

Colorado State University – Global Campus
(A University within the Colorado State University System)
Financial Statements and Independent Auditor’s Reports
Financial Audit
Years Ended June 30, 2014 and 2013

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November 26, 2014

Members of the Legislative Audit Committee:

We have completed the financial statement audit of Colorado State University – Global Campus as of and for the year ended June 30, 2014. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

BKD, LLP

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

	Page
Report Summary	1
Financial Audit Report Section	
Description of the Colorado State University – Global Campus	4
Auditor’s Findings and Recommendations	7
Disposition of Prior Audit Recommendations	8
Independent Auditor’s Report on Financial Statements	9
Management’s Discussion and Analysis (Unaudited)	11
Financial Statements	
Statements of Net Position	17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19
Notes to Basic Financial Statements	21
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Independent Auditor’s Audit Committee Communication	39

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

Report Summary

Year Ended June 30, 2014

Purposes and Scope of Audit

The Office of the State Auditor engaged **BKD, LLP** (BKD) to conduct a financial audit of Colorado State University – Global Campus (CSU – Global) for the year ended June 30, 2014. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The purposes and scope of the audit were to:

- Express opinions on the financial statements of CSU – Global as of and for the years ended June 30, 2014 and 2013, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2014.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2014.
- Issue a report on CSU – Global’s internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audits of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2014.

Audit Opinions and Reports

The independent auditor’s reports included herein expressed unmodified opinions on CSU – Global’s financial statements as of and for the year ended June 30, 2014 and 2013.

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

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

There are no findings and recommendations reported for the year ended June 30, 2014.

Significant Audit Adjustments

There were six proposed audit adjustments identified during the audit for the year ended June 30, 2014. Two of these adjustments were made to the financial statements and four were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets by \$47,304, increase current liabilities by \$32,304, increase beginning of the year net position by \$48,687, increase revenue by \$15,000 and increase operating expenses by \$48,687 as of and for the year ended June 30, 2014.

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

Report Summary

Year Ended June 30, 2014

Summary of Progress in Implementing Prior Audit Recommendations

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

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Colorado State University - Global Campus
Description of the Colorado State University-Global Campus
Year Ended June 30, 2014

Organization and Administration

Colorado State University-Global Campus (CSU – Global) is the newest institution in the Colorado State University System (the System), an established university system with a rich 140-year history that evolved from agrarian roots as a land-grant institution. CSU – Global was established on August 24, 2007, by the System Board of Governors with a central goal of meeting the educational needs of adult learners in the State of Colorado and beyond by providing high quality online programs. On May 7, 2008, the System Board of Governors delegated authority to CSU – Global to oversee academic, personnel, and financial matters consistent with powers granted to CSU and CSU-Pueblo. Thereafter, CSU – Global was legally sanctioned as a third, independent University on March 18, 2009, when Colorado’s Governor Ritter signed into law the State of Colorado Senate Bill 09-086 declaring the establishment of the CSU – Global Campus as an online university that is part of the Colorado State University System.

CSU – Global is the first statutorily-defined 100% online public university in the United States. It has a unique focus on the success of adult, nontraditional learners with learning outcomes focused on theory, knowledge, and skills necessary to secure employment and improve job performance. From its first class of nearly 200 students in 2008, CSU – Global has now grown to have a student body of over 10,000 students.

On June 30, 2011, Colorado State University-Global Campus was officially granted independent regional accreditation status by the Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools. CSU – Global is the first public university in Colorado to receive initial HLC accreditation since 1971, a significant achievement for the university, the CSU System, and online education. The role and mission of CSU – Global is established in Title 23, C.R.S.

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

The Board is authorized to set tuition, pay expenses, and hire officials. The chief academic and administrative officers are the Chancellor of the Colorado State University System and the President of each institution.

Academic Degree Programs

CSU – Global currently offers 15 online undergraduate programs which lead to Bachelor of Science degrees in the following disciplines:

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

Colorado State University - Global Campus
 Description of the Colorado State University-Global Campus
 Year Ended June 30, 2014

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

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

Colorado State University-Global Campus

Colorado State University –Global Campus (CSU – Global) was created by the Colorado State University System Board of Governors in 2007, and initiated its student instruction in Fall 2008. Built on a foundation of low cost, accountable, adaptable to marketplace needs, and sensitive to student needs, CSU – Global is focused on facilitating adult success in a global marketplace through career-relevant education.

CSU – Global’s degree programs and specializations are carefully selected and crafted to prepare students for relevant jobs and careers that have current and forecasted long-term growth. Instructors with industry expertise and top academic credentials lead courses that emphasize not only pertinent professional information, but they also seek to expand vital skills of critical thinking, evaluation, examination, and decision making—all important factors in both securing and keeping desirable jobs.

Mission Statement

CSU – Global Campus is committed to advancing student success in a global society, investing in human capital, expanding the state economy, and enhancing the quality of life for citizens in the state of Colorado and beyond by providing access to dynamic degree programs characterized by academic excellence, innovative delivery technologies, and strong stakeholder engagement.

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

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

	Resident	Nonresident	Total
Fiscal year:			
2013–2014	2,509	2,453	4,962
2012–2013	2,300	1,407	3,707
2011–2012	2,046	544	2,590

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

	Faculty	Staff	Total
Fiscal year:			
2013–2014	299	134	433
2012–2013	160	94	254
2011–2012	144	71	215

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Colorado State University-Global Campus
Auditor's Findings and Recommendations
Year Ended June 30, 2014

There are no findings and recommendations for the year ended June 30, 2014.

Colorado State University-Global Campus
Disposition of Prior Audit Recommendations
Years Ended June 30, 2013, 2012 and 2011

Summary of Progress in Implementing Prior Audit Recommendations

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

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying basic financial statements of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System, State of Colorado (the CSU System), which comprise statements of net position as of June 30, 2014 and 2013, statements of revenues, expenses and changes in net position and statements of cash flows and the related notes to the financial statements for the years then ended, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CSU – Global as of June 30, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of CSU – Global are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the CSU System that is attributable to the transactions of CSU – Global. They do not purport to, and do not, present fairly the financial position of the CSU System as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of CSU – Global's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSU – Global's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
November 26, 2014

Colorado State University - Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013
(Unaudited)

Management's Discussion and Analysis

This section of the financial report presents management's discussion and analysis of the financial performance of Colorado State University-Global Campus (CSU – Global) for the fiscal years ended June 30, 2014 and 2013. CSU – Global began offering classes to students in fiscal year 2009 and achieved a positive net position (total assets in excess of total liabilities) in fiscal year 2012. Management's comments will primarily focus on the periods ending June 30, 2012 through June 30, 2014. This discussion provides an analysis of the university's financial activities based on currently known facts, decisions, or existing conditions, and should be read in conjunction with CSU – Global's financial statements and notes thereto, which are also presented in this document. The analyses in this section of the report are unaudited.

Enrollment and Financial Highlights

The following accomplishments occurred during the fiscal years ended June 30, 2014, 2013 and 2012:

- Student enrollment (unduplicated headcount) increased 28% between fiscal year 2013 and 2014 and increased 47% between fiscal year 2012 and fiscal year 2013.
- Student enrollment (FTE) increased 34% and 36% between fiscal year 2013 and 2014 and between fiscal year 2012 and 2013, respectively.
- Unique course offerings to our students increased 35% and 44% between fiscal year 2013 and 2014 and between fiscal year 2012 and 2013, respectively.
- CSU – Global's net position increased from \$2.9 million at June 30, 2012 to \$25.4 million by June 30, 2014.
- CSU – Global repaid \$12 million in start-up loan funds by the close of its fourth (4th) year of offering classes.

The Basic Financial Statements

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

Financial Analysis

Statement of Net Position

The statement of net position presents the financial position of CSU – Global and includes all assets and liabilities of the university at a point in time. CSU-Global assets exceeded liabilities resulting in positive net position by \$25,410,266, \$14,874,009 and \$2,912,012 at June 30, 2014, 2013 and 2012, respectively. At June 30, 2014, the majority (95%) of CSU – Global's assets are held as cash and cash equivalents. Surplus reserves or net position is primarily designated to fund strategic initiatives such as enrollment growth and exceptional customer service, to maintain financial stability as required by the Board and

Colorado State University - Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013
(Unaudited)

Higher Learning Accrediting Authorities and for the development of new and maintenance of existing online courses and degree programs.

Summary of Net Position

	June 30		
	2014	2013	2012
Current assets	\$ 35,081,015	\$ 18,291,358	\$ 4,822,858
Capital assets	841,684	177,990	-
Total assets	<u>\$ 35,922,699</u>	<u>\$ 18,469,348</u>	<u>\$ 4,822,858</u>
Current liabilities	\$ 10,048,980	\$ 3,325,941	\$ 1,622,511
Noncurrent liabilities	463,453	269,398	288,335
Total liabilities	<u>\$ 10,512,433</u>	<u>\$ 3,595,339</u>	<u>\$ 1,910,846</u>
Net position:			
Net investment in capital assets	\$ 841,684	\$ 177,990	\$ -
Restricted for expendable purposes			
Scholarships	164,958	15,000	-
Other	16,750	21,750	-
Unrestricted	<u>24,386,873</u>	<u>14,659,269</u>	<u>2,912,012</u>
Total net position	<u>\$ 25,410,266</u>	<u>\$ 14,874,009</u>	<u>\$ 2,912,012</u>

Continued expansion of new courses and degree programs followed by strong enrollment growth contributed to the increase of CSU – Global assets. Cash and cash equivalents increased \$16.9 million, or 104% in 2014 over that of 2013. For this same period, net student accounts receivable decreased \$600 thousand or 31% due to the timing of the tuition bill date of the last term in the fiscal year and federal financial aid disbursements applied to accounts receivable. Other accounts receivable, net increased \$268 thousand, or 736% in 2014 over that of 2013 due to the timing difference related to student credit card settlement payments and direct loan disbursement payments received subsequent to year end. During the fiscal year ended June 30, 2014, capital assets increased \$664 thousand, or 373%, over fiscal year 2013 due to the increase in leasehold improvements and equipment property purchased for the new office space acquired in October 2013. Prepaid expenses increased \$175 thousand, or 178%, in 2014 over that of 2013 due to increased prepayments of licensing and subscriptions.

Cash and cash equivalents increased \$12.6 million or 350% and net student accounts receivable increased \$745 thousand or 64% in 2013 over that of 2012. At June 30, 2014, CSU – Global collected approximately 97% of billable tuition for fiscal year 2013-14 and historically 97% over the last two fiscal years.

In 2014, total liabilities increased \$6.9 million. Current liabilities increased \$6.7 million due to higher payroll accruals, the recognition of unearned revenue, and timing of accounts payable. Noncurrent liabilities increased \$194 thousand due to unamortized rent.

Colorado State University - Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

(Unaudited)

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

Colorado State University - Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Position

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

Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30		
	2014	2013	2012
Operating revenues			
Student tuition and fees	\$ 48,454,218	\$ 34,683,974	\$ 24,433,014
Nongovernmental grants	-	36,750	-
Other operating revenue	1,192,425	452,281	46,779
Total operating revenues	<u>49,646,643</u>	<u>35,173,005</u>	<u>24,479,793</u>
Operating expenses			
Instruction	10,232,984	6,769,971	4,165,980
Academic support	2,960,592	2,598,913	2,050,645
Student services	13,196,369	7,303,544	5,869,570
Institutional support	5,274,946	5,820,294	3,364,809
Operation and maintenance of plant	418,996	182,158	164,366
Depreciation	93,291	-	-
Scholarships and fellowships	6,551,036	4,728,181	2,966,981
Total operating expenses	<u>38,728,214</u>	<u>27,403,061</u>	<u>18,582,351</u>
Operating income	<u>10,918,429</u>	<u>7,769,944</u>	<u>5,897,442</u>
Nonoperating revenues (expenses)			
Investment income (loss)	247,931	7,707	(8,877)
State nonoperating grants and contracts	(168,750)	-	-
Federal nonoperating grants and contracts	6,551,036	4,728,181	2,966,981
Net nonoperating revenues	<u>6,630,217</u>	<u>4,735,888</u>	<u>2,958,104</u>
Income before other revenues (expenses) or transfers	<u>17,548,646</u>	<u>12,505,832</u>	<u>8,855,546</u>
Other revenues (expenses) or transfers			
Payments to governing boards or other institutions	(7,012,389)	(543,835)	(116,765)
Total other revenues, (expenses) or transfers	<u>(7,012,389)</u>	<u>(543,835)</u>	<u>(116,765)</u>
Increase in net position	10,536,257	11,961,997	8,738,781
Net position, beginning of year	<u>14,874,009</u>	<u>2,912,012</u>	<u>(5,826,769)</u>
Net position, end of year	<u>\$ 25,410,266</u>	<u>\$ 14,874,009</u>	<u>\$ 2,912,012</u>

Colorado State University - Global Campus
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013
(Unaudited)

The introduction of new courses and degree programs combined with strong enrollment growth led to significant increases in operating revenues and expenses. CSU – Global offers fixed tuition pricing. Once a student enrolls in a degree program, the tuition rate is locked as long as the student remains in classes and in good academic standing. From June 30, 2012 through June 30, 2014, total student enrollment increased 92%. During this same period, tuition revenue grew from \$24.4 million to \$48.5 million, an increase of 99%. Undergraduate and graduate tuition rates were unchanged between the period of June 30, 2012 and June 30, 2014, while military tuition rates increased slightly in fiscal year 2013 and only applied to first-time new students entering the university.

As the interest and demand grew for CSU – Global online course offerings, so did its operating costs. From June 30, 2012 through June 30, 2014, the number of instructors (full-time equivalent) increased 108%. The number of non-teaching or support staff employees (full-time equivalent) increased 89% during this same period. CSU – Global invests approximately 41% of its operating budget on academic related activities such as online instruction, course design, maintenance and development. Between fiscal years 2012 and 2014, an average of 37% of CSU – Global's operating costs was spent on student enrollment and retention services, while an average of 22% was spent on administration, technology and facilities.

Nonoperating revenues increased to \$6.6 million in 2014 from \$4.7 million in 2013, or 40% and from \$3.0 million in 2012 to \$4.7 million in 2013, or 56.7%. This increase is attributable to the increased number of undergraduate students eligible for federal grants. Nonoperating revenues for CSU – Global primarily consist of federal Pell Grant awards received on behalf of students. Reporting standards require the receipt of these resources to be recognized as nonoperating revenue while the actual disbursement to students is reported as an operating expense.

CSU – Global's change in net position amounted to \$10.5 million and \$12.0 million for the fiscal years ended June 30, 2014 and June 30, 2013, respectively, as the result of increased revenues in excess of costs.

Statement of Cash Flows

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

Economic Outlook for Colorado State University-Global Campus

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

Colorado State University - Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

(Unaudited)

Management believes CSU – Global will experience unabated strong enrollment growth as new accredited programs and student experience enhancements are introduced across the nation, and as students continue to demand educational opportunities that provide access, affordability, and high academic quality. Although CSU – Global is a Colorado public university under the governance of the CSU System Board of Governors, it receives no state funding but instead relies on its own operational excellence and efficiencies to achieve its mission. Therefore, the threat of reduced or limited state support will not encumber the operational abilities of CSU – Global. It is the intent of management, as evidenced by its strong and favorable net position on June 30, 2014, to employ a fiscal policy of adding to its cash reserves while maintaining minimal long-term debt. Given CSU – Global's mission and focused initiatives, its leadership position in higher education innovation, and its understanding of the educational market, management believes that the University's financial position will remain strong.

CSU – Global is a young university that is rising up in a time that its industry is rapidly filling with competitive private equity players, for-profit publishers & businesses, large well-funded non-profit organizations, innovative upstarts and new public university online options. As in any industry, there are uncertain economic and political factors that may restrict the growth and threaten the financial viability of an organization. With CSU – Global's streamlined operational models that afford it flexibility and scalability, minimal long-term debt load, and low operating costs, and with its revenue diversification abilities, management believes that it is well-positioned for adverse and unforeseeable events.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University-Global Campus's finances for all those with an interest in CSU – Global's finances and to demonstrate CSU – Global's accountability for 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 Controller, Colorado State University-Global Campus, 7800 East Orchard Road, Suite 200, Greenwood Village, Colorado 80111.

Colorado State University-Global Campus

Statements of Net Position

June 30, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 33,180,810	\$ 16,241,524
Student accounts receivable, net	1,316,173	1,914,956
Grant and other accounts receivable, net	304,709	36,464
Inventories	5,953	-
Prepaid expenses	273,370	98,414
Total current assets	35,081,015	18,291,358
Capital assets		
Furniture and equipment, net	465,068	-
Software, net	243,804	38,875
Leasehold improvements, net	132,812	139,115
Total capital assets	841,684	177,990
Total assets	\$ 35,922,699	\$ 18,469,348
Liabilities		
Current liabilities		
Accounts payable	\$ 5,879,132	\$ 486,904
Accrued liabilities	2,041,118	1,625,952
Unearned revenue	1,761,484	958,466
Deposits held for others	272,642	235,122
Other noncurrent liabilities, current portion	45,116	-
Compensated absences, current portion	49,488	19,497
Total current liabilities	10,048,980	3,325,941
Noncurrent liabilities		
Compensated absence liabilities	294,269	269,398
Other noncurrent liabilities	169,184	-
Total noncurrent liabilities	463,453	269,398
Total liabilities	\$ 10,512,433	\$ 3,595,339
Net Position		
Net investment in capital assets	\$ 841,685	\$ 177,990
Restricted for expendable purposes		
Scholarships and grants	164,958	15,000
Other	16,750	21,750
Unrestricted	24,386,873	14,659,269
Total net position	\$ 25,410,266	\$ 14,874,009

Colorado State University-Global Campus
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues		
Student tuition and fees, net	\$ 48,454,218	\$ 34,683,974
Nongovernmental grants	-	36,750
Other operating revenue	1,192,425	452,281
Total operating revenues	<u>49,646,643</u>	<u>35,173,005</u>
Operating expenses		
Instruction	10,232,984	6,769,971
Academic support	2,960,592	2,598,913
Student services	13,196,369	7,303,544
Institutional support	5,274,946	5,820,294
Operation and maintenance of plant	418,996	182,158
Depreciation	93,291	-
Scholarships and fellowships	6,551,036	4,728,181
Total operating expenses	<u>38,728,214</u>	<u>27,403,061</u>
Operating income	<u>10,918,429</u>	<u>7,769,944</u>
Nonoperating revenues (expenses)		
Investment income	247,931	7,707
State nonoperating grants and contracts	(168,750)	-
Federal nonoperating grants and contracts	6,551,036	4,728,181
Net nonoperating revenues	<u>6,630,217</u>	<u>4,735,888</u>
Income before other revenues, expenses or transfers	<u>17,548,646</u>	<u>12,505,832</u>
Other revenues (expenses), or transfers		
Payments to governing boards or other institutions	(7,012,389)	(543,835)
Total other revenues, (expenses), or transfers	<u>(7,012,389)</u>	<u>(543,835)</u>
Increase in net position	10,536,257	11,961,997
Net position, beginning of year	14,874,009	2,912,012
Net position, end of year	<u>\$ 25,410,266</u>	<u>\$ 14,874,009</u>

Colorado State University System-Global Campus

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Cash received		
Tuition and fees	\$ 49,893,540	\$ 34,536,670
Nongovernmental grants	-	36,750
Other operating receipts	924,181	458,958
Cash payments		
Scholarships disbursed	(6,551,036)	(4,728,181)
Payments to employees	(15,634,296)	(12,291,058)
Payments to suppliers	(15,953,945)	(9,394,828)
Net cash provided by operating activities	12,678,444	8,618,311
Cash flows from noncapital financing activities		
Gifts and grants for other than capital purposes	(168,750)	-
Agency (direct lending inflows)	50,943,173	37,907,684
Agency (direct lending outflows)	(50,943,173)	(37,907,684)
Other agency (inflows)	618,308	395,437
Other agency (outflows)	(618,308)	(395,437)
Payments to governing boards or other institutions	(1,612,389)	(543,835)
Other nonoperating revenues	6,551,036	4,728,181
Net cash provided by noncapital financing activities	4,769,897	4,184,346
Cash flows from capital financing activities		
Acquisition and construction of capital assets	(756,986)	(177,990)
Net cash used in capital financing activities	(756,986)	(177,990)
Cash flows from investing activities		
Investment earnings	247,931	7,707
Net cash provided by investing activities	247,931	7,707
Net increase in cash and cash equivalents	16,939,286	12,632,374
Cash and cash equivalents, beginning of the year	16,241,524	3,609,150
Cash and cash equivalents, end of the year	\$ 33,180,810	\$ 16,241,524

Colorado State University System-Global Campus

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	\$ 10,918,429	\$ 7,769,944
Adjustments		
Depreciation expense	93,291	-
Noncash operating transactions	1,252,290	767,011
Decrease (increase) in assets		
Receivables, net	(921,752)	(1,504,723)
Inventories and prepaids	(180,909)	(98,414)
Increase (decrease) in liabilities		
Accounts payable	(7,771)	347,522
Accrued liabilities	415,166	739,326
Unearned revenue	803,018	668,012
Deposits held for others	37,520	(70,927)
Compensated absences liabilities	54,862	560
Other liabilities	214,300	-
Net cash provided by operating activities	\$ 12,678,444	\$ 8,618,311
Noncash activities		
Unrealized gains (losses) on investments	\$ 101,268	\$ (2,650)

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

(1) Governance and Reporting Entity

Governance

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

Reporting Entity

The accompanying financial statements present the operations of CSU – Global. As a higher education institution of the State of Colorado, the income of CSU – Global is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of CSU – Global would be subject to tax under IRC Section 511(a)(2)(B). CSU – Global had no material unrelated business income for the years ended June 30, 2014 and 2013.

(2) Basis of Presentation

During the year ended June 30, 2014, CSU – Global implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

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

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

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.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

Student Receivables

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

Inventories

Inventories, consisting of school store merchandise, are carried at cost.

Capital Assets

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

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

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

Compensated Absence Liabilities

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

Net Position

Net positions of the System are classified as follows:

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

Restricted net position – nonexpendable – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing future income, which may either be expended or added to principal. The University has no non-expendable assets as of June 30, 2014 or 2013.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

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

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

Classification of Revenues

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

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

Unearned Revenue

CSU – Global defers a portion of the tuition revenue for courses whose duration span two fiscal years. The unearned amount is based on the number of calendar days that occur after June 30.

Application of Restricted and Unrestricted Resources

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

Use of Estimates

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

(4) Cash and Cash Equivalents

CSU – Global deposits cash and cash equivalents with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities as prescribed by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2014, CSU – Global had cash on deposit with the State Treasurer of \$26.0 million, which represented approximately 0.35 percent of the total \$7.46 billion of fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2013, CSU – Global had cash on deposit with the State Treasurer of \$7.5 million which represented approximately 0.10 percent of the total \$7.26 billion of fair value of deposits in the State Treasurer's Pool (Pool).

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of CSU – Global's participation in the Pool, CSU – Global reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool and there is no assignment of income related to participation in the Pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

The difference between CSU – Global's cash carrying value, deposits with the State Treasurer and balances at other banks is due to outstanding checks and deposits in transit. CSU – Global earned interest of \$146,663 for the fiscal year ended June 30, 2014 and \$10,357 for the fiscal year ended June 30, 2013. However, CSU – Global recognized the occurrence of increases in cash and cash equivalents and increases or decreases in investment income as a result of unrealized gains or losses on deposits with the State Treasurer. CSU – Global reflected a cumulative unrealized gain of \$101,000 and \$12,000 in cash and cash equivalents on deposit with the State Treasurer for fiscal years ended June 30, 2014 and 2013, respectively. The unrealized gain on investment income for the fiscal year ended June 30, 2014 was \$101,000 and the unrealized loss on investment income for June 30, 2013 was \$3,000. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2014, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

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

At June 30, 2014 and 2013, CSU – Global's book and bank balance value of cash not on deposit with the

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

State Treasurer was \$7.2 million and \$8.8 million, respectively. Cash includes petty cash or cash on hand and cash in bank accounts. Bank account balances per the bank at June 30, 2014 and 2013, are \$6.2 million and \$8.1 million, respectively. Of the June 30, 2014 deposits, \$250,000 were covered by depository insurance and were not exposed to custodial credit risk, and the remaining \$6.0 million were collateralized with securities held by the pledging institution's trust department. Of the June 30, 2013 deposits, \$250,000 were covered by depository insurance and were not exposed to custodial credit risk, and the remaining \$7.9 million were collateralized with securities held by the pledging institution's trust department.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2014, approximately 87 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$15.2 million of corporate bonds rated lower medium, and \$25.4 million of corporate bonds rated very speculative, 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, 2013, approximately 88.5 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$41.1 million of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due.

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, 2014, the weighted average maturity of investments in the Treasurer's Pool was 0.043 years for Commercial Paper (1.0 percent of the Pool), 1.424 years for U.S. Government Securities (55.8 percent of Pool), 3.033 years for Asset Backed Securities (19.9 percent of the Pool), and 2.766 years for Corporate Bonds (23.3 percent of the Pool). As of June 30, 2013, the weighted average maturity of investments in the Pool was 0.037 years for Commercial Paper (1.0 percent of the Pool), 1.32 years for U.S. Government Securities (63.9 percent of the Pool), 3.371 years for Asset Backed Securities (16.0 percent of the Pool), and 3.100 years for Corporate Bonds (19.1 percent of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years ended June 30, 2014 or 2013.

Additional information on investments of the State Treasurer's Pool may be obtained in the State's Comprehensive Annual Financial Report for the fiscal years ended June 30, 2014 and 2013.

(5) Accounts Receivable

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

of net position.

	June 30	
	2014	2013
Student accounts receivable	\$ 4,432,470	\$ 3,925,672
Less: allowance for doubtful accounts	(3,116,297)	(2,010,716)
Student accounts receivable, net	\$ 1,316,173	\$ 1,914,956
Other accounts receivable, net	\$ 304,709	\$ 36,464

(6) Capital Assets

Capital assets as of June 30, 2014 and 2013, consist of the following:

	Balance 6/30/2013	Additions	Deletions	Transfers	Balance 6/30/2014
Depreciable capital assets					
Furniture and equipment	\$ -	\$ 384,735	\$ -	\$ 129,365	\$ 514,100
Software	38,875	229,155	-	-	268,030
Leasehold improvements	139,115	143,095	-	(129,365)	152,845
Total capital assets	177,990	756,985	-	-	934,975
Less accumulated depreciation					
Furniture and equipment	-	(49,032)	-	-	(49,032)
Software	-	(24,226)	-	-	(24,226)
Leasehold improvements	-	(20,033)	-	-	(20,033)
Total accumulated depreciation	-	(93,291)	-	-	(93,291)
Total capital assets, net	\$ 177,990	\$ 663,694	\$ -	\$ -	\$ 841,684

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

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

Depreciation expense for 2014 was \$93,291. No depreciation expense was recognized in 2013 as the assets were acquired close to June 30, 2013.

(7) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2014 and 2013, were composed of:

	June 30,	
	2014	2013
Accrued payroll and benefits	\$ 1,377,653	\$ 1,318,441
Other accrued liabilities	663,465	307,511
Total current accrued liabilities	\$ 2,041,118	\$ 1,625,952

(8) Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014	Amounts due within one year
Accrued compensated absences	\$ 288,895	\$ 205,350	\$ 150,488	\$ 343,757	\$ 49,488
Other	-	221,820	7,520	214,300	45,116
	\$ 288,895	\$ 427,170	\$ 158,008	\$ 558,057	\$ 94,604

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

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

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

(9) Operating Lease Commitment

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

Fiscal year ending June 30:

2015	\$ 462,735
2016	466,625
2017	468,456
2018	474,177
2019	358,551
Total	\$ 2,230,544

In May 2013 CSU – Global entered into a new five-year lease for office space, with a commencement date of October 18, 2013. The lease provides an option to renew the terms of the lease for two consecutive additional periods of five years each. The lease agreement also includes a stipulation for rent holidays, which are recognized on a straight-line basis over the life of the lease. The lease includes base rent payable net of property tax credits of \$2,345,770 beginning in March 2014. CSU – Global will receive a monthly property tax credit in the amount of \$2,594 beginning March 1, 2014 through the duration of the lease.

Total rent expense for the years ended June 30, 2014 and 2013 was \$374,811 and \$182,100, respectively.

(10) Net Position

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

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

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

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

(11) Employment Benefits

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

CSU – Global's total payroll for the fiscal years ended June 30, 2014 and 2013 was approximately \$15.7 million and \$11.7 million, respectively. Payroll for employees covered by the PERA plan and the optional defined contribution plan was approximately \$597,000 and \$628,000 for the fiscal years ended June 30, 2014 and 2013, respectively.

(a) PERA Defined Benefit Pension Plan

Plan Description

Employees of CSU – Global deemed eligible under PERA's membership rules for institutions of higher education may participate in the Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide lifetime retirement income to PERA annuitants and/or their families in the case of death or disability. The plan is a cost sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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

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

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

- Hired before July 1, 2005 – at age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with any years of service.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

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

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

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

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index (CPI) increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by a 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

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

Funding Policy

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

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

From July 1, 2013 to December 31, 2013, CSU – Global contributed 16.55 percent of the employee's salary. From January 1, 2014 through June 30, 2014, CSU – Global contributed 17.45 percent of the employee's salary. During all of Fiscal Year 2014, 1.02 percent of the employee's total salary was allocated to the Health Care Trust Fund.

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

Per Colorado Revised Statutes CRS 24-51-211(1), an amortization period of 30 years is deemed actuarially sound. At December 31, 2013, the division of PERA in which the State participates had a funded ratio of 57.5 percent and a 60-year amortization period based on current contribution rates. The funded ratio on the market value of assets was higher at 61.0 percent.

In the 2004 and 2010 legislative sessions, 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 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to maximum of 5 percent (except for the Judicial Division whose AED contribution was frozen at the 2010 level).

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent (except for the Judicial Division whose SAED contribution was frozen at the 2010 level). The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

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

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

CSU – Global's contributions to PERA for the fiscal years ending June 30, 2014 and 2013 were \$101 thousand and \$95 thousand, respectively. These contributions met the contribution requirement for each year.

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

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

Voluntary Tax-Deferred Retirement Plans

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

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan, which was established for state and local governmental employees in 1981. At July 1, 2009, the state's administrative functions for the 457 plan were transferred to PERA, and all cost of administration and funding are borne by the plan participants. In calendar year 2013, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$17,500. The reduction for the 8 percent PERA contribution reflects the expiration of the temporary contribution rate increase to 10.5 percent effective Fiscal Years 2010–11 and 2011–12. Participants who are age 50 and older, and contributing the maximum amount allowable, were allowed to make an additional \$5,500 contribution in 2013, for total

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

contributions of \$23,000. Contributions and earnings are tax deferred. At December 31, 2013, the plan had 17,462 participants.

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

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

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

The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 CRS). As a university of the Board of Governors for the Colorado State University System, CSU – Global employees are eligible to participate in the System's retirement plan. The Defined Contribution Retirement Plan is a qualified plan under Section 401(a) of the IRC. CSU – Global participants contribute the required 8 percent of eligible salary. CSU – Global provides a matching contribution of 11.1 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. CSU – Global's aggregate contribution to the above two vendors was equal to 11.1 percent and 11.1 percent of covered payroll or approximately \$1.6 million and \$1.1 million for the fiscal years ended June 30, 2014 and 2013, respectively. The employee aggregate contribution to the above two vendors was equal to 8.0 percent and 8.0 percent of covered payroll or approximately \$1.2 million and \$842 thousand for the fiscal year ended June 30, 2014 and 2013, respectively.

Health and Life Insurance Programs

CSU – Global's contribution to the various health insurance programs was approximately \$1.1 million and \$706 thousand for the fiscal years ended June 30, 2014 and 2013, respectively.

(12) Compensated Absences Liability

CSU – Global employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2014 and 2013 was \$344 thousand and \$289 thousand, respectively.

Overall, net expenses increased by \$55 thousand for the fiscal year ended June 30, 2014 and \$1 thousand for the fiscal year ended June 30, 2013, for the estimated compensated absences liabilities.

(13) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2014 and 2013, CSU – Global participated in the federal

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While CSU – Global helps students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amounts of Direct Loans disbursed during the fiscal years ended June 30, 2014 and 2013 were \$50.9 million and \$37.9 million, respectively.

(14) Scholarship Allowance

Tuition and fees revenues and the related scholarship and bad debt allowances for the year ended June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Gross revenue	\$ 50,195,762	\$ 35,826,054
Bad debt allowance	1,252,290	767,011
Scholarship allowances		
Institutional	489,254	375,069
Total allowances	<u>1,741,544</u>	<u>1,142,080</u>
Net revenue	<u>\$ 48,454,218</u>	<u>\$ 34,683,974</u>

(15) Commitments and Contingencies

At June 30, 2014, CSU – Global had an open commitment to transfer approximately \$5.4 million to CSU-Pueblo in connection with the Colorado State University Board of Governors' resolutions of February 14, 2014, and June 20, 2014, to balance the CSU-Pueblo budget for fiscal year 2014.

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

(16) Related-Party Transactions

In February and June 2014, the Colorado State University Board of Governors approved resolutions to transfer monies from the funds of the Board to balance the CSU-Pueblo budget for fiscal year 2014 with the intent that such funds would be transferred from CSU – Global to CSU-Pueblo. As such, at June 30, 2014, accounts payable includes \$5.4 million as an obligation to CSU-Pueblo.

In years prior to fiscal year 2010, CSU-Pueblo and CSU-Fort Collins advanced \$12 million as a start-up loan to create CSU – Global. The advance from CSU-Fort Collins did not include interest. Subsequent to preparation of the 2012 financials, it was determined that because of financial stability obtained by CSU – Global, interest would be retroactively charged on the advance from Fort Collins. During 2013, \$1,267,543 of interest was accrued and paid to CSU-Fort Collins. Principal and accrued interest were paid to CSU-Pueblo during 2012.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2014 and 2013

(17) Risk Management

CSU – Global is exposed to various risks of loss related to torts; theft of damage to and destruction of assets or information; business interruption; errors and omissions; employee injuries and illnesses; natural disasters and employee health and accident benefits. Insurance coverage for claims arising from such matters including those related to workers' compensation and natural disasters is purchased from the State of Colorado's Risk Management program. Settled claims have not exceeded this coverage in 2014 or 2013. Claims are administered by the Colorado Division of Risk Management.

(18) Subsequent Events

Subsequent events have been evaluated through November 26, 2014, which is the date the financial statements were available to be issued.

Payment to CSU-Pueblo

In August 2014, CSU – Global paid \$5.4 million to CSU-Pueblo (see Notes 15 and 16).

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

Members of the Legislative Audit Committee:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System, State of Colorado (the CSU System) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CSU – Global's basic financial statements and have issued our report thereon dated November 26, 2014, which contained an explanatory paragraph indicating the financial statements do not purport to, and do not, present the CSU System's financial position, changes in financial position, or, where applicable, cash flows.

Internal Control Over Financial Reporting

Management of CSU – Global is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered CSU – Global's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSU – Global's internal control. Accordingly, we do not express an opinion on the effectiveness of CSU – Global's internal control.

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

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

Members of the Legislative Audit Committee

Compliance and Other Matters

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

Purpose of this Report

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

BKD, LLP

Denver, Colorado
November 26, 2014

Independent Auditor's Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System (the CSU System) as of and for the year ended June 30, 2014, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

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

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

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

Alternative Accounting Treatments

- No matters are reportable.

Members of the Legislative Audit Committee

Management Judgments and Accounting Estimates

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

- Allowance for doubtful accounts
- Scholarship allowance
- Compensated absences

Financial Statement Disclosures

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

- Related-party transactions

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material individually or in the aggregate.

Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded:

- Bonus accrual
- Liability for transfer to Colorado State University – Pueblo

Proposed Audit Adjustments Not Recorded:

- The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets by \$47,304, increase current liabilities by \$32,304 and increase beginning of the year net position by \$48,687 as of June 30, 2013 and increase revenues and operating expenses for the year ended June 30, 2013, by \$15,000 and \$48,687, respectively.

Auditor's Judgments About the Quality of CSU – Global's Accounting Principles

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

- No matters are reportable.

Members of the Legislative Audit Committee

Other Material Written Communications

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

- Management representation letter
- Management letter

* * * * *

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

BKD, LLP

Denver, Colorado
November 26, 2014

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