitoring control for draws made during peak enrollment periods. Each day after the draw, the University should review the amount of the draw, the amount of the daily disbursements, and the forecasted amounts of the disbursements to be made during the remaining seven day period.

d) Determining the amount of the draws based upon actual disbursements made (disbursement rosters). If the University elects to continue determining draws based upon current methodology, the University should perform a reconciliation of total aid disbursed per the PowerFaids system (Student Account and Financial Aid System) to the total cash draw downs per the EdGAPS system on a timely basis. This reconciliation should be reviewed by someone at least one level above the preparer.

Colorado State University – Pueblo Response

a) Agree. A full-time employee is now processing periodic draw downs. Implemented November 2005.

b) Agree. The segregation of duties will continue. Implemented October 2004.

c) Agree. The grant accounting coordinator now works with the financial aid systems manager to ensure that federal cash management guidelines are adhered to by the University. Implementation date – March 2006.

d) Agree. The grant accounting coordinator and the financial aid systems manager now work together to base federal cash draw downs on actual disbursements. Implemented September 2005.

Federal Student Aid Cluster – Return of Title IV funds

Criteria:	When a student who has received Title IV aid withdraws from an institution, the institution must return the lessor of (1) the total amount of unearned Title IV assistance; or (2) an amount equal to the total institutional charges incurred by the student for the payment period or period of enrollment multiplied by the percentage of Title IV grant or loan assistance that has not been earned by the student. Returns of Title IV funds are required to be deposited within 30 days after the date the institution determines that the student withdrew. An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the: 1) payment period or period of enrollment; 2) academic year in which the student withdrew; or 3) education program from which the student withdrew. A school is responsible for establishing and maintaining internal control processes that promote responsible calculation and return of Title IV funds. (34 CFR 668.22 (e) – (j))
Condition:	We noted one instance in which the incorrect number of days in the semester was used in calculating the return of aid from a student.
Questioned Costs:	$3.94 in excess aid was returned to the federal government as a result of the University using the incorrect total number of semester days in the return calculation.
Context:	In a sample of five students selected, the above error was noted.
Effect:	The failure to implement proper review procedures over the return of Title IV funds could increase the risk of significant noncompliance to occur without being noticed.

Recommendation No. 10

Colorado State University – Pueblo should establish procedures to ensure Title IV funds are being returned promptly and correctly by ensuring that at the beginning of each fiscal year, the total semester days for Fall, Spring, and Summer are calculated by appropriate personnel. Secondly, an employee other than the one performing the calculation should review, recalculate, and approve the calculation. Finally, the total semester days should be officially communicated to those employees responsible for calculating return of Title IV aid.

Colorado State University – Pueblo Response

Agree. Procedures have been established to ensure that Title IV funds are being returned promptly and correctly. The financial aid systems manager calculates the semester days, and the Director of Financial Aid reviews the calculations. The calculations for return of Title IV are reviewed by the financial aid systems manager. The Director of Financial Aid sends a memorandum to the employees responsible for calculating return of Title IV that specifies the total semester days. Implemented February 2006.

(Continued)

Federal Student Aid Cluster – Verification

Criteria:	An institution is responsible for verifying certain data for at least 30% of its financial aid applicants. (34 CRR 668.54)
Condition:	Although there were no compliance exceptions noted during the verification testwork, we noted that during the fiscal year, only one person performed the verification procedures with no review performed by a separate person. A review control was not implemented until fiscal year 2006. As this was a prior fiscal year finding, this control should have been implemented during the Spring 2005 award process at the latest.
Questioned Costs:	Unknown
Context:	This represents a systemic issue in that control procedures over this compliance requirement were not implemented until September 2005.
Effect:	The University did not have proper controls in place to ensure compliance with verification requirements during the 2005 fiscal year.

Recommendation No. 11

Colorado State University – Pueblo should implement monitoring procedures over the verification process during the award process. These procedures should include someone separate from the verification process selecting a sample of verified data, reviewing the information for completeness and accuracy, and documenting this review within the file on a timely basis.

Colorado State University – Pueblo Response

Agree. The Director of Financial Aid now ensures that the verification process is monitored and that 30% of the verified files are chosen for review. Implemented February 2006.

Federal Student Aid Cluster – Reporting

Criteria:	To apply for and receive funds for the campus-based Federal Student Aid programs, schools must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2005, reported on the University's campus-based program participation for 2004-2005 and applied for campus-based program funding for 2005-2006. The FISAP must contain accurate data, and the school must retain accurate and verifiable records for program review and audit procedures (*Department of Education FISAP Instructions).*
Condition:	Adequate procedures are not in place at the University to ensure that accurate data is reported in the FISAP.
Questioned Costs:	None

(Continued)

Context:	During our review of the University's FISAP report, KPMG observed the following errors: • Part II, Section E, Field 22 – Tuition and fee revenues reported per the FISAP were not reconciled back to the general ledger. The tuition and fee revenues were overstated by approximately $742,000 • Part II, Section E, Field 24 – Total state grant expenditures was overstated by approximately $3,500,000 due to a transposition error that was not noticed during the preparation or review process. • Part III, Section A, Field 6 and Section C, Field 2 – value of the loans assigned increased as compared to 2004; however, the number of borrowers did not increase.
Effect:	The errors in the FISAP do not represent accurate reporting of data.

Recommendation No. 12

Colorado State University – Pueblo should continue to implement procedures to ensure all elements of the FISAP are accurate. Such procedures should include a formal review that agrees all amounts report to supporting documentation.

Colorado State University – Pueblo Response

Agree. The University Controller will review the FISAP and ensure that supporting documentation agrees before the FISAP is submitted. Implementation date – September 2006.

<u>Colorado State University – Pueblo – State-Funded Student Financial Aid Assistance Programs</u>

State-Funded Student Assistance – Governor's Opportunity Scholarship Student Eligibility

Criteria:	In order to receive the Governor's Opportunity Scholarship (GOS), a student must agree not to obtain loans while receiving GOS funds. (2004-2005 Governor's Opportunity Scholarship Guidelines)
Condition:	During our testwork over two students receiving GOS funds, none were required to document their agreement not to take out loans while receiving GOS funds. Although KPMG noted no instances in which these students had obtained a loan while receiving GOS, State guidelines require that a certification be made by the student agreeing to such.
Questioned Costs:	Unknown. Although none of the sample of students tested had obtained loans, it is possible that students outside of the sample did obtain loans.
Context:	For the two GOS scholarships tested, neither student certified in writing that they would not obtain a loan while receiving GOS funds.

Effect:	By not obtaining the proper certification from students, the University has no documentation to support that a student receiving GOS aid agreed to not obtain loans while receiving these funds. Thus, there is no evidence to support compliance with the requirement of obtaining this agreement.

Recommendation No. 13

Colorado State University – Pueblo should insert a clause in all GOS award letters, which the student must sign. This clause should state that the student agrees not to obtain loans while receiving the GOS aid.

Colorado State University - Pueblo Response

Agree. GOS award letters will have a clause with a signature line stating that the student will not obtain loans while receiving the GOS aid. In addition, the financial aid software package will be programmed so that a loan will not be able to be packaged if the student has been awarded a GOS scholarship. Implementation date – March 30, 2006.

State-Funded Student Assistance – Governor's Opportunity Scholarship Student Eligibility

Criteria:	In order to be eligible for the Governor's Opportunity Scholarship (GOS), a student is required to participate in student support services and/or a peer mentoring program. (2004-2005 Governor's Opportunity Scholarship Guidelines)
Condition:	During our testwork over two students receiving GOS funds, the University could not provide documentation that the University was monitoring students' participation in student support services or a peer mentoring program. In addition, the University could not provide evidence that it was informing students of the requirement.
Questioned Costs:	For the students included in the sample, $14,824 of GOS aid was awarded. Likely questioned costs could exceed $10,000 as it is possible that the University did not comply with this requirement for all students receiving such aid.
Context:	For the two GOS scholarships tested, the University did not retain evidence to support the fact that it was monitoring the students' participation in student support services or peer mentoring programs. In addition, there was no evidence that the students were made aware of this requirement.
Effect:	By not retaining proper evidence, the University cannot support that students receiving GOS aid are attending student support services or a peer mentoring program. By not monitoring this requirements, the University cannot ensure students are eligible for this aid.

Recommendation No. 14

Colorado State University – Pueblo should insert information in the GOS contracts, which the student must sign stating the requirements surrounding student support services/peer mentoring participation. In addition, the University should implement a procedure for monitoring the students' participation in such programs. The monitoring procedures should be performed on a periodic basis, requiring the students to report their participation in the programs. If a student does not report on a timely basis, the University should perform the necessary procedures to determine if the student is still eligible to receive GOS funding. Lastly, the procedures should be documented and should ensure that all students receiving funding are properly monitored.

Colorado State University – Pueblo Response

Agree. The Financial Aid Counseling Manager will ensure that the GOS award letter will include a contract stating the requirements to be involved in student support services/peer mentoring. The Counseling Manager will work with the Director of Student Support Services to ensure that a monitoring process is in place that is performed on a periodic basis to ensure that the student is participating in the program. The Director of Financial Aid will ensure that the procedures are documented and will work with the Director of Student Support Services to ensure that the students are properly monitored. Implementation date – fall semester 2006.

State-Funded Student Assistance – Reporting

Criteria:	Universities must submit the Student Unit Record Data System (SURDS) to the State of Colorado during the year. Data submitted for this report should be adequately supported by the underlying records within the financial management system and adequate supporting documentation outside the system for reconciliation purposes, as needed.
Condition:	During our testwork over the submission of the Student Unit Record Data System report (SURDS), we observed an error in the amount of Colorado Work Study funds disbursed to students. In addition, we noted that there was no reconciliation performed between the data reported on the SURDS to the general ledger and to information reported on other Colorado Commission of Higher Education (CCHE) reports.
Questioned Costs:	None
Context:	$8,144 of Colorado Work Study funds disbursed to students was not reported on the SURDS. Total Colorado Work Study funds disbursed to students for the fiscal year was $632,733.
Effect:	The University submitted the SURDS with incomplete data. In addition, without the proper reconciliation controls, other errors could occur without being noticed by the University.

Recommendation No. 15

Colorado State University – Pueblo should implement a reconciliation control over the SURDS report. This process should reconcile the information reported in the SURDS report to both the information in the general ledger and information reported in other CCHE reports. Reconciling items should be appropriately investigated and resolved. The reconciliation should be reviewed by someone at least one level above the preparer to ensure that the reconciliation is performed timely and accurately.

Colorado State University – Pueblo Response

Agree. After the fall and spring census date and as of June 30 each year, a reconciliation will be done for all federal and state financial aid funds. The grant accounting coordinator will work with the financial aid systems manager to reconcile AIS data to Powerfaids data and will investigate and resolve all items that do not agree. The reconciliation will be reviewed by the University Controller. Partially implemented for fall 2005 and spring 2006 semesters. Implementation date – 2006 fall semester.

Colorado State University – Cooperative Forestry Assistance Program

Cooperative Forestry Assistance Program – Reporting

Criteria:	Based on the terms specified in Consolidated Payment Grants 03-DG-11020000-023 (CPG-03) and 04-DG-11020000-010 (CPG-04) and Forest Legacy Grant 03-DG-11020000-060 (FLP-03), CSU was required to submit: • Quarterly SF-269 reports, Financial Status Reports, to the federal granting agency. These reports summarize amounts received during the year. • Annual performance reports to the federal granting agency. These reports summarize status of performance as of year-end. • Quarterly accrual accounting report to federal granting agency. This report includes total cumulative costs for the quarter (both invoiced and not invoiced).
Condition:	During fiscal year 2005, CSU was required to submit nine SF-269 reports: four for the CPG-03 grant, four for the CPG-04 grant, and one for the FLP-03 grant. Only four quarterly SF-269 reports were actually submitted: two for the CPG-03 grant, one for the CPG-04 grant, and one for the FLP-03 grant. In addition, during fiscal year 2005, there was no detailed review of the quarterly SF-269 reports, annual performance reports, or the quarterly accrual accounting reports. During fiscal year 2004, CSU was required to submit four SF-269 reports and four quarterly accrual accounting reports – all for the CPG-03 program. Only one SF-269 and one quarterly accrual accounting report were actually submitted. In addition, during fiscal year 2004, there was no detailed review of the quarterly SF-269 reports, the annual performance reports, or the quarterly accrual accounting reports.

Questioned Costs:	None
Context:	For fiscal year 2005, we requested all nine required SF-269 reports. Four were provided. We tested the four SF-269 reports and noted two were not reviewed for propriety or accuracy. In addition, we tested one annual performance report and two accrual accounting reports and noted they were not reviewed. For fiscal year 2004, we requested all four required SF-269 reports. One was provided. We tested the one SF-269 report and noted it was not reviewed for propriety or accuracy. In addition, we tested one annual performance report and two accrual accounting reports and noted they were not reviewed.
Effect:	Not all of the required reports were submitted by CSU; therefore, they were not in compliance with the grant agreements. In addition, by not performing a secondary review, CSU increases risk of submitting inaccurate reports.

Recommendation No. 16

CSU should ensure required reports are being submitted timely and accurately by adhering to its current policy which requires:

a) Reviewing all grant agreements upon initiation and implement the necessary processes to ensure compliance with all requirements, including reporting.

b) Assigning responsibility for completing the required reports timely.

In addition, the current policy should be amended to include a secondary review of the report by another individual knowledgeable of the program prior to its submission.

Colorado State University Response

Agree. Implemented March 2006.

Colorado State University – Cooperative Forestry Assistance Program – Suspension and Debarment

Criteria:	Per the OMB A-133 Compliance Supplement, nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of $100,000. A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date, only those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria are considered "covered transactions." §__.220 of the governmentwide nonprocurement debarment and suspension common

	rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients) are considered covered transactions—this was the case before November 26, 2003, and was not changed by the revised rules. Under rules in effect prior to November 26, 2003, contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective November 26, 2003, when a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§__.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly.
Condition:	For fiscal year 2004, CSU did not inquire about suspension or debarment of its cooperators (vendors) related to the CPG-03 program. Beginning in the second quarter of fiscal year 2005, CSU implemented a control to ensure compliance with suspension and debarment requirements, which includes checking the *EPLS* for all vendors before the approval for payment to vendors can be submitted. We noted that this control was implemented in September 2004; therefore, this control was not in place during the first quarter of the 2005 fiscal year.
Questioned Costs:	As part of our audit procedures, we reviewed the *EPLS* to ensure no payments were made to suspended or debarred parties. No such payments were noted; thus, there were no questioned costs related to this finding.
Context:	For fiscal year 2004, we tested 10 vendors and noted that CSU did not ensure the vendors were not included on the *EPLS*. For fiscal year 2005, we tested 30 vendors and noted that CSU did not determine whether eight of the vendors were included on the excluded parties list. All eight exceptions were vendor payments prior to the implementation of the *EPLS* review control described above.
Effect:	By not reviewing the *EPLS*, CSU may have made payments to parties that are suspended or debarred.

Recommendation No. 17

CSU should continue to review the *EPLS* for all vendors prior to contracting with the vendor.

Colorado State University Response

Agree. Implemented September 2004.

Following are the audit recommendations for the year ended June 30, 2004 and their disposition as of October 21, 2005.

Recommendation	Disposition
1. Colorado State University should improve the process for accounting for capital assets by:	
a. Providing additional training on the application of the capital lease criteria for all individuals involved in lease classifications. In addition, because numerous lease agreements are with the Colorado State University Research Foundation (CSURF), CSU should review lease agreements with CSURF and suggest changes to lease agreements that would make lease criteria readily apparent. Lastly, CSU should obtain a quote for purchase if the fair market value is unknown in order to adequately consider the fair market value criterion when performing the capital lease versus operating lease determination.	a. Implemented
b. Modifying the current process for capitalizing equipment by requiring that (1) capital assets be capitalized based upon amount paid per the invoice or other supporting documentation; (2) capital assets only be capitalized and entered into the depreciation system once the asset is placed into service; and (3) equipment be capitalized by asset, not by individual payments.	b. Implemented
2. For advanced-funded grants, Colorado State University should improve the revenue recognition process for grants and contracts by:	
a. Ensuring cash advances should be deferred versus applying the amount against a receivable previously established.	a. Implemented

(Continued)

b. Enhancing the year-end grant review process by examining significant grant and contract agreements to determine if the University is receiving value without directly giving equal value in return. If this is the case, the transaction should be considered nonexchange and GASB Statement No. 33 should be referred to for revenue recognition authoritative guidance.	b. Implemented
3. Colorado State University should modify its current closing process for over-expended grants and recognize expenses as incurred. Also, when reviewing over-expended grants at year-end, CSU should assess whether additional grant monies will be received to reimburse the expenses in order to determine if grant revenue and a related receivable should be recorded. This assessment should include reviewing grant agreements, communicating with the grantor, and reviewing grant revenue activity in the subsequent year.	Implemented
4. Colorado State University should improve its scholarship allowance calculation by:	
a. Requiring all changes in transaction codes be approved by Business and Financial Services.	a. Implemented
b. Training individuals who use or define the transaction codes on the effect of the changes on the Scholarship Allowance calculation and increase awareness of the appropriate aid types to be included in the scholarship allowance.	b. Implemented
c. Reconciling total aid from the scholarship allowance program to the Financial Reporting System (FRS) and validating all reconciling items.	c. Implemented

(Continued)

5. Colorado State University should strengthen the payroll and related benefits process by:	
a. Implementing a control that will ensure that the withholding status of employees claiming exemption from income taxes is adjusted by February 15th of each year if a new W-4 form has not been submitted. In the instance that the tax filing status of affected employees is not adjusted timely, or any other error occurs, the overall error should be immediately quantified and Business and Financial Services should be notified timely.	a. Implemented
b. Implementing a control that prevents the double payment of invoices.	b. Implemented
c. Reevaluating the claim payment process to determine if there are unnecessary steps in the process, and if so, the steps should be eliminated.	c. Implemented
d. Reconcile the Human Resource System (HRS) to the general ledger, FRS, at least monthly. This reconciliation should reconcile total expenses as well as net cash paid. All reconciling items should be supported, and the reconciliation should be reviewed by a person higher than the reconciliation preparer.	d. Implemented
6. Colorado State University should strengthen the gift and grant classification determination by implementing a policy requiring the Business and Financial Services Department review gift and grant designations.	Implemented
7. Colorado State University should strengthen the process for accounting for Bookstore purchases by:	
a. Providing training related to year-end accruals and the importance of shipping terms in the determination of ownership of inventory.	a. Implemented

b. Performing a review of the Bookstore's current purchasing practices to ensure that they are in compliance with both State and CSU purchasing requirements.	b. Implemented
8. Colorado State University should implement policies to require knowledgeable individuals approve all journal entries prior to being posted to the general ledger. Alternatively, the University may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance a material error could be posted to the financial system.	Partially implemented. Although the recommendation was implemented by some departments of CSU, we noted that the Office of Sponsored Projects was not performing reviews of journal entries until after the entries had been posted to the general ledger. Please refer to current year *Recommendation No 5.*
9. Colorado State University – Pueblo should strengthen controls over cash by:	
a. Ensuring all cash accounts are recorded on the general ledger and reconciled to the bank statements on a monthly basis.	a. Implemented
b. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer. This review should include ensuring (1) the reconciliation is prepared on a timely basis; (2) the reconciliation is accurate and errors are detected; and (3) reconciling items are appropriate.	b. Implemented
10. Colorado State University – Pueblo should strengthen the tuition and fee revenue recognition process by implementing policies to ensure that the calculation of deferred revenue is based on actual days incurred prior to June 30. The calculation should be reviewed by someone at least one level higher than the preparer.	Implemented

11. Colorado State University – Pueblo should strengthen the controls over the purchasing card disbursement process by requiring all employees' purchasing card logs to be reviewed and approved. For those employees for whom there is no direct supervisor to approve purchasing card logs, the logs should be forwarded to the Controller for review and approval prior to payment.	Implemented
12. Colorado State University – Pueblo should improve segregation of duties within the payroll disbursement process by establishing a review control. The person performing the review should be separate from the input function and should review the payroll information prior to submission for payment. This review should be documented.	Implemented
13. Colorado State University should establish procedures to ensure that data elements calculated as a result of professional judgment are correct when determining eligibility for student financial assistance. Manual professional judgment calculations should be reviewed at least on a test basis.	Implemented
14. Colorado State University should reinforce existing procedures and provide additional training to ensure that the Technology Charge Award (TCA) process is properly adjusted when costs of attendance are adjusted during the second day of the TCA process.	Implemented
15. Colorado State University should reinforce existing procedures provide additional training to ensure that manually awarded loans are disbursed in equal installments.	Implemented

16. Colorado State University should implement procedures to ensure that all elements of the Fiscal Operations Report and Application to Participate (FISAP) are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.	Implemented
17. Colorado State University – Pueblo should establish procedures to ensure that the midpoint of the semester is properly calculated and that requests for Federal Family Education Loan funds and disbursements of these funds are made according to the properly calculated midpoint.	Implemented
18. Colorado State University – Pueblo should implement procedures whereby there is a segregation of duties between calculating the drawdown, making the drawdown, and reviewing the drawdown.	Partially implemented. We noted that this control was implemented during October 2004; yet, there were similar control weaknesses noted during our testwork for fiscal year 2005. Please refer to current year *Recommendation No. 10.*
19. Colorado State University – Pueblo should implement monitoring procedures over the verification process to ensure that information used to calculate the Expected Family Contribution (EFC) is accurate.	Not implemented during period of audit. Of the sample of students who were identified as having being reviewed, we observed that the control was not performed until September 2005, the 2006 fiscal year. Please refer to current year *Recommendation No. 12.*
20. Colorado State University – Pueblo should implement procedures to ensure all elements of the Fiscal Operations Report and Application to Participate report are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.	Partially implemented. We noted this control was implemented; however, there were errors noted during our review of the report. Please refer to current year *Recommendation No. 13.*

21. Colorado State University should include a standard clause in all purchase orders, maintain a suspended and debarred file, and document the review of the *Excluded Parties List System* (EPLS) for all vendors related to federal grants, or require certifications for all agreements related to federal grants. For control purposes, on a quarterly basis, CSU should generate the report of vendors receiving federal monies in excess of $25,000 and verify that there is a certification, EPLS printout, or clause in the contract for each of the vendors on the report.	Implemented
22. Colorado State University should establish procedures to ensure that new Form W-4s are obtained by February 15 for those employees who filed a Form W-4 claiming exemption from withholdings in the prior year. The University should establish procedures to ensure that if a new Form W-4 is not received by February 15, then withholding taxes will begin on February 16 using the single with zero withholding allowances status.	Implemented
23. Colorado State University should establish procedures to ensure that work-study timesheets are properly completed and certified, and payments are based upon time actually worked.	Implemented

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years then ended June 30, 2005 and 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards.* An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2005 and 2004, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the basic financial statements, during fiscal year 2005, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures,* an amendment of GASB Statement No. 3*, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.*

In accordance with *Government Auditing Standards,* we have also issued a report dated October 21, 2005 on our consideration of the System's internal control over financial reporting and on 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* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 43-51 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 21, 2005

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System) for the fiscal years ended June 30, 2005 and 2004. This discussion and analysis provides an analysis of the System's financial activities based on currently known facts, decisions, or conditions. This analysis should be read in conjunction with the System's financial statements and notes thereto, which are also presented in this document.

Financial Highlights

- The assets of the System exceeded its liabilities at June 30, 2005 by approximately $575.0 million (net assets). Of this amount $76.8 million was restricted for purposes which the donor or grantor or other external party intended. $121.7 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.
- The System's net assets increased $25.0 million during fiscal year 2005. $17.1 million of this increase consisted of an increase in capital assets, net of related debt.
- In fiscal year 2005, State General Fund appropriations for the System remained at $109 million, unchanged from the prior year level.
- Fiscal year 2005 state capital appropriations for the System increased $1.8 million over prior year levels.

The Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the System's finances and are comprised of three basic statements.

The *Statements of Net Assets* present information on all of the System's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Assets* present information showing how the System's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued for compensated absences, or the receipt of amounts due from students and others for services rendered).

The *Statements of Cash Flows* are reported on the direct method. The direct method of cash flows reporting portrays cash flows from operations, noncapital financing, capital and related financing, and investing activities.

The System reports its activity as a business-type activity using the economic resources measurement focus and the accrual basis of accounting. The System is a blended component unit of the state of Colorado.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes provide information regarding both the accounting policies and procedures the System has adopted as well as additional detail of certain amounts contained in the basic financial statements. The notes to financial statements follow the basic financial statements.

(Continued)

The System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB No. 14, *The Financial Reporting Entity*, during the fiscal year ended June 30, 2004. As a result of this implementation, the Colorado State University Foundation (the Foundation) was determined to be a component unit of the System and has therefore been included as a discretely presented component unit in the System's financial reporting entity. The Foundation's assets exceeded liabilities resulting in net assets at June 30, 2005 and 2004 of $183.6 million and $178.7 million, respectively. The Foundation reported total support and revenue of $40.1 million and $47.4 million for the years ended June 30, 2005 and 2004, respectively. The Foundation's Statements of Financial Position and Statements of Activities are discretely presented in the basic financial statements of the Colorado State University System as of and for the years ended June 30, 2005 and 2004.

The Management's Discussion and Analysis will focus on the primary government, which is the Colorado State University System.

Financial Analysis

The Statements of Net Assets present the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2005 and 2004 of $575.0 million and $550.0 million, respectively. The majority (65%) of the System's net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

Summary of Net Assets

(Amounts expressed in thousands)

		June 30		
		2005	**2004**	**2003**
Current assets	$	285,186	270,274	280,406
Noncurrent assets, including capital assets of $455,325, $433,951, and $412,406, respectively		567,958	503,755	480,826
Total assets	$	853,144	774,029	761,232
Current liabilities	$	96,921	100,123	112,278
Noncurrent liabilities		181,194	123,874	103,436
Total liabilities	$	278,115	223,997	215,714
Net assets:				
Invested in capital assets, net of related debt	$	376,580	359,520	354,525
Restricted		76,769	75,312	78,310
Unrestricted		121,680	115,200	112,683
Total net assets	$	575,029	550,032	545,518

(Continued)

- The $79.1 million increase in assets from fiscal year 2004 to fiscal year 2005 is attributable to a $14.9 million increase in current assets and a $64.2 million increase in noncurrent assets. The increase in current assets is primarily attributable to an increase in cash and cash equivalents from two Colorado State University (CSU) bond financings issued during the year. The increase in noncurrent assets is also due to an increase in cash and cash equivalents from the two bond financings. In addition, buildings and improvements increased by $25.3 million due to capital projects being completed and capitalized during fiscal year 2005. The CSU Summit Residence hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005. Construction in progress for the system decreased $3.5 million as projects were completed and capitalized during the fiscal year. This decrease was offset by costs associated with new and ongoing construction projects. The assets of the System increased $12.8 million in fiscal year 2004. This increase is attributable to a variety of factors, including a $11.6 million reduction in CSU cash and cash equivalents in conjunction with an $18 million increase in construction in progress for the CSU Summit Residence Hall project, and a $1.4 million increase in the CSU endowment investment held by the Colorado State University Foundation.
- The $54.1 million fiscal year 2005 increase in the liabilities of the System is primarily attributable to the two CSU bond financings with a par value totaling $55.3 million that occurred during fiscal year 2005. The approximately $8.3 million increase in System liabilities for fiscal year 2004 is partially attributable to an approximately $4.3 million increase in accrued liabilities related to the Colorado State University merit salary increase for faculty. The remainder of the increase is primarily attributable to a $4.5 million accrual for the workers compensation liability assumed by Colorado State University from State Risk Management as part of CSU's transition to self-insurance for workers compensation claims. This liability was partially offset by a $1.5 million receivable from State Risk Management. This receivable was recognized because State Risk Management agreed to transfer funds held on behalf of CSU back to CSU for the administration of worker's compensation claims incurred prior to July 1, 2004.

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.

Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts expressed in thousands)

		June 30	
	2005	**2004**	**2003**
Operating revenues:			
Tuition and fees, net	$ 143,637	143,951	131,513
Grants and contracts	237,444	239,008	226,585
Auxiliary enterprises	102,436	100,669	98,868
Other	21,792	20,296	18,815
Total operating revenues	505,309	503,924	475,781
Operating expenses:			
Instruction	159,131	164,832	159,546
Research	143,852	136,181	120,681
Public service	64,268	71,010	75,203
Academic support	39,361	36,726	38,555
Student services	24,803	23,805	22,357
Institutional support	20,732	20,995	19,957
Operation and maintenance of plant	40,336	42,190	45,903
Scholarships and fellowships	9,169	9,201	13,773
Auxiliary enterprises	95,465	98,126	98,526
Depreciation	36,402	35,429	42,362
Other operating expenses	312	228	165
Total operating expenses	633,831	638,723	637,028
Operating loss	(128,522)	(134,799)	(161,247)
Nonoperating revenues:			
State appropriations	109,424	109,184	126,011
Other net nonoperating revenues	22,382	18,422	30,497
Net nonoperating revenues	131,806	127,606	156,508
Income (loss) before other revenues, expenses, gains or losses	3,284	(7,193)	(4,739)

(Continued)

Summary of Revenues, Expenses, and Changes in Net Assets (continued)

(Amounts expressed in thousands)

	June 30 2005	2004	2003
Other revenues (expenses):			
State capital contributions	$ 2,285	486	12,041
Capital grants	2,005	2,131	1,761
Capital gifts	17,215	8,566	9,414
Payments to governing boards or other institutions	(131)	(420)	(440)
Additions to permanent endowments	339	944	—
Increase in net assets	24,997	4,514	18,037
Net assets:			
Net assets, beginning of year, as previously reported	550,032	545,518	615,215
Change in entity	—	—	(87,734)
Net assets, beginning of year, as adjusted	550,032	545,518	527,481
Net assets, end of year	$ 575,029	550,032	545,518

It is the nature of public higher education institutions to report a loss from operations because the loss is reported before the state appropriation is taken into consideration. The System experienced a $128.5 million loss from operations in fiscal year 2005 and a $134.8 million loss from operations in fiscal year 2004. In fiscal year 2005, this operating loss was offset by state appropriations of $109.4 million and net nonoperating and other revenues of $44.1 million, including $35.8 million of gifts and capital gifts and $4.6 million of investment income. In fiscal year 2004, this operating loss was offset by state appropriations of $109.2 million and net nonoperating revenues and other revenues of $30.1 million, including $24.2 million of gifts and capital gifts.

- Fiscal year 2005 System operating revenues increased $1.4 million in relation to prior year levels. The fiscal year 2004 increase in System operating revenues is primarily attributable to a $12.4 million increase in tuition and fees and a $12.4 million increase in grant and contract revenue. The increase in tuition and fee revenue is primarily attributable to a tuition and fee increase at CSU. The increase in grant and contract revenue for the System is primarily attributable to an increase in sponsored research grants at CSU.
- Fiscal year 2005 System operating expenses decreased $4.9 million in relation to prior year levels. Most of this decrease is attributable to a reduction in Instruction expense which is primarily due to a $4.3 million CSU one-time faculty merit salary pay-out that occurred in fiscal year 2004 but not in fiscal year 2005. The fiscal year 2004 System operating expenses increased by $1.7 million in relation to fiscal year 2003 levels.
- Fiscal year 2005 System net nonoperating revenues increased $4.2 million, which is attributable to a variety of factors including a $2.9 million increase in gift revenue, a $4.4 million increase in investment income in conjunction with a $3.7 million decrease in other nonoperating revenues. This decrease in other nonoperating revenues is primarily attributable to a $2.9 million decline in insurance recoveries in fiscal

(Continued)

year 2005 in comparison to fiscal year 2004. The fiscal year 2004 decrease in net nonoperating revenues of $28.9 million is due to a $16.8 million decrease in state appropriations from the prior year in addition to a $12.1 million decrease in other net nonoperating revenues. The decrease in state appropriations was due to reductions in state funding for the System. The decrease in other net nonoperating revenues is primarily attributable to an unrealized loss on funds deposited in the State Treasury.

- The fiscal year 2005 increase in other revenues of $10.0 million is primarily attributable to an $8.6 million increase in capital gifts from the prior year. This capital gift increase is primarily attributable to the recognition of capital gifts utilized for CSU Athletics facilities projects. The fiscal year 2004 decrease in other revenues of $11.1 million is primarily attributable to an approximate $11.6 million reduction in State capital contributions from the prior year.

Capital Assets and Debt Administration

At June 30, 2005, the System had approximately $455.3 million invested in capital assets, net of accumulated depreciation of $404.3 million. At June 30, 2004, the System had approximately $434.0 million invested in capital assets, net of accumulated depreciation of $377.6 million.

Depreciation charges were approximately $36.4 million and $35.4 million for the years ended June 30, 2005 and 2004, respectively.

During the fiscal year ended June 30, 2005, the System received no state contributions for new capital construction projects. $2.3 million of State capital contributions related to prior year appropriations were utilized to complete ongoing capital projects, which primarily consisted of the CSU Pueblo Energy Performance Project. During fiscal year ended June 30, 2004, the System received no state contributions for new capital construction projects. $486,000 of State capital contributions related to prior year appropriations were utilized to complete ongoing capital projects.

For the fiscal year ending June 30, 2006, the System received state capital appropriations of approximately $7.0 million for capital construction projects including $3.3 million for the Health, Physical Education, and Recreation Building Renovation and Life Safety Phase I Upgrade at CSU Pueblo, $3.3 million for the Regulated Materials Handling Facility at CSU and $481,000 to replace deteriorated plumbing items at CSU.

(Continued)

A breakdown of assets by category, net of accumulated depreciation is provided below.

Capital Assets, net of Accumulated Depreciation

(Amounts expressed in thousands)

		June 30		
		2005	**2004**	**2003**
Land	$	9,671	9,050	9,698
Land improvements		30,195	31,244	31,405
Building and improvements		314,589	289,281	286,553
Leasehold improvements		461	169	189
Equipment		45,509	43,910	45,251
Collections		2,205	2,159	2,145
Library materials		29,451	31,331	28,858
Construction in progress		23,244	26,807	8,307
Total capital assets, net	$	455,325	433,951	412,406

The fiscal year 2005 $21.4 million increase in net capital assets is primarily attributable to buildings and improvements capitalized during fiscal year 2005. The CSU Summit Resident Hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005.

The fiscal year 2004 increase in capital assets of $21.5 million is primarily attributable to a $2.7 million increase in buildings and improvements capitalized during fiscal year 2004 and an $18 million increase to construction in progress relating to the Colorado State University Summit Residence Hall project.

The System had capital construction commitments outstanding of approximately $14.3 million at June 30, 2005. Approximately $3.8 million of this amount was for the new CSU Academic Village, $2.4 million for the expansion of the CSU Bioenvironmental Research Building, $2.4 million for improvements at CSU Hughes Stadium, $1.8 million for the CSU Regional Biocontainment Laboratory, and $536,000 for the CSU Chill Radar Antenna. The remaining commitments were for various small construction projects at CSU.

The System had approximately $131.5 million and $76.6 million of debt outstanding at June 30, 2005 and 2004, respectively.

Summary of Debt

(Amounts expressed in thousands)

		June 30		
		2005	**2004**	**2003**
Debt outstanding:				
Revenue bonds, certificates of participation	$	123,211	71,487	75,309
Capital lease obligations		8,313	5,146	5,171
	$	131,524	76,633	80,480

The System completed two bond financings during fiscal year 2005.

The CSU Research Building Revolving Fund Enterprise Bonds, Series 2005A, were issued in the total par amount of approximately $10.1 million. Proceeds of the bonds were used to finance construction of three separate research facilities on the Colorado State University's Foothills Campus. The bonds mature in December 2020 and carry yields ranging from 2.85% to 4.07%.

The CSU Enterprise System Revenue Bonds, Series 2005B, were issued in the total par amount of $45.2 million. Proceeds from this issue are being used to finance the construction, acquisition, and equipping of student housing and dining facilities and renovation of certain related parking surfaces as part of the Colorado State University's New Academic Village project. The bonds mature in March 2035 and carry yields ranging from 3.00% to 4.49%.

The System completed one new bond financing during fiscal year 2004. Colorado State University – Pueblo issued Series 2003 Refunding and Improvement bonds in the par amount of $3.6 million. Proceeds of the bonds were used for a current refunding of the outstanding Series 1992 Bonds and to finance remodeling of the Occhiato Student Center. The bonds mature in August 2011 and were sold in yields ranging from 2.00% to 3.25%.

Economic Outlook/Future of the Colorado State University System

The Colorado State University System is an institution of higher education of the State of Colorado. The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projections (September 2005) from these entities estimate that the State's General Fund revenue is projected to increase in fiscal year 2006 between 4.6% and 6.9%. For fiscal year 2007, the General Fund revenue is projected to increase between 5.7% and 5.9%. The State's overall budgetary situation remains governed by the three constitutional budgetary provisions: The Taxpayer Bill of Rights (TABOR), the Gallagher Amendment on property taxes, and Amendment 23 requiring specified increases in State support of K-12 Education. The budgetary situation for higher education has changed with the implementation of the College Opportunity Fund in FY 2006. As a result of legislation adopted in the 2004 session (Senate Bill 04-189), the State no longer provides direct State General Fund appropriations to the governing boards. Instead, the State provides stipends to the qualified, resident undergraduate students, and students use the stipends to pay a portion of their tuition. In addition, institutions may enter into fee-for-service contracts with the Colorado Commission on Higher Education for the provision of other educational services. Finally, Senate Bill 04-189 also allows governing boards of institutions of higher education to designate the institution as a TABOR enterprise. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the State's TABOR limitation. The Board of Governors of the Colorado State University System recommended separate enterprise status for Colorado State University and Colorado State University – Pueblo for Fiscal Year 2006 and future years based on the provisions of Senate Bill 04-189. The Legislative Audit Committee has reviewed and approved this recommendation with final determination to be made each year during the annual financial audit. With TABOR enterprise status, the cash funds collected by the System's institutions no longer count toward the State's overall TABOR revenue limit. In addition, as enterprises, the institutions of higher education can consider issuing revenue bonds backed by student fees for academic buildings.

With this new financing arrangement, as specified in the fiscal year 2006 Long Bill, the Colorado State University System is anticipated to receive $62.1 million in a fee-for-service contract revenue and $47.0 million in stipends in fiscal year 2006. The $109.1 million of anticipated fiscal year 2006 fee-for-service contract revenue and the student stipends is approximately equivalent to the amount of State support provided by State appropriations in fiscal year 2005.

The State implemented the Taxpayer Bill of Rights in fiscal year 1994. The State's voters modified TABOR in November 2005 to allow the state to retain all collected revenues from fiscal years 2006-2010. Also, the state's TABOR revenue base will be restated to reflect the highest annual revenue amount collected during that period. The action by the voters in November 2005 is anticipated to result in additional state revenues available for legislative appropriation. The General Assembly has directed that a portion of the additional revenues should be used for public higher education.

In fiscal year 2006, overall enrollment at both System institutions declined 1.7 percent as measured in the fall 2005 census. This decline appears to be consistent with information received from other Colorado institutions, though final statewide enrollment data will not be available until later in the year. It should be noted that the decline in resident students at Colorado State University was the result of an increase in the number of students who received their bachelor degree at the May commencement. This reflected an increase in the percentage of students who completed their undergraduate degree within four years of initial enrollment as well as an increase in the percentage of students completing their degree within five years of enrollment. In both cases, the institution achieved all-time high rates of graduation in those time frames and continued an increase in graduation rates that extends back over the past 10 or more years. These rate increases reflect institutional efforts to retain and graduate students in a timely fashion. At Colorado State University – Pueblo, a resident enrollment decline was offset by a gain in nonresident students as a result of increased targeted recruitment efforts.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the 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 System, 410 Seventeenth Street, Suite 1415, Denver, CO 80202.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2005 and 2004

(Amounts expressed in thousands)

Assets		2005	2004
Current assets:			
Cash and cash equivalents	$	208,714	206,265
Student accounts receivable, net		6,413	5,759
Other accounts receivable, net		42,913	45,759
Student loans receivable, net		4,021	3,666
Restricted cash and cash equivalents		15,521	—
Inventories		6,641	7,568
Prepaid expenses		963	1,257
Total current assets		285,186	270,274
Noncurrent assets:			
Restricted cash and cash equivalents		76,129	33,599
Restricted investments		16,538	16,180
Student loans receivable, net		19,354	20,025
Other noncurrent assets		612	—
Nondepreciable capital assets:			
Land		9,671	9,050
Construction in progress		23,244	26,807
Collections		2,205	2,159
Total nondepreciable capital assets		35,120	38,016
Depreciable capital assets, net:			
Land improvements		30,195	31,244
Buildings and improvements		314,589	289,281
Leasehold improvements		461	169
Equipment		45,509	43,910
Library materials		29,451	31,331
Total depreciable capital assets (net of accumulated depreciation)		420,205	395,935
Total noncurrent assets		567,958	503,755
Total assets	$	853,144	774,029

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2005 and 2004

(Amounts expressed in thousands)

Liabilities		**2005**	**2004**
Current liabilities:			
Accounts payable	$	21,825	20,024
Accrued liabilities		43,341	48,765
Deferred revenue		17,081	18,252
Deposits held for others		3,845	3,499
Bonds payable and certificates of participation, current portion		5,182	4,480
Capital leases payable, current portion		1,163	1,113
Other long-term liabilities, current portion		2,417	1,986
Compensated absence liabilities, current portion		2,067	2,004
Total current liabilities		96,921	100,123
Noncurrent liabilities:			
Bonds payable and certificates of participation		118,029	67,007
Capital leases payable		7,150	4,033
Deposits held for others		22,950	20,488
Other long-term liabilities		6,471	6,107
Compensated absence liabilities		26,594	26,239
Total noncurrent liabilities		181,194	123,874
Total liabilities	$	278,115	223,997
Net Assets			
Net assets:			
Invested in capital assets, net of related debt	$	376,580	359,520
Restricted for nonexpendable purposes		16,678	16,058
Restricted for expendable purposes		60,091	59,254
Unrestricted		121,680	115,200
Total net assets	$	575,029	550,032

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION
(Discretely presented component unit)

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2005 and 2004

(Amounts expressed in thousands)

	2005				2004			
Assets	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total**
Cash and cash equivalents	$ 15	255	20	290	121	342	17	480
Investments	19,351	86,412	75,603	181,366	16,695	92,605	69,453	178,753
Receivables:								
Pledges, net of allowance	—	6,802	6,016	12,818	—	6,441	4,187	10,628
Life income trusts	—	—	176	176	—	—	170	170
Investment in equity affiliate	—	(111)	2,149	2,038	—	46	1,846	1,892
Property and equipment, net of accumulated depreciation	26	250	—	276	24	250	—	274
Property held for sale	—	—	—	—	494	—	—	494
Cash surrender value of life insurance policies	60	—	102	162	55	—	96	151
Prepaids and other assets	27	147	299	473	50	161	312	523
Total assets	$ 19,479	93,755	84,365	197,599	17,439	99,845	76,081	193,365
Liabilities and Net Assets								
Accounts payable (primarily to CSU)	$ 7	354	—	361	24	1,116	—	1,140
Other accrued liabilities	79	—	—	79	73	—	—	73
Life income agreements	612	133	309	1,054	624	97	291	1,012
Deposit held in custody for CSU	—	3,702	8,819	12,521	—	4,075	8,339	12,414
Deferred revenue	—	—	—	—	58	—	—	58
Total liabilities	698	4,189	9,128	14,015	779	5,288	8,630	14,697
Net assets:								
Unrestricted:								
Undesignated	2,348	—	—	2,348	2,278	—	—	2,278
Board designated	16,433	—	—	16,433	14,382	—	—	14,382
Total unrestricted	18,781	—	—	18,781	16,660	—	—	16,660
Temporarily restricted	—	89,566	—	89,566	—	94,557	—	94,557
Permanently restricted	—	—	75,237	75,237	—	—	67,451	67,451
Total net assets	18,781	89,566	75,237	183,584	16,660	94,557	67,451	178,668
Total liabilities and net assets	$ 19,479	93,755	84,365	197,599	17,439	99,845	76,081	193,365

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2005 and 2004

(Amounts expressed in thousands)

		2005	2004
Operating revenues:			
Student tuition and fees (including $11,404 and $11,348 of revenues pledged for bonds in 2005 and 2004, respectively, and net of scholarship allowances of $35,144 and $34,241 for 2005 and 2004, respectively)	$	143,637	143,951
Grants and contracts (including $34,242 and $33,175 of revenues pledged for bonds in 2005 and 2004, respectively)		237,444	239,008
Sales and services of educational activities		16,906	15,220
Auxiliary enterprises (including $75,258 and $72,261 of revenues pledged for bonds in 2005 and 2004, respectively, and net of scholarship allowances of $4,049 and $3,572 for 2005 and 2004, respectively)		102,436	100,669
Other operating revenue		4,886	5,076
Total operating revenues		505,309	503,924
Operating expenses:			
Instruction		159,131	164,832
Research		143,852	136,181
Public service		64,268	71,010
Academic support		39,361	36,726
Student services		24,803	23,805
Institutional support		20,732	20,995
Operation and maintenance of plant		40,336	42,190
Scholarships and fellowships		9,169	9,201
Auxiliary enterprises		95,465	98,126
Depreciation		36,402	35,429
Other operating expenses		312	228
Total operating expenses		633,831	638,723
Operating loss		(128,522)	(134,799)
Nonoperating revenues (expenses):			
State appropriations		109,424	109,184
Gifts		18,558	15,658
Investment income (including $840 and $751 of revenues pledged for bonds in 2005 and 2004, respectively)		4,639	193
Interest expense on capital debt		(3,496)	(2,538)
Other nonoperating revenues		2,681	5,109
Net nonoperating revenues		131,806	127,606
Income (loss) before other revenues (expenses)		3,284	(7,193)
Other revenues (expenses):			
State capital contributions		2,285	486
Capital grants		2,005	2,131
Capital gifts		17,215	8,566
Payments to governing boards or other institutions		(131)	(420)
Additions to permanent endowments		339	944
Increase in net assets		24,997	4,514
Net assets:			
Net assets, beginning of year		550,032	545,518
Net assets, end of year	$	575,029	550,032

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION
(Discretely presented component unit)

Statements of Activities – Discretely Presented Component Unit

Years ended June 30, 2005 and 2004

(Amounts expressed in thousands)

	2005				2004			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total 2005**	**Unrestricted**	**Temporarily restricted**	**Permanently restricted**	**Total 2004**
Support and revenue:								
Contributions	$ 109	15,369	8,159	23,637	210	14,245	7,130	21,585
In-kind contributions	8	3,419	—	3,427	3	4,840	1,055	5,898
Allowance for uncollectible pledges	—	(19)	(39)	(58)	—	(98)	(99)	(197)
Total contributions	117	18,769	8,120	27,006	213	18,987	8,086	27,286
Net investment income	4,890	7,651	64	12,605	7,059	12,083	59	19,201
Actuarial change in value of life income agreements	(28)	—	(26)	(54)	(29)	(20)	(34)	(83)
Other changes in net assets	(663)	1,039	(376)	—	(25)	646	(621)	—
Other revenue	300	210	4	514	766	281	(98)	949
Net assets released from restrictions:								
Satisfaction of program restrictions	32,660	(32,660)	—	—	23,241	(23,241)	—	—
Total support and revenue	37,276	(4,991)	7,786	40,071	31,225	8,736	7,392	47,353
Expenses:								
Program services:								
CSU College of:								
Agricultural Sciences	1,664	—	—	1,664	1,392	—	—	1,392
Applied Human Sciences	904	—	—	904	1,436	—	—	1,436
Business	632	—	—	632	430	—	—	430
Engineering	3,465	—	—	3,465	5,391	—	—	5,391
Liberal Arts	4,814	—	—	4,814	2,195	—	—	2,195
Natural Resources	1,167	—	—	1,167	520	—	—	520
Natural Sciences	1,282	—	—	1,282	1,080	—	—	1,080
Veterinary Medicine and Biomedical Sciences	4,214	—	—	4,214	5,170	—	—	5,170
Athletics	12,254	—	—	12,254	3,716	—	—	3,716
Other CSU programs	2,390	—	—	2,390	2,270	—	—	2,270
Total program services	32,786	—	—	32,786	23,600	—	—	23,600
Support services:								
Development	733	—	—	733	340	—	—	340
Management and general	1,636	—	—	1,636	1,484	—	—	1,484
Total support services	2,369	—	—	2,369	1,824	—	—	1,824
Total expenses	35,155	—	—	35,155	25,424	—	—	25,424
Change in net assets	2,121	(4,991)	7,786	4,916	5,801	8,736	7,392	21,929
Net assets, beginning of year	16,660	94,557	67,451	178,668	10,859	85,821	60,059	156,739
Net assets, end of year	$ 18,781	89,566	75,237	183,584	16,660	94,557	67,451	178,668

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(Amounts expressed in thousands)

	2005	2004
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 142,478	143,333
Student loans collected	6,420	6,439
Sales of products	16,688	19,528
Sales of services	104,378	105,088
Grants and contracts	236,665	236,990
Other operating receipts	3,784	4,485
Cash payments:		
Scholarships disbursed	(10,410)	(10,818)
Student loans disbursed	(4,930)	(5,621)
Payments to employees	(413,870)	(397,972)
Payments to suppliers	(175,415)	(191,331)
Other operating payments	(25)	(228)
Net cash used in operating activities	(94,237)	(90,107)
Cash flows from noncapital financing activities:		
State appropriations – noncapital	109,424	109,184
Gifts and grants for other than capital purposes	18,889	14,975
Agency (direct lending inflows)	88,877	86,234
Agency (direct lending outflows)	(88,877)	(86,234)
Other agency (inflows)	49,734	25,768
Other agency (outflows)	(47,745)	(22,278)
Payments to governing boards or other institutions	(131)	(420)
Other nonoperating revenues	1,056	5,606
Net cash provided by noncapital financing activities	131,227	132,835
Cash flows from capital and related financing activities:		
Proceeds from capital debt	60,109	3,625
State appropriations – capital	2,285	486
Capital grants, contracts, and gifts	15,292	7,078
Acquisition and construction of capital assets	(50,819)	(54,555)
Principal paid on capital debt	(5,677)	(8,219)
Interest on capital debt	(3,364)	(2,558)
Net cash provided by (used in) capital and related financing activities	17,826	(54,143)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	1,350	2,173
Purchase of investments	(305)	(2,417)
Investment earnings	4,639	193
Net cash provided by (used in) investing activities	5,684	(51)
Net increase (decrease) in cash and cash equivalents	60,500	(11,466)
Cash and cash equivalents, beginning of the year	239,864	251,330
Cash and cash equivalents, end of the year	$ 300,364	239,864

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(Amounts expressed in thousands)

		2005	2004
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(128,522)	(134,799)
Adjustments:			
Depreciation expense		36,402	35,429
Noncash operating transactions		(1,239)	1,221
Decrease (increase) in assets:			
Receivables, net		3,525	(1,744)
Inventories and prepaids		1,221	1,038
Increase (decrease) in liabilities:			
Accounts payable		(575)	(808)
Accrued liabilities		(4,679)	5,748
Deferred revenue		(1,171)	(1,694)
Deposits held for others		(74)	(72)
Compensated absence liabilities		418	848
Other liabilities		457	4,726
Net cash used by operating activities	$	(94,237)	(90,107)
Noncash activities:			
Equipment, building improvements purchased through capital leases	$	359	1,279
Noncash gifts		3,928	3,620
Payment of bond issuance costs		612	—

See accompanying notes to basic financial statements.

(1) Governance and Reporting Entity

(a) Governance

The Colorado State University System (the System) is an institution of higher education of the State of Colorado. For financial reporting purposes, the System is included as part of the State of Colorado's primary government. The Board of Governors (the Board) is the governing board of the Colorado State University System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting 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.

(b) Reporting Entity

The accompanying financial statements present the operations of the System. The System conducts its operations through the following two institutions:

Colorado State University – Fort Collins (CSU)
Colorado State University – Pueblo (CSUP)

Since CSU is the State's land grant institution, it includes the Agriculture Experiment Station, Cooperative Extension Service, and the Colorado State Forest Service. In addition, the accompanying financial statements contain the financial activity of the System offices. Unaudited financial statements are available upon request from each of the institutions.

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of the System would be subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The System had no material unrelated business income for the years ended June 30, 2005 and 2004.

(c) Discretely Presented Component Unit

The System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, during the fiscal year ended June 30, 2004. This Statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. As a result of this implementation, the Colorado State University Foundation (the Foundation) was determined to be a component unit of the Colorado State University System and has therefore been included as a discretely presented component unit in the System financial reporting entity. The Colorado State University Research Foundation and the Colorado State University – Pueblo Foundation did not meet the criteria to be reported as component units.

The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU. The majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, CSU, the Foundation is considered a component unit of the System and is discretely presented in the CSU System 2005 and 2004 financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences, as permitted by GASB 39.

The 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 CSU. 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, nonvoting members of the Board serve by virtue of title: President of Colorado State University, the CSU Vice President for Development & Advancement, and the CSU Vice President for Administrative Services. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a voting Board Member.

The major source for the Foundation's revenue is gifts. Of the $40,071,000 in revenue for the 2004-05 fiscal year, gifts accounted for $27,064,000. Of the $47,353,000 in revenue for the 2003-04 fiscal year, gifts accounted for $27,483,000. The remaining revenue was primarily due to earnings on investments.

The support provided by the Foundation to CSU 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 CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately $32,786,000 and $23,600,000 was transferred to CSU for the years ended June 30, 2005 and 2004, respectively, in pursuit of the above-stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to $12,521,000 and $12,414,000 as of June 30, 2005 and 2004, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

Audited financial statements for the Foundation are available at 410 University Services Center, Fort Collins, CO 80523.

(Continued)

(2) Basis of Presentation

The System has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, with regard to the application of FASB pronouncements applicable to its proprietary operations. In accordance with the provisions of GASB Statement No. 20, the System has applied those FASB statements and interpretations issued on or before November 30, 1989. The System has elected not to apply FASB statements and interpretations issued after November 30, 1989.

During the fiscal year ended June 30, 2005, the System implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. This Statement addresses common deposit and investment risks and requires governmental entities to provide disclosures related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. This information is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The prior year disclosures have not been presented to conform to these new disclosure requirements. In future years, comparative information will be presented.

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.

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

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the basic financial statements of the System 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. All significant intra-agency transactions have been eliminated.

(a) 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.

(b) Investments

Investments are accounted for at fair value, which is determined based on quoted market prices. 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.

(c) 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 is 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.

(d) Restricted Cash and Cash Equivalents and Restricted Investments

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. For the System, examples of restricted cash and cash equivalents and restricted investments include cash and cash equivalents required as bond reserves, unexpended bond proceeds, and investments held by endowment funds.

(e) Capital Assets

Land, land improvements, buildings and improvements, leasehold improvements, library materials, collections, 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 two institutions ranging from $5,000 to $50,000. At CSU, library materials are valued at average acquisition cost. At CSUP, library materials are valued at actual cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 70 years for buildings, 10 to 20 years for land improvements, 5 to 10 years for library books, 3 to 12 years for equipment, and 8 to 40 years for leasehold improvements. Depreciation expense was not allocated among functional categories.

Renovations to buildings and other improvements that significantly increase the value and extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project.

During capital construction, interest cost is capitalized from the date of the tax-exempt borrowing to the date the qualifying asset 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.

The System has capitalized collections such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collection does not change over time. These collections have not been depreciated in the System's financial statements.

Assets under capital leases are recorded at the present value of the future minimum lease payments and are amortized using the straight-line method over the estimated useful life of the asset being leased.

(Continued)

(f) Compensated Absence Liabilities

The amount of compensated absence liabilities that are recorded as a current liability on the statements of net assets are the higher of the historical annual amount of separation payouts or the known amount of separation payouts. The remaining balance of the compensated absence liabilities is recorded as a long-term liability on the statements of net assets.

(g) Net Assets

Net Assets of the System 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 or debt agreements.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational activities. 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. Unrestricted net assets may be designated by actions of the Board.

Discretely presented component unit: Net assets of the Colorado State University Foundation and the changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets: Net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets are subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

(Continued)

(h) Classification of Revenues

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

Operating revenues consist of services and sales related to teaching, research, and public service, along with auxiliary activities of student, faculty, and staff support. These revenues include: 1) tuition and fees from students (after reduction for scholarship allowances provided with institutional funds); 2) grants and contracts from federal, state, and local governments and private sources including businesses, individuals, and foundations; 3) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 4) fees for goods and services of auxiliary operations such as student housing and dining, student center retail stores, health services, and athletics. Revenues from exchange transactions are recognized when they are earned and measurable.

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.

Nonoperating revenues primarily consist of subsidies in the form of State appropriations, gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses.

Other revenues include revenues from State capital construction and controlled maintenance appropriations, capital gifts, and grants primarily designated for capital purposes. Other expenses include payments to other governing boards or other institutions.

(i) Summer Session Revenue and Related Expenses

The System prorates the summer session revenues and expenses based on the number of days between the first day of the summer session and the last day of the summer session that falls before or after June 30.

(j) 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.

(k) 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.

(Continued)

(l) Reclassifications

Certain 2004 amounts have been reclassified to conform with the 2005 basic financial statement presentation.

(4) Cash and Cash Equivalents

The System deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2005, the System had cash on deposit with the State Treasurer of $301,628,000, which represented approximately 7.4% of the value of all deposits in the State Treasurer's Pool (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 the System's participation in the Pool, the System 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, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

As of June 30, 2005 and 2004, respectively, the System had $301,628,000 and $242,313,000 on deposit with the State Treasurer. The difference between the System's cash carrying value and on deposit with the State Treasurer and balances at other banks was due to outstanding checks and deposits in transit. Interest earned on deposits with the State for the fiscal years ended June 30, 2005 and 2004 was approximately $6,754,000 and $7,042,000, respectively. These amounts reflect increases in cash and cash equivalents and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. The unrealized gains and losses on deposits with the State Treasurer for the fiscal years ended June 30, 2005 and 2004, respectively, were $(783,000) and $1,445,000 for cash and cash equivalents and $(2,228,000) and $(6,433,000) for investment income. Custodial credit risk classifications for amounts held by the State Treasurer are not available at the System level. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

At June 30, 2005 and 2004, the System's cash not on deposit with the State Treasurer included petty cash/change funds of $154,000 and $158,000, respectively.

Investments in the Treasurer's 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, 2005, none of the investments in the State Treasurer's Pool are subject 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, 2005, approximately 83% of investments of the Treasurer's Pool are subject to credit quality risk reporting. These investments are rated from upper medium to the highest quality which indicates that the issuer has strong capacity 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, 2005, the weighted average maturity of investments in the Treasurer's Pool is 0.10 years for 26% of the Pool, 2.10 years for 47% of the Pool, 2.30 years for 12% of the Pool, and 2.60 years for 15% of the Pool.

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2005.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2005.

(5) Restricted Investments

As of June 30, 2005 and 2004, System's restricted investments had a fair value of $16,538,000 and $16,180,000, respectively. Investment earnings for the fiscal years 2005 and 2004 were $81,000 and $84,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2005 and 2004. The System only invests in U.S. Treasury Securities, which are federal guaranteed investments, as required by state law. The System also has investments held by CSUF that are invested in their Long Term Endowment Pool, which are not evidenced by securities that exist in physical or book form.

The detail of System investments were as follows as of June 30, 2005:

Type of investment		Fair value
U.S. Treasury obligations	$	4,017,000
Investments held by CSUF in long term endowment pool:		
Corporate Equities		1,314,000
Mutual Funds		7,498,000
Hedge Funds		3,585,000
Private Equity		124,000
		12,521,000
Total investments	$	16,538,000

(a) Credit Quality Risk

At June 30, 2005, the System had debt securities in the following credit risk categories:

		Fair value
Money Market Mutual Funds:		
Aaa	$	147,000
Bond Mutual Funds:		
Aaa	$	531,000
A		24,000
Baa		41,000
Ba		204,000
B		833,000
Caa		277,000
Pl		543,000
Below Pl		35,000
Not rated		13,000
Total	$	2,501,000

The Colorado State University Foundation investment policy is utilized to manage credit risk relating to the CSU System assets invested in the Colorado State University Foundation long-term endowment pool. This policy specifies that the dollar weighted average of the fixed-income portfolio should be investment grade quality or above.

(b) Interest Rate Risk

At June 30, 2005, the following System investments were subject to interest rate risk:

Type of investment		Fair value	Weighted average maturity (in years)	Duration (in years)
U.S. Treasury obligations	$	4,017,000	0.202	
Investments held by CSUF in long term endowment pool:				
Bond Mutual Funds:				
PIMCO – Low Duration Fund		1,181,000	1.800	
Primus – High Yield Fund		1,320,000		2.970
Total investments subject to interest rate risk	$	6,518,000		

The Colorado State University Foundation investment policy is utilized to manage interest rate risk relating to the System amounts invested in the Foundation long-term endowment pool. This policy specifies that the portfolio's weighted average maturity is to be 10 years or less at all times and that the fixed-income portion of the portfolio is to be targeted at 20% of the total portfolio with an acceptable range being between 15-25%.

The System's U.S. Treasury obligations are invested in accordance with Colorado Revised Statute 23-32-104. This statute requires these investments relating to the Colorado State University land grant fund to be invested in specific types of investments which includes U.S. Treasury obligations. The System does not have a specific policy relating to the management of interest rate risk.

Discretely presented component unit – As of June 30, 2005, investments for the Foundation consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments are comprised of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long term with less volatility. Other investments are comprised of natural resources and private equity investments.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2005 and 2004:

	June 30 2005	June 30 2004
Cash and cash equivalents subject to investment management direction	$ 2,129,000	636,000
Small cap equities	9,429,000	14,958,000
Large cap equities	61,000	49,000
Mutual funds:		
Alternative investments	51,861,000	43,373,000
Large cap equities	47,354,000	43,774,000
Fixed income	36,233,000	41,424,000
International equities	22,888,000	24,056,000
Micro cap equities	9,608,000	9,680,000
Other investments	1,803,000	803,000
	$ 181,366,000	178,753,000

Net investment income of the Foundation consisted of the following for the years ended June 30, 2005 and 2004:

	2005	2004
Interest, dividends, and other income	$ 3,394,000	3,094,000
Net unrealized and realized gain on investments	10,731,000	18,835,000
Less investment management fees	(735,000)	(719,000)
Less unrealized loss on property held for sale	—	(606,000)
	13,390,000	20,604,000
Less income on deposits held in custody for CSU	(785,000)	(1,403,000)
	$ 12,605,000	19,201,000

(6) Accounts Receivable

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

	June 30 2005	June 30 2004
Student accounts receivable	$ 9,685,000	8,782,000
Less allowance for doubtful accounts	(3,272,000)	(3,023,000)
Student accounts receivable, net	6,413,000	5,759,000
Student loans receivable	25,528,000	25,921,000
Less allowance for doubtful accounts	(2,153,000)	(2,230,000)
Student loans receivable, net	23,375,000	23,691,000
Other accounts receivable:		
Sponsored Programs	38,230,000	37,695,000
Commercial receivables	2,049,000	1,010,000
Emergency firefighting receivables	1,173,000	2,151,000
Conferences and summer programs	984,000	2,348,000
Insurance trust fund	368,000	407,000
Receivables from Foundation	353,000	1,115,000
Athletics	340,000	375,000
Vendor credits	89,000	—
Workers' compensation accrual	—	1,480,000
Capital construction – due from State	—	66,000
Other	1,440,000	2,651,000
Total other accounts receivable	45,026,000	49,298,000
Less allowance for doubtful accounts	(2,113,000)	(3,539,000)
Other accounts receivable, net	42,913,000	45,759,000
Total accounts receivable, net	$ 72,701,000	75,209,000

Discretely presented component unit – As of June 30, 2005 and 2004, the Foundation's pledges receivable consisted of the following:

	June 30	
	2005	**2004**
Receivables due in less than one year	$ 3,329,000	3,237,000
Receivables due in one to five years	11,215,000	8,884,000
	14,544,000	12,121,000
Less allowance for uncollectible pledges	(291,000)	(242,000)
Less present value discounting	(1,435,000)	(1,251,000)
	$ 12,818,000	10,628,000

Unconditional promises to give (pledges receivable) are from foundations, corporations, and individuals. The discount factors utilized in the present value calculation is the five-year U.S. Treasury bond rate as of June 30 in the fiscal year the commitment is made.

(Continued)

(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Transfers	Balance June 30, 2005
Nondepreciable capital assets:					
Land	$ 9,050,000	615,000	(75,000)	81,000	9,671,000
Construction in progress	26,807,000	33,354,000	—	(36,917,000)	23,244,000
Collections	2,159,000	46,000	—	—	2,205,000
Total nondepreciable capital assets	38,016,000	34,015,000	(75,000)	(36,836,000)	35,120,000
Depreciable capital assets:					
Land improvements	47,953,000	46,000	—	1,077,000	49,076,000
Buildings and improvements	481,153,000	6,644,000	(1,563,000)	33,843,000	520,077,000
Leasehold improvements	512,000	326,000	—	—	838,000
Equipment	166,135,000	14,032,000	(8,220,000)	1,916,000	173,863,000
Library materials	77,786,000	3,385,000	(477,000)	—	80,694,000
Total depreciable capital assets	773,539,000	24,433,000	(10,260,000)	36,836,000	824,548,000
Less accumulated depreciation:					
Land improvements	16,709,000	2,218,000	(46,000)	—	18,881,000
Buildings and improvements	191,872,000	15,074,000	(1,458,000)	—	205,488,000
Leasehold improvements	343,000	34,000	—	—	377,000
Equipment	122,225,000	13,811,000	(7,682,000)	—	128,354,000
Library materials	46,455,000	5,265,000	(477,000)	—	51,243,000
Total accumulated depreciation	377,604,000	36,402,000	(9,663,000)	—	404,343,000
Net depreciable capital assets	395,935,000	(11,969,000)	(597,000)	36,836,000	420,205,000
Total capital assets, net	$ 433,951,000	22,046,000	(672,000)	—	455,325,000

(Continued)

Following are the changes in capital assets for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Deletions	Transfers	Balance June 30, 2004
Nondepreciable capital assets:					
Land	$ 9,698,000	104,000	(752,000)	—	9,050,000
Construction in progress	8,307,000	38,310,000	—	(19,810,000)	26,807,000
Collections	2,145,000	21,000	(7,000)	—	2,159,000
Total nondepreciable capital assets	20,150,000	38,435,000	(759,000)	(19,810,000)	38,016,000
Depreciable capital assets:					
Land improvements	45,832,000	239,000	—	1,882,000	47,953,000
Buildings and improvements	469,466,000	146,000	(5,883,000)	17,424,000	481,153,000
Leasehold improvements	638,000	—	(126,000)	—	512,000
Equipment	163,490,000	13,937,000	(11,786,000)	494,000	166,135,000
Library materials	70,719,000	7,474,000	(407,000)	—	77,786,000
Total depreciable capital assets	750,145,000	21,796,000	(18,202,000)	19,800,000	773,539,000
Less accumulated depreciation:					
Land improvements	14,427,000	2,144,000	—	138,000	16,709,000
Buildings and improvements	182,913,000	14,933,000	(5,826,000)	(148,000)	191,872,000
Leasehold improvements	449,000	20,000	(126,000)	—	343,000
Equipment	118,239,000	13,330,000	(9,344,000)	—	122,225,000
Library materials	41,861,000	5,002,000	(408,000)	—	46,455,000
Total accumulated depreciation	357,889,000	35,429,000	(15,704,000)	(10,000)	377,604,000
Net depreciable capital assets	392,256,000	(13,633,000)	(2,498,000)	19,810,000	395,935,000
Total capital assets, net	$ 412,406,000	24,802,000	(3,257,000)	—	433,951,000

Interest expense capitalized, net of related interest income for the System, was $150,000 and $589,000 for the years ended June 30, 2005 and 2004, respectively.

(Continued)

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2005 and 2004 were comprised of:

		June 30	
		2005	**2004**
Accrued payroll and benefits	$	40,176,000	45,706,000
Accrued interest payable		1,136,000	1,014,000
Other liabilities		2,029,000	2,045,000
	$	43,341,000	48,765,000

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

		Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Bonds and capital lease obligations:						
Revenue bonds and COPs payable	$	71,487,000	56,296,000	(4,572,000)	123,211,000	5,182,000
Capital leases payable		5,146,000	4,646,000	(1,479,000)	8,313,000	1,163,000
Total bonds and capital leases		76,633,000	60,942,000	(6,051,000)	131,524,000	6,345,000
Other liabilities:						
Compensated absences		28,243,000	552,000	(134,000)	28,661,000	2,067,000
Other		8,093,000	2,808,000	(2,013,000)	8,888,000	2,417,000
Total long-term liabilities	$	112,969,000	64,302,000	(8,198,000)	169,073,000	10,829,000

Long-term liability activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	$ 75,309,000	3,625,000	(7,447,000)	71,487,000	4,480,000
Capital leases payable	5,171,000	1,279,000	(1,304,000)	5,146,000	1,113,000
Total bonds and capital leases	80,480,000	4,904,000	(8,751,000)	76,633,000	5,593,000
Other liabilities:					
Compensated absences	27,395,000	948,000	(100,000)	28,243,000	2,004,000
Other	3,333,000	5,413,000	(653,000)	8,093,000	1,986,000
Total long-term liabilities	$ 111,208,000	11,265,000	(9,504,000)	112,969,000	9,583,000

(10) Revenue Bonds and Certificates of Participation (COPs)

The revenue bonds consist of multiple issues to finance acquisition, construction, repair, and equipping of various auxiliary and research facilities of the System. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and contain optional redemption provisions. The optional redemption provisions allow the System to redeem at various dates, portions of the outstanding revenue bonds at prices varying from 100% to 101% of the principal amount of the revenue bonds redeemed. Payment of the principal and interest on the bonds is insured by various financial guarantee insurance policies.

The 2005A Projects and 2005B Improvement Project Bonds were issued during the 2005 fiscal year. The bonds are for the following projects:

2005A Projects: Research Building Revolving Fund issued bonds in the amount of $10,045,000. Proceeds will be used to defray all or a portion of the costs of (i) constructing, acquiring, and equipping an addition to the existing Atmospheric Science Complex on the University's Foothills Campus, (ii) constructing, acquiring, and equipping a regional biocontainment laboratory on the University's Foothills Campus and (iii) renovating and converting an existing Antropod-Borne and Infections Disease Lab (AIDL) Annex to an Animal Biosafety Level 3 Facility and constructing an adjacent small animal support facility, all located on the University's Foothills Campus.

2005B Improvement Project: Auxiliary Enterprises issued bonds in the amount of $45,200,000. Proceeds from the sale will be used to finance the construction, acquisition, and equipping of student housing and dining facilities and the renovation of certain related surface parking. This facility constitutes one of the phases of the 2001 Long Range Student Housing Plan. The project involves the demolition of the existing Ellis Hall and related dining facilities and construction of new housing and dining facilities.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2005 and 2004 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2005 and 2004:

	Interest range	2005	2004
Colorado State University:			
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	3.80% – 5.13%	$ 2,020,000	2,145,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of $17,380,000 and and mature in varying annual amounts to March 2008	3.80% – 5.60%	4,250,000	5,965,000
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	3.85% – 5.13%	11,925,000	12,185,000
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	4.00% – 4.60%	1,995,000	2,440,000
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	4.00% – 4.30%	4,535,000	5,190,000
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of $15,615,000 and mature in varying annual amounts to March 2017.	2.50% – 5.25%	14,330,000	14,990,000
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of $20,535,000 and mature in varying annual amounts to March 2035.	2.50% – 4.63%	20,535,000	20,535,000

(Continued)

	Interest range		2005	2004
Colorado State University Research Building and Revolving Fund Bonds of 2005 A, issued in the original amount of $10,045,000 and mature in varying annual amounts to December 2020.	3.25% – 5.00%	$	10,045,000	—
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of $45,200,000 and mature in varying annual amounts to March 2035	3.50% – 5.00%		45,200,000	—
Bond premium			1,551,000	592,000
Total CSU revenue bonds			116,386,000	64,042,000
Series 1997 Certificates of Participation:				
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 $4,670,000. The COPs bear interest ranging from 4.25% to 5.35%, payable semiannually with a final maturity in 2018	4.25% – 5.35%		3,625,000	3,820,000
Total CSU certificates of participation			3,625,000	3,820,000
Total CSU revenue bonds and certificates of participation			120,011,000	67,862,000
Colorado State University – Pueblo Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of $3,625,000 and mature in varying annual amounts to August 2011	2.00% – 3.25%		3,200,000	3,625,000
Total CSUP revenue bonds			3,200,000	3,625,000
System total revenue bonds and certificates of participation		$	123,211,000	71,487,000

(Continued)

The scheduled maturities of the revenue bonds and certificates of participation (COPs) are as follows:

	Principal	Interest	Total payments
2006	$ 5,055,000	4,853,000	9,908,000
2007	5,765,000	5,172,000	10,937,000
2008	5,910,000	4,932,000	10,842,000
2009	6,405,000	4,691,000	11,096,000
2010	5,900,000	4,436,000	10,336,000
2011-2015	26,405,000	18,782,000	45,187,000
2016-2020	20,030,000	12,966,000	32,996,000
2021-2025	12,730,000	9,380,000	22,110,000
2026-2030	14,865,000	6,373,000	21,238,000
2031-2035	18,595,000	2,673,000	21,268,000
Total debt service maturities	121,660,000	$ 74,258,000	195,918,000
Unamortized premium	1,551,000		
Total	$ 123,211,000		

The CSU Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of net revenues of the RBRF Enterprise. These revenues include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. See the Pledged Revenues and Related Expenses note for more information regarding these pledged revenues.

The CSU Auxiliary Facilities Bonds are secured by a pledge of all net revenues derived at CSU from the operation of the auxiliary pledged facilities, special fees assessed to students or any other persons, and investment earnings on the balances in the applicable Revenue Fund. See the Pledged Revenues and Related Expense Note 12 for more information regarding these pledged revenues.

The CSUP Series 2003 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of CSUP auxiliary facilities, including CSU Pueblo’s student housing facilities, and student center facilities. See the Pledged Revenues and Related Expense Note 12 for more information regarding these pledged revenues.

The Revenue Bonds are special limited obligations of the Board of Governors and do not constitute a general obligation of the Board or the System.

(11) Defeased Obligations

The System had no defeased obligations outstanding for the years ended June 30, 2005 and 2004.

(12) Pledged Revenues and Related Expenses

CSU and CSUP are required to pledge certain revenues and report related expenses in accordance with the various bond resolutions. The pledged revenues and related expenses were as follows:

CSU Research Building Revolving Fund Enterprise Revenue Bonds

	June 30	
	2005	**2004**
Operating revenues – pledged auxiliary revenues	$ 3,202,000	2,463,000
Operating expenses	2,049,000	1,601,000
Pledged revenues over operating expenses	1,153,000	862,000
Net nonoperating expenses	(220,000)	(346,000)
Other expenses and transfers	(691,000)	(915,000)
Net increase (decrease)	$ 242,000	(399,000)

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes only $1,806,000 and $1,309,000 in such indirect cost recoveries for fiscal years ending June 30, 2005 and 2004, respectively, which is the amount of actual indirect cost recoveries used to support the related bond activity. The remaining amount of indirect cost recoveries required to be pledged is $34,242,000 and $33,175,000 for the fiscal years ended June 30, 2005 and 2004, respectively.

CSU Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds)

	2005	**2004**
Operating revenues – pledged auxiliary revenues	$ 74,466,000	72,970,000
Operating expenses	71,077,000	69,490,000
Pledged revenues over operating expenses	3,389,000	3,480,000
Net nonoperating expenses	(1,985,000)	(2,046,000)
Other revenues and transfers	154,000	278,000
Net increase	$ 1,558,000	1,712,000

(Continued)

Colorado State University – Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds.

	June 30	
	2005	2004
Operating revenues – pledged auxiliary revenues	$ 8,805,000	9,004,000
Operating expenses	5,642,000	6,949,000
Pledged revenue over operating expenses	3,163,000	2,055,000
Net nonoperating revenues	—	2,000
Transfers	(1,499,000)	(1,230,000)
Net increase	$ 1,664,000	827,000

The revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The System is also required to comply with various other covenants while the bonds are outstanding. Managements of the two institutions believe the universities have met all debt service coverage ratios and have complied with all bond covenants.

(13) 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.

	Total
Fiscal year ending June 30:	
2006	$ 1,533,000
2007	1,402,000
2008	1,233,000
2009	885,000
2010	664,000
2011-2015	2,988,000
2016-2020	1,613,000
2021-2025	204,000
Minimum future lease payments	10,522,000
Less amount representing interest	2,209,000
Present value of minimum lease payments	$ 8,313,000

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2005 and 2004, respectively, the System had capital lease obligations in effect with capitalized asset costs of $13,840,000 and $7,829,000; accumulated depreciation of $2,687,000 and $2,201,000; and related outstanding liabilities of $8,313,000 and $5,146,000.

(14) Operating Leases

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

		Future minimum obligations for operating leases
Fiscal year ending June 30:		
2006	$	813,000
2007		623,000
2008		555,000
2009		376,000
2010		343,000
Total	$	2,710,000

Rent expense was $1,065,000 and $1,182,000 for fiscal years 2005 and 2004, respectively.

(15) Net Assets

The System is subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions, State of Colorado statutes, and bond covenants in conjunction with statutory provisions on pledging revenues of the auxiliary facilities.

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. The state match money is restricted by the Colorado Commission on Higher Education policy for student loan programs. The amounts restricted are $26,475,000 and $26,324,000 and are reported as restricted net assets – expendable on the financial statements as of June 30, 2005 and 2004, respectively.

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted for use by the auxiliary operations. The amounts so restricted of $16,049,000 and $14,592,000 are reported as restricted net assets expendable on the financial statements as of June 30, 2005 and 2004, respectively.

Colorado Revised Statute 23-31-135 requires a support fee to be annually assessed to cooperative state or accountable students in the System's professional veterinary medicine program. The statute specifies that this fee must be credited to a reserve account and used for renovation projects and for the acquisition or replacement of equipment. As of June 30, 2005 and 2004, this reserve had net assets of $1,432,000 and $1,358,000, respectively. These amounts were reported as restricted expendable net assets on the statements of net assets.

Total restricted net assets were as follows:

		2005	2004
Restricted for nonexpendable purposes:			
Scholarships, research, and other	$	12,546,000	12,207,000
Federal Land Grant Act Account – nonexpendable		4,132,000	3,851,000
Total	$	16,678,000	16,058,000
Restricted for expendable purposes:			
Federal Land Grant Act Income Account – expendable	$	5,579,000	6,361,000
Student loans		26,475,000	26,324,000
Gifts		2,915,000	2,118,000
Bond reserves		1,300,000	1,300,000
Auxiliary pledged net assets		16,049,000	14,592,000
Research Building Revolving Fund		5,819,000	6,428,000
Equipment reserve for Vet Med		1,432,000	1,358,000
Other		522,000	773,000
Total	$	60,091,000	59,254,000

Although other amounts reflected in unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.

The Taxpayers Bill of Rights (TABOR) is an amendment to the Colorado Constitution that was passed in 1992 as a voter referendum. TABOR essentially restrains the growth of government other than for self-supporting activities that are classified as an enterprise. The System has five enterprises: Student and Faculty Services at CSU, Research Building Revolving Fund at CSU, Educational Outreach at CSU, Seedling Tree Nursery at CSU, and auxiliary operations at CSUP. The annual overall spending limits imposed by TABOR on the State are then passed on to public institutions of higher education through an appropriation bill that acts as a limit for certain cash revenue sources such as tuition, fees and services, and use of enterprise resources for unrestricted purposes. For the years ended June 30, 2005 and 2004, the System was limited from using enterprise net assets of approximately $3,712,000 and $3,201,000, respectively, for unrestricted purposes as a result of the TABOR Constitutional provision and the actions of the Legislature in setting the annual revenue limit. This TABOR restriction is not presented as restricted net assets in the accompanying financial statements since the Legislature has historically provided supplemental increases to the previously imposed limits on revenue.

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held indefinitely, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2005 and 2004, the Foundation's board has designated $16,433,000 and $14,382,000, respectively, of the unrestricted net assets to be used for Board-designated endowments.

(Continued)

(16) Commitments

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2005 were $40,975,000 for the System. These outstanding purchase order commitments included System capital construction commitments of approximately $14,300,000. Approximately $3,832,000 of the capital construction commitments were for the new CSU Academic Village, $2,441,000 for the expansion of the CSU Bioenvironmental Research Building, $2,357,000 for improvements at CSU Hughes Stadium, $1,816,000 for the CSU Regional Biocontainment Laboratory, $536,000 for the CSU Chill Radar Antenna, and the remaining commitments are for other small construction projects at CSU. Of the remaining outstanding purchase order commitments, $18,403,000 related to CSU-sponsored contracts and grants.

In addition to purchase order commitments, the System had contracted obligations of $14,048,000 at June 30, 2005 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position offer. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such costs are considered highly probable in the future. In both cases, settlement of the obligation involves payment to third parties, generally within three years.

Outstanding commitments at June 30, 2005 were:

Purchase order commitments	$	40,975,000
Shared cost obligations on long-term revenue contracts		8,284,000
Obligations under accepted employment offers		5,764,000
Total	$	55,023,000

(17) 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 Colorado Public Employees' Retirement Association (PERA) plan or an optional defined contribution plan.

The System's total payroll for the fiscal years ended June 30, 2005 and 2004 was $377,627,000 and $365,099,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was $128,942,000, $177,675,000, and $5,001,000 respectively, for the fiscal year ended June 30, 2005 and $130,270,000, $166,390,000, and $4,511,000, respectively, for the fiscal year ended June 30, 2004. The remaining employees were not eligible for participation in any of the System's plans.

(a) 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 at 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with five 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 five 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 twelve consecutive months of service credit. Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under 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% of their gross covered wages to an individual account of the plan. During fiscal year 2004-05 and 2003-04, the System contributed 10.15% of the employee's gross covered wages. Before July 1, 2004, 1.1% of the total contribution was allocated to the Healthcare Trust Fund (see note 19), and after July 1, 2004, 1.02% of the total contribution was allocated to the Healthcare Trust Fund.

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 contributions to PERA for the fiscal years ended June 30, 2005, 2004, and 2003 were $13,088,000, $12,090,000, and $11,976,000 respectively. These contributions were equal to the contribution requirement.

(b) 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 PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan assets is 110 percent of actuarially accrued plan liabilities. This condition was not met during fiscal year 2005, and the match was discontinued. For 2004, the match was 100% of up to 1% of employees' gross covered wages paid during the month, and the matches paid were approximately $1,133,000.

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan, and institutions of the State offer a 403b or 401(a) plan. Members who contribute to any of these plans also receive the State match.

(c) Defined Contribution Pension Plan

Under the optional defined contribution plan, eligible 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 defined contribution pension plan is established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S) and was adopted by the Board in December 1992 and April 1993 for CSU and CSUP, respectively. The defined contribution pension plan is a qualified plan under Section 401(A) of the IRC. Colorado State University is the administrator of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all "permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSUP provides a matching contribution of 11.1%, 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 three authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or $15,522,000 for the fiscal year ended June 30, 2005 and 8.7% of covered payroll or $14,516,000 for the fiscal year ended June 30, 2004. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or $14,214,000 for the fiscal year ended June 30, 2005 and 8.0% of covered payroll or $13,312,000 for the fiscal year ended June 30, 2004.

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 fiscal years ended June 30, 2005 and 2004 was $228,000 and $253,000, respectively.

(d) Student Employee Retirement Program

Eligible student employees contribute 7.5% of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but who are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 C.R.S.) as a mandatory nonqualified plan under 403(B) of the IRC in lieu of mandatory OASDI coverage. The plan administrator is the "Committee." This Committee is comprised of thirteen individuals representing participating state institutions of higher education and one representative appointed by the Colorado student association. All contributions are vested immediately and are participant-directed within the funds available through the one vendor for the SERP, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2005 and 2004 was $375,000 and $338,000, respectively. The System is not liable for any matching contributions to the student employee retirement program.

(e) Health Insurance Programs

The System's contribution to the various health insurance programs was $5,787,000 and $5,415,000 for the fiscal years ended June 30, 2005 and 2004, respectively.

(18) Risk Financing and Insurance-Related Activities

During the year ended June 30, 2004, CSU began the process of withdrawing from the State Risk Pool in order to become self-insured for workers' compensation claims. On July 1, 2004, CSU purchased workers' compensation insurance for one month's coverage, and on August 1, 2004, became self-insured. CSU reinsures for claims over $400,000 per occurrence and for aggregate claims higher than $1,000,000 per year.

As of September 1, 2004, CSU withdrew from the State Risk Pool for property insurance. For property claims, CSU has excess policy coverage for claims exceeding more than $100,000 per occurrence. CSU self-insures for claims less than $100,000 per occurrence, and a $1,000 deductible per occurrence is paid by the University department incurring the claim.

Effective July 1, 2005, CSU became self-insured for liability insurance. CSU will carry excess public liability insurance for claims exceeding $500,000 per occurrence, except for claims arising out of employment practices. In this case, CSU will be liable for the first $1,000,000 and purchases insurance to cover up to $5,000,000 per occurrence.

In addition to the above, CSU is self-insured for various other risks of loss. At CSU, seven additional separate accounts currently make up the Insurance Trust self-insured program: healthcare, dental, long-term disability, short-term disability, post-retirement healthcare subsidy, the umbrella plan for retirees, and an unallocated reserve fund. CSU contracts claims processing and other day-to-day operations of the self-funded benefit plans to various third-party administrators. Most of the program funding is derived from premiums paid by benefit plan participants. Post-retirement healthcare subsidy is funded by CSU contributions. The self-funded benefit plans are fully self-insured except for healthcare coverage, which is reinsured for plan expenses above $200,000 in claims per covered employee per year. The Unallocated Reserve Account is a general contingency fund for miscellaneous and unanticipated expenses of the other six accounts.

The amount of settlements did not exceed insurance coverage for each of the past three fiscal years.

Exempt employees may select from various benefit plans. Exempt employees may elect to make certain contributions in the form of a pretax salary reduction.

The above Medical Insurance Trust self-insurance programs had estimated claim liabilities of $5,821,000 and $4,774,000 at June 30, 2005 and 2004, respectively, which includes incurred but not reported claims (IBNR) along with known claims at year-end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines.

In addition to these claims, Workers Compensation had estimated claim liabilities of $4,415,000 and $4,548,000, at June 30, 2005 and 2004, respectively. Liability self-insurance had estimated claim liabilities of $6,000 and $0, at June 30, 2005 and 2004, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2005 and 2004. These estimates are based on current data, historical trends, and industry guidelines.

The changes in the balance of claim liabilities were as follows:

		2005	2004
Claim liabilities, beginning of year	$	9,322,000	4,677,000
Incurred claims (including IBNR)		16,166,000	11,929,000
Claims assumed from State Risk Pool		—	4,548,000
Claim payments		(15,246,000)	(11,832,000)
Claim liabilities, end of year	$	10,242,000	9,322,000

(19) Postemployment Healthcare and Life Insurance Benefits

(a) PERA Post Employment Healthcare Plan

PERACare (formerly known as the PERA Healthcare 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 Healthcare Trust Fund. Under this program, PERA subsidizes a portion of the monthly premium for healthcare coverage. Retirees become eligible for this benefit at age 55 with 20 years of service or age 60 with five years of service. Benefits are prorated for lesser years of service. Employee contributions depend on plan, age, and dependents included in plan chosen. This plan is pay-as-you-go funded. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal years 2005 and 2004, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 through December 31, 2005, after December 31, 2005 this increased to $241), and it was reduced by 5% for each year of service fewer than 20.

The Healthcare Trust Fund was maintained by an employer’s contribution of 1.1% of covered salary before July, 2004. After July 1, 2004, the contribution was decreased to 1.02% of covered salary. The System paid $1,315,000 into this fund during fiscal year 2005 and $1,433,000 during fiscal year 2004. Monthly premium costs for participants depend on the healthcare 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, 2004, there were 39,668 enrollees in the plan.

(b) University PERA Retiree Medical Plan Cost Subsidy

In accordance with University policy, University faculty and nonclassified staff participating in the PERA retirement plan who retire from the University with at least ten years of University service are eligible to receive a subsidy from the University to cover all or a part of their out-of-pocket premium expenses for coverage under any one of the medical plans sponsored by PERA. The amount of the subsidy for eligible retirees is their out-of-pocket expenses for retiree-only coverage or an amount equal to the premium for the lowest cost plan available to active faculty and nonclassified staff, whichever is lesser.

This plan is pay-as-you-go funded. The average number of beneficiaries of this subsidy was 465 and 470 for FY05 and FY04, respectively. The total cost to the University was $892,000 and $784,000, for FY05 and FY04, respectively.

(c) Postretirement Healthcare Premium Refund

CSU's post retirement healthcare premium refund was established by the authority of the Board. For eligible retirees, CSU pays retirees a healthcare premium refund of the lesser of $200 per month or the actual cost of health insurance. Eligible retirees include former employees who were hired after March 1, 1993 who had no previous participation in PERA or former employees with previous participation in PERA who elect to receive benefits under this plan. Retirees become eligible for this benefit at age 55 with 20 years of service or age 60 with five years of service. Benefits are prorated for fewer years of service.

For 2005 and 2004, funding for the retirement refund was provided wholly by CSU through actuarially required contributions of 1% of covered participant's payroll. CSU's program is advance funded and contributions into the program totaled $1,578,000 and $1,476,000 for the years ended June 30, 2005 and 2004, respectively. The amount of restricted cash and cash equivalents available for these benefits was $15,221,000 and $13,507,000 for the years ended June 30, 2005 and 2004, respectively. Actuarial assumptions used to determine funding requirements include an annual investment return of 4.0% and 6.5%, for FY05 and FY04, respectively, annual salary increases of 4%, and annual inflation of 3% for increase in starting salary. Noneconomic assumptions include rates of retirement, nonretirement termination, and mortality. Retirement and nonretirement rates were based on plan experience. Actuarial accrued liability was $14,295,000 and $4,293,000 for the years ended June 30, 2005 and 2004, respectively, and the unfunded actuarial accrued liability for the benefit according to the actuarial-cost method as stated above was $0 for the years ended June 30, 2005 and 2004.

Total amounts paid by CSU to retirees for these healthcare subsidies were $304,000 and $233,000 for 2005 and 2004, respectively. As of June 30, 2005 and 2004, 175 and 134 former employees, respectively, were qualified to receive such benefits.

(d) Life Insurance Program

During fiscal year 2004-2005, PERA provided its members access to two group life insurance plans offered by Prudential and Anthem Life (formerly known as Rocky Mountain Life). Effective April 1, 2005, PERA consolidated the two plans, and UnumProvident became the administrator. Members who transition to the new plan may continue coverage into retirement. Premiums are paid by participants monthly by payroll deduction or other means.

(20) 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 liability of compensated absences for which employees are vested as of June 30, 2005 and 2004 was $28,661,000 and $28,243,000, respectively.

Expenses for the fiscal years ended June 30, 2005 and 2004 include $552,000 and $948,000, respectively, for the increase in the estimated compensated absence liabilities.

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2005 and 2004, CSU 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 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, 2005 and 2004 were $88,877,000 and $86,234,000, respectively.

(22) Scholarship Allowance

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2005 were as follows:

		2005	
	Tuition and fees	**Auxiliary revenues**	**Total**
Gross revenue	$ 178,781,000	106,485,000	285,266,000
Scholarship allowances:			
Federal	11,508,000	1,587,000	13,095,000
State	5,714,000	553,000	6,267,000
Private	154,000	89,000	243,000
Institutional	17,768,000	1,820,000	19,588,000
Total allowances	35,144,000	4,049,000	39,193,000
Net revenue	$ 143,637,000	102,436,000	246,073,000

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2004 were as follows:

		2004		
		Tuition and fees	**Auxiliary revenues**	**Total**
Gross revenue	$	178,192,000	104,241,000	282,433,000
Scholarship allowances:				
Federal		10,982,000	1,271,000	12,253,000
State		6,152,000	571,000	6,723,000
Private		150,000	53,000	203,000
Institutional		16,957,000	1,677,000	18,634,000
Total allowances		34,241,000	3,572,000	37,813,000
Net revenue	$	143,951,000	100,669,000	244,620,000

(23) System Foundations and Endowments

As discussed in note 1(c), the Colorado State University Foundation was incorporated into the System's financial reporting entity during fiscal year 2004 as a result of adopting GASB Statement No. 39. The Colorado State University Research Foundation (CSURF) and the Colorado State University – Pueblo Foundation (CSUP Foundation) did not meet the requirements of GASB Statement No. 39 to be incorporated into the System's financial reporting entity.

(a) Colorado State University Research Foundation

CSURF is a private, not-for-profit Colorado corporation established in 1941 to aid and assist the institutions governed by the Board of the System in their research and educational efforts. CSURF officers are appointed annually by the Board of Directors. The Board of Directors consists of five voting members and two nonvoting members. No person who is an employee of CSU or CSUP is eligible to serve as an officer of CSURF or as a voting member of the Board.

The major sources of CSURF revenues are royalties, rents, management fees, licensing fees, and administration fees. The support provided by CSURF 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 years ended June 30, 2005 and 2004, royalty revenues equaled $1,255,000 and $743,000, respectively, and expenses were $765,000 and $421,000, respectively.

At June 30, 2005, CSURF debt to provide buildings for use by the universities was $5,539,000.

At June 30, 2005, the assets of CSURF consisted of:

Cash and current assets	$	1,396,000
Property and equipment		7,666,000
Other assets		10,497,000
Total assets	$	19,559,000

At June 30, 2004, CSURF debt to provide buildings for use by the universities was $5,895,000.

At June 30, 2004, the assets of CSURF consisted of:

Cash and current assets	$	1,772,000
Property and equipment		8,176,000
Other assets		9,415,000
Total assets	$	19,363,000

Audited financial statements of CSURF are available at 410 University Services Center, P.O. Box 483, Fort Collins, CO 80522.

(b) Colorado State University – Pueblo Foundation

CSUP Foundation was established in 1966 as an independent 501(c)(3) nonprofit corporation. The CSUP Foundation was formed to advance and assist in the development, growth, and operation of CSUP. Twenty-seven directors of the CSUP Foundation are elected by members of the CSUP Foundation, one officer of CSUP, and one member of the Board of Governors serve as nonvoting, ex-officio members.

CSUP Foundation recorded $1,555,000 and $1,242,000 in transfers of gifts and other assets to CSUP during fiscal year 2005 and 2004, respectively. During the same periods, CSUP provided $19,000 and $12,000, respectively, in in-kind support to CSUP Foundation for 2005 and 2004. Further, CSUP did not incur any expenses on behalf of CSUP Foundation during the fiscal years ended June 30, 2005 and 2004.

At June 30, 2005, the assets of CSUP Foundation consisted of:

Cash	$	425,000
Investments		16,179,000
Property and equipment, net		5,000
Other assets		4,459,000
Total assets	$	21,068,000

At June 30, 2004, the assets of CSUP Foundation consisted of:

Cash	$	774,000
Investments		15,534,000
Property and equipment, net		5,000
Other assets		4,250,000
Total assets	$	20,563,000

CSUP Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSUP Foundation had $140,000 and $145,000 in outstanding liabilities as of June 30, 2005 and 2004, respectively.

Audited financial statements may be obtained from CSUP's Foundation office at 2200 Bonforte Boulevard, Pueblo, CO 81001-4901.

(c) CSUP Board-Designated Funds

CSUP manages two board-designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20% of earnings each year to build the corpus of the fund and transfer 80% of the annual earnings to CSUP as designated by the Board. The first board-designated fund 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 CSUP. To date, CSUP has sold four parcels of land with the proceeds from the sales being placed in a board-designated fund.

The Walking Stick Fund assets at June 30, 2005 consisted of:

Cash	$	1,096,000
Land		124,000
Due from other funds		18,000
Total assets	$	1,238,000

The Walking Stick Fund assets at June 30, 2004 consisted of:

Cash	$	644,000
Land		177,000
Due from other funds		88,000
Total assets	$	909,000

On June 30, 2000, CSUP sold the KTSC-TV television license and certain related assets. The proceeds of the sale have been placed in a board-designated fund to support the maintenance of the Buell Communication Center building, telecommunications equipment associated with the Mass Communications program of CSUP, and scholarships.

The KTSC Fund assets at June 30, 2005 consisted of:

Cash	$	2,370,000
Due from other funds		195,000
Total assets	$	2,565,000

The KTSC Fund assets at June 30, 2004 consisted of:

Cash	$	2,330,000
Due from other funds		210,000
Total assets	$	2,540,000

(24) Legislative Appropriations

The Colorado State Legislature establishes spending authority to the Board of the System 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 fiscal years ended June 30, 2005 and 2004, appropriated expenditures were within the authorized spending authority. The System had total appropriations, actual appropriated revenues, and actual appropriated expenses of $305,723,000, $305,225,000, and $266,189,000, respectively, for the year ended June 30, 2005 and $306,321,000, $269,087,000, and $258,475,000, respectively, for the year ended June 30, 2004.

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

(25) 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 or operations.

The System receives significant financial awards from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the System. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of the System.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 21, 2005. Our report included an explanatory paragraph discussing the System's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* in fiscal year 2005. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit, the Colorado State University Foundation (the Foundation), were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic 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 internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the management of the System in the findings and recommendations section of this report dated October 21, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's basic 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 basic 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.*

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

KPMG LLP

October 21, 2005

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

October 21, 2005

Members of Legislative Audit Committee:

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 21, 2005, which included an explanatory paragraph discussing the System's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* in fiscal year 2005. Under our professional standards, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We have a responsibility to conduct our audit in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, but not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the basic financial statements are detected.

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit of the financial statements does not include examining the effectiveness of internal control and does not provide assurance on internal control. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting.

Significant Accounting Policies

The significant accounting policies used by the System are described in note 3 to the basic financial statements. As discussed in note 2, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* in fiscal year 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. It is designed to inform financial statement users about deposit and investment risks that could affect the System's ability to provide services and meet its obligations as they become due.

Unusual Transactions

We noted no unusual transactions entered into by the System, which were both significant and unusual, and of which, under professional standards we are required to inform you, or transactions for which there is a lack of authoritative guidance.

Management Judgments and Accounting Estimates

The preparation of the basic financial statements requires management of the System to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The significant accounting estimates included in the System's basic financial statements are the allowance for uncollectible receivables, the period to depreciate capital assets owned by the System, incurred but not reported self-insured liabilities, and accrued compensated absences. We evaluated the key factors and assumptions in determining that these estimates are reasonable in relation to the basic financial statements taken as a whole.

Significant Audit Adjustments

We proposed the following corrections to the 2005 basic financial statements, which have been made by management and are reflected in the basic financial statements as of and for the year ended June 30, 2005:

Colorado State University

- To reverse federal revenues and related federal expenditures for approximately $3,610,000 that had been recognized by the System in the prior year.
- To reclass approximately $52,600,000 in unspent bond proceeds from unrestricted cash and cash equivalents to restricted cash and cash equivalents.
- To reclass approximately $22,900,000 in deposits held for others from a current classification to a noncurrent classification.

Colorado State University – Pueblo:

- To reclass approximately $873,000 in student receivables from the noncurrent classification on the statement of net assets to the current classification.
- To adjust deferred revenue for summer tuition by approximately $483,000 in order to correctly state the amount of revenue that should be deferred.
- To recognize approximately $280,000 in grant revenues that had inappropriately been deferred.
- To increase the compensated absences liability by approximately $169,000 in order to properly state the calculated balance.

Uncorrected Misstatements

In connection with our audit of the System's basic financial statements, we have discussed with management certain financial statements misstatements that have not been accounted for in the basic financial statements as of and for the year ended June 30, 2005. The misstatements would have had a $(2,445,230) affect on net assets. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representation from management that management believes these misstatements are immaterial. Page 100 includes a copy of the summary that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the System's basic financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis. We have, however, read the other information included in the System's report and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Disagreements With Management

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the System's basic financial statements.

Consultation With Other Accountants

To the best of our knowledge, management has neither consulted with nor obtained opinions, written or oral, from other independent accountants during the past year that are subject to the requirements of AU 625, *Reports on the Application of Accounting Principles.*

Major Issues Discussed With Management Prior to Appointment

We discussed a variety of matters, including the application of accounting principles and auditing standards, with management prior to appointment as the System's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

Material Written Communications

Management has been provided copies of the following material written communications between management and us:

(1) Engagement letter;

(2) Management representation letter; and

(3) Management letter (included in this report).

Independence

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationships between our firm and the System and provide confirmation that we are independent accountants with respect to the System. We are not aware of any independence-related relationships between our firm and the System.

Confirmation of Audit Independence

We hereby confirm that as of October 21, 2005, we are independent accountants with respect to the System under all relevant professional and regulatory standards.

* * * * * * *

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Board of Governors, the Audit Committee, and the System’s management and is not intended to be and should not be used by anyone other than these specified parties. This report is not intended for general use, circulation, or publication and should not be published, circulated, reproduced, or used for any purpose without our prior written permission in each specific instance. However, this report is a matter of public record upon release by the Legislative Audit Committee.

Very truly yours,

KPMG LLP

COLORADO STATE UNIVERSITY SYSTEM

Summary of Uncorrected Misstatements

Year ended June 30, 2005

		Adjustments on financial statement captions							
		Change in net assets unadjusted audit differences arising in			Balance sheet				
Adj No.	Description	Current period	Prior period	Total	Net assets	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Payroll operating expenses	$ —	—	—	—	—	—	—	—
	Accrued liabilities	(570,145)	—	(570,145)	—	—	—	570,145	—
	To accrue for four days of hourly CSU employees' pay that was worked prior to June 30, 2005 but not paid until after year-end. This amount was not included in the payroll accrual calculation.								
2	Operating expenses	(1,245,982)	—	(1,245,982)	—	—	—	—	—
	Other long term liabilities – IBNR Workers' Compensation	—	—	—	—	—	—	—	156,579
	Other long term liabilities – IBNR General Liability	—	—	—	—	—	—	—	1,089,403
	To accrue for Incurred But Not Reported (IBNR) claims related to the Workers' Compensation and General Liability self-insurance programs. At the end of 2005, CSU did not adjust its IBNR liability to agree with the actuarial point estimate.								
3	Operating expenses	(629,103)	—	(629,103)	—	—	—	—	—
	Accrued liabilities	—	—	—	—	—	—	629,103	—
	To record a liability for grant funds to be reimbursed to FEMA. FEMA contends that CSU owes for overcharges relating to indirect costs claimed from the 2000 and 2002 fire seasons.								
4	Other nonoperating revenues (gains on disposal of net assets)	(342,000)	—	(342,000)	—	—	—	—	—
	Beginning net assets	—	342,000	342,000	—	—	—	—	—
	In a previous year, CSU deleted assets from its books that were still in existence. During fiscal year 2005, CSU noticed this error and added the assets back on to the books with the opposite side of the entry recording a gain. (Amount is an estimate).								
5	Other nonoperating revenues	(523,614)	—	(523,614)	—	—	—	—	—
	Investment income	523,614	—	523,614	—	—	—	—	—
	To reclass interest earned on investments held in the Foundation's long-term endowment pool from other nonoperating revenues to investment income.								
	Total	$ (2,787,230)	342,000	(2,445,230)	—	—	—	1,199,248	1,245,982

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years then ended June 30, 2005 and 2004, and have issued our report thereon dated October 21, 2005. Our report included an explanatory paragraph discussing the System's implementation of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* in fiscal year 2005. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of the respective Authorizing Bond Resolutions and the Official Statements (collectively, bond resolutions) insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with the respective bond resolutions discussed above, a calculation of each bond's earnings requirement is shown on pages 102-106.

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

KPMG LLP

October 21, 2005

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

(Unaudited)

June 30, 2005

Colorado State University (CSU) Research Building Revolving Fund Enterprise Revenue Bonds

The following information is presented in accordance with the bond resolutions of the 1997, 2001, and 2005A Series Research Building Revolving Fund Enterprise Revenue Bonds.

For the purposes of determining compliance with the bond resolution, earnings are computed as follows:

Auxiliary revenues	$	3,201,678
Add investment income from the Research Building Revolving Fund		136,929
Net auxiliary revenues		3,338,607
Indirect cost recoveries not credited to bond fund		34,241,581
Total pledged revenue		37,580,188
Operating expenses		2,049,058
Less:		
Noncapital plant facilities expenses		(129,331)
Depreciation expense		(55,711)
Net income to meet requirement under bond resolution		35,716,172
Net income required under the bond resolution:		
Current year principal and interest payments		1,399,261
Minimum earnings ratio required by bond resolution and parity obligation		150%
Net income to meet requirement under the bond resolution	$	2,098,892

The earnings requirement shown above exceeds the required amount by the bond resolution and parity obligations. Per the bond resolution, pledged revenues include to the extent necessary, amounts accruing to CSU from indirect cost recoveries on research contracts and grants performed under the auspices of CSU within all facilities of CSU.

CSU Enterprise System Revenue and Refunding Bonds

The following information is presented in accordance with the bond resolutions of the Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds). Below are calculations of the earnings requirement for meeting the following bond resolutions: a) CSU Enterprise System Refunding and Revenue Bonds, Series 2003A, Series 2003B, and Series 2005B, which reports the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities and the Student Sports Recreational Facilities; b) Auxiliary Facilities Revenue Bonds, Series 1996 and 1997; and c) Student Sports Recreational Facilities Revenue Bonds, Series 1998.

Unaudited – See accompanying independent auditors' report

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

(Unaudited)

June 30, 2005

a) The bond resolutions require that earnings be calculated after the payment of the bond maturities for the prior year of the Auxiliary Facilities and the Student Sports Recreational Facilities bonds. For the purposes of determining compliance with the bond resolution, earnings for CSU Enterprise System are computed as follows:

Auxiliary revenues	$	74,466,382
Add:		
Investment income from investment funds		274,944
Transferable interest income from plant funds		268,796
GASB 31 unrealized losses		295,854
		75,305,976
Less old series bond obligations and new bonds operating expenses:		
Operating expenses		71,077,452
Less plant facilities expenses		(1,820,675)
Less depreciation expense		(3,155,616)
Less excluded equipment expenditures		(155,214)
Less compensated absences adjustment		(18,839)
		65,927,108
Principal and interest payments on old bond series		3,143,105
Reserve fund deposits		—
		69,070,213
Net income to meet requirement under the bond resolution	$	6,235,763
Net income required under the bond resolution:		
Current year principal and interest payments	$	2,193,315
Minimum earnings ratio required by bond resolution		100%
Net income required under the bond resolution	$	2,193,315

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

(Unaudited)

June 30, 2005

b) For the purposes of determining compliance with the bond resolution, earnings for the Auxiliary Facilities are computed as follows:

Auxiliary revenues	$	70,994,555
Add:		
Investment income from investment funds		538,043
Transferable interest income from plant funds		178,489
		71,711,087
Unrestricted expenses		
Less:		63,897,184
Excluded equipment expenditures		(144,064)
Compensated absences adjustment		(11,511)
		63,741,609
Net income to meet requirement under the bond resolution	$	7,969,478
Net income required under the bond resolution:		
Current year principal and interest payments	$	2,911,885
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	$	3,639,856

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

(Unaudited)

June 30, 2005

c) For the purposes of determining compliance with the bond resolution, earnings for the Student Sports Recreational Facilities are computed as follows:

Auxiliary revenues	$	3,523,743
Add:		
Investment income from investment funds		32,755
Transferable interest income from plant funds		90,307
		3,646,805
Unrestricted expenses		2,255,892
Less:		
Excluded equipment expenditures		(11,150)
Compensated absences adjustment		(7,328)
		2,237,414
Net income to meet requirement under the bond resolution	$	1,409,391
Net income required under the bond resolution:		
Current year principal and interest payments	$	231,220
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	$	289,025

The net income for earnings requirement shown above exceeds the required amount.

Unaudited – See accompanying independent auditors' report

Revenue Bonds' Earnings Requirements Schedules

(Unaudited)

June 30, 2005

Colorado State University – Pueblo (CSUP) Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds

The following information is presented in accordance with the 2003 Series CSUP Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds. Determination of debt service coverage, as specified in the bond resolutions, requires certain adjustments from amounts reported in accordance with accounting principles generally accepted in the United States of America. The minimum excess requirements are computed as 125% of the combined principal and interest payments on the Series 2003 bonds due during the fiscal year.

Gross revenue	$ 8,804,853
Less general operating expenses	5,641,965
Available net revenue	3,162,888
Debt service requirement	509,813
	125%
Minimum excess requirement	637,266
Excess of available net revenue over minimum excess requirement	$ 2,525,622

Unaudited – See accompanying independent auditors' report

Introduction

Colorado State University System (the System) comprises two state-supported institutions of higher education:

- Colorado State University (CSU) located in Fort Collins, and
- Colorado State University – Pueblo (CSUP) located in Pueblo.

The financial and compliance audit of the State-funded student financial assistance programs at the System for the fiscal year ended June 30, 2005 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted April 2002. The state student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2005.

State-Funded Student Financial Assistance Programs

Institutional participation in the various State-funded student financial assistance programs is illustrated as follows:

State-Funded Student Assistance Program	CSU	CSUP
Colorado Leverage Education Assistance Program	X	X
Colorado Student Grant Program	X	X
Colorado Work-Study Program	X	X
Merit Award Program	X	X
Perkins and Health Professionals Student Loans Matching Program	X	X
Governor's Opportunity Scholarship	X	X

The State-funded student financial assistance awards made by the institutions during fiscal years 2005 and 2004 and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	Fiscal year ended June 30	
	2005	2004
State-Funded Student Financial Assistance Awards:		
Colorado State University	$ 7,010,000	7,229,000
Colorado State University – Pueblo	3,026,000	3,126,000
Perkins and Health Professionals Student Loans Matching Program:		
Colorado State University	42,000	62,000
Colorado State University – Pueblo	36,000	36,000

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2005

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.

During the fiscal year ended June 30, 2005, the System obtained authorizations to award federal student financial aid funds of approximately $1,105,289 in the Supplemental Educational Opportunity Grant program, $1,540,076 in the College Work-Study program, and $236,171 of new federal capital contributions in the Perkins Student Loan program. In addition to these programs, the System also received funding through the Pell Grant program and the Direct Loan program. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

During the year ended June 30, 2005, the System obtained authorizations to award Colorado student financial aid funds of approximately $270,000 in the Colorado Leveraging Educational Assistance program, $4,901,000 in the Colorado Student Grant program, $2,142,000 in the Colorado Work-Study program, $1,014,000 in the Merit program, $1,468,000 in the Governor's Opportunity Scholarship, $161,000 in Colorado Supplemental Leveraging Educational Assistance program, and $36,000 in the Perkins and Health Professionals Student Loan Matching Program.

The related Statement of Appropriations, Expenditures, Transfers, and Reversions of State-Funded Student Financial Assistance Programs is presented on page 111 of this report, as well as individual universities' schedules of appropriations, expenditures, transfers, and reversions of State Funded Student Financial Assistance Programs on pages 113 and 114.

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance (SFSA) Programs (the Statement) of the Colorado State University System (the System), a blended component unit of the State of Colorado, for the year ended June 30, 2005. The Statement is the responsibility of the Colorado State University System's management. Our responsibility is to express an opinion on the Statement 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 Statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the Colorado Commission on Higher Education (CCHE) *Audit Guide*, and in conformity with the provisions of the CCHE *Financial Aid Policy*. The Statement is a summary of cash activity of the State-Funded Student Financial Assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be included in the Statement of the State-Funded Student Financial Assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying statement is not intended to present the financial position, changes in net assets, or cash flows of the SFSA programs in conformity with accounting principles generally accepted in the United States of America. Because the Statement presents only a selected portion of the activities of the System, it is not intended to and does not present either the financial position or changes in financial position of the System in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the System for the year ended June 30, 2005, in conformity with the provisions of the *CCHE Financial Aid Policy*, as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2005 on our consideration of the System's internal control over financial reporting and on 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* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement in conformity with the provisions of the *CCHE Financial Aid Policy*. The introduction is presented for purposes of additional analysis and is not a required part of the Statement. The introduction has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it. The accompanying schedules of appropriations, expenditures, transfers, and reversions of Colorado State University and Colorado State University – Pueblo (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, are fairly stated, in all material respects, in relation to the Statement taken as a whole.

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

KPMG LLP

October 21, 2005

COLORADO STATE UNIVERSITY SYSTEM

Statement of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – System

Year ended June 30, 2005

		Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins and Health Professionals Student Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:									
Original	$	9,963,707	271,417	4,924,414	2,121,862	1,016,041	98,639	125,879	1,405,455
Supplementals		72,073	(1,276)	(23,145)	20,027	(1,835)	(19,915)	35,505	62,712
Transfers		—	—	—	—	—	—	—	—
Total appropriations		10,035,780	270,141	4,901,269	2,141,889	1,014,206	78,724	161,384	1,468,167
Expenditures		10,035,780	270,141	4,901,269	2,141,889	1,014,206	78,724	161,384	1,468,167
Reversions to State General Fund		—	—	—	—	—	—	—	—
		10,035,780	270,141	4,901,269	2,141,889	1,014,206	78,724	161,384	1,468,167
Net increase (decrease) in fund balance	$	—	—	—	—	—	—	—	—

See accompanying notes to statement of appropriations, expenditures, transfers, and reversions.

(1) Basis of Presentation and Accounting

The accompanying statement of appropriations, expenditures, transfers, and reversions of State-funded student financial assistance programs by campus (the Statement) has been prepared in accordance with the format as set forth in the CCHE Audit Guides, and in conformity with provisions of the *CCHE Financial Aid Policy*. The purpose of the statement is to present, in summary form, the state-funded student financial assistance activities of the Colorado State University System's (the System) two campuses for the fiscal year ended June 30, 2005.

All State-funded student financial assistance is expensed on a cash basis, except for the Perkins Loan program and the Colorado Work-Study program. Perkins student loans are recorded as loans receivable when the funds are disbursed. Colorado Work-Study wages are recorded on the accrual basis recognizing expenses when the services are performed.

Because the Statement presents only a selected portion of the activities of the System, it is not intended to and does not present either the financial position or changes in financial position of the System in conformity with accounting principles generally accepted in the United States of America.

(2) Colorado Leveraging Educational Assistance Program (CLEAP) and Colorado Supplemental Leveraging Educational Assistance Program (SLEAP)

CLEAP and SLEAP grants consist of nonfederal state funds and federal funds. The state must match 50% of the federal funds. The amount shown in the Statement is a combined total of nonfederal and federal funds.

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University

Year ended June 30, 2005

		Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins and Health Professionals Student Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:									
Original	$	6,943,597	190,130	3,461,214	1,480,661	866,179	62,315	85,918	797,180
Supplementals		66,694	(894)	(16,268)	23,041	(1,131)	(19,915)	35,693	46,168
Transfers		—	—	—	—	—	—	—	—
Total appropriations		7,010,291	189,236	3,444,946	1,503,702	865,048	42,400	121,611	843,348
Expenditures		7,010,291	189,236	3,444,946	1,503,702	865,048	42,400	121,611	843,348
Reversions to State General Fund		—	—	—	—	—	—	—	—
		7,010,291	189,236	3,444,946	1,503,702	865,048	42,400	121,611	843,348
Net increase (decrease) in fund balance	$	—	—	—	—	—	—	—	—

See accompanying independent auditors' report.

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – Pueblo

Year ended June 30, 2005

	Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Merit Award Program	Perkins Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:								
Original	$ 3,020,110	81,287	1,463,200	641,201	149,862	36,324	39,961	608,275
Supplementals	5,379	(382)	(6,877)	(3,014)	(704)	—	(188)	16,544
Transfers	—	—	—	—	—	—	—	—
Total appropriations	3,025,489	80,905	1,456,323	638,187	149,158	36,324	39,773	624,819
Expenditures	3,025,489	80,905	1,456,323	638,187	149,158	36,324	39,773	624,819
Reversions to State General Fund	—	—	—	—	—		—	—
	3,025,489	80,905	1,456,323	638,187	149,158	36,324	39,773	624,819
Net increase (decrease) in fund balance	$ —	—	—	—	—	—	—	—

See accompanying independent auditors' report.

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Audit Comments and Recommendations

Year ended June 30, 2005

Please see Recommendations No. 13 through No. 15 at pages 28-31 of this report for audit comments and recommendations related to the State-Funded Student Financial Assistance programs.

The electronic version of this report is available on the Web site of the
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Report Control Number 1709