



COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

Year ended June 30, 2007

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Section 2-3-103 (2) states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements which is **released only upon the approval of a majority vote of the committee** (emphasis supplied).

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Report Summary

Year ended June 30, 2007

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, 2007. 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 14, 2007 to November 14, 2007. The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the System as of and for the year ended June 30, 2007. This includes an assessment 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 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 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 System for the year ended June 30, 2007.
- 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, 2007 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, 2007.

We discussed with management several audit adjustments that have not been accounted for in the basic financial statements as of and for the year ended June 30, 2007. These passed differences are not considered material to the System's basic financial statements taken as a whole.

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Report Summary

Year ended June 30, 2007

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 significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did note, however, one significant deficiency and certain other areas where the System could improve its internal control and compliance procedures, which are described in the Findings and Recommendations section of this report.

Recommendations and the System's Responses

A summary of the recommendations for all comments is included in the Recommendation Locator beginning on page 3. 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 Audit Recommendations

The audit report for the year ended June 30, 2006 included 7 recommendations. The disposition of these audit recommendations as of June 30, 2007 was as follows:

Implemented	4
Partially implemented	3
Not implemented	—
	<hr/>
	7
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Recommendation Locator

Year ended June 30, 2007

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
1	10-12	Colorado State University (CSU) and Colorado State University – Pueblo (CSU-P) should evaluate the effectiveness of their respective policies surrounding proper recognition of liabilities that have been incurred, but not yet recorded. Each University should ensure that appropriate steps are taken for areas in which there is a higher risk of misstatement to ensure that liabilities are recorded when they are incurred. CSU and CSU-P should evaluate the effectiveness of enforcing their current policies on departments at each University.	CSU and CSU-P	FSA	Partially Agree Partially Agree	February 2008 November 2007
2	12	Colorado State University should ensure that appropriate steps are taken for departments in which there is a higher risk of misstatement to ensure revenue is accurate and complete. The risk of misstatement is higher when there are prior instances of improper cutoff procedures, information technology system changes, business process changes, turnover of personnel or unusual, or nonrecurring transactions.	CSU	FSA	Agree	February 2008

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Recommendation Locator

Year ended June 30, 2007

Recommendation Locator						
Rec. No.	Page No.	Recommendation Summary	University Addressed	Financial Statement (FSA) or Single Audit (SA)	University Response	Implementation Date
3	12-13	Colorado State University – Pueblo should implement procedures and related internal controls to ensure that all bank and loan reconciliations are performed, reviewed, and documented in a timely manner at year-end. Colorado State University – Pueblo should also implement procedures to reconcile its general ledger cash account to the state accounting system, which should reflect the amount of cash in the bank, on a monthly basis. In addition, the general ledger and the student loan reports from its third-party loan servicer, UNISA should be reconciled at least on a quarterly basis, including resolution of any reconciling items.	CSU-P	FSA	Agree	November 2007
4	13-14	Colorado State University should deploy strong password requirements for application systems and appropriately document the periodic reviews of system users (for both IT super users and functional segregation of duties).	CSU	FSA	Partially Agree	Already in place
5	15	Colorado State University should document the testing of all significant changes to systems (both normal and emergency). Furthermore, the University should maintain evidence of its recovery testing.	CSU	FSA	Partially Agree	Already in place

COLORADO STATE UNIVERSITY SYSTEM

Description of the Colorado State University System

Year ended June 30, 2007

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 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

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 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. In this report, the terms Colorado State University and CSU refer to Colorado State University – Fort Collins.

Resident Instruction

The following 8 colleges offer more than 75 fields of study at the undergraduate level and 92 fields of study at the graduate level, as well as 9 professional degrees:

- College of Agricultural Sciences
- College of Applied Human Sciences
- College of Liberal Arts
- College of Business
- College of Engineering
- Warner College of Natural Resources
- College of Natural Sciences
- College of Veterinary Medicine and Biomedical Sciences

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Description of the Colorado State University System

Year ended June 30, 2007

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 CSU Extension and various publications and conferences.

CSU Extension

The mission of CSU Extension 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. CSU Extension disseminates among the people of Colorado useful and practical information on subjects related to (a) agricultural production, marketing, and natural resources; (b) family living; (c) 4-H and other youth activities; and (d) rural and community development. The location of professional staff throughout the State permits CSU Extension 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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Description of the Colorado State University System

Year ended June 30, 2007

Enrollment and Faculty

Enrollment and faculty and staff information is presented below and was obtained from institutional analysis and the CSU and CSU-P Factbooks.

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:			
2006 – 2007	17,752	4,375	22,127
2005 – 2006	17,972	4,466	22,438
2004 – 2005	18,214	4,680	22,894

Colorado State University Full-Time Equivalent (FTE) Faculty and Staff			
	Faculty	Staff	Total
Fiscal year:			
2006 – 2007	1,535	4,241	5,776
2005 – 2006	1,503	4,091	5,594
2004 – 2005	1,474	4,043	5,517

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:			
2006 – 2007	3,003	384	3,387
2005 – 2006	3,162	356	3,518
2004 – 2005	3,267	349	3,616

Colorado State University – Pueblo Full-Time Equivalent (FTE) Faculty and Staff			
	Faculty	Staff	Total
Fiscal year:			
2006 – 2007	213	212	425
2005 – 2006	194	254	448
2004 – 2005	204	324	528

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Year ended June 30, 2007

Colorado State University Foundation (the Foundation)

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.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2007

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 14, 2007. In planning and performing our audit of the basic financial statements of the System, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's 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 November 14, 2007 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 November 14, 2007. 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*.

The maintenance of adequate internal control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control that we consider to be a significant deficiency and other deficiencies that we consider to be control deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Unrecorded Liabilities: Colorado State University and Colorado State University - Pueblo

Our testing for unrecorded liabilities revealed that invoices relating to transactions that occurred in fiscal year 2007 were not accrued as of June 30, 2007, but were recorded in fiscal year 2008 at Colorado State University and Colorado State University – Pueblo.

Colorado State University has a policy of estimating unrecorded liabilities for accrual at the department level and recording all invoices that are received within a cutoff period that extends approximately two weeks past the fiscal year-end. After this date, all invoices are recorded in the period in which they are received, unless previously accrued. Due to the limitations of this policy, Colorado State University understated capital assets by \$302,000, understated expenses by \$118,982, and understated accounts payable by \$420,982 as of and for the fiscal year-ended June 30, 2007. These amounts were discovered by sampling the population of disbursements after year-end. There were a total of 103 invoices sampled, of which 32 invoices were not properly recorded. Seventeen of these invoices were not accrued at all and the remaining 15 invoices were under-accrued. Based on

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Findings and Recommendations

Year ended June 30, 2007

the extrapolation of the errors to the population, the total potential errors could result in an understatement of capital assets of \$940,953, an understatement of expenses of \$2,598,155, and an understatement of accounts payable of \$3,539,108.

Colorado State University – Pueblo has a policy of recording all invoices over a threshold of \$5,000 in the proper period. If the invoice is below this threshold, then it is recorded in the period received, unless previously accrued. Due to the limitations of this policy, Colorado State University - Pueblo understated capital assets by \$96,769, understated expenses by \$1,235, and understated accounts payable by \$98,004 as of and for the fiscal year ended June 30, 2007. The amounts were discovered by sampling the population of disbursements after year-end. Based on the extrapolation of the errors to the population, the total potential errors could result in an understatement of capital assets of \$1,036,090, an understatement of expenses of \$13,224, and an understatement of accounts payable of \$1,049,314.

Based on our testwork, the financial statements are not materially misstated as of June 30, 2007; however, this control deficiency has resulted in misstatement of the financial statements that is more than inconsequential.

Recommendation No. 1

Colorado State University and Colorado State University – Pueblo should evaluate the effectiveness of their respective policies surrounding proper recognition of liabilities that have been incurred, but not yet recorded. Each University should ensure that appropriate steps are taken for areas in which there is a higher risk of misstatement to ensure that liabilities are recorded when they are incurred. Colorado State University and Colorado State University – Pueblo should evaluate the effectiveness of enforcing their current policies on departments at each University.

Colorado State University Response: Partially Agree. Implementation Date: February 2008

In order to meet state deadlines for the accounting close and financial reporting, Colorado State University employs a series of cutoff dates during the year-end closing process. The cutoff period for booking liabilities is approximately two weeks after the end of the fiscal year. Prior to this cutoff date, the various units of the University estimate and accrue liabilities based on the best information available to them at that time. After the cutoff date, the University monitors unrecorded liabilities as they become known. These liabilities are evaluated and if they are material to the financial statements, either individually or in aggregate, an on-top adjustment will be posted to the financial statements.

For the fiscal year ended June 30, 2007, none of the unrecorded liabilities that became known subsequent to the cutoff date were material to the financial statements, either individually or in the aggregate and, as a result, no adjustments were posted. This is true of both the *actual* unrecorded liabilities identified by KPMG during their testwork and of total amount of *potential misstatement* estimated by KPMG using statistical extrapolation over the entire population.

It is CSU's position that the control process outlined above insures that material misstatements of liabilities will be identified, prevented, and detected and provides assurance that the likelihood of material misstatements to the financial statements is remote. However, CSU does agree that it is important to continually insure that liabilities are recorded in the period in which they are incurred. As part of this ongoing effort, the University will evaluate existing policies and provide additional communication and training relating to accrual processes and procedures for the campus community to provide additional assurance that accrual policies and procedures are understood.

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Findings and Recommendations

Year ended June 30, 2007

In addition, CSU will continue to work with campus business officers to stress the importance of employing accrual oversight procedures at the unit level to insure that accrual procedures are in place and operating effectively.

Colorado State University – Pueblo Response: Partially Agree. Implementation Date: February 2008

Colorado State University – Pueblo’s threshold for accruals of payables or receivables is \$5,000, and accruals are entered right up until the Colorado State Controller’s Office closes its financial reporting system (COFRS), generally during the last week in July. The State Controller’s office does not accept postclosing entries of less than \$100,000 after that date so CSU-Pueblo does not make accrual entries after that date unless CSU-Pueblo feels that total new accruals may exceed \$100,000. CSU-Pueblo feels that a \$5,000 threshold is reasonable and that it is sufficient to prevent material misstatement from occurring. The late invoice on a closed construction project explained below was the only material unrecorded invoice noted. While CSU-Pueblo cannot change the State Controller’s \$100,000 threshold the University can and will review the possible impact of a \$5,000 cutoff on payables and receivables and consider revising the threshold.

CSU-Pueblo does not agree that there was a one million plus dollar potential for error. This number is based strictly on an equation and does not adequately consider the facts of the matter. The \$96,769 check referred to was payment to a contractor for a late invoice on a closed project which is an unusual and unprecedented occurrence requiring special permission from the office of Colorado State Building and Real Estate Programs to pay. Such approval is not always automatic but it was received in this case and the check was issued on September 21, 2007. If CSU-Pueblo had incorrectly assumed that the payment would be approved and had recorded the invoice as a payable, the year-end accounts payable balance would have been over-stated. Either outcome of this unique occurrence is not basis for extrapolating an assumption of over or under-reported balances. However, in the future CSU-Pueblo will add the Director of Facilities Management to the list of individuals to check with concerning year end possible payments or receipts.

* * * * *

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. The significant deficiency described above is not believed to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit that we would like to bring to your attention.

Revenue Cutoff: Colorado State University

Our revenue testwork revealed two instances where sales and services revenue earned in fiscal year 2006 was not recorded until fiscal year 2007.

The errors related to sales and services revenue for the Diagnostics Lab in the Veterinary Sciences Department. The Diagnostics Lab failed to bill its June 2006 transactions in a timely manner and, therefore, did not recognize this revenue in the proper period. This resulted in sales and services revenue being overstated in fiscal year 2007 by \$219,204, which is approximately 12% of revenue for that department. This misstatement is not considered material to the financial statements taken as a whole.

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Findings and Recommendations

Year ended June 30, 2007

While no other cutoff errors were found in our sample, improper revenue cutoff issues in individual departments could lead to a material misstatement of revenue within that department, or in the aggregate for Colorado State University, if several departments experience revenue cutoff issues.

Recommendation No. 2

Colorado State University should ensure that appropriate steps are taken for departments in which there is a higher risk of misstatement to ensure revenue is accurate and complete. The risk of misstatement is higher when there are prior instances of improper cutoff procedures, information technology system changes, business process changes, turnover of personnel or unusual, nonrecurring transactions.

Colorado State University Response: Agree. Implementation Date: February 2008

The University will continue to work with campus business officers to stress the importance of employing accrual oversight procedures at the unit level to insure that accrual procedures are in place and operating effectively.

Preparation of Reconciliations: Colorado State University – Pueblo

Our audit revealed that while bank reconciliations are generally performed throughout the year, none of the six primary year-end bank reconciliations were prepared or reviewed in a timely manner. In addition, none of the six primary cash accounts were reconciled to COFRS, the state's accounting system, throughout the year.

It was also noted that while the PowerFAIDS new student loan reports are properly reconciled to the general ledger, the reconciliation between the existing UNISA student loan reports and the general ledger was only performed once during the year, and the reconciling items were not investigated or resolved in a timely manner.

Timely performance and review of reconciliations is necessary for detecting and preventing misstatements, errors, or fraud in the financial statements and misappropriation of state funds. When reconciling items arise, these items should be addressed in a timely fashion.

Recommendation No. 3

Colorado State University – Pueblo should implement procedures and related internal controls to ensure that all bank and loan reconciliations are performed, reviewed, and documented in a timely manner at year-end. Colorado State University – Pueblo should also implement procedures to reconcile its general ledger cash account to the state accounting system, which should reflect the amount of cash in the bank, on a monthly basis. In addition, the general ledger and the UNISA student loan reports should be reconciled at least on a quarterly basis, including resolution of any reconciling items.

Colorado State University – Pueblo Response: Agree. Implementation Date: November 2007

The Controller will hold training for staff in proper formats and methods for reconciliations and will personally check every reconciliation at least once per quarter to ensure that they are being done properly.

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Findings and Recommendations

Year ended June 30, 2007

Access Controls to Information System Applications: Colorado State University (repeat comment with modifications)

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

- Strong password requirements should be in place to ensure access to application systems is restricted to authorized personnel.
- Periodic reviews of system user's access and responsibilities (for both IT super users and functional segregation of duties) should be performed and documented to ensure appropriateness.

Colorado State University has numerous application systems which include BANNER (student system), FRS (financial records system), HRS (human resources system), CLM (campus loan manager), CIS (campus information system), and FAS (fixed asset system). During our testwork, we noted:

- Strong password requirements consist of various elements, including access controls that incorporate periodic password expiration, passwords of sufficient length and complexity, and account lockout requirements. Not all of the strong password requirement elements were in place for the BANNER, CIS, CLM, and FAS application systems.
- Periodic reviews of users for the Banner and HRS systems were not performed by the University to ensure appropriate functional segregation of duties and IT super user access appropriateness.

Recommendation No. 4

Colorado State University should deploy strong password requirements for application systems and appropriately document the periodic reviews of system users (for both IT super users and functional segregation of duties).

Colorado State University Response: Partially Agree. Implementation Date: Already in place

Colorado State University has established a policy that "very strong passwords" are required to be implemented where practicable. During the past six months, CSU has performed hardware and software upgrades and development to support very strong passwords on all of its central systems that use eID login, including Banner. This system began being phased in July 2007, and will be completely phased in by the end of the fall semester 2007. CIS is a legacy system that is being replaced with SciQuest and a new FRS, and is available only to a limited and diminishing population, and it was deemed not worth the substantial effort that would be required to implement it on that system. CLM and FAS are applications (not systems) that have their own internal login/password implementation that is beyond our scope to address technically (it is vendor code), therefore CSU has taken the following steps to address this: 1) access to those applications is to a very small, controlled population at CSU, who all are directed by their management to implement very strong passwords in the application, and 2) access to those systems is strictly limited via network controls (firewall) to only those very select users on campus.

Beginning in fiscal year 2007 2008, CSU will begin including lists of BANNER and HRS users in Business and Financial Services' communications to departments for their review of segregation of duties and appropriate levels of access.

COLORADO STATE UNIVERSITY SYSTEM

Findings and Recommendations

Year ended June 30, 2007

Implementation of the strong password requirements for eID has already begun, and is planned to be completed by the end of calendar year 2007.

Implementation of segregation of duties and appropriate levels of access is ready now, and will be accomplished in conjunction with the Business and Financial Services' communication during the first quarter of 2008.

Information Systems Change Management Controls: Colorado State University (repeat comment with modifications)

In order to ensure that 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 address key aspects of the change management process including:

- Changes to systems are authorized by appropriate personnel
- Changes to systems are tested at the appropriate level of detail and this testing is reviewed and documented
- A process to address emergency changes is specifically addressed and enforced and that the process addresses authorization and testing of emergency changes
- The backup process is periodically tested to ensure the University is able to restore systems to a previous state if required

Colorado State University has numerous application systems that are required by University policy to follow the change management process, including the BANNER, FRS, HRS, CLM, and CIS applications. During our testwork, we noted:

- Documentation does not exist to evidence that changes applied to the system (both normal and emergency) are tested prior to being moved to production and that test results are evaluated before installation of new or revised applications.
- CSU reports that it performs recovery testing twice each year; however, staff do not maintain the support for this testing, thus we were unable to verify that the testing occurred.

Recommendation No. 5

Colorado State University should document the testing of all significant changes to systems (both normal and emergency). Furthermore, the University should maintain evidence of its recovery testing.

Colorado State University Response: Partially Agree. Implementation Date: Already in place

All central administrative systems now have a formal test instance, where all nonincidental changes are tested prior to implementation in production. Before these changes are implemented in production, they must be formally approved by the system management committee. Both testing and the production implementations must be approved by formal committees. Full recoveries of databases are performed before testing can proceed. Thus, both aspects of this recommendation are already incorporated into our operational environment.

Colorado State University believes that it is much better to perform recovery of our files and databases in the course of implementing test and development instances as these exactly mirror our current environment and more than just recovery is tested in these exercises that are formally approved by management committees, than to artificially construct recovery exercises on a predetermined schedule.

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2007

Following are the audit recommendations for the year ended June 30, 2006 and their disposition as of October 22, 2007.

Recommendation	Disposition
<p>1. Colorado State University should document their change management policies over the Banner, HRS, CLM, and CIS systems into a formal policy. The SARS and SAM systems were replaced with Banner in fiscal year 2007. This policy should provide a step-by-step process for how all changes should be uniformly handled. This policy should be documented, clearly communicated to the users of these systems, and should address their job processing, backup procedures, restoration testing, the security of backup media, and the limitation to changes made by change management personnel. Documentation for any recovery testing should also be maintained.</p>	<p>Partially implemented. See current year Recommendation No. 5.</p>
<p>2. Colorado State University should maintain support for the password configuration settings for all systems and maintain support for the periodic reviews of system users as evidence of system application controls that are in place.</p>	<p>Partially implemented. See current year Recommendation No. 4.</p>
<p>3. Colorado State University should consider implementing the following actions to ensure that an appropriate internal control environment is maintained and monitored:</p> <p>a) Reemphasizing through effective communication that an appropriate tone at the top within each college of the University is in place and will be maintained through mandatory training for appropriate personnel.</p>	<p>a) Implemented</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2007

Recommendation	Disposition
<p>b) Incorporating into policies and performance evaluations the expectations of senior management for strong ethical behavior and proper financial accountability, and highlighting the outlets available for communication of potential matters by employees without fear of retribution in employee training events, including new hire orientation sessions.</p> <p>c) Encouraging business officers within each college to ask knowledgeable accounting/procurement officials about questionable transactions or potential financial activities before they are authorized or consummated.</p> <p>d) Considering establishment of an ethics/fraud hotline and communicating the availability of such a reporting tool.</p> <p>e) Continuing the existing internal control monitoring process to ensure college attestation memos are signed by appropriate individuals having adequate knowledge of financial activities during the fiscal year within each college.</p>	<p>b) Implemented</p> <p>c) Implemented</p> <p>d) Implemented</p> <p>e) Implemented</p>
<p>4. We recommend that CSU – Pueblo should document the reconciliation of its financial records to the 3rd party loan service provider statements no less than annually. This reconciliation should include a detailed review by a supervisor of the reconciliation, evidenced by a signature of the reviewer.</p>	<p>Partially implemented. See current year Recommendation No. 3.</p>
<p>5. Colorado State University – Pueblo should perform an assessment to determine whether the AIS system can be enhanced to provide better reporting functionality to meet the financial reporting needs of the University.</p>	<p>Implemented.</p>

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2007

Recommendation	Disposition
6. Colorado State University – Pueblo should strengthen procedures and controls to ensure that Pell payment data is submitted to the students within the specified time frame.	Implemented.
7. Colorado State University – Pueblo should strengthen procedures to ensure that the Return of Title IV funds calculations and the related returns are performed on a timely basis.	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 blended component unit of the State of Colorado, as of and for the years ended June 30, 2007 and 2006, 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, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 19 (c) to the financial statements, the System adopted the provisions of Government Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2007 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 audits.

The management's discussion and analysis on pages 20 – 29 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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

November 14, 2007

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System or CSU) for the fiscal years ended June 30, 2007 and 2006. 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, 2007 by approximately \$642.4 million (net assets). Of this amount, \$82.1 million was restricted for purposes which the donor or grantor or other external party intended. \$150.4 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 \$34.3 million during fiscal year 2007. \$23.0 million of this increase consisted of an increase in capital assets, net of related debt. \$7.7 million of the increase consisted of an increase in restricted net assets.
- In fiscal year 2007, the state provided support directly to students in the form of student tuition stipends paid by the State College Opportunity Fund (\$49.2 million). In addition, the System received payment from the State for the delivery of graduate, high cost/demand programs and special programs (\$74.2 million).
- Fiscal year 2007 state capital contributions of \$8.2 million for the System increased \$6.8 million from prior year levels of \$1.4 million.
- Fiscal year 2007 capital grants of \$16.9 million for the System increased \$11.2 million from prior year levels of \$5.7 million.

The Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the System's finances and comprise 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 compensated absences, or the receipt of amounts due from students and others for services rendered).

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The statements of cash flows are reported on the direct method. The direct method of cash flow reporting portrays cash flows from operating, 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.

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

During the fiscal year ended June 30, 2007, the System implemented Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes financial reporting standards for other postemployment benefit (OPEB) plans and clarified that the System's postretirement healthcare premium refund plans do not meet the conditions for classification as an OPEB plan trust. As a result of this change in accounting principle, the System has changed the financial statement presentation of this plan.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

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, 2007 and 2006 of \$642.4 million and \$608.1 million, respectively. The majority (64% and 64%, respectively) 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		
	2007	2006	2005
Current assets	\$ 309,855	300,750	269,665
Noncurrent assets, including capital assets (net) of \$523,365, \$470,994, and \$455,325, respectively	607,669	579,490	583,479
Total assets	917,524	880,240	853,144
Current liabilities	116,467	108,085	96,488
Noncurrent liabilities	158,608	164,055	181,627
Total liabilities	275,075	272,140	278,115
Net assets:			
Invested in capital assets, net of related debt	409,943	386,933	376,580
Restricted	82,092	74,378	76,769
Unrestricted	150,414	146,789	121,680
Total net assets	\$ 642,449	608,100	575,029

- The \$37.3 million increase in System assets from fiscal year 2006 to fiscal year 2007 is primarily attributable to a \$9.1 million increase in current assets, which is primarily due to a \$10.6 million decrease in cash, a \$2.5 million increase in prepaid expenses, and a \$16.8 million increase in accounts receivables, in conjunction with a \$28.2 million increase in noncurrent assets. The increase in noncurrent assets is primarily attributable to a \$52.8 million increase in construction in progress for the system in conjunction with a \$26.6 million decrease in restricted cash, which occurred as bond proceeds were utilized to fund capital construction projects in progress. The \$27.1 million increase in System assets from fiscal year 2005 to fiscal year 2006 is primarily attributable to a \$31.1 million increase in current assets offset by a \$4.0 million decrease in noncurrent assets.
- The liabilities of the System increased \$2.9 million from fiscal year 2006 to fiscal year 2007. The \$9.4 million fiscal year 2006 increase in the liabilities of the System is primarily attributable to a \$7 million accrual for emergency firefighting activity of the Colorado State Forest Service.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The statements of revenues, expenses, and changes in net assets report 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 fiscal year.

Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts expressed in thousands)

	June 30		
	2007	2006	2005
Operating revenues:			
Tuition and fees, net	\$ 211,010	203,967	143,637
Grants and contracts	260,602	251,941	237,444
State fee for service revenue	74,182	68,214	—
Auxiliary enterprises	107,439	100,033	96,043
Other	24,513	23,046	21,792
Total operating revenues	677,746	647,201	498,916
Operating expenses:			
Instruction	182,871	173,671	159,163
Research	166,479	151,756	143,648
Public service	72,498	70,490	64,255
Academic support	43,802	41,315	39,383
Student services	25,355	25,500	24,884
Institutional support	27,980	24,397	22,521
Operation and maintenance of plant	50,305	47,209	38,634
Scholarships and fellowships	7,719	8,155	9,169
Auxiliary enterprises	97,572	92,512	89,067
Depreciation	37,540	36,690	36,402
Other operating expenses	8	79	312
Total operating expenses	712,129	671,774	627,438
Operating loss	(34,383)	(24,573)	(128,522)
Nonoperating revenues:			
State appropriations	3,250	—	109,424
Other net nonoperating revenues	32,804	26,380	22,382
Net nonoperating revenues	36,054	26,380	131,806
Income before other revenues (expenses)	1,671	1,807	3,284

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts expressed in thousands)

	June 30		
	2007	2006	2005
State capital contributions	\$ 8,246	1,387	2,285
Capital grants	16,922	5,744	2,005
Capital gifts	4,734	7,971	17,215
Payments (to) from governing boards or other institutions	754	82	(131)
Additions to permanent endowments	2,022	705	339
Total other revenues	<u>32,678</u>	<u>15,889</u>	<u>21,713</u>
Increase in net assets	34,349	17,696	24,997
Net assets:			
Net assets, beginning of year	608,100	575,029	550,032
Change in accounting principle	—	15,375	—
Net assets, beginning of year, as adjusted	<u>608,100</u>	<u>590,404</u>	<u>550,032</u>
Net assets, end of year	\$ <u><u>642,449</u></u>	<u><u>608,100</u></u>	<u><u>575,029</u></u>

The System experienced a \$34.4 million loss from operations in fiscal year 2007 and a \$24.6 million loss from operations in fiscal year 2006. In fiscal year 2007, this operating loss was offset by net nonoperating and other revenues of \$68.7 million, including \$3.25 million of state appropriations for wildfire preparedness, \$8.2 million of state capital contributions, \$25.6 million of gifts and capital gifts, \$13.5 million of investment income, and \$16.9 million of capital grants. In fiscal year 2006, this operating loss was offset by net nonoperating and other revenues of \$42.3 million, including \$29.4 million of gifts and capital gifts, \$6.1 million of investment income, and \$5.7 million of capital grants.

- Fiscal year 2007 System operating revenues increased \$30.5 million in relation to prior year levels. This is primarily attributable to a \$7.0 million increase in tuition and fee revenue in conjunction with a \$6.0 million increase in state fee for service contract revenue, a \$7.4 million increase in revenue from auxiliary enterprises and an \$8.7 million increase in grants and contracts revenue. Fiscal year 2006 System operating revenues increased \$148.3 million in relation to prior year levels. This is primarily attributable to the fact that in fiscal year 2006, the College Opportunity Fund legislation was implemented and state support was delivered to the System as operating revenue in the form of payment for fee for service contracts with the state. In addition, the state provided stipends to students, which were then used to pay tuition, which is also recorded as operating revenue.
- Fiscal year 2007 System operating expenses increased \$40.4 million in relation to prior year levels. This increase is in part attributable to a \$9.2 million increase in instruction expense due primarily to salary increases, a \$14.7 million increase in research expense attributable to increased levels of sponsored research activity, and a \$5.1 million auxiliary enterprise expense increase, which is primarily due to

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

increased auxiliary enterprise activity. In addition, institutional support expenditures increased \$3.6 million, which was primarily attributable to salary increases. Fiscal year 2006 System operating expenses increased \$44.3 million in relation to prior year levels. This increase is in part attributable to a \$14.5 million increase in instruction expense due primarily to salary increases, an \$8.1 million increase in research expense attributable to increased levels of sponsored research activity, and a \$6.3 million public service expense increase, which is primarily due to increased emergency firefighting activity by the Colorado State Forest Service. In addition, expenses for the operation and maintenance of plant increased \$8.6 million in fiscal year 2006 partly because of a \$4.2 million increase in utility costs. Institutional Support expenditures also increased \$1.9 million primarily because of salary increases and a \$1.9 million expense increase in CSU's University relations, development, and marketing activities.

- Fiscal year 2007 System net nonoperating revenues increased \$9.7 million which was primarily attributable to a \$3.25 million increase in state appropriations to support wildfire preparedness and a \$7.4 million increase in investment income which was due to increased investment returns in conjunction with an increase in unrealized gain on investments on deposits held by the State Treasury. These increases were offset by a \$564,000 decline in gifts and a \$689,000 decline in other nonoperating revenue. Fiscal year 2006 System net nonoperating revenues decreased \$105.4 million primarily because the funding mechanism for higher education changed during the fiscal year and the System no longer received a nonoperating appropriation from the state.
- Other revenues increased \$16.8 million in fiscal year 2007. This increase was primarily due to a \$6.9 million increase in state capital contributions coupled with a \$11.2 million increase in capital grants, a \$3.2 million decrease in capital gifts, and a \$1.3 million increase in additions to permanent endowments. The increase in capital grants is primarily due to increased construction activity on the CSU Regional Biocontainment Laboratory in comparison to the prior fiscal year. Other revenues decreased \$5.8 million in fiscal year 2006. This decrease was primarily due to a \$9.2 million decrease in capital gifts coupled with a \$3.7 million increase in capital grants. The decrease in capital gifts is attributable to the fact that CSU recognized capital gifts in fiscal year 2005 that were received for CSU Athletics capital construction projects and comparable amounts were not received for these projects in fiscal year 2006. The increase in capital grants is due to increased activity on the CSU Regional Biocontainment Laboratory and the CSU Bioenvironmental Hazards Research Building capital construction projects in fiscal year 2006.

Capital Assets and Debt Administration

At June 30, 2007, the System had approximately \$523.4 million invested in capital assets, net of accumulated depreciation of \$456.8 million. At June 30, 2006, the System had approximately \$471.0 million invested in capital assets, net of accumulated depreciation of \$432.4 million.

Depreciation charges were approximately \$37.5 million and \$36.7 million for the fiscal years ended June 30, 2007 and 2006, respectively.

During the fiscal year ended June 30, 2007, the System received \$8.2 million of state capital contributions for capital construction projects. \$4.4 million of these state capital contributions were attributable to the Health, Physical Education, and Recreation Building project at CSU-Pueblo. An additional \$1.4 million was received for the CSU Diagnostic Medicine Center.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

For the fiscal year ending June 30, 2008, the System will receive state capital appropriation funding of \$24.0 million for capital construction and controlled maintenance projects. This includes \$20.3 million for capital construction projects including \$19.4 million for the CSU Diagnostic Medicine Center and \$0.9 million for the completion of the CSU-Pueblo Health, Physical Education, and Recreation Building Renovation. The remainder of this funding is for \$3.7 million various capital controlled maintenance projects at CSU and CSU-Pueblo. This state capital appropriation funding will help maintain current buildings and will allow the expansion of the Diagnostic Medicine Center at CSU and will complete the renovation work on the CSU-Pueblo Health, Physical Education, and Recreation Building.

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		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 10,898	9,670	9,671
Land improvements	30,709	28,975	30,195
Building and improvements	323,241	322,972	314,589
Leasehold improvements	366	414	461
Equipment	47,331	47,613	45,509
Collections	1,318	2,317	2,205
Library materials	25,658	27,947	29,451
Construction in progress	83,844	31,086	23,244
Total capital assets, net	<u>\$ 523,365</u>	<u>470,994</u>	<u>455,325</u>

The fiscal year 2007 \$52.4 million increase in net capital assets is primarily attributable to a \$52.8 million increase to construction in progress. \$26.0 million of this construction in progress increase related to the CSU Academic Village project and \$18.0 million related to the CSU Regional Biocontainment Laboratory project. The fiscal year 2006 \$15.7 million increase in net capital assets is primarily attributable to an \$8.4 million net increase to buildings and improvements, a \$7.8 million net increase to construction in progress, and a \$2.1 million net increase to equipment. The CSU University Center for the Arts Concert Hall, CSU Hughes Stadium improvements, and CSU heating plant improvements were all capitalized during fiscal year 2006. The CSU Bioenvironmental Research Building Discovery Suite, the CSU Infectious Disease Laboratory annex renovation, and the CSU Howes Street Business Center Building were all capitalized during fiscal year 2007.

The System had capital construction commitments outstanding of approximately \$57.2 million at June 30, 2007. Approximately \$10.3 million of this amount was for the new CSU Academic Village, \$22.1 million was for the renovation of the CSU University Center for the Arts, \$8.36 was for the CSU-Pueblo Health, Physical Education, and Recreation Building project, \$2.3 million was for mechanical and fire suppression improvements to the CSU Veterinary Teaching Hospital, and \$2.9 million was for the CSU linear accelerator project. The remaining commitments were for various small construction projects at CSU and CSU-Pueblo.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The System had approximately \$118.3 million and \$125.3 million of debt outstanding at June 30, 2007 and 2006, respectively.

Summary of Debt

(Amounts expressed in thousands)

		June 30		
		2007	2006	2005
Debt outstanding:				
Revenue bonds, certificates of participation	\$	112,220	118,071	123,211
Capital lease obligations		6,032	7,232	8,313
	\$	<u>118,252</u>	<u>125,303</u>	<u>131,524</u>

The System had no new bond financings during fiscal years 2007 and 2006.

On September 6, 2007, the System issued \$210,045,000 in System Enterprise Revenue Bonds, Series 2007A-C. The proceeds from the sale of the Series 2007A-C Bonds will be used to defray the costs of constructing, acquiring, renovating, expanding, and equipping buildings and facilities at CSU and CSU-Pueblo in addition to refunding all or a portion of certain outstanding bonds. These improvement projects will include the CSU Academic Instruction Building, Computer Science Building, Research Innovation Center, Athletics Facilities, University Center for the Arts, Rockwell Hall Addition, Research Building Revolving Fund Multi-Scale Modeling of Atmospheric Processes (RBRF MMAP) Building, Chiller Plant, Greenhouse and Research Space, Animal Research Infrastructure, Research Campus Renovations, and the Student Recreation Center at CSU-Pueblo. The revenue bonds bear interest rates from 4.000% to 5.883% with final maturity in 2037.

Current refunded bonds include Colorado State University Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1996 (\$525,000) and Series 1997 (\$11,365,000), Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 1997 (\$1,045,000) and Series 2001 (\$3,145,000), and Colorado State University Certificates of Participation, Series 1997 (\$3,205,000). The current refunded bonds were redeemed on October 9, 2007.

Advanced refunded bonds include Colorado State University Student Sports Recreational Facilities Revenue Bonds, Series 1998 (\$1,755,000), Colorado State University Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A (partial refund of \$3,610,000), and Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005A (\$9,535,000). A portion of the proceeds of the Series 2007B Bonds will be used to purchase U.S. Treasury Securities and to provide cash, which will be placed into an escrow account to refund the Refunded Bonds. The Escrow Agent will pay the debt service requirements of these Refunded Bonds on each of their scheduled payment dates through and including; for the 1998 Bonds, April 1, 2008 and will redeem those maturing on April 1, 2009 and thereafter, at a redemption price equal to 100% of par (\$1,615,000) on April 1, 2008; for the 2003A Bonds, March 1, 2013 and will redeem those maturing on March 1, 2014 and thereafter, at a redemption price equal to 100% of par (\$1,600,000) on March 1, 2013; and for the 2005A Bonds, December 1, 2015 and will redeem those maturing on December 1, 2016 and thereafter, at a redemption price equal to 100% of par (\$4,010,000) on December 1, 2015.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

Economic Outlook/Future of the Colorado State University System

The Colorado State University System is comprised of two higher education institutions in the State of Colorado run under one common leadership structure.

The System receives revenues from numerous sources including students who receive a stipend from the State to cover some of their higher education expenses. In many states, this funding is appropriated directly to the institution. In Colorado, it is appropriated to the student.

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 (July 2007) from these entities estimate that the State General Fund revenue is projected to increase in fiscal year 2008 between 6.0% and 8.0%. For fiscal year 2009, the General Fund revenue used for the State's budgeting process is projected to increase 6.0%. 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 fiscal year 2006. As a result of legislation adopted in the 2004 session (S.B. 04-189), the State no longer provides direct State General Fund appropriations to the governing boards. Instead, the State provides stipends to qualified, resident undergraduate students, and institutions receive fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, S.B. 04-189 also allows institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the state's TABOR limitation. In 2006, Colorado State University and Colorado State University-Pueblo had separate enterprise status designations. In fiscal year 2007, the System was designated a Single Enterprise providing it greater flexibility and expanded financial capabilities in a host of areas. This designation allows the System to raise revenues and finance projects outside of the revenue limits set at the statewide level.

With this TABOR status, the cash funds collected by the System's institutions no longer count toward the State's overall revenue limit. In addition, as enterprises, the institutions can consider issuing revenue bonds backed by up to 10% of their student fees for academic buildings.

The Colorado State University System is authorized to receive \$82.5 million in fee for service contract revenue and \$51.2 million in student stipends in fiscal year 2008. The \$133.7 million of anticipated fiscal year 2008 fee for service contract revenue and the student stipends represent an 8.4% increase in state support above that provided in 2007.

In addition, the System obtained the ability to pledge a portion of its Education and General operation revenues (tuition) toward revenue bond debt to support the construction of new educational facilities. The System began work on the largest debt financing/refunding in System history which will be completed in fiscal year 2008.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis

June 30, 2007 and 2006

(Unaudited)

The State implemented the TABOR in fiscal year 1994. The state's voters modified TABOR at the November 2005 election. The modification allowed the State to retain all revenues in excess of TABOR spending limitations for fiscal years 2006 through 2010.

Overall enrollment at both System institutions increased 2.2% as measured in the fall 2007 census. This increase 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. Based on early enrollment indicators from the Department of Higher Education, there has been enrollment increases at some institutions and it is anticipated that enrollment will increase into fiscal years 2009 and 2010. Overall, the projected enrollment increase for the CSU System in the next three years should be in the 3% – 6% range.

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, 2007 and 2006

(Amounts expressed in thousands)

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 223,066	233,703
Student accounts receivable, net	8,796	7,083
Other accounts receivable, net	63,713	48,634
Student loans receivable, net	3,553	3,584
Inventories	7,087	6,580
Prepaid expenses	3,640	1,166
Total current assets	<u>309,855</u>	<u>300,750</u>
Noncurrent assets:		
Restricted cash and cash equivalents	43,751	70,385
Restricted investments	19,638	17,485
Student loans receivable, net	20,335	20,017
Other noncurrent assets	580	609
Nondepreciable capital assets:		
Land	10,898	9,670
Construction in progress	83,844	31,086
Collections	1,318	2,317
Total nondepreciable capital assets	<u>96,060</u>	<u>43,073</u>
Depreciable capital assets, net:		
Land improvements	30,709	28,975
Building and improvements	323,241	322,972
Leasehold improvements	366	414
Equipment	47,331	47,613
Library materials	25,658	27,947
Total depreciable capital assets, net of accumulated depreciation	<u>427,305</u>	<u>427,921</u>
Total noncurrent assets	<u>607,669</u>	<u>579,490</u>
Total assets	<u>\$ 917,524</u>	<u>880,240</u>

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2007 and 2006

(Amounts expressed in thousands)

Liabilities	2007	2006
	<hr/>	<hr/>
Current liabilities:		
Accounts payable	\$ 27,866	20,753
Accrued liabilities	53,843	53,306
Deferred revenue	20,181	18,898
Deposits held for others	2,801	3,453
Bonds payable and certificates of participation, current portion	5,910	5,765
Capital leases payable, current portion	1,096	1,288
Other long-term liabilities, current portion	2,614	2,489
Compensated absence liabilities, current portion	2,156	2,133
	<hr/>	<hr/>
Total current liabilities	116,467	108,085
Noncurrent liabilities:		
Bonds payable and certificates of participation	106,310	112,306
Capital leases payable	4,936	5,944
Deposits held for others	7,394	8,806
Other long-term liabilities	7,875	7,597
Compensated absence liabilities	32,093	29,402
	<hr/>	<hr/>
Total noncurrent liabilities	158,608	164,055
Total liabilities	\$ 275,075	272,140
	<hr/> <hr/>	<hr/> <hr/>
Net assets		
Net assets:		
Invested in capital assets, net of related debt	\$ 409,943	386,933
Restricted for nonexpendable purposes	19,904	17,882
Restricted for expendable purposes – other	62,188	56,496
Unrestricted	150,414	146,789
	<hr/>	<hr/>
Total net assets	\$ 642,449	608,100
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic financial statements.

**COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION**

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2007 and 2006

(Amounts expressed in thousands)

Assets	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 91	179	1,517	1,787	42	305	185	532
Investments	30,047	116,957	94,780	241,784	22,340	96,667	81,284	200,291
Receivables:								
Pledges, net of allowance	—	18,149	4,886	23,035	—	23,111	5,193	28,304
Life income trusts	—	—	201	201	—	—	182	182
Investment in equity affiliate	—	—	—	—	—	(240)	2,208	1,968
Property and equipment, net of accumulated depreciation	15	250	—	265	20	250	—	270
Cash surrender value of life insurance policies	69	—	279	348	62	—	111	173
Prepays and other assets	47	120	264	431	14	136	280	430
Total assets	<u>\$ 30,269</u>	<u>135,655</u>	<u>101,927</u>	<u>267,851</u>	<u>22,478</u>	<u>120,229</u>	<u>89,443</u>	<u>232,150</u>
Liabilities and Net Assets								
Accounts payable	\$ 12	599	—	611	3	663	—	666
Other accrued liabilities	71	—	—	71	49	—	—	49
Life income agreements	587	96	283	966	600	119	302	1,021
Deposit held in custody for CSU	—	3,919	10,554	14,473	—	3,644	9,371	13,015
Total liabilities	<u>670</u>	<u>4,614</u>	<u>10,837</u>	<u>16,121</u>	<u>652</u>	<u>4,426</u>	<u>9,673</u>	<u>14,751</u>
Net assets:								
Unrestricted:								
Undesignated	3,904	—	—	3,904	3,146	—	—	3,146
Board designated	25,695	—	—	25,695	18,680	—	—	18,680
Total unrestricted	<u>29,599</u>	<u>—</u>	<u>—</u>	<u>29,599</u>	<u>21,826</u>	<u>—</u>	<u>—</u>	<u>21,826</u>
Temporarily restricted	—	131,041	—	131,041	—	115,803	—	115,803
Permanently restricted	—	—	91,090	91,090	—	—	79,770	79,770
Total net assets	<u>29,599</u>	<u>131,041</u>	<u>91,090</u>	<u>251,730</u>	<u>21,826</u>	<u>115,803</u>	<u>79,770</u>	<u>217,399</u>
Total liabilities and net assets	<u>\$ 30,269</u>	<u>135,655</u>	<u>101,927</u>	<u>267,851</u>	<u>22,478</u>	<u>120,229</u>	<u>89,443</u>	<u>232,150</u>

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

(Amounts expressed in thousands)

	2007	2006
Operating revenues:		
Student tuition and fees, (including \$12,575 and \$12,057 of revenues pledged for bonds in 2007 and 2006, respectively, and net of scholarship allowances of \$46,593 and \$43,266 for 2007 and 2006, respectively)	\$ 211,010	203,967
State fee for service revenue	74,182	68,214
Grants and contracts (including \$36,454 and \$35,299 of revenues pledged for bonds in 2007 and 2006, respectively)	260,602	251,941
Sales and services of educational activities	18,952	18,022
Auxiliary enterprises, (including \$82,205 and \$77,202 of revenues pledged for bonds in 2007 and 2006, respectively, and net of scholarship allowances of \$2,158 and \$2,744 for 2007 and 2006, respectively)	107,439	100,033
Other operating revenue	5,561	5,024
Total operating revenues	677,746	647,201
Operating expenses:		
Instruction	182,871	173,671
Research	166,479	151,756
Public service	72,498	70,490
Academic support	43,802	41,315
Student services	25,355	25,500
Institutional support	27,988	24,476
Operation and maintenance of plant	50,305	47,209
Scholarships and fellowships	7,719	8,155
Auxiliary enterprises	97,572	92,512
Depreciation	37,540	36,690
Total operating expenses	712,129	671,774
Operating loss	(34,383)	(24,573)
Nonoperating revenues (expenses):		
State appropriations	3,250	—
Gifts	20,824	21,388
Investment income (including \$1,305 and \$1,060 of revenues pledged for bonds in 2007 and 2006, respectively)	13,488	6,120
Interest expense on capital debt	(3,130)	(3,439)
Other nonoperating revenues	1,622	2,311
Net nonoperating revenues	36,054	26,380
Income before other revenues (expenses)	1,671	1,807

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2007 and 2006

(Amounts expressed in thousands)

	<u>2007</u>	<u>2006</u>
Other revenues:		
State capital contributions	\$ 8,246	1,387
Capital grants	16,922	5,744
Capital gifts	4,734	7,971
Payments to governing boards or other institutions	754	82
Additions to permanent endowments	<u>2,022</u>	<u>705</u>
Total other revenues	<u>32,678</u>	<u>15,889</u>
Increase in net assets	34,349	17,696
Net assets, beginning of year, as previously reported	608,100	575,029
Change in accounting principle (note 19(c))	<u>—</u>	<u>15,375</u>
Net assets, beginning of year, as adjusted	<u>608,100</u>	<u>590,404</u>
Net assets, end of year	<u>\$ 642,449</u>	<u>608,100</u>

See accompanying notes to basic financial statements.

**COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION**

Statements of Activities – Discretely Presented Component Unit

Years ended June 30, 2007 and 2006

(Amounts expressed in thousands)

	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue:								
Contributions	\$ 299	15,831	9,461	25,591	173	37,144	4,309	41,626
In-kind contributions	—	3,171	—	3,171	1	2,155	—	2,156
Allowance for uncollectible pledges	—	(811)	(457)	(1,268)	—	42	11	53
Total contributions	299	18,191	9,004	27,494	174	39,341	4,320	43,835
Net investment income	10,513	22,340	69	32,922	5,993	11,591	70	17,654
Actuarial change in value of life income agreements	(28)	9	(15)	(34)	(28)	(8)	(34)	(70)
Other changes in net assets	—	(790)	—	(790)	(142)	(29)	171	—
Other revenue	41	7	169	217	148	(21)	6	133
Net assets released from restrictions:								
Satisfaction of program restrictions	22,444	(22,444)	—	—	24,637	(24,637)	—	—
Total support and revenue	33,269	17,313	9,227	59,809	30,782	26,237	4,533	61,552
Expenses:								
Program services:								
CSU College of:								
Agricultural Sciences	1,934	—	—	1,934	1,945	—	—	1,945
Applied Human Sciences	2,283	—	—	2,283	921	—	—	921
Business	1,303	—	—	1,303	951	—	—	951
Engineering	2,188	—	—	2,188	2,188	—	—	2,188
Liberal Arts	805	—	—	805	1,878	—	—	1,878
Natural Resources	895	—	—	895	921	—	—	921
Natural Sciences	1,615	—	—	1,615	1,560	—	—	1,560
Veterinary Medicine and Biomedical Sciences	5,406	—	—	5,406	4,997	—	—	4,997
Athletics	3,309	—	—	3,309	6,893	—	—	6,893
Other CSU programs	3,904	—	—	3,904	3,879	—	—	3,879
Total program services	23,642	—	—	23,642	26,133	—	—	26,133
Support services:								
Management and general	1,836	—	—	1,836	1,604	—	—	1,604
Total support services	1,836	—	—	1,836	1,604	—	—	1,604
Total expenses	25,478	—	—	25,478	27,737	—	—	27,737
Change in net assets	7,791	17,313	9,227	34,331	3,045	26,237	4,533	33,815
Interfund transfers	(18)	(2,075)	2,093	—	—	—	—	—
Net assets, beginning of year	21,826	115,803	79,770	217,399	18,781	89,566	75,237	183,584
Net assets, end of year	\$ 29,599	131,041	91,090	251,730	21,826	115,803	79,770	217,399

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Amounts expressed in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 208,947	204,739
Student loans collected	6,221	6,473
Sales of products	16,703	16,737
Sales of services	112,069	103,681
Grants and contracts	247,248	246,336
State fee for service contract	74,182	68,214
Other operating receipts	3,109	3,093
Cash payments:		
Scholarships disbursed	(5,209)	(6,032)
Student loans disbursed	(5,995)	(6,304)
Payments to employees	(458,898)	(423,899)
Payments to suppliers	(206,016)	(193,268)
Net cash provided by (used in) operating activities	<u>(7,639)</u>	<u>19,770</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	3,250	—
Gifts and grants for other than capital purposes	19,147	19,598
Agency (direct lending inflows)	88,592	89,559
Agency (direct lending outflows)	(88,592)	(89,559)
Other agency (inflows)	27,924	28,632
Other agency (outflows)	(28,125)	(27,802)
Payments to governing boards or other institutions	754	82
Other nonoperating revenues	2,836	2,157
Net cash provided by noncapital financing activities	<u>25,786</u>	<u>22,667</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	—
State capital appropriations	8,246	1,387
Capital grants and contracts, and gifts	19,281	11,821
Acquisition and construction of capital assets	(84,616)	(48,338)
Principal paid on capital debt	(6,957)	(6,327)
Interest on capital debt	(3,273)	(3,037)
Net cash used in capital and related financing activities	<u>(67,319)</u>	<u>(44,494)</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	9,573	8,325
Purchase of investments	(9,965)	(8,664)
Investment earnings	12,293	6,120
Net cash provided by investing activities	<u>11,901</u>	<u>5,781</u>
Net increase (decrease) in cash and cash equivalents	<u>(37,271)</u>	<u>3,724</u>

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(Amounts expressed in thousands)

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 233,703	223,935
Restricted cash	70,385	76,429
	<hr/>	<hr/>
Cash and cash equivalents, beginning of the year	304,088	300,364
	<hr/>	<hr/>
Cash and cash equivalents	223,066	233,703
Restricted cash	43,751	70,385
	<hr/>	<hr/>
Cash and cash equivalents, end of the year	\$ 266,817	304,088
	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (34,383)	(24,573)
Adjustments:		
Depreciation expense	37,540	36,690
Noncash operating transactions	1,374	1,001
Decrease (increase) in assets:		
Receivables, net	(14,382)	(5,468)
Inventories and prepaids	(2,980)	(141)
Increase (decrease) in liabilities:		
Accounts payable	2,702	(3,288)
Accrued liabilities	(1,600)	9,795
Deferred revenue	1,278	1,811
Deposits held for others	(6)	12
Compensated absence liabilities	2,714	2,874
Other liabilities	104	1,057
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	\$ (7,639)	19,770
	<hr/> <hr/>	<hr/> <hr/>
Noncash activities:		
Noncash gifts	\$ 4,138	3,335
Noncash capital leases	317	1,444
Noncash additions to investments held by CSU Foundation	1,457	494
Unrealized gains (losses)	2,441	(3,158)

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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 System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. In addition to these financial statements, 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 – (CSU)
Colorado State University – Pueblo (CSU-P)

Since CSU is the state's land grant institution, it includes the Agriculture Experiment Station, CSU Extension, 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 (IRC). However, income unrelated to the exempt purpose of the System would be subject to tax under IRC Section 511(a)(2)(B). The System had no material unrelated business income for the years ended June 30, 2007 and 2006.

(c) Discretely Presented Component Unit

The System follows 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*. 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. The Colorado State University Foundation (the Foundation or CSUF) has been determined to be a component unit of the 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 do 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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Foundation is considered a component unit of the System and is discretely presented in the CSU System 2007 and 2006 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 Statement No. 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. Four voting members are community members elected by the Board of Directors and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board of Directors serve by virtue of title: President of Colorado State University, the CSU Vice President for Advancement and Strategic Initiatives, and the CSU Vice President for Finance and Administration. 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 \$59,809,000 in revenue for the 2006 – 2007 fiscal year, gifts accounted for \$28,762,000. Of the \$61,552,000 in revenue for the 2005 – 2006 fiscal year, gifts accounted for \$43,782,000. 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 \$23,642,000 and \$26,133,000 was transferred to CSU for the years ended June 30, 2007 and 2006, 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 \$14,473,000 and \$13,015,000 as of June 30, 2007 and 2006, 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.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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.

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 bases 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 the 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.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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.

The System evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Capital assets are generally considered impaired if a decline in service utility occurs, the impairment is material, and the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System are measured using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that impairment will be temporary, the capital asset is not written down. There were no impairments of capital assets at June 30, 2007, however there was an impairment of the University Center for the Arts project at June 30, 2006.

(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.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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 fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of 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 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.

(h) *Classification of Revenues*

In fiscal year 2006, the College Opportunity Fund legislation was implemented and state support was delivered to the System as operating revenue in the form of payment for fee for service contracts with the state. In addition, the state provided stipends to students, which were then used to pay tuition, which is also recorded as operating revenue. In fiscal year 2005, state support was provided in the form of a state appropriation that was reported as nonoperating revenue.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

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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) state fee for service revenues; 4) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 5) 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 consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. Nonoperating expenses include interest expense on capital debt.

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 which 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.

COLORADO STATE UNIVERSITY SYSTEM

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June 30, 2007 and 2006

(1) *Reclassifications*

Certain 2006 amounts have been reclassified to conform with the 2007 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, 2007, the System had cash on deposit with the State Treasurer of \$264,382,000, which represented approximately 4.9% of the total \$5,396,200,000 of deposits in the State Treasurer's Pool (Pool). As of June 30, 2006, the System had cash on deposit with the State Treasurer of \$298,341,000, which represented approximately 6.3% of the value of all deposits in the Pool.

For financial reporting purposes, all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of 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. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

As of June 30, 2007 and 2006, respectively, the System had \$264,382,000 and \$298,341,000 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, 2007 and 2006 was approximately \$11,940,000 and \$10,527,000, 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 losses on deposits with the State Treasurer for the fiscal years ended June 30, 2007 and 2006, respectively, were \$1,500,000 and \$3,941,000 for cash and cash equivalents. The System reflected an unrealized gain of \$2,441,000 on investment income for the fiscal year ended June 30, 2007 and an unrealized loss of \$3,158,000 for the fiscal year ended June 30, 2006. 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, 2007 and 2006, the System's cash not on deposit with the State Treasurer was \$2,434,000 and \$5,747,000, respectively. Cash included petty cash/change funds and bank account balances of \$86,000 and \$2,348,000 as of June 30, 2007 and \$118,000 and \$5,629,000 as of June 30, 2006.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2007 and 2006, none of the investments in the Pool were 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 that assign a credit quality rating for many

COLORADO STATE UNIVERSITY SYSTEM

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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, 2007, approximately 89.0% of investments of the Pool are subject to credit quality risk reporting. Except for \$4,993,000 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2006, approximately 85.5% of investments of the Pool were subject to credit quality risk reporting. These investments are rated from upper medium to the highest quality, which indicates the issuer has a strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2007, the weighted average maturity of investments in the Pool is 0.08 years for commercial paper (25.6% of the Pool), 0.01 years for money market funds (4.9% of the Pool), 1.10 years for U.S. government securities (40.4% of the Pool), 2.13 years for asset-backed securities (19.3% of the Pool), and 2.68 years for corporate bonds (9.8% of the Pool). As of June 30, 2006, the weighted average maturity of investments in the Pool was 0.10 years for 32% of the Pool, 1.30 years for 41% of the Pool, 2.20 years for 17% of the Pool, and 2.40 years for 10% of the Pool.

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2007 or in fiscal year 2006.

Additional information on investments of the Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2007.

(5) Restricted Investments

As of June 30, 2007 and 2006, the System's restricted investments had a fair value of \$19,638,000 and \$17,485,000, respectively. Investment earnings for the fiscal years 2007 and 2006 were \$304,000 and \$123,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2007 and 2006. 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 the Foundation's long-term endowment pool, which are not evidenced by securities that exist in physical or book form.

COLORADO STATE UNIVERSITY SYSTEM

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June 30, 2007 and 2006

The following details each major category of the System's investments at fair value as of June 30, 2007 and 2006:

	June 30	
	<u>2007</u>	<u>2006</u>
U.S. Treasury obligations	\$ 5,166,000	4,470,000
Investments held by CSUF in long-term endowment pool:		
Corporate equities	1,383,000	1,268,000
Mutual funds	6,455,000	6,219,000
Hedge funds	5,340,000	3,564,000
Other investments	1,294,000	1,964,000
	<u>14,472,000</u>	<u>13,015,000</u>
Total investments	<u>\$ 19,638,000</u>	<u>17,485,000</u>

(a) Credit Quality Risk

At June 30, 2007 and June 30, 2006, the System had debt securities in the following credit risk categories:

	June 30	
	<u>2007</u>	<u>2006</u>
Money market mutual funds:		
Aaa	\$ 54,000	72,000
Bond mutual funds:		
Aaa	371,000	526,000
Aa	77,000	66,000
A	38,000	28,000
Baa	19,000	28,000
Ba	19,000	10,000
B	—	—
Caa	—	—
P1	96,000	254,000
Below P1	19,000	28,000
Not rated	—	—
	<u>\$ 639,000</u>	<u>940,000</u>

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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(b) Interest Rate Risk

At June 30, 2007, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 5,166,000	0.209	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO – Low Duration Fund	<u>639,000</u>	1.590	2.990
Total investments subject to interest rate risk	\$ <u><u>5,805,000</u></u>		

At June 30, 2006, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 4,470,000	0.202	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO – Low Duration Fund	<u>940,000</u>	1.000	2.540
Total investments subject to interest rate risk	\$ <u><u>5,410,000</u></u>		

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% and 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 CSU 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.

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Notes to Basic Financial Statements

June 30, 2007 and 2006

Discretely presented component unit – As of June 30, 2007, 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 comprise two investment types: absolute return and long-term or short-term investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long-term or short-term investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation’s investments at fair market value as of June 30, 2007 and 2006:

	June 30	
	<u>2007</u>	<u>2006</u>
Cash and cash equivalents subject to investment management direction	\$ 909,000	1,105,000
Equities:		
Large-cap equities	57,492,000	49,015,000
International equities	38,769,000	31,123,000
Micro-cap equities	12,261,000	10,050,000
Small-cap equities	10,672,000	9,335,000
Fixed income	10,674,000	14,513,000
Alternative investments	89,218,000	78,271,000
Other investments	21,611,000	6,709,000
Student-managed investments	178,000	170,000
	<u>\$ 241,784,000</u>	<u>200,291,000</u>

Net investment income of the Foundation consisted of the following for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Interest, dividends, and other income	\$ 2,381,000	3,002,000
Net unrealized and realized gains on investments	34,055,000	16,809,000
Less investment management fees	<u>(1,489,000)</u>	<u>(1,007,000)</u>
	34,947,000	18,804,000
Less income on deposits held in custody for CSU	<u>(2,025,000)</u>	<u>(1,150,000)</u>
	<u>\$ 32,922,000</u>	<u>17,654,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Subsequent event

On July 30, 2007, the Foundation was notified that one of the investments held in its portfolio had suffered a decline in value of approximately 50%. Liquidation of this investment is in progress with the final settlement date and investment loss unknown at this time. The investment loss is expected to be approximately \$7 million. The CSU portion of this loss on investment is approximately \$419,000.

(6) Accounts Receivable

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

	June 30	
	<u>2007</u>	<u>2006</u>
Student accounts receivable	\$ 12,054,000	10,826,000
Less allowance for doubtful accounts	(3,258,000)	(3,743,000)
Student accounts receivable, net	<u>8,796,000</u>	<u>7,083,000</u>
Student loans receivable	25,982,000	25,645,000
Less allowance for doubtful accounts	(2,094,000)	(2,044,000)
Student loans receivable, net	<u>23,888,000</u>	<u>23,601,000</u>
Other accounts receivable:		
Sponsored programs	56,523,000	42,537,000
Commercial receivables	2,576,000	2,669,000
Emergency firefighting receivables	—	1,169,000
Conferences and summer programs	601,000	599,000
Insurance trust fund	237,000	222,000
Receivables from Foundation	644,000	804,000
Athletics	794,000	410,000
Capital construction – due from state	949,000	—
Vendor credits	45,000	37,000
Other	2,341,000	2,467,000
Total other accounts receivable	<u>64,710,000</u>	<u>50,914,000</u>
Less allowance for doubtful accounts	(997,000)	(2,280,000)
Other accounts receivable, net	<u>63,713,000</u>	<u>48,634,000</u>
Total accounts receivable, net	<u>\$ 96,397,000</u>	<u>79,318,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Discretely presented component unit – As of June 30, 2007 and 2006, the Foundation’s pledges receivable consisted of the following:

	June 30	
	<u>2007</u>	<u>2006</u>
Receivables due in less than one year	\$ 2,362,000	4,841,000
Receivables due in one to five years	8,315,000	10,760,000
Receivables due in more than five years	<u>18,487,000</u>	<u>19,453,000</u>
	29,164,000	35,054,000
Less allowance for uncollectible pledges	(188,000)	(220,000)
Less present value discounting	<u>(5,941,000)</u>	<u>(6,530,000)</u>
	<u><u>\$ 23,035,000</u></u>	<u><u>28,304,000</u></u>

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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2007</u>
Nondepreciable capital assets:					
Land	\$ 9,670,000	301,000	(21,000)	948,000	10,898,000
Construction in progress	31,086,000	72,175,000	—	(19,417,000)	83,844,000
Collections	2,317,000	46,000	(1,045,000)	—	1,318,000
Total nondepreciable capital assets	<u>43,073,000</u>	<u>72,522,000</u>	<u>(1,066,000)</u>	<u>(18,469,000)</u>	<u>96,060,000</u>
Depreciable capital assets:					
Land improvements	50,140,000	2,236,000	—	1,974,000	54,350,000
Buildings and improvements	543,982,000	630,000	(464,000)	15,703,000	559,851,000
Leasehold improvements	838,000	—	—	—	838,000
Equipment	181,163,000	13,255,000	(13,194,000)	792,000	182,016,000
Library materials	84,215,000	3,035,000	(239,000)	—	87,011,000
Total depreciable capital assets	<u>860,338,000</u>	<u>19,156,000</u>	<u>(13,897,000)</u>	<u>18,469,000</u>	<u>884,066,000</u>
Less accumulated depreciation:					
Land improvements	21,165,000	2,476,000	—	—	23,641,000
Buildings and improvements	221,010,000	15,845,000	(245,000)	—	236,610,000
Leasehold improvements	424,000	48,000	—	—	472,000
Equipment	133,550,000	13,847,000	(12,712,000)	—	134,685,000
Library materials	56,268,000	5,324,000	(239,000)	—	61,353,000
Total accumulated depreciation	<u>432,417,000</u>	<u>37,540,000</u>	<u>(13,196,000)</u>	<u>—</u>	<u>456,761,000</u>
Net depreciable capital assets	<u>427,921,000</u>	<u>(18,384,000)</u>	<u>(701,000)</u>	<u>18,469,000</u>	<u>427,305,000</u>
Total capital assets, net	<u>\$ 470,994,000</u>	<u>54,138,000</u>	<u>(1,767,000)</u>	<u>—</u>	<u>523,365,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Transfers	Balance June 30, 2006
Nondepreciable capital assets:					
Land	\$ 9,671,000	—	(1,000)	—	9,670,000
Construction in progress	23,244,000	33,750,000	—	(25,908,000)	31,086,000
Collections	2,205,000	112,000	—	—	2,317,000
Total nondepreciable capital assets	35,120,000	33,862,000	(1,000)	(25,908,000)	43,073,000
Depreciable capital assets:					
Land improvements	49,076,000	696,000	—	368,000	50,140,000
Buildings and improvements	520,077,000	626,000	(1,800,000)	25,079,000	543,982,000
Leasehold improvements	838,000	—	—	—	838,000
Equipment	173,863,000	15,227,000	(8,388,000)	461,000	181,163,000
Library materials	80,694,000	3,797,000	(276,000)	—	84,215,000
Total depreciable capital assets	824,548,000	20,346,000	(10,464,000)	25,908,000	860,338,000
Less accumulated depreciation:					
Land improvements	18,881,000	2,284,000	—	—	21,165,000
Buildings and improvements	205,488,000	15,803,000	(281,000)	—	221,010,000
Leasehold improvements	377,000	47,000	—	—	424,000
Equipment	128,354,000	13,255,000	(8,059,000)	—	133,550,000
Library materials	51,243,000	5,301,000	(276,000)	—	56,268,000
Total accumulated depreciation	404,343,000	36,690,000	(8,616,000)	—	432,417,000
Net depreciable capital assets	420,205,000	(16,344,000)	(1,848,000)	25,908,000	427,921,000
Total capital assets, net	\$ 455,325,000	17,518,000	(1,849,000)	—	470,994,000

Interest expense capitalized, net of related interest income for the System, was \$738,000 and \$373,000 for the years ended June 30, 2007 and 2006, respectively.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2007 and 2006 comprised the following:

	June 30	
	2007	2006
Accrued payroll and benefits	\$ 45,925,000	44,429,000
Emergency firefighting accrual	6,154,000	7,090,000
Accrued interest payable	1,592,000	1,653,000
Other liabilities	172,000	134,000
	<u>\$ 53,843,000</u>	<u>53,306,000</u>

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 118,071,000	—	(5,851,000)	112,220,000	5,910,000
Capital leases payable	7,232,000	317,000	(1,517,000)	6,032,000	1,096,000
Total bonds and capital leases	125,303,000	317,000	(7,368,000)	118,252,000	7,006,000
Other liabilities:					
Compensated absences	31,535,000	2,714,000	—	34,249,000	2,156,000
Deposits held for others	12,259,000	19,557,000	(21,621,000)	10,195,000	2,801,000
Other	10,086,000	20,093,000	(19,690,000)	10,489,000	2,614,000
Total long-term liabilities	<u>\$ 179,183,000</u>	<u>42,681,000</u>	<u>(48,679,000)</u>	<u>173,185,000</u>	<u>14,577,000</u>

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Notes to Basic Financial Statements

June 30, 2007 and 2006

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 123,211,000	—	(5,140,000)	118,071,000	5,765,000
Capital leases payable	8,313,000	1,444,000	(2,525,000)	7,232,000	1,288,000
	<u>131,524,000</u>	<u>1,444,000</u>	<u>(7,665,000)</u>	<u>125,303,000</u>	<u>7,053,000</u>
Other liabilities:					
Compensated absences	28,661,000	2,909,000	(35,000)	31,535,000	2,133,000
Deposits held for others	11,420,000	17,603,000	(16,764,000)	12,259,000	3,453,000
Other	8,888,000	18,046,000	(16,848,000)	10,086,000	2,489,000
	<u>180,493,000</u>	<u>40,002,000</u>	<u>(41,312,000)</u>	<u>179,183,000</u>	<u>15,128,000</u>
Total long-term liabilities	\$ <u>180,493,000</u>	<u>40,002,000</u>	<u>(41,312,000)</u>	<u>179,183,000</u>	<u>15,128,000</u>

(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.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2007 and 2006 is detailed below.

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Notes to Basic Financial Statements

June 30, 2007 and 2006

Revenue bonds and COPs payable consisted of the following at June 30, 2007 and 2006:

	<u>Interest range</u>	<u>2007</u>	<u>2006</u>
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%	\$ 1,755,000	1,890,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of \$17,380,000 and mature in varying annual amounts to March 2008	3.80% – 5.60%	525,000	2,435,000
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%	11,365,000	11,650,000
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%	1,045,000	1,530,000
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	3.85% – 4.30%	3,145,000	3,855,000
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%	12,955,000	13,650,000
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% – 5.00%	19,780,000	20,160,000
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%	9,535,000	10,045,000

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	<u>Interest range</u>	<u>2007</u>	<u>2006</u>
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	45,200,000
Bond premium		<u>1,380,000</u>	<u>1,466,000</u>
Total CSU revenue bonds		<u>106,685,000</u>	<u>111,881,000</u>
Series 1997 Certificates of Participation: Colorado State University has a lease purchase agreement funded by issuance of 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%	<u>3,205,000</u>	<u>3,420,000</u>
Total CSU COPS		<u>3,205,000</u>	<u>3,420,000</u>
Total CSU revenue bonds and COPS		<u>109,890,000</u>	<u>115,301,000</u>
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%	<u>2,330,000</u>	<u>2,770,000</u>
Total CSUP revenue bonds		<u>2,330,000</u>	<u>2,770,000</u>
System total revenue bonds and COPS		<u>\$ 112,220,000</u>	<u>118,071,000</u>

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The scheduled maturities of the revenue bonds and COPs are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
2008	\$ 5,910,000	4,933,000	10,843,000
2009	6,405,000	4,691,000	11,096,000
2010	5,900,000	4,436,000	10,336,000
2011	6,105,000	4,197,000	10,302,000
2012	5,130,000	3,965,000	9,095,000
2013 – 2017	26,505,000	16,476,000	42,981,000
2018 – 2022	14,005,000	11,181,000	25,186,000
2023 – 2027	12,980,000	8,238,000	21,218,000
2028 – 2032	16,245,000	5,015,000	21,260,000
2033 – 2037	11,655,000	1,101,000	12,756,000
Total debt service maturities	110,840,000	\$ <u>64,233,000</u>	<u>175,073,000</u>
Unamortized premium	<u>1,380,000</u>		
Total	\$ <u>112,220,000</u>		

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 note 12 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 note 12 for more information regarding these pledged revenues.

The CSU-P Series 2003 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of CSU-P auxiliary facilities, including CSU-P's student housing facilities, and student center facilities. See 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.

Subsequent Events – Series 2007A-C

On September 6, 2007, the System issued \$210,045,000 in System Enterprise Revenue Bonds, Series 2007A-C. The proceeds from the sale of the Series 2007A-C Bonds will be used to defray the costs of (a) constructing, acquiring, renovating, expanding, and equipping of certain recreation, research, athletics, educational, and academic facilities at CSU and CSU-P; (b) refunding all or a portion of certain outstanding obligations of the Board; (c) paying capitalized interest; and (d) paying the costs of issuing the Series 2007A-C Bonds. Principal on current refunded bonds and certificates of participation totals

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\$19,285,000. Principal on advance refunded bonds totals \$14,900,000. The revenue bonds bear interest rates from 4.000% to 5.883% with final maturity in 2037.

(11) Defeased Obligations

The System had no defeased obligations outstanding for the years ended June 30, 2007 and 2006.

(12) Pledged Revenues and Related Expenses

CSU and CSU-P 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	
		<u>2007</u>	<u>2006</u>
Operating revenues – pledged auxiliary revenues	\$	3,747,000	3,603,000
Operating expenses		<u>1,155,000</u>	<u>1,959,000</u>
Pledged revenues over operating expenses		2,592,000	1,644,000
Net nonoperating expenses		(311,000)	(232,000)
Other expenses and transfers		<u>(4,126,000)</u>	<u>(8,616,000)</u>
Net decrease	\$	<u><u>(1,845,000)</u></u>	<u><u>(7,204,000)</u></u>

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes \$2,447,000 and \$2,270,000 in such indirect cost recoveries for fiscal years ended June 30, 2007 and 2006, 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 \$36,454,000 and \$35,299,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

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

		June 30	
		<u>2007</u>	<u>2006</u>
Operating revenues – pledged auxiliary revenues	\$	80,805,000	76,713,000
Operating expenses		<u>76,088,000</u>	<u>73,957,000</u>
Pledged revenues over operating expenses		4,717,000	2,756,000
Net nonoperating expenses		(985,000)	(1,440,000)
Other revenues and transfers		<u>31,000</u>	<u>166,000</u>
Net increase	\$	<u><u>3,763,000</u></u>	<u><u>1,482,000</u></u>

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Colorado State University-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds:

	June 30	
	<u>2007</u>	<u>2006</u>
Operating revenues – pledged auxiliary revenues	\$ 10,098,000	8,822,000
Operating expenses	<u>5,606,000</u>	<u>6,954,000</u>
Pledged revenue over operating expenses	4,492,000	1,868,000
Net nonoperating revenues	—	—
Transfers	<u>(699,000)</u>	<u>(942,000)</u>
Net increase	<u><u>\$ 3,793,000</u></u>	<u><u>926,000</u></u>

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.

	<u>Total</u>
Fiscal year ending June 30:	
2008	\$ 1,352,000
2009	1,109,000
2010	856,000
2011	770,000
2012	574,000
2013 – 2017	<u>2,504,000</u>
Minimum future lease payments	7,165,000
Less amount representing interest	<u>1,133,000</u>
Present value of minimum lease payments	<u><u>\$ 6,032,000</u></u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2007 and 2006, respectively, the System had capital lease obligations in effect with capitalized asset costs of \$11,739,000 and \$12,679,000; accumulated depreciation of \$2,698,000 and \$2,579,000; and related outstanding liabilities of \$6,032,000 and \$7,232,000.

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(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:	
2008	\$ 928,000
2009	689,000
2010	431,000
2011	38,000
2012	<u>24,000</u>
Total	<u>\$ 2,110,000</u>

Rent expense was \$1,482,000 and \$1,016,000 for fiscal years 2007 and 2006, 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 \$25,439,000 and \$25,958,000 and are reported as restricted net assets – expendable on the statements of net assets as of June 30, 2007 and 2006, 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 \$18,544,000 and \$17,323,000 are reported as restricted net assets – expendable on the statements of net assets as of June 30, 2007 and 2006, 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, 2007 and 2006, this reserve had net assets of \$1,676,000 and \$1,479,000, respectively. These amounts were reported as restricted expendable net assets on the statements of net assets.

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Total restricted net assets were as follows:

	<u>2007</u>	<u>2006</u>
Restricted for nonexpendable purposes:		
Scholarships, research, and other	\$ 14,671,000	13,250,000
Federal Land Grant Act Account – nonexpendable	<u>5,233,000</u>	<u>4,632,000</u>
Total	<u>\$ 19,904,000</u>	<u>17,882,000</u>
Restricted for expendable purposes:		
Federal Land Grant Act Income Account – expendable	\$ 4,779,000	4,224,000
Student loans	25,439,000	25,958,000
Sponsored programs	1,582,000	—
Gifts	1,865,000	1,989,000
Bond reserves	1,300,000	1,300,000
Auxiliary pledged net assets	18,544,000	17,323,000
Research Building Revolving Fund	3,718,000	3,789,000
Equipment reserve for veterinary medicine	1,676,000	1,479,000
Other	<u>3,285,000</u>	<u>434,000</u>
Total	<u>\$ 62,188,000</u>	<u>56,496,000</u>

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.

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 in perpetuity, 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, 2007 and 2006, the Foundation’s board has designated \$25,695,000 and \$18,680,000, respectively, of the unrestricted net assets to be used for board-designated endowments.

(16) Commitments

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2007 were \$86,759,000 for the System. These outstanding purchase order commitments included System capital construction commitments of approximately \$57,242,000. Approximately \$22,127,000 of the capital construction commitments were for the renovation of the CSU University Center For The Arts, \$10,265,000 for the new CSU Academic Village, \$8,362,000 for the CSUP HPER Building renovation, \$2,878,000 for the CSU Linear Accelerator, \$2,322,000 for mechanical and fire suppression improvements to the CSU Veterinary Teaching Hospital, \$1,488,000 for the CSU Diagnostic Medical Center, \$1,286,000 for the CSU Regional Materials Handling Facility, \$896,000 for the CSUP Recreation Center, \$633,000 for the CSU Regional Biocontainment Laboratory, \$543,000 for the CSU CHILL Radar Facility, and the remaining commitments are for other small construction projects at CSU and CSUP. Of the remaining outstanding purchase order commitments, \$20,639,000 was related to CSU-sponsored contracts and grants.

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In addition to purchase order commitments, the System had contracted obligations of \$21,512,000 at June 30, 2007 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 and is recorded as a liability at that time. 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, 2007 were:

Purchase order commitments	\$ 86,759,000
Shared cost obligations on long-term revenue contracts	10,359,000
Obligations under accepted employment offers	11,153,000
Total	<u>\$ 108,271,000</u>

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

The System's total payroll for the fiscal years ended June 30, 2007 and 2006 was \$414,105,000 and \$389,547,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was \$148,102,000, \$203,754,000, and \$6,667,000 respectively, for the fiscal year ended June 30, 2007 and \$144,050,000, \$187,986,000, and \$6,315,000 respectively, for the fiscal year ended June 30, 2006. The remaining employees were not eligible for participation in any of the System's plans.

(a) PERA Defined Benefit Pension Plan

Plan Description

Eligible System employees participate in 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, are included in PERA's financial statements, which may be obtained by writing to PERA of Colorado, P.O. Box 5800, Denver, Colorado 80217, or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

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Prior to January 1, 2006, state employees and employees of local school districts were members of the combined State and School Division of PERA. On January 1, 2006, that combined division was segregated into a State Division and a separate School Division. PERA's financial statements at December 31, 2005, presented the state and school portions of the trust as a single division.

Plan members vest after five years of service, and if they were hired before July 1, 2005, 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. Persons hired on or after July 1, 2005, (except plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 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 disabled. PERA contains benefit provisions for both short and long term disability. If a member dies before retirement, his/her 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

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

Employees contribute 8% of their gross covered wages to an individual account with the plan. During fiscal year 2006 – 2007 and 2005 – 2006, the System contributed 10.15% of employees' gross covered wages to PERA of which 1.02% of the total contribution was allocated to the Health Care Trust Fund. Beginning January 1, 2006, in addition to the 10.15% contributed on employees' gross covered wages, the System remitted an Amortization Equalization Disbursement (AED) payment, discussed below, of 0.5% of employees', including annuitant retirees, gross covered wages.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the State and School Division of PERA was underfunded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 0.5% of salary beginning January 1, 2006, another 0.5% of salary in 2007, and subsequent year increases of 0.4% of salary until the additional payment reaches a total of 3.0% in 2012.

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In the 2006 legislative session, along with other significant provisions affecting the plan, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage point through 2013 resulting in a cumulative increase of three percentage points. The SAED will be terminated when each division's trust fund reaches 100 percent funding. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries and used by the employer to pay the SAED.

The System's contributions to PERA for the fiscal years ended June 30, 2007, 2006, and 2005 were \$16,141,000, \$14,978,000, and \$13,088,000, respectively. These contributions were equal to the contribution requirement.

(b) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The state offers a 457 deferred compensation plan and institutions of the state offer a 403(b) or 401(a) plan.

(c) Defined Contribution Pension Plan

Under the optional defined contribution plan, eligible faculty, administrative professionals, post doctoral fellows and veterinary interns of the System enrolled in the defined contribution plan as an alternative to PERA. Three vendor choices are offered at CSU through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC), and Fidelity Investments/MetLife. Eligible faculty and staff at CSU-P do not have the Fidelity Investments/MetLife option available. The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S.). The CSU plan was adopted by the Board in December 1992 and the CSU-P plan was adopted in April 1993. The defined contribution retirement plan is a qualified plan under Section 401(a) of the IRC. CSU and CSU-P are the administrators 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 authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or \$17,649,000 for the fiscal year ended June 30, 2007 and 8.7% of covered payroll or \$16,363,000 for the fiscal year ended June 30, 2006. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or \$16,300,000 for the fiscal year ended June 30, 2007 and 8.0% of covered payroll or \$15,039,000 for the fiscal year ended June 30, 2006.

A federal retirement program covers some employees employed by the Cooperative Extension Service at CSU. The System's contribution to this plan for the fiscal years ended June 30, 2007 and 2006 was \$217,000 and \$214,000, respectively.

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(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 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 old age, survivors, and disability insurance (OASDI) coverage. The plan administrator is the "Committee". This Committee comprises 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 contributions by student employees for the fiscal years ended June 30, 2007 and 2006 were \$500,000 and \$474,000, 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 \$8,646,000 and \$6,899,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

(18) *Risk Financing and Insurance-Related Activities*

CSU manages a combination of self-insured and fully insured property and casualty insurance programs to best protect the university's assets. CSU carries excess insurance for general liability and workers' compensation claims over \$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. CSU self-insures for property insurance claims less than \$100,000 per occurrence and a \$1,000 deductible per occurrence is paid by the University department incurring the loss. In addition to this, CSU carries auto insurance for out of state vehicles and workers compensation for out of state employees, student intern professional liability, crime insurance, foreign liability insurance, and self-insures for in-state auto insurance.

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 self-insured program: healthcare, dental, long-term disability, short-term disability, postretirement 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. Postretirement 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 for five of the other six accounts. The final account, postretirement healthcare subsidy account is funded in whole by the University's contribution based on covered salaries (currently 1%).

The amount of claims and administrative costs for the self-funded plans for fiscal year 2007 and fiscal year 2006 did not exceed plan revenues and reserves.

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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 self-insurance programs, excluding Workers Compensation and Liability, had estimated claim liabilities of \$8,561,000 and \$6,328,000 at June 30, 2007 and 2006, 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 \$4,564,000 and \$3,891,000, at June 30, 2007 and 2006, respectively. Liability self-insurance had estimated claim liabilities of \$828,000 and \$1,523,000, at June 30, 2007 and 2006, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2007 and 2006. These estimates are based on current data, historical trends, and industry guidelines.

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

	<u>2007</u>	<u>2006</u>
Claim liabilities, beginning of year	\$ 11,742,000	10,242,000
Incurred claims (including IBNR)	22,664,000	18,951,000
Claim payments	<u>(20,453,000)</u>	<u>(17,451,000)</u>
Claim liabilities, end of year	<u>\$ 13,953,000</u>	<u>11,742,000</u>

(19) Postemployment Healthcare and Life Insurance Benefits

(a) PERA Postemployment Healthcare Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Healthcare Fund; the program was converted to a trust fund in 1999. Under this program, PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

The Health Care Trust Fund was maintained by an employer's contribution of 1.02% of covered salary. The System paid \$1,511,000 into this fund during fiscal year 2007 and \$1,469,000 during fiscal year 2006. 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, 2006, there were 42,433 enrollees in the plan.

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(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 less.

This plan is pay-as-you-go funded. The average number of beneficiaries of this subsidy was 474 and 468 for fiscal years 2007 and 2006, respectively. The total cost to the University was \$1,000,000 and \$966,000, for fiscal years 2007 and 2006, respectively.

(c) *Postretirement Healthcare Premium Refund Plan*

Change in Accounting Principle

During the fiscal year ended June 30, 2007, the System implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. This Statement establishes financial reporting standards for Other Postemployment Benefit (OPEB) plans and clarified that the CSU Postretirement Healthcare Premium Refund Plan does not meet the conditions for classification as an OPEB plan trust. As a result of this change in accounting principle, the System has changed the financial statement presentation of the CSU Postretirement Healthcare Premium Refund Plan and the change resulted in a \$15,375,000 increase to the System's beginning net assets as of July 1, 2005.

CSU's Postretirement Healthcare Premium Refund Plan is a revocable trust and was established by the authority of the Board for retirees covered under the Defined Contribution Plan for Retirement (DCP). The Board has declared that the use of the plan funds shall be designated to expenditures necessary and appropriate to fulfilling the purpose of the plan.

Employees who retire from the university at age 55 with 20 or more years of service or age 60 with five or more years of service are eligible for this benefit. For eligible retirees with 20 or more years of service, CSU pays a healthcare premium refund of the lesser of \$200 per month or the actual cost of the retiree's (not including dependents) health insurance. Benefits are prorated for service between 5 and 20 years.

DCP Participants include employees who were hired after April 1, 1993 who have less than one year of participation in PERA or employees with such previous participation in PERA who elect to enroll in the DCP at the time of appointment and certain employees hired prior to that date who made a one time, irrevocable election at the time of implementation to terminate participation in PERA and join the DCP.

For fiscal years 2007 and 2006, funding for the healthcare premium refund plan 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 \$1,799,000 and \$1,665,000 for the years ended June 30, 2007 and 2006, respectively. The amount of cash and cash equivalents

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

available for these benefits was \$19,275,000 and \$17,101,000 for the years ended June 30, 2007 and 2006, respectively. Actuarial assumptions used to determine funding requirements include an annual investment return of 4.0%, for fiscal years 2007 and 2006, 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 \$16,770,000 and \$15,708,000 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006.

Total amounts paid by CSU to retirees for these healthcare subsidies were \$439,000 and \$383,000 for 2007 and 2006, respectively. As of June 30, 2007 and 2006, 206 and 196 former employees, respectively, were qualified to receive such benefits.

(d) Life Insurance Program

During fiscal year 2007, PERA provided its member's access to a group decreasing term life insurance plan offered by Unum Provident Plan in which 41,101 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

(e) Other Postemployment Benefits (OPEB)

CSU-P Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for postemployment health coverage until the retiree is eligible for Medicare. As of June 30, 2007, there were 41 participants in postretirement coverage from the eight member higher education institutions.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting following Governmental Accounting Standards for a business-type activity. The financial statements can be obtained by contacting Human Resources, Colorado State University – Pueblo, 2200 Bonforte Blvd., Pueblo, Colorado 81001.

Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the Trust's investments is based on quoted market prices from national securities exchanges.

(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, 2007 and 2006 was \$34,249,000 and \$31,535,000, respectively.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Overall, expenses increased for the fiscal years ended June 30, 2007 and 2006 by \$2,714,000 and \$2,874,000, respectively, for the estimated compensated absence liabilities.

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2007 and 2006, 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, 2007 and 2006 were \$88,592,000 and \$89,559,000, respectively.

(22) Scholarship Allowance

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2007 were as follows:

	2007		
	<u>Tuition and fees</u>	<u>Auxiliary revenues</u>	<u>Total</u>
Gross revenue	\$ 257,603,000	109,597,000	367,200,000
Scholarship allowances:			
Federal	13,461,000	638,000	14,099,000
State	7,017,000	285,000	7,302,000
Private	191,000	26,000	217,000
Institutional	<u>25,924,000</u>	<u>1,209,000</u>	<u>27,133,000</u>
Total allowances	<u>46,593,000</u>	<u>2,158,000</u>	<u>48,751,000</u>
Net revenue	<u>\$ 211,010,000</u>	<u>107,439,000</u>	<u>318,449,000</u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2006 were as follows:

	2006		
	Tuition and fees	Auxiliary revenues	Total
Gross revenue	\$ 247,233,000	102,777,000	350,010,000
Scholarship allowances:			
Federal	12,612,000	1,008,000	13,620,000
State	6,854,000	473,000	7,327,000
Private	189,000	66,000	255,000
Institutional	23,611,000	1,197,000	24,808,000
Total allowances	43,266,000	2,744,000	46,010,000
Net revenue	\$ 203,967,000	100,033,000	304,000,000

(23) System Foundations and Endowments

As discussed in note 1(c), the 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, 2007 and 2006, royalty revenues equaled \$2,102,000 and \$1,070,000, respectively, and expenses were \$1,090,000 and \$613,000, respectively.

At June 30, 2007, CSURF debt to provide buildings for use by the universities was \$3,763,000.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

At June 30, 2007, the assets of CSURF consisted of:

Cash and current assets	\$	2,004,000
Property and equipment		7,566,000
Other assets		<u>7,942,000</u>
Total assets	\$	<u><u>17,512,000</u></u>

At June 30, 2006, CSURF debt to provide buildings for use by the universities was \$3,986,000.

At June 30, 2006, the assets of CSURF consisted of:

Cash and current assets	\$	1,456,000
Property and equipment		7,706,000
Other assets		<u>8,018,000</u>
Total assets	\$	<u><u>17,180,000</u></u>

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 \$1,568,000 and \$1,572,000 in transfers of gifts and other assets to CSUP during fiscal years 2007 and 2006, respectively. During the same periods, CSUP provided \$114,000 and \$31,000, respectively, in in-kind support to CSUP Foundation for 2007 and 2006. Further, CSUP did not incur any expenses on behalf of CSUP Foundation during the fiscal years ended June 30, 2007 and 2006.

At June 30, 2007, the assets of CSUP Foundation consisted of:

Cash	\$	1,202,000
Investments		17,730,000
Property and equipment, net		37,000
Other assets		<u>4,957,000</u>
Total assets	\$	<u><u>23,926,000</u></u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

At June 30, 2006, the assets of CSUP Foundation consisted of:

Cash	\$	331,000
Investments		16,101,000
Property and equipment, net		40,000
Other assets		<u>4,693,000</u>
Total assets	\$	<u><u>21,165,000</u></u>

CSUP Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fund-raising activities. CSUP Foundation had \$535,000 and \$130,000 in outstanding liabilities as of June 30, 2007 and 2006, 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, 2007 consisted of:

Cash	\$	1,330,000
Land		<u>103,000</u>
Total assets	\$	<u><u>1,433,000</u></u>

The Walking Stick Fund assets at June 30, 2006 consisted of:

Cash	\$	1,099,000
Land		<u>124,000</u>
Total assets	\$	<u><u>1,223,000</u></u>

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.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2007 and 2006

The KTSC Fund assets at June 30, 2007 consisted of:

Cash	\$	2,547,000
Due from other funds		<u>148,000</u>
Total assets	\$	<u><u>2,695,000</u></u>

The KTSC Fund assets at June 30, 2006 consisted of:

Cash	\$	2,472,000
Due from other funds		<u>170,000</u>
Total assets	\$	<u><u>2,642,000</u></u>

(24) State Support

In fiscal year 2006, state support for higher education and the System changed with the implementation of the College Opportunity Fund. As a result of this legislation, which was adopted in S.B. 04-189 passed in the 2004 state legislative session, the state no longer provides a direct state general fund appropriation to the System. Instead, state support is provided to the System in the form of fee for service contracts with the state for the delivery of special programs, graduate programs, and high cost/high demand programs. In fiscal years 2007 and 2006, the System received \$74,182,000 and \$68,214,000, respectively, in state fee for service contract revenue.

State support was also provided to the System in the form of student tuition stipends provided to students by the state College Opportunity Fund. In fiscal years 2007 and 2006, stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo in the amount of \$49,182,000 and \$45,406,000, respectively.

(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.



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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 blended component unit of the State of Colorado, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 14, 2007, which included a reference to 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 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 as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the first deficiency described in the Findings and Recommendations section in this report to be a significant deficiency in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the System in the Findings and Recommendations section in this report.

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

November 14, 2007



KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

November 14, 2007

Members of the 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, 2007, and have issued our report thereon dated November 14, 2007, which included a reference to the reports of other auditors. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, which have been prepared by management with the oversight of the audit committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the basic financial statements 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, 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 financial statements are detected. Our audit does not relieve management or the audit committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control. However, during the course of our audit, we identified a deficiency in internal control that we consider to be a significant deficiency and other deficiencies that we consider to be control deficiencies. Our required communications to you in writing, under professional standards, of all deficiencies in internal control identified during our audit was provided to you in the Findings and Recommendations section in this report.

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.

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 19 (c), the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective July 1, 2005. This statement establishes financial reporting standards for Other Postemployment (OPEB) plans and clarified that the System's Postretirement Healthcare Premium Refund Plan does not meet the conditions for classification as an OPEB plan trust. As a result of the change in accounting principle, the System has changed the financial statement presentation of this plan, resulting in a \$15,375,000 increase to the System's beginning net assets as of July 1, 2005.

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.

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

In connection with our audit of the System's financial statements, we have not identified any significant financial misstatements requiring adjustment by System management.

Passed Adjustments

In connection with our audit of the System's basic financial statements, we have discussed with management certain audit adjustments that have not been accounted for in the basic financial statements as of and for the year ended June 30, 2007. We have reported these adjustments to management on a Schedule of Passed Audit Adjustments and have received written representation from management that management believes these adjustments are immaterial. Page 79 includes a copy of the schedule that has been provided to, and discussed with, management.

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 year ended June 30, 2007.

Major Issues Discussed with Management Prior to Appointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year 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 appointment.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 (System and State Auditor's Office);
- (2) Management representation letter; and
- (3) Internal control deficiencies letter (included in the Findings and Recommendations section 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.

Confirmation of Audit Independence

We hereby confirm that as of November 14, 2007, 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 Colorado State University Board of Governors, the Colorado State University 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. 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

Schedule of Passed Audit Adjustments

Year ended June 30, 2007

Adj no.	Description	Adjustments on financial statement captions						
		Change in net assets unadjusted audit differences arising in			Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
		Current period	Prior period	Total				
1	Operating revenue	\$ 223,334	—	223,334	—	—	—	—
	Beginning net assets	—	(223,334)	(223,334)	—	—	—	—
	<i>To reclass revenue that CSU earned in FY06, but recorded in FY07.</i>							
2	Operating revenue	1,541,672	—	1,541,672	—	—	—	—
	Beginning net assets	—	(1,541,672)	(1,541,672)	—	—	—	—
	<i>Extrapolated error relating to revenue CSU earned in FY06, but recorded in FY07.</i>							
3	Expenses	118,982	—	118,982	—	—	—	—
	Capital assets	—	—	—	—	302,000	—	—
	Accounts payable	—	—	—	—	—	(420,982)	—
	<i>To adjust costs CSU incurred in FY07, but recorded in FY08.</i>							
4	Expenses	2,479,173	—	2,479,173	—	—	—	—
	Capital assets	—	—	—	—	638,953	—	—
	Accounts payable	—	—	—	—	—	(3,118,126)	—
	<i>Extrapolated error relating to costs CSU incurred in FY07, but recorded in FY08.</i>							
5	Expenses	13,224	—	13,224	—	—	—	—
	Capital assets	—	—	—	—	1,036,090	—	—
	Accounts payable	—	—	—	—	—	(1,049,314)	—
	<i>Extrapolated error relating to costs CSU-P incurred in FY07, but recorded in FY08.</i>							
6	Miscellaneous revenue	121,889	—	121,889	—	—	—	—
	Net assets	224,366	—	224,366	—	—	—	—
	Deposits held for others	—	—	—	—	—	(346,255)	—
	<i>To reclass CSU's outstanding checks as deposits held for others</i>							
	Total	\$ 4,722,640	(1,765,006)	2,957,634	—	1,977,043	(4,934,677)	—



KPMG LLP
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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 blended component unit of the State of Colorado, as of and for the years then ended June 30, 2007 and 2006, and have issued our report thereon dated November 14, 2007. 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.

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 81 through 85.

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 Board of Governors, the Colorado State University 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

November 14, 2007

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

Year ended June 30, 2007

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	\$ 3,746,766
Add interest from the Research Building Revolving Fund	<u>130,586</u>
Net auxiliary revenues	3,877,352
Indirect cost recoveries not credited to bond fund	<u>36,453,614</u>
Total pledged revenue	40,330,966
Operating expenses	1,154,997
Add back:	
Noncapital plant facilities expenses	(117,821)
Depreciation expense	<u>(41,141)</u>
Net income to meet requirement under the bond resolution	<u><u>\$ 39,334,931</u></u>
Net income required under the bond resolution:	
Current year principal and interest payments	\$ 2,295,803
Minimum earnings ratio required by bond resolution and parity obligation	<u>150%</u>
Net income required under the bond resolution	<u><u>\$ 3,443,705</u></u>

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, 2003B, and 2005B that 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

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

Year ended June 30, 2007

- 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	\$ 80,804,847
Add:	
Investment income from investment funds	1,013,736
Transferable interest income from plant funds	<u>291,293</u>
	<u>82,109,876</u>
Less old series bond obligations and new bonds operating expenses:	
Operating expenses	76,087,975
Less plant facilities expenses	(744,191)
Less depreciation expense	(3,355,635)
Less excluded equipment expenditures	(446,684)
Less compensated absences adjustment	<u>(118,761)</u>
	71,422,704
Principal and interest payments on old bond series	<u>3,147,518</u>
	<u>74,570,222</u>
Net income to meet requirement under the bond resolution	\$ <u>7,539,654</u>
Net income required under the bond resolution:	
Current year principal and interest payments	\$ 4,592,721
Minimum earnings ratio required by bond resolution	<u>100%</u>
Net income required under the bond resolution	\$ <u>4,592,721</u>

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

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

Year ended June 30, 2007

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

Auxiliary revenues	\$ 76,404,222
Add:	
Investment income from investment funds	964,938
Transferable interest income from plant funds	<u>161,971</u>
	<u>77,531,131</u>
Unrestricted expenses	68,558,704
Less:	
Excluded equipment expenditures	(341,839)
Compensated absences adjustment	<u>(106,856)</u>
	<u>68,110,009</u>
Net income to meet requirement under the bond resolution	\$ <u><u>9,421,122</u></u>
Net income required under the bond resolution:	
Current year principal and interest payments	\$ 2,917,965
Minimum earnings ratio required by bond resolution	<u>125%</u>
Net income required under the bond resolution	\$ <u><u>3,647,456</u></u>

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

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

Year ended June 30, 2007

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

Auxiliary revenues	\$	4,400,625
Add:		
Investment income from investment funds		48,798
Transferable interest income from plant funds		<u>129,322</u>
		<u>4,578,745</u>
Unrestricted expenses		3,429,445
Less:		
Excluded equipment expenditures		(104,845)
Compensated absences adjustment		<u>(11,905)</u>
		<u>3,312,695</u>
Net income to meet requirement under the bond resolution	\$	<u><u>1,266,050</u></u>
Net income required under the bond resolution:		
Current year principal and interest payments	\$	229,553
Minimum earnings ratio required by bond resolution		<u>125%</u>
Net income required under the bond resolution	\$	<u><u>286,941</u></u>

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

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

Year ended June 30, 2007

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	\$ 10,098,408
Less general operating expenses	<u>(5,606,323)</u>
Available net revenue	<u>4,492,085</u>
Debt service requirement	507,563
	<u>125%</u>
Minimum excess requirement	<u>634,454</u>
Excess of available net revenue over minimum excess requirement	<u>\$ 3,857,631</u>

Unaudited – See accompanying independent auditors' report

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2007

Introduction

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

- Colorado State University (CSU) located in Fort Collins
- 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, 2007 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted in April 2002. The state-funded student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2007.

State-Funded Student Financial Assistance Programs

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

<u>State-Funded Student Assistance Program</u>	<u>CSU</u>	<u>CSUP</u>
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 2007 and 2006 and total state-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	<u>Fiscal year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
State-Funded Student Financial Assistance Awards:		
Colorado State University	\$ 6,859,935	6,650,000
Colorado State University – Pueblo	3,239,294	2,961,000
Perkins and Health Professionals Student Loans Matching Program:		
Colorado State University	149,000	1,000
Colorado State University – Pueblo	—	—

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2007

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, 2007, the System obtained authorizations to award federal student financial aid funds of approximately \$1,037,000 in the Supplemental Educational Opportunity Grant program, \$1,402,000 in the College Work-Study program, and \$800,000 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, 2007, the System obtained authorizations to award Colorado student financial aid funds of approximately \$274,000 in the Colorado Leveraging Educational Assistance program, \$5,709,000 in the Colorado Student Grant program, \$2,122,000 in the Colorado Work-Study program, \$237,000 in the Merit program, \$1,482,000 in the Governor's Opportunity Scholarship, \$132,000 in Colorado Supplemental Leveraging Educational Assistance program, and \$149,000 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 90 of this report, as well as individual universities' schedules of appropriations, expenditures, transfers, and reversions of state funded student financial assistance programs on pages 92 and 93.



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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 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, 2007. 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 note 1 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 U.S. generally accepted accounting principles. 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 U.S. generally accepted accounting principles. Because the Statement presents only a selected portion of the activities of the System, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the System in conformity with U.S. generally accepted accounting principles.

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, 2007, 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 November 14, 2007 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 section is presented for purposes of additional analysis and is not a required part of the Statement. The introduction section 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 Colorado State University Board of Governors, the Colorado State University 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

November 14, 2007

COLORADO STATE UNIVERSITY SYSTEM
Statement of Appropriations, Expenditures, Transfers, and Reversions
Colorado State University – System
Year ended June 30, 2007

	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	\$ 9,845,225	273,884	5,653,229	2,121,862	236,849	—	131,946	1,427,455
Supplementals	259,311	—	55,660	—	—	149,042	—	54,609
Transfers	—	—	—	—	—	—	—	—
Total appropriations	<u>10,104,536</u>	<u>273,884</u>	<u>5,708,889</u>	<u>2,121,862</u>	<u>236,849</u>	<u>149,042</u>	<u>131,946</u>	<u>1,482,064</u>
Less expenditures	<u>10,098,879</u>	<u>273,134</u>	<u>5,708,889</u>	<u>2,121,512</u>	<u>244,307</u>	<u>149,042</u>	<u>131,946</u>	<u>1,470,049</u>
Reversions to State General Fund	<u>\$ 5,657</u>	<u>750</u>	<u>—</u>	<u>350</u>	<u>(7,458)</u>	<u>—</u>	<u>—</u>	<u>12,015</u>

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

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions

June 30, 2007

(1) Basis of Presentation and Accounting

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (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, 2007.

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 the financial position, changes in financial position, or cash flows 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.

(3) Reversions to State General Fund

CSU-Pueblo made every effort to award all of the Governors' Opportunity Funds (GOS) but not everyone who was awarded enrolled for spring and/or summer. The University tried offering summer awards out of remaining funds to the eligible students but still did not achieve enough of an enrollment to disburse all of the funds so it is returning \$12,015 of GOS funds and \$350 of CLEAP funds. The University will absorb the \$7,458 of Merit funds out of its own resources.

COLORADO STATE UNIVERSITY SYSTEM
Schedule of Appropriations, Expenditures, Transfers, and Reversions
Colorado State University
Year ended June 30, 2007

	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	\$ 6,598,624	191,806	3,832,762	1,480,661	201,911	—	94,304	797,180
Supplementals	259,311	—	55,660	—	—	149,042	—	54,609
Transfers	—	—	—	—	—	—	—	—
Total appropriations	<u>6,857,935</u>	<u>191,806</u>	<u>3,888,422</u>	<u>1,480,661</u>	<u>201,911</u>	<u>149,042</u>	<u>94,304</u>	<u>851,789</u>
Less expenditures	<u>6,857,935</u>	<u>191,806</u>	<u>3,888,422</u>	<u>1,480,661</u>	<u>201,911</u>	<u>149,042</u>	<u>94,304</u>	<u>851,789</u>
Reversions to State General Fund	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.

COLORADO STATE UNIVERSITY SYSTEM
Schedule of Appropriations, Expenditures, Transfers, and Reversions
Colorado State University – Pueblo
Year ended June 30, 2007

	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	\$ 3,246,601	82,078	1,820,467	641,201	34,938	—	37,642	630,275
Supplementals	—	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—	—
Total appropriations	3,246,601	82,078	1,820,467	641,201	34,938	—	37,642	630,275
Less expenditures	3,240,944	81,328	1,820,467	640,851	42,396	—	37,642	618,260
Reversions to State General Fund	\$ 5,657	750	—	350	(7,458)	—	—	12,015

See accompanying independent auditors' report.

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