COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

Year ended June 30, 2004

LEGISLATIVE AUDIT COMMITTEE
2004 MEMBERS
Effective August 2, 2004

Representative Val Vigil
Vice Chairman

Senator Norma Anderson
Representative Fran Coleman
Representative Pamela Rhodes
Representative Lola Spradley
Senator Stephanie Takis
Senator Jack Taylor
Senator Ron Tupa

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

Year ended June 30, 2004

Table of Contents

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Financial and Compliance Audit

Year ended June 30, 2004

Table of Contents

COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2004

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, 2004. 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 June 1 to September 24, 2004. The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the Colorado State University System as of and for the year ended June 30, 2004. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards.*
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Report on the Colorado State University System's internal control over financial reporting and compliance and other matters based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards.*
- Report on the Colorado State University System's compliance with applicable bond covenants.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the Colorado State University System for the year ended June 30, 2004.
- 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, 2004 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, 2004.

Twelve audit adjustments were proposed and made to the basic financial statements which had a net effect on net assets of approximately $2,405,000. Eight additional audit adjustments were not made to the basic financial statements which had a net effect on net assets of approximately ($53,000) and beginning net assets of approximately $340,000. These passed differences are not considered material to the System's basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2004

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

Summary of Key Findings

Revenue Recognition for Grants and Contracts

Colorado State University currently receives over 400 federal grants and awards on an annual basis. During the current year, four specific accounting errors were recorded in the Financial Reporting System (FRS) related to grants and contracts revenue recognition. These errors were due to the fact that the closeout process did not appropriately evaluate certain deferrals at year-end. These accounting errors impacted initial drafts of the financial statements and the information provided for the State's schedule of expenditures of federal awards.

Scholarship Allowances

Scholarship allowances were approximately $29 million in fiscal 2004. A review of the aid included in the scholarship allowance calculation identified an aid type that was inappropriately excluded from the calculation. Subsequent investigation by Colorado State University noted other aid types that were inappropriately included in the calculation. As a result, audit adjustments totaling approximately $693,000 were made in order to correctly state scholarship allowance.

Payroll and Related Benefits Accounting

Colorado State University incurred approximately $341 million in payroll expense, which is approximately 57% of total operating expenses. Our audit found there is a need to improve certain aspects of payroll and related benefits accounting. Areas needing improvement include (1) the quantification and remediation of payroll errors, (2) the payment of claims expenses, and (3) the reconciliation of the Human Resource System (HRS) to the FRS.

Recommendations and the System's Responses

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

COLORADO STATE UNIVERSITY SYSTEM

Report Summary

Year ended June 30, 2004

Summary of Progress in Implementing Prior Year Audit Recommendations

The audit report for the year ended June 30, 2003 included 17 recommendations. The disposition of these audit recommendations as of September 24, 2004 was as follows.

Implemented	13
Partially implemented	4
	17

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2004

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
1	18	Improve the process for accounting for capital assets by:	CSU		
		a. Providing additional training on the application of the capital lease criteria for all individuals involved in lease classifications. In addition, because numerous lease agreements are with the Colorado State University Research Foundation (CSURF), CSU should review lease agreements with CSURF and suggest changes to lease agreements that would make lease criteria readily apparent. Lastly, CSU should obtain a quote for purchase if the fair market value is unknown in order to adequately consider the fair market value criterion when performing the capital lease versus operating lease determination.		a. Agree	a. December 2004
		b. Modifying the current process for capitalizing equipment by requiring that (1) capital assets be capitalized based upon amount paid per the invoice or other supporting documentation; (2) capital assets only be capitalized and entered into the depreciation system once the asset is placed into service; and (3) equipment be capitalized by asset, not by individual payments.		b. Agree	b. December 2004

(Continued)

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
2	19	For advanced-funded grants, improve the revenue recognition process for grants and contracts by: a. Ensuring cash advances should be deferred versus applying the amount against a receivable previously established. b. Enhancing the year-end grant review process by examining significant grant and contract agreements to determine if the university is receiving value without directly giving equal value in return. If this is the case, the transaction should be considered nonexchange and GASB Statement No. 33 should be referred to for revenue recognition authoritative guidance.	CSU	a. Agree b. Agree	a. June 2005 b. June 2005
3	20	Modify the current closing process regarding grant and contract accounts. For over-expended grants, CSU should not defer expenses into the next fiscal year. Expenses should be recognized as incurred. Also, when reviewing over-expended grants at year-end, CSU should assess whether additional grant monies will be received to reimburse the expenses. If so, CSU should then determine if it is appropriate to record a grant revenue and a related receivable.	CSU	Agree	November 2004

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2004

Recommendation Locator					
Rec. No.	**Page No.**	**Recommendation Summary**	**University Addressed**	**University Response**	**Implementation Date**
4	21	Improve its scholarship allowance calculation by:	CSU		
		a. Requiring all changes in transaction codes be approved by Business and Financial Services.		a. Agree	a. Implemented
		b. Training individuals who use or define the transaction codes on the effect of the changes on the Scholarship Allowance calculation and increase awareness of the appropriate aid types to be included in the scholarship allowance.		b. Agree	b. Implemented
		c. Reconciling total aid from the scholarship allowance program to the Financial Reporting System (FRS) and validating all reconciling items.		c. Agree	c. July 2005
5	22	Strengthen the payroll and related benefits process by:	CSU		
		a. Implementing a control that will ensure that the withholding status of employees claiming exemption from income taxes is adjusted by February 15th of each year if a new W-4 form has not been submitted. In the instance that the tax filing status of affected employees is not adjusted timely, or any other error occurs, the overall error should be immediately quantified and Business and Financial Services should be notified timely.		a. Agree	a. Implemented
		b. Implementing a control that prevents the double payment of invoices.		b. Agree	b. Implemented

(Continued)

Recommendation Locator					
Rec. No.	**Page No.**	**Recommendation Summary**	**University Addressed**	**University Response**	**Implementation Date**
		c. Reevaluating the claim payment process to determine if there are unnecessary steps in the process, and if so, the steps should be eliminated.		c. Agree	c. November 2004
		d. Reconcile the Human Resource System (HRS) to the general ledger, FRS, at least monthly. This reconciliation should reconcile total expenses as well as net cash paid. All reconciling items should be supported and the reconciliation should be reviewed by a person higher than the reconciliation preparer.		d. Agree	d. February 2005
6	23	Strengthen the gift and grant classification determination by implementing a policy requiring the Business and Financial Services Department review gift and grant designations.	CSU	Agree	January 2005
7	24	Strengthen the process for accounting for Bookstore purchases by:	CSU		
		a. Providing training related to year-end accruals and the importance of shipping terms in the determination of ownership of inventory.		a. Agree	a. February 2005
		b. Performing a review of the Bookstore's current purchasing practices to ensure that they are in compliance with both State and CSU purchasing requirements.		b. Agree	b. February 2005

(Continued)

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
8	24	Implement policies to require knowledgeable individuals approve all journal entries prior to being posted to the general ledger. Alternatively, the University may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance a material error could be posted to the financial system.	CSU	Agree	February 2005
9	25	Strengthen controls over cash by:	CSU-P		
		a. Ensuring all cash accounts are recorded on the general ledger and reconciled to the bank statements on a monthly basis.		a. Agree	a. November 2004
		b. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer. This review should include ensuring (1) the reconciliation is prepared on a timely basis; (2) the reconciliation is accurate and errors are detected; and (3) reconciling items are appropriate.		b. Agree	b. November 2004
10	26	Strengthen the tuition and fee revenue recognition process by implementing policies to ensure that the calculation of deferred revenue is based on actual days incurred prior to June 30. The calculation should be reviewed by someone at least one level higher than the preparer.	CSU-P	Agree	June 2005

(Continued)

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
11	26	Strengthen the controls over the purchasing card disbursement process by requiring all employees' purchasing card logs to be reviewed and approved. For those employees for which there is no direct supervisor to approve purchasing card logs, the logs should be forwarded to the Controller for review and approval prior to payment.	CSU-P	Agree	November 2004
12	27	Improve segregation of duties within the payroll disbursement process by establishing a review control. The person performing the review should be separate from the input function and should review the payroll information prior to submission for payment. This review should be documented.	CSU-P	Agree	November 2004
13	28	Establish procedures to ensure that data elements calculated as a result of professional judgment are correct when determining eligibility for student financial assistance. Manual professional judgment calculations should be reviewed at least on a test basis.	CSU	Agree	May 2005
14	29	Reinforce existing procedures and provide additional training to ensure that the Technology Charge Award (TCA) process is properly adjusted when costs of attendance are adjusted during the second day of the TCA process.	CSU	Agree	Implemented

(Continued)

Recommendation Locator

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
15	29	Reinforce existing procedures provide additional training to ensure that manually awarded loans are disbursed in equal installments.	CSU	Agree	January 2005
16	30	Implement procedures to ensure that all elements of the Fiscal Operations Report and Application to Participate (FISAP) are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation	CSU	Agree	September 2005
17	31	Establish procedures to ensure that the midpoint of the semester is properly calculated and that requests for Federal Family Education Loan funds and disbursements of these funds are made according to the properly calculated midpoint.	CSU-P	Agree	February 2005
18	32	Implement procedures whereby there is a segregation of duties between calculating the drawdown, making the drawdown, and reviewing the drawdowns.	CSU-P	Agree	October 2004
19	33	Implement monitoring procedures over the verification process to ensure that information used to calculate the Expected Family Contribution (EFC) is accurate.	CSU-P	Agree	February 2005

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Recommendation Locator

Year ended June 30, 2004

Recommendation Locator					
Rec. No.	**Page No.**	**Recommendation Summary**	**University Addressed**	**University Response**	**Implementation Date**
20	34	Implement procedures to ensure all elements of the Fiscal Operations Report and Application to Participate report are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.	CSU-P	Agree	September 2005
21	35	Include a standard clause in all purchase orders, maintain a suspended and debarred file, and document the review of the *Excluded Parties List System* (EPLS) for all vendors related to federal grants, or require certifications for all agreements related to federal grants. For control purposes, on a quarterly basis, CSU should generate the report of vendors receiving federal monies in excess of $25,000 and verify that there is a certification, EPLS printout, or clause in the contract for each of the vendors on the report.	CSU	Agree	December 2004
22	36	Establish procedures to ensure that new Form W-4s are obtained by February 15 for those employees who filed a Form W-4 claiming exemption from withholdings in the prior year. The university should establish procedures to ensure that if a new Form W-4 is not received by February 15, then withholding taxes will begin on February 16 using the single with zero withholding allowances status.	CSU	Agree	Implemented
23	37	Establish procedures to ensure that work-study timesheets are properly completed and certified, and payments are based upon time actually worked.	CSU	Agree	Implemented

Organization and Administration

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

The Board is also responsible for the Colorado State University Agricultural Experiment Station, the Cooperative Extension Service, and the Colorado State Forest Service. The 13-member Board consists of:

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

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

Colorado State University – Fort Collins

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

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

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

Resident Instruction

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

College of Agriculture Sciences

College of Applied Human Sciences

College of Arts, Humanities and Social Sciences

College of Business

College of Engineering

College of Forestry and Natural Resources

College of Natural Sciences

College of Veterinary Medicine and Biomedical Sciences

Agricultural Experiment Station

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

Cooperative Extension Service

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

Colorado State Forest Service

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

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.

Enrollment and Faculty

Enrollment and faculty and staff information is presented below. Enrollment information was obtained from the Format 30 of the Budget Data Book for fiscal year 2003-2004, prepared for the Colorado Commission on Higher Education (CCHE).

(Continued)

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:			
2003 – 2004	17,830	4,795	22,625
2002 – 2003	17,363	4,923	22,286
2001 – 2002	16,593	4,875	21,468

Colorado State University
Full-Time Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2003 – 2004	1,451	4,029	5,480
2002 – 2003	1,437	4,137	5,574
2001 – 2002	1,552	4,011	5,563

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:			
2003 – 2004	3,158	376	3,534
2002 – 2003	3,030	418	3,448
2001 – 2002	3,045	470	3,515

Colorado State University – Pueblo
Full-Time Faculty and Staff

	Faculty	Staff	Total
Fiscal year:			
2003 – 2004	192	171	363
2002 – 2003	209	190	399
2001 – 2002	207	197	404

(Continued)

Colorado State University Foundation (the Foundation)

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

We have audited the basic financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2004, and have issued our report, thereon, dated September 24, 2004. In planning and performing our audit of the basic financial statements, we considered the System's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States, we also have issued our report dated September 24, 2004 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 September 24, 2004. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors and were not audited in accordance with *Government Auditing Standards.*

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

In the prior year engagement, we made several such comments and suggestions that we believed to be useful to the System. Over the past year, the System has made great strides in implementing these suggestions. We believe by implementing these suggestions, the System has not only demonstrated its commitment to improving its internal control structure, but it also improved its financial reporting process as well.

During our current year engagement, we noted certain new matters involving internal control and other operational matters that are presented for the System's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the System's management, are intended to further improve internal control or result in other operating efficiencies. Although some of the matters noted below resulted in no audit adjustment due to insignificance to the basic financial statements as a whole, the recommendations are reported in order to help prevent material exceptions in the future.

Colorado State University

Capital Asset Accounting

At June 30, 2004, Colorado State University (CSU) had approximately $393 million in capital assets, which was net of accumulated depreciation of approximately $336 million. During fiscal year 2004, CSU purchased or acquired approximately $64 million in new capital assets. The management of these capital assets at CSU has been delegated to several individuals, including Facilities Management, Property Management, a lease technician, and a plant fund accountant. In 2004, the overall responsibility for all capital assets was moved to one individual. During the audit, we identified the following situations:

Lease Evaluation Process: Based upon a prior year recommendation, CSU implemented a new process in order to distinguish between operating leases and capital leases during the current year. (An operating lease is similar to a rental agreement and the lease does not transfer ownership rights, risks, or rewards to CSU. Operating lease payments are recorded as an expense of CSU. A capital lease transfers ownership rights, risks, and rewards to CSU. CSU must record an asset and related obligation at the inception of this lease for such capital leases.) This process involved the creation of an evaluation form to help facilitate the determination between the two types of leases. During fiscal year 2004, CSU reviewed all leases (approximately 150) for proper classification and useful lives using this form. We selected a sample of 20 capital leases and noted the following:

- Three existing capital leases had the useful lives of the related asset incorrectly changed to the lease term;
- One asset related to a new lease was assigned an incorrect useful life;
- One lease file did not have a supporting lease agreement; and
- One lease was inappropriately classified as a capital lease.

In addition, KPMG selected a sample of nine operating leases and reviewed for proper classification and that the payment schedule was accurate. We noted two instances in which the fair market value criterion was not considered in determining the proper classification.

The errors noted as a result of our audit work were not significant to the basic financial statements as a whole and an audit adjustment was not proposed.

Equipment Additions: In 2004, CSU equipment additions were approximately $13.6 million. In testing the additions, KPMG selected a sample of 46 items and noted the following:

- A reversal of $1,017,000 made by CSU which related to an inappropriate prior year accrual. The accrual was made based on an unpaid balance of a purchase order open at June 30, 2003. In fiscal year 2004, CSU determined that the item had not been received and was not even completely built by the subcontractor. Thus, at June 30, 2003, capital assets and accrued liabilities were overstated by this amount.
- One piece of equipment was capitalized as three pieces coinciding with timing of payments instead of at the time of initial acquisition. As all of the payments were made in fiscal year 2004, the total capitalized amount was appropriate.
- Four pieces of equipment were capitalized at an average cost amount instead of the actual cost of each piece. As such, we were unable to tie the individual capitalized amount per item to the actual invoice. Additionally, CSU appeared to include noncapitalizable costs in the total capitalized amounts, such as computer supplies. The total difference between the capitalized amounts and the actual invoice was insignificant; thus, an audit adjustment was not proposed.
- One piece of equipment was capitalized based on the amount on the purchase order versus the amount on the invoice. The difference between the purchase order and the actual invoice was insignificant; thus, an audit adjustment was not proposed.
- The university paid approximately $340,000 for a piece of equipment in the prior year. These costs were incorrectly expensed versus capitalized in the prior year. During the current year, this mistake was noted by the university. In order to correct this, CSU had to capitalize the equipment in the current year by reducing current year expenditures. KPMG proposed a passed audit adjustment for this amount.

(Continued)

- During the current year, a piece of equipment was entered into the depreciation system during current year for the amount of a partial payment only. This equipment had not yet been received by year-end and CSU had subsequent payments to be paid in 2005. This equipment should have been placed in Construction in Progress and should not have been depreciated during the current year. The effect on depreciation expense was not significant; thus, an audit adjustment was not proposed.

Recommendation No. 1

Colorado State University should improve its process for accounting for capital assets by:

a. Providing additional training on the application of the capital lease criteria for all individuals involved in lease classifications. In addition, because numerous lease agreements are with the Colorado State University Research Foundation (CSURF), CSU should review lease agreements with CSURF and suggest changes to lease agreements that would make lease criteria readily apparent. Lastly, CSU should obtain a quote for purchase if the fair market value is unknown in order to adequately consider the fair market value criterion when performing the capital lease versus operating lease determination.

b. Modifying the current process for capitalizing equipment by requiring that (1) capital assets be capitalized based upon the amount paid per the invoice or other supporting documentation; (2) capital assets only be capitalized and entered into the depreciation system once the asset is placed into service; and (3) equipment be capitalized by the cost of the asset at the time of acquisition, not by individual payments.

Colorado State University Response:

a. Agree. Implementation date – December 2004.

b. Agree. Implementation date – December 2004.

Revenue Recognition for Grants and Contracts

CSU received over 400 federal, state, and local grants and contracts totaling $221 million in revenue for fiscal year 2004. Grants and contract revenue transactions can be either (1) exchange revenue transactions or (2) nonexchange revenue transactions. For nonexchange revenue transactions, revenue recognition is determined by the guidance set forth in Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB Statement No. 33). During our testwork over grants and contracts, KPMG selected a sample of 16 grants and contracts that were advanced-funded during the year in which CSU had deferred the related revenue. During this testwork, we noted the following:

- One instance in which deferred revenue did not exist. CSU received cash for a particular contract and did not apply the cash against the appropriate accounts receivable balance. At year-end, CSU recognized deferred revenue for the amount of cash received. Thus, prior to adjustment, accounts receivable and deferred revenue balances were overstated by approximately $1.1 million at year-end. An audit adjustment was recorded for this amount to eliminate the deferred revenue and to apply the cash against the accounts receivable balance.
- Three instances in which grant/contract revenue was incorrectly deferred. In these instances, the grant/contract monies were advanced to CSU. During their year-end grant review process, CSU considered these grants/contracts exchange transactions; thus, the university deferred the revenue under the premise that the revenue had not yet been earned. We obtained copies of these grant agreements and concluded that

these agreements were actually nonexchange transactions versus exchange transactions. We then reviewed the agreements further and, according to the guidance within GASB Statement No. 33, concluded that these revenues should have been recognized versus deferred. An audit adjustment was proposed in the amount of $1.4 million to reverse the deferred revenue and to recognize the revenue. $941,000 of this proposed entry was actually recorded.

- One instance in which CSU incorrectly recognized a deferred revenue for a cash advance from the state related to certain forest fire costs. Both the federal government and the state are responsible for expenditures incurred to fight forest fires and each party typically covers 75% and 25%, respectively. At June 30, 2004, CSU had received cash from the state to cover all fire-related expenditures (approximately $2.3 million) with the expectation that some of the monies would be returned to the state once CSU received the federal reimbursement. Originally, CSU recorded a deferred revenue for $2.3 million related to the cash advance transaction. CSU also recorded a revenue and a receivable for approximately $2.3 million. Upon investigation of this unique situation, it was noted that CSU should have recognized a payable to the state for the same amount expected to be reimbursed by the federal government, state revenue for the difference of the $2.3 million and the amount to be received from the federal government, and the receivable balance should have only been for the amount expected to be received from the federal government – not the full $2.3 million. Audit adjustments were made to correctly record the above transactions. The net effect was a decrease to other receivables of approximately $604,000, a decrease to deferred revenue of $2.3 million, and an increase in payables of $1.6 million. Also, the information prepared to be submitted for the state schedule of expenditures of federal awards had to be adjusted for the related expenses reimbursed by the federal government.

Recommendation No. 2

For advanced-funded grants, CSU should improve its revenue recognition process for grants and contracts by:

a. Ensuring cash advances should be deferred versus applying the amount against a receivable previously established; and

b. Enhancing the year-end grant review process by examining significant grant and contract agreements to determine if the university is receiving value without directly giving equal value in return. If this is the case, the transaction should be considered nonexchange and GASB Statement No. 33 should be referred to for revenue recognition authoritative guidance.

Colorado State University Response:

a. Agree. CSU will implement procedures to ensure that all project accounts are consolidated prior to classifying the net amount as a receivable versus a deferred revenue. Implementation date – Since this is a year-end closing procedure, this recommendation will be implemented in June 2005.

b. Agree. CSU will implement procedures to ensure that all significant award documents are reviewed to ascertain the implications of GASB Statement No. 33. Implementation date – Since this is a year-end closing procedure, this recommendation will be implemented in June 2005.

(Continued)

Deferral of Expenditures Related to Grants and Contracts

During the current year, CSU implemented a new closing process as a result of a prior year recommendation to ensure proper grant and contract revenue recognition. With this new process, expenses related to projects that were in excess of budget (over-expended grants) for which additional sponsor funding was to be received were deferred as a prepaid expense. CSU deferred these expenses in order to recognize the expense at the time the potential additional funding was to be received. According to CSU's new closing process, once the funding was received, the expense was to be recognized to create appropriate "matching". This process did not consider when the actual expense had been incurred. During our testwork, we concluded that $3.6 million in prepaid expenses at June 30, 2004 were actually costs of the fiscal year and should not have been deferred. We then selected a sample of 17 grants related to the deferred expenses and reviewed the applicable grant documentation. For all 17 grants, the overall program was approved and additional funding was to be received to cover these expenses. CSU was waiting for the release of funds from the agencies. Based upon the review of the 17 grants, CSU should have recognized grant revenue and the related receivable for the same $3.6 million. In summary, CSU was inappropriately deferring expenses incurred during the current year. As a result, CSU did not accrue grant revenue that should have been recognized in the current year. As such, an audit adjustment was recorded to recognize the expense of $3.6 million and to record the related revenue and receivable for the same amount.

Recommendation No. 3

CSU should modify its current closing process for over-expended grants and recognize expenses as incurred. Also, when reviewing over-expended grants at year-end, CSU should assess whether additional grant monies will be received to reimburse the expenses in order to determine if a grant revenue and related receivable should be recorded. This assessment should include reviewing grant agreements, communicating with the grantor, and reviewing grant revenue activity in the subsequent year.

Colorado State University Response:

Agree. CSU will modify its closing process to record revenue and recognize a corresponding receivable for all projects incurring expenditures beyond available resources when additional resources are anticipated and verifiable. CSU currently tracks projects falling into this category on a routine basis with continual contact with the respective sponsor to ensure receipt of on-going funding. Implementation date – November 2004.

Scholarship Allowances

Revenues are required to be reported net of discounts and allowances as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* As a result, state institutions of higher education, such as CSU, are required to report revenues net of a scholarship allowance. A scholarship allowance is the difference between the stated charge for goods and services provided by the institution and the amount that is paid by students and/or third parties making payments on behalf of students. We selected a sample of 32 students to determine if the scholarship allowance was being appropriately calculated. In that sample, we noted the following:

1. Three instances of students having alternative loans which were inappropriately included in the scholarship allowance calculation; and

2. Three instances of students having short-term loans which were inappropriately included in the scholarship allowance calculation.

In addition to the above, we obtained a reconciliation of the financial aid per the scholarship allowance report to the Financial Reporting System (FRS). In reviewing this schedule, we noted that there were monies in the agency fund that were inappropriately included in the scholarship allowance calculation.

Once the above items were identified, we were able to determine that the majority of the exception amount was the result of a change in a transaction code during 2004. This change was made by the Student Accounts Receivable Office. The Business and Financial Services Department (BFS) which is responsible for the calculation of the Scholarship Allowance was unaware of the change. An audit adjustment was proposed to reduce the scholarship allowance by approximately $2,838,000.

As a result of the identification of the above, CSU performed an in-depth review of the various aid types in relation to the scholarship allowance calculation and found an additional aid type that was inappropriately excluded. We reviewed this aid type and agreed that this amount should be included. As such, an additional entry was proposed to increase the scholarship allowance by approximately $2,145,000. The net effect of both entries was a decrease to the scholarship allowance in the amount of $693,000.

Recommendation No. 4

Colorado State University should improve its process for recording scholarship allowances by:

a. Requiring that all changes in transaction codes be approved by Business and Financial Services;

b. Training individuals who use or define the transaction codes on the effect of the changes to the scholarship allowance calculation and increase awareness of appropriate aid types to be included in the scholarship allowance; and

c. Reconciling total aid from the scholarship allowance program to the Financial Reporting System and validate all reconciling items for appropriateness.

Colorado State University Response:

a. This procedure was implemented in September 2004.

b. This was implemented in September 2004.

c. Agree. Implementation date – Since this is a year-end closing procedure, this recommendation will be implemented in July 2005.

Accounting for Payroll and Related Benefits

CSU incurred approximately $341 million in payroll expenses, which represents approximately 56.9% of operating expenses. Payroll and benefits are tracked and recorded on the Human Resource System (HRS). While testing payroll, we noted the following items:

a. Employees who claim exemption from income tax withholdings are required to complete a W-4 payroll form noting exempt status on an annual basis. The exemption status is effective until February 15th of the following year. For employees who do not complete a new W-4 by this date, income tax withholdings are to be withheld until a new form is obtained. During the current year, CSU failed to withhold income tax withholdings from employees who had not re-filed their W-4. At the time the error was detected, there was no determination of the related tax effect individually or aggregately. An estimation of the tax effect was not completed until we requested it in August 2004. In addition, Human Resources/Payroll did not notify Business and Financial Services of the error or of the possible tax implications. Based on the analysis, the related effect was insignificant to the financial statements of the university; yet, employees' pay was not adjusted for the proper exemptions until August 2004. Also see how this affected state programs at Recommendation No. 22.

b. CSU utilizes a claims processor for its self-insured health, dental, and pharmaceutical claims. The claims processor invoices CSU weekly. These invoices are processed by the Human Resources Department rather than the Accounts Payable Department. In 2004, one weekly payment was paid twice. This additional payment was noted during the monthly reconciliation process. The claims processor allowed CSU to apply the second payment to a future expense, and CSU adjusted its records accordingly.

c. As part of the claims payment process, CSU writes a check from a bank account and deposits the check into the same account from which it was written. Once the deposit clears, the wire is then sent from that same bank account to the claims processor. Similarly with the prior year, the check written is accounted for as an outstanding check but was not accounted for as a deposit in transit, thus understating cash. The amount was insignificant; therefore, an audit adjustment was not proposed.

d. We noted that the HRS to Financial Reporting System (FRS) reconciliation was performed on a monthly basis, yet this procedure only reconciled the net cash outlay instead of total expenses. Also, this reconciliation was not reviewed by someone at least one level higher than the preparer.

Recommendation No. 5

Colorado State University should improve its payroll and related benefits accounting process by:

a. Implementing a control that will ensure that the withholding status of employees claiming exemption from income taxes is adjusted by February 15th of each year if a new W-4 form has not been submitted. In the instance that the tax filing status of affected employees is not adjusted timely, or any other error occurs, the overall error should be immediately quantified and Business and Financial Services should be notified immediately.

b. Implementing a control within the Human Resources Department that prevents the double payment of invoices.

c. Reevaluating the claims payment process. CSU should determine whether the initial disbursement check is necessary, and if not, the process should be revised.

d. Reconciling HRS to FRS monthly. The process should include all expense codes and should reconcile total payroll expenses as well as net cash. The payroll expense report as generated by HRS should be reconciled to FRS balances, and reconciling items should be appropriately investigated. Documentation supporting the amounts on the reconciliation, including reconciling items, should be maintained. Finally, the reconciliation should be reviewed by someone at least one level higher than the preparer before being sent to BFS.

(Continued)

Colorado State University Response:

a. Agree. Implemented October 2004.

b. Agree. Implemented October 2004.

c. Agree. Implementation date – November 2004.

d. Agree. Implementation date – February 2005.

Gift and Grant Determinations

CSU received approximately $14.3 million in gifts, $2.1 million in capital grants, and $8.6 million in capital gifts. Revenue classifications between these three types of revenue streams are currently determined by the Advancement Services Office. Additionally, the current Financial Policy and Procedures Instructions Manual states that if there is a question relating to the classification as it relates to contributions versus exchange transactions, Advancement Services will contact the Office of Sponsored Programs (OSP). We selected a sample of these transactions including nine capital gifts and grants. In this sample, we noted one instance in which an item was classified as a capital gift when the item was actually a capital grant in the amount of approximately $361,000. Upon additional discussion, it was determined that the Controller's Office staff conducted a review of large nonoperating revenue transactions to validate the classification of gift and grant revenue and the revenue recognition criteria applied. This review resulted in several reclassifications from gift to grant revenue late in the fiscal year similar to the instance noted by us.

Recommendation No. 6

Colorado State University should improve its process of accounting for gifts and grants by revising the policy requiring the BFS to review all gift and grant designations. This review should be performed by the BFS given that the overall financial reporting is the responsibility of Business and Financial Services (BFS), there is relatively low number of transactions, and the distinction of gifts and grants may be difficult.

Colorado State University Response:

Agree. Colorado State University will review the existing accounting policies and procedures relating to gift verses grant determinations and will revise if necessary to ensure that these accounting determinations are accurate and are reported correctly. Implementation date – January 2005.

Bookstore Purchasing

The Bookstore has a purchasing process that is separate from the CSU purchasing department. During the audit, we selected two invoices received by the Bookstore near year-end. Per our review of the invoices and purchase orders, we were unable to determine the shipping terms and the ownership of the inventory at year-end. Upon further review, the Bookstore determined that there were no shipping terms. CSU's purchasing requirements call for shipping terms for such purchases. Of the two invoices tested, one of the invoices appeared appropriately included in inventory at year-end based upon the information that was available, but there was no related payable recorded. Instead, the Bookstore recorded a reduction to cost of goods sold for approximately $91,000. No audit adjustment was proposed for this error due to the amount being insignificant. The second invoice appeared to be related to fiscal year 2005 based upon the information available and was properly excluded from fiscal year 2004 activity.

(Continued)

Recommendation No. 7

Colorado State University should improve its process for accounting for the Bookstore purchases by:

a. Providing training related to the year-end accruals and the importance of shipping terms in the determination of ownership of inventory; and

b. Performing a review of the Bookstore's current purchasing practices to ensure that they are in compliance with both State and CSU purchasing requirements.

Colorado State University Response:

a. Agree. CSU's Business and Financial Services will provide training to the Bookstore employees on year-end accruals and shipping terms that determine ownership of inventory. Implementation date – February 2005.

b. Agree. CSU Purchasing will review the Bookstore's purchasing policies to determine compliance with State and CSU purchasing requirements. Implementation date – February 2005.

Review and Approval of Journal Entries

During our assessment of the financial reporting process, we reviewed the controls over the initiating, reviewing, and recording of the numerous manual journal entries made by CSU. During this review, we noted that CSU did have some controls over the review of journal entries. These controls included:

- Significant post-closing and closing journal entries are reviewed by upper management before the financial statements are adjusted; and
- Journal entries over $1,000 made by departments are reviewed and approved by fund accountants.

Yet, we did note there were some employees who had access to initiate and record journal entries without prior review and approval. Primarily, we noted that all journal entries made by fund accountants, excluding closing entries, were not required to be reviewed and approved prior to posting. Additionally, we noted there was no formal policy regarding the review and approval of journal entries. Best practices in today's business environment and strong internal controls require that there be a segregation of duties regarding journal entry creation and approval. The risk to the university is that an entry could be recorded that is inaccurate, does not represent a valid business transaction, or does not properly reflect the intent of the initiator.

Recommendation No. 8

CSU should implement a policy which prohibits journal entries to be initiated, processed, and posted by the same employee. This policy should require knowledgeable individuals approve all journal entries prior to being posted to the general ledger. Alternatively, the university may consider setting a minimum amount over which journal entries should be approved, thus minimizing the chance that a material error could be posted in the financial system.

Colorado State University Response:

The University will consider setting a minimum amount over which journal entries should be approved. Implementation date – February 2005.

(Continued)

<u>Colorado State University – Pueblo</u>

Reconciliation of Bank Accounts

During review of the bank account reconciliation process, we noted that there are two accounts that are not being reconciled to the bank statement. One of the bank accounts is a sweep account that often has a balance of $0. The other account maintains a maximum balance of $18,500. This account also was not recorded on Colorado State University – Pueblo's general ledger system. Regardless of size, all cash accounts should be recorded on the general ledger and reconciled to the bank balance to detect errors or potential instances of fraud.

Recommendation No. 9

Colorado State University – Pueblo should strengthen its controls over cash process by:

a. Ensuring all cash accounts are recorded on the general ledger and reconciled to the bank statements on a monthly basis.

b. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer. This review should include ensuring (1) the reconciliation is prepared on a timely basis; (2) the reconciliation is accurate and errors are detected; and (3) reconciling items are appropriate.

Colorado State University – Pueblo Response:

Agree. All cash accounts will be recorded on the general ledger and will be reconciled and reviewed on a monthly basis. The Director of Business Financial Services will review and initial all reconciliations. Implementation date – November 30, 2004.

Recognition of Tuition Revenue

The accrual basis of accounting requires that tuition and fee revenue be recognized when earned and that expenses be recognized when incurred. The State Controller's Higher Education Accounting Standards, as well as recommendations by the National Association of College and University Business Officers, is consistent with this. In regards to tuition revenue, some courses or sessions, such as summer sessions, are conducted over two fiscal years and the related tuition and fees charged for these courses or sessions are often charged at the beginning of the session. As a result, the tuition and fee revenues for these special sessions must be prorated between the fiscal years in which they are earned. The Higher Education Accounting Standards further specify, that at a minimum, revenue should be accrued by the number of actual days or portion of time before and after June 30 for the whole session. Additional delineation may be applied, as appropriate, in cases where a number of variable sessions cross two periods.

During our testwork over tuition revenue, we noted that Colorado State University – Pueblo defers all tuition revenue related to courses that cross fiscal years rather than recognizing portions based upon time before and after June 30. As a result, an audit adjustment was made to reverse deferred revenue and recognize approximately $483,000 in tuition revenue.

Recommendation No. 10

Colorado State University – Pueblo should implement policies to ensure that the calculation of deferred summer tuition revenue is based on actual days incurred prior to June 30. Also, the calculation should be reviewed by someone at least one level higher than the preparer prior to posting the information to the general ledger system.

Colorado State University – Pueblo Response:

Agree. The summer tuition revenue deferral will be based on actual days prior to June 30. The Controller will review the calculation. Implementation date – June 30, 2004.

Purchasing Cards

Purchasing cards are issued to Colorado State University-Pueblo employees who have received authorization by their supervisors. Approximately 150 employees were authorized to use procurement cards during the year. The transaction limit for the cards is $1,495, and the aggregate limit for each cardholder is $5,000. Each employee is responsible for entering each charge to the card on a monthly log. All receipts are required to be attached to the log and the log is then required to be reviewed by the employee’s supervisor. During our control testwork over 30 disbursements, we noted one instance in which a purchasing card log was not approved by a supervisor. Upon further investigation, we noted that the purchasing card belonged to the President of the University, who would have no such supervisor.

Recommendation No. 11

Colorado State University – Pueblo should strengthen the controls over the purchasing card disbursement process by requiring all employees’ purchasing card logs to be reviewed and approved. For those employees for which there is no direct supervisor to approve purchasing card logs, the logs should be forwarded to the Controller for review and approval prior to payment.

Colorado State University – Pueblo Response:

Agree. The Controller will review and approve the purchasing card logs for those employees having no direct supervisor. Implementation date – November 30, 2004.

Segregation of Duties

During a review of the payroll process, we noted that the same employee performs all of the following steps:

(1) Inputs hour and leave information received from the Human Resources Department.

(2) Generates an Administrative Information System (AIS) report that summarizes information entered in step one above. She reviews this report for accuracy by comparing the report to the respective timesheets and other information.

(3) Submits the ACH batch from the AIS system to the financial institution for direct deposit pay to employees. There is no review performed by another individual to ensure that information being submitted for payment is correct.

By not having the proper segregation of duties in place, errors, or potential instances of fraud could occur without being detected.

(Continued)

Recommendation No. 12

Colorado State University – Pueblo should establish a review control within the payroll disbursement process in order to implement a proper segregation of duties. An employee separate from the input function should review the payroll information prior to submission for payment. This review should be documented to show evidence of such a review. If an edit report can be generated by the AIS system showing large changes from the prior pay period, this may be a helpful tool in facilitating this review.

Colorado State University – Pueblo Response:

Agree. The Director of Business Financial Services will review the payroll disbursements for mid-month and end of month and will document that review. In addition, an edit report will be generated to facilitate this review. Implementation date to review payroll disbursements – November 30, 2004. Implementation date to utilize edit report to facilitate the review – January 31, 2005.

Federal Awards

We performed procedures required by the Office of Management and Budget (OMB) Circular A-133 and the Compliance Supplement for the following programs:

- Student Financial Assistance
- Research and Development Cluster

For fiscal year 2004, the System expended approximately $120 million and $100 million of federal financial assistance for the two programs, respectively. The 9 findings and recommendations presented below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards.*

It should be noted that these findings relate only to the sample selected for testing, and the weaknesses identified below could be more widespread.

<u>Colorado State University</u>

Federal Student Aid Cluster (FSA) – Professional Judgment

Criteria:	An aid administrator may use professional judgment, on a case-by-case basis, to alter the data elements used to calculate the Expected Family Contribution (EFC). *(U.S. Department of Education Federal Student Aid Handbook Application and Verification Guide 2003 – 2004)*
Condition:	CSU miscalculated a data element while performing a professional judgment for one student. In calculating the student's parents' taxable income based off the professional judgment amounts in order to derive the U.S. income taxes paid, CSU mistakenly used two exemptions instead of the actual four exemptions on the tax return. In doing so, CSU derived U.S. income taxes paid greater than what it should have been. Using greater U.S. income taxes paid resulted in an EFC less than it should have been. This resulted in the student being eligible for more aid than he/she should have been.

Questioned Costs:	The student received a Pell Grant $100 greater that it should have been since an incorrect EFC was used.
Context:	In a sample of 25 students, there was one miscalculated EFC data element, which occurred as a result of professional judgment. Whenever a manual calculation is performed, there is a risk that an error could occur.
Effect:	Miscalculating data elements used to calculate the EFC can cause erroneous EFCs, which can lead to inappropriate financial aid awards.

Recommendation No. 13

Colorado State University should establish procedures to ensure that data elements calculated as a result of professional judgment are correct. Manual professional judgment calculations should be reviewed at least on a test basis.

Colorado State University Response:

Agree. Implementation date – May 2005.

Federal Student Aid Cluster – Cost of Attendance

Criteria:	The cost of attendance is an estimate of a student's education expenses for the period of enrollment. The total aid the student may receive from the FSA programs cannot exceed the student's cost. *(HEA Sec. 472)*
Condition:	The university miscalculated a student's cost of attendance due to a flaw in the process of awarding Technology Charge Awards (TCA). Technology Charges are assessed to students in certain colleges of the university and these colleges select recipients of the TCA to cover the cost of the Technology Charge. On the first night of the TCA awarding process, the selected students are systematically awarded the TCA and their cost of attendance is increased by a corresponding amount so that the TCA does not cause an overaward. However, if a student has a cost of attendance that has been manually adjusted due to special circumstances, the cost of attendance is not changed on the first night of the TCA awarding process. On the second night of the TCA awarding process, the system increases those manually adjusted costs of attendance that were not increased on the first night. In this particular case, the student's cost of attendance was manually adjusted on the second day of the TCA awarding process, causing the student's cost of attendance to be increased twice for the TCA (the first night before the cost of attendance was manually adjusted and the second night after the cost of attendance was manually adjusted).

(Continued)

Questioned Costs:	The student's cost of attendance was $300 too high. This resulted in the student being awarded $300 too much in unsubsidized Federal Direct Loans.
Context:	In a sample of thirty students, one student's cost of attendance was erroneously increased. Due to the design of the TCA awarding process, this error would occur any time a TCA recipient's cost of attendance was manually adjusted on the second day of the process.
Effect:	Manually adjusting costs of attendance during the second day of the TCA process causes costs of attendance to be erroneously increased twice what they should have been. This leads to inappropriate financial aid awards.

Recommendation No. 14

Colorado State University should reinforce procedures and provide additional training to ensure that the TCA process is properly adjusted when costs of attendance are adjusted during the second day of the TCA process.

Colorado State University Response:

Agree. Implemented in August 2004.

Federal Student Aid Cluster – Multiple Disbursements

Criteria:	A school must disburse loan proceeds in substantially equal installments, and no installment may exceed one-half of the loan. (*34 CFR 685.301(b)(7))*.
Condition:	The university manually increased a student's Federal Direct unsubsidized loan upon request of the student since the student had remaining eligibility. The increase in the loan was not divided equally between Fall and Spring semesters and resulted in unequal installments of the loan. The student received an installment of $1,364 for the Fall semester and an installment of $718 for the Spring semester.
Questioned Costs:	None.
Context:	In a sample of 25 students, one student received unequal loan installments. Any time a manual loan adjustment is made, there is a risk that the resulting loan installments could be unequal.
Effect:	Disbursing loan proceeds in unequal installments violates federal regulations.

Recommendation No. 15

Colorado State University should reinforce existing procedures and provide additional training as necessary to ensure that manually awarded loans are disbursed in equal installments.

(Continued)

Colorado State University Response:

Agree. Student Financial Services will review established procedures and reinforce the procedures and provide the training for the necessary staff. Implementation date – January 2005.

Federal Student Aid Cluster – Reporting

Criteria:	To apply for and receive funds for the campus based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant) schools must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2004 reported on the university's campus-based program participation for 2003 – 2004 and applied for campus-based program funding for 2005 – 2006. The FISAP must contain accurate data and the school must retain accurate and verifiable records for program review and audit purposes. (*Department of Education FISAP Instructions*)
Condition:	Adequate procedures are not in place at the university to ensure that accurate data is reported in the FISAP.
Questioned Costs:	None
Context:	CSU's FISAP contained the following error: • The amount reported for the total principal and interest repaid by borrowers from all sources during the 2003 – 2004 Award Year (Part III Section B Field 7) was \$10,374,739. The correct amount was \$4,297,538. CSU resubmitted their FISAP upon our audit finding to reflect this correction.
Effect:	The error in the FISAP does not represent accurate reporting of data.

Recommendation No. 16

Colorado State University should implement procedures to ensure that all elements of the FISAP are accurate; such procedures should include a formal review that agrees amounts reported to supporting documentation.

Colorado State University Response:

Agree. Implementation date – Since this is an annual report, this recommendation will be implemented in September 2005.

(Continued)

<u>Colorado State University – Pueblo</u>

Federal Student Aid Cluster – Multiple Disbursements

Criteria:	If a loan period is one payment period, the school must make at least two deliveries of loan proceeds during that payment period. The school may not make the second delivery until the calendar midpoint between the first and last scheduled days of class of the loan period. A school cannot ask the lender to provide Federal Family Education Loan funds any sooner than three days before the earliest date that the school is allowed to pay the funds to the student. (*34 CFR 682.604(c)* and *34 CFR 668.167(a)*)
Condition:	Colorado State University – Pueblo requested to receive and received Federal Family Education Loan funds earlier than three days before the midpoint of the Fall 2003 semester for Fall-only loans. The University then disbursed these funds prior to the midpoint of the semester.
Questioned Costs:	None
Context:	In a sample of 25 students, there was one student with a Fall-only loan whereby this error occurred. However, the university miscalculated the midpoint of the Fall 2003 semester, and therefore, all midpoint disbursements were affected. This indicates a systemic problem for the Fall 2003 term.
Effect:	Requesting Federal Family Education Loan funds prior to three days before the midpoint of the term violates federal Cash Management regulations and disbursing these funds prior to the midpoint of the term violates federal Disbursement of Aid regulations.

Recommendation No. 17

Colorado State University – Pueblo should establish procedures to ensure that the midpoint of the semester is properly calculated and that requests for Federal Family Education Loan funds and disbursements of these funds are made according to the properly calculated midpoint.

Colorado State University – Pueblo Response:

Agree. The Director of Student Financial Services will ensure that procedures are established to both properly calculate the midpoint of the semester and to ensure FFEL disbursements are made according to that midpoint. Implementation date – February 28, 2005.

Federal Student Aid Cluster – Cash Drawdowns

Criteria:	A school is responsible for establishing and maintaining internal control processes that promote sound cash management of Title IV program funds. (*34 CFR 668.161(a))*
Condition:	Although there were no compliance errors noted in the drawdowns of Federal Student Aid Funds, only one person calculates and makes the drawdowns from the federal government with no review performed by someone separate from the process.
Questioned Costs:	None
Context:	This represents a systemic issue in that all drawdowns of Federal Student Aid from the federal government are performed by one person with no review.
Effect:	Lack of review controls over the drawdowns of Federal Student Aid could result in the university holding excess cash, which must be returned immediately to the Department of Education along with interest, or the university funding federal aid to students with institutional funds when unnecessary.

Recommendation No. 18

Colorado State University – Pueblo should implement procedures whereby there is a segregation of duties between calculating the drawdowns, making the drawdowns, and reviewing the drawdowns.

Colorado State University – Pueblo Response:

Agree. The Controller will implement procedures to ensure segregation of duties in the funds draw down process. Implementation date – October 15, 2004.

Federal Student Aid Cluster – Verification

Criteria:	A school is responsible for verifying certain data for at least 30% of its financial aid applicants. (*34 CFR 668.54)*
Condition:	Although there were no compliance exceptions noted during the verification testwork, only one person performs the verification at CSU – Pueblo with no review performed by a separate person.
Questioned Costs:	None.
Context:	This represents a systemic issue in that all verifications are performed by one person with no review.
Effect:	Lack of review controls over verification could result in the university making improper awards to students based on improper Expected Family Contributions, which are calculated based on the data verified.

Recommendation No. 19

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

Colorado State University – Pueblo Response:

Agree. The Director of Student Financial Services will implement monitoring procedures over the verification process. Implementation date – February 28, 2005.

Federal Student Aid Cluster – Reporting

Criteria:	To apply for and receive funds for the campus based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant) schools must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2004 reported on the University's campus-based program participation for 2003 – 2004 and applied for campus-based program funding for 2005 – 2006. The FISAP must contain accurate data and the school must retain accurate and verifiable records for program review and audit purposes. (*Department of FISAP Instructions)*
Condition:	Adequate procedures are not in place at the University to ensure that accurate data is reported in the FISAP.
Questioned Costs:	None
Context:	CSU – Pueblo's FISAP contained the following errors: • The sum of the cumulative loan principal collected (Part III Section A Field 5) and interest income on loans (Part III Section A Field 23) less the sum of the same amounts from the prior year FISAP do not equal the total principal and interest repaid by borrowers from all sources during the 2003 – 2004 Award Year (Part III Section B Field 7). These amounts should be equal. • The cumulative funds advanced to students (Part III Section A Field 4) less the sum of the same amount from the prior FISAP does not equal the loans advanced to students from the Fund during the 2003 – 2004 Award Year less 2003 – 2004 Award Year refunds (Part III Section B Field 5). These amounts should be equal. • The cumulative Federal Capital Contributions (Part III Section A Field 19) less the same amount from the prior year FISAP does not equal the final adjusted Federal Capital Contribution authorization (Part III Section B Field 1). These amounts should be equal. • The amount of the Institutional Capital Contribution (ICC) deposited into the Fund between July 1, 2003 and June 30, 2004 (Part III Section B Field 4) was reported as zero. The state of Colorado provides the institution with the ICC. The amount should not be reported as zero.

(Continued)

	• In Part III Section A, the number of borrowers and the cost of the loan principal and interest canceled increased from the prior year FISAP, while the loan principal canceled remained the same from the prior year FISAP for the following loan cancellation categories: certain subject matter teaching service, all other authorized teaching service, military service, law enforcement and corrections officer service, child/family/early intervention service, nurse/medical technician service, and death/disability. If the number of borrowers and the cost of the loan principal and interest canceled increased from prior year, the loan principal canceled should also increase. • The total expenditures for the Job Location and Development (JLD) Program were reported as zero (Part V Section F Field 19), while the federal share of JLD expenditures was reported as $23,880 (Part V Section D Field 15). If the institution had JLD expenditures, these should have been reported and the institution should have contributed at least 20% of the total. • The Federal Supplemental Educational Opportunity Grant (FSEOG) funds distributed (Part VI Section A Field 16) does not equal the total funds to FSEOG recipients (Part IV Section C Field 11). These amounts should be equal. • The current year information submitted to the State for its schedule of federal expenditures (Schedule K) was not updated with the current year indirect costs of the program.
Effect:	The errors in the FISAP do not represent accurate reporting of data.

Recommendation No. 20

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

Colorado State University – Pueblo Response:

Agree. The Controller will coordinate the preparation of the FISAP and will review and approve the report before it is filed. Implementation date – September 2005.

<u>Colorado State University</u>

Research and Development – Suspension & Debarment

Criteria:	Nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties who are suspended or debarred or whose principles are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of $100,000 prior to November 26, 2003 and $25,000 on or after November 26, 2003. Under rules in effect prior to November 26, 2003, contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective

	November 26, 2003, when a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.
Condition:	The Colorado State University procurement department did not verify the contracting entity's status by reviewing the EPLS, obtaining a certification, or including a clause or condition in the related contract.
Questioned Costs:	As part of our audit procedures, we reviewed the *List of Parties Excluded from Federal Procurement or Nonprocurement Programs* to ensure that no payments were made to suspended or debarred parties. No such payments were noted; thus, there were no questioned costs related to this finding.
Context:	We noted that CSU has numerous contractors who were used in relation to the research and development grants. We tested 30 contractors noting that none had an EPLS printout, a certification, or a clause or condition added to their contract.
Effect:	By not obtaining the appropriate certifications and not reviewing the *List of Parties Excluded from Federal Procurement or Nonprocurement Programs*, CSU is not in compliance with the criteria above and may unknowingly make payments to parties who are suspended or debarred.
Cause:	The procurement department does not have the required processes in place to ensure that the suspension and debarment requirements for all contractors are met.

Recommendation No. 21

Colorado State University should include a standard clause in all purchase orders, maintain a suspended and debarred file, and document the review of the EPLS system for all vendors related to federal grants, or require certifications for all agreements related to federal grants. For control purposes, we recommend that on a quarterly basis, CSU should generate the report of vendors receiving federal monies in excess of $25,000 and verify that there is a certification, EPLS printout, or clause in the contract for each of the vendors on the report.

Colorado State University Response:

Agree. Effective July 1, 2004 CSU Purchasing implemented a procedure to review the EPLS for all vendors to be awarded purchase orders and contracts related to federal grants and maintains a suspended and debarred file. Also effective July 1, 2004, CSU contracts have the required additional clause pertaining to debarment and suspension of vendors. CSU will, for control purposes, generate a quarterly report of vendors receiving federal monies in excess of $25,000 and verify that there is an EPLS printout, clause in the contract, or certification for each of the vendors on the report. Implementation date – December 2004.

State-Funded Student Financial Assistance Programs

We performed procedures over the Statements of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the System at pages 105 and 106 in accordance with Colorado Commission on Higher Education (CCHE) Audit Guides and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002. The two findings and recommendations presented below result from this work.

State-Funded Student Assistance – Exempt W-4s

Criteria:	A school must properly compute deductions (such as withholding taxes, state and local taxes, FICA, etc.) from a Colorado Work-Study recipient's earnings. *(Colorado Commission on Higher Education 2003 – 2004 Audit Guide Colorado Funded Student Aid)*
Condition:	Beginning February 16, 2004, the University did not withhold tax from a Colorado Work-Study student's paycheck as if the student was single with zero withholding allowances. The IRS mandates that this be done for those employees who do not file a new Form W-4 by February 15 if their previous Form W-4 claimed exemption with withholding. This student's 2003 Form W-4 claimed such an exemption and a new Form W-4 was not received by February 15, 2004. (Also see *Recommendation No. 5*.)
Questioned Costs:	None.
Context:	This finding represents a systemic error in that the university did not implement a process to ensure the attainment of new Form W-4s for those employees who filed a 2003 Form W-4 claiming exemption by the IRS-imposed deadline of February 15, 2004. The university also did not begin withholding taxes using the single with zero withholding allowances status for any employee who filed a 2003 Form W-4 claiming exemption who had not submitted a new Form W-4 by the IRS-imposed deadline of February 16, 2004. The university performed corrective actions in August 2004.
Effect:	Failure to implement a process to obtain new Form W-4s from those employees claiming exemption on their prior year Form W-4s by February 15 caused the university to violate IRS regulations. Failure to switch these employees' withholdings from exempt to single with zero withholding allowances by February 16 also violates IRS regulations if no new Form W-4 claiming exemption is received by that date.

Recommendation No. 22

Colorado State University should establish procedures to ensure that new Form W-4s are obtained by February 15 for those employees who filed a Form W-4 claiming exemption from withholdings in the prior year. The University should establish procedures to ensure that if a new Form W-4 claiming exemption from withholding taxes is not received by February 15, then withholding taxes will begin to be withheld on February 16 using the single with zero withholding allowances status.

(Continued)

Colorado State University Response:

Agree. Implemented October 2004.

State-Funded Student Assistance – Work-study Timesheets

Criteria:	State guidelines require schools to keep work-study records in accordance with Federal Work-Study regulations. Federal Work-Study regulations require a school to establish and maintain program records that include a certification by the student's supervisor that each student has worked and earned the amount being paid. For students paid on an hourly basis, the certification must include or be supported by a time record showing the hours each student worked in clock time sequence, or the total hours worked per day (i.e., a timesheet). *(Colorado Commission on Higher Education Guidelines for Administering State-Funded Student Assistance Programs and 34 CFR 675.19(b))*
Condition:	A student entered eight hours for a day past the last day of the pay period on his/her timesheet. The student's supervisor certified that this timesheet was correct and accounted for all hours worked during the pay period. The student was paid for the additional eight hours and this error was not adjusted during the subsequent pay period. Another student entered 24 hours on their timesheet and the supervisor certified that the timesheet accurately recorded the hours worked by the student. However, the student was paid for an additional half hour for that pay period.
Questioned Costs:	$67.92
Context:	In a sample of ten students, there were two errors regarding timesheets and certifications. This represents a 20% error rate, which may indicate a systemic problem.
Effect:	Improperly completed timesheets and inappropriate certifications may cause students to be paid for work that they did not perform.

Recommendation No. 23

Colorado State University should reinforce existing procedures and provide additional training to ensure that work-study timesheets are properly completed and certified, and payments are based upon time actually worked.

Colorado State University Response:

Agree. Implemented June 2004.

COLORADO STATE UNIVERSITY SYSTEM

Disposition of Prior Audit Findings and Recommendations

Year ended June 30, 2004

Following are the audit recommendations for the year ended June 30, 2003 and their disposition as of September 24, 2004.

Recommendation	Disposition
1. The System should reevaluate its year-end financial reporting preparation process to improve its timeliness and accuracy. The System's evaluation should include, but not be limited to:	
a. Reviewing financial policies and procedures to ensure that internal financial reporting and review procedures are appropriate and timely in order to prevent and/or identify errors in the financial reporting process and to resolve these errors prior to year-end. This review should focus on the specific issues noted in the other recommendations of this report and evaluate current processes in place regarding, but not limited to, capital asset accounting, accounting for federal awards, and determination of year-end payroll accruals and other liabilities.	a. Implemented
b. Researching and addressing technical accounting issues as they arise during the year.	b. Implemented
c. Evaluating staff responsibilities required to effectively prepare accurate, complete, and timely financial statements.	c. Implemented

2. Colorado State University should improve its financial monitoring controls at the college level by implementing the following:	
a. Clearly defining a formal listing of duties that each business manager should perform on a monthly, quarterly, and year-end basis. Such duties should include, but not be limited to, a budget-to-actual analysis of the individual college and a prior-year versus current-year analysis of revenues and expenses. Guidelines on variances should be established and business managers should maintain written explanations for these variances.	a. Implemented
b. Continuing to hold monthly meetings between BFS and the business managers. BFS should encourage the business managers to discuss any potential accounting issues so that BFS may provide the appropriate guidance to such issues. These meetings should clarify the expectations of the business managers and should also include formal instruction, as needed, on accounting and business issues.	b. Implemented
3. Colorado State University should improve its process for accounting for capital assets by:	
a. Assigning the responsibility of overall capital asset accounting to one individual. All parties involved in capital assets accounting should be accountable, either directly or indirectly, to this person. Additionally, the capitalization entries should be made monthly and reviewed by the designated person.	a. Implemented

b. Informing the lease accountant of all new leases. Copies of all leases should be maintained by the lease accountant. Next, create a capital lease evaluation form which indicates the criteria to be met for capitalization. All criteria should be tested and documented, and this form should be filed with a copy of the lease. Additionally, the selection of the useful life should be documented and should be consistent with generally accepted accounting principles.	b. Partially implemented CSU needs to continue to improve the processes related to making appropriate classifications and useful life decisions as discussed in current year *Recommendation No. 1*.
c. Reviewing all active leases to ensure proper classification as capital or operating in the first year of implementation of this recommendation.	c. Implemented
d. Establishing a formal procedure to determine when a project in CIP is substantially complete. This procedure should include a review of each CIP project's activity at least quarterly. This review should be performed by the designated person described above in part "a." or someone who reports to that person. During this review, if little or no activity has occurred, Facilities Management should be contacted to determine if the project is substantially complete. If the project is then determined to be complete, it should be promptly removed from the CIP category.	d. Implemented
e. Reviewing, at least quarterly, costs within CIP to evaluate if any costs should be expensed versus capitalized. If so, the costs should be expensed in the year incurred.	e. Implemented
f. Reconciling capital assets per the depreciation system to the general ledger system, FRS, prior to running the depreciation program to ensure depreciation is calculated accurately.	f. Implemented

4. Colorado State University should improve its process of accounting for federal awards by:	
a. Reviewing the current assignment of duties for federal award and grant accounting for appropriateness, efficiency, and technical competence. Additionally, OSP should conduct periodic workshops to train the department accountants in the proper accounting of grants and instruct them on the Single Audit requirements to help ensure compliance.	a. Implemented
b. Assigning a designated technical resource to all departments that account for grants, especially the CSFS. Employees of these departments should be informed of this technical resource should programmatic or accounting questions arise.	b. Implemented
c. Closing grant accounts at year-end on a grant-by-grant basis to identify whether a receivable or a deferred revenue is appropriate for each individual grant.	c. Partially implemented CSU implemented a new close out process. However, the ending deferrals were not evaluated for appropriateness. Please refer to current year *Recommendation No. 2*.
d. Reviewing all reports and billings to be submitted to federal agencies. This review should be performed by someone at least one level above the preparer.	d. Partially implemented CSU implemented a process in which significant reports and billings are reviewed by someone at least one level above the preparer. This process did not include the review of less significant reports and billings due to cost-benefit constraints.
e. Reviewing the accuracy of CFDA numbers for all grants on the State Exhibit K prior to submitting the exhibit to the state.	e. Implemented
f. Recalculating indirect costs charged to each federal grant on an annual basis and when a grant is ending to ensure indirect costs were charged correctly and in accordance with the approved indirect cost rate.	f. Implemented

5. Colorado State University should improve its monthly reconciliation processes by:	
a. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer.	a. Implemented
b. Verifying and supporting reconciling items with the appropriate documentation.	b. Implemented
c. Maintaining all reconciliations to verify the reconciliations were performed. Any supporting documentation associated with the reconciliation that cannot be replicated should also be maintained.	c. Implemented
6. Colorado State University should assign one person (or department) the responsibility of ensuring the proper payroll accrual entries are made. This person should approve all proposed entries. If this person is outside the BFS, the entries should also be reviewed and approved by BFS.	Implemented
7. Colorado State University should strengthen its authorization controls by:	
a. Requiring that transactions not be initiated and approved by the same individual.	a. Implemented
b. Rejecting transactions approved by an unauthorized persons.	b. Implemented
c. Requiring approval signatures (Dean, Director, or Vice President) for all purchase card approvers prior to their ability to approve transactions.	c. Implemented
8. Colorado State University should improve its general access controls by reviewing its password policy and increase the minimum acceptable password length from four characters to six characters for both Top Secret and CA Unicenter Systems.	Implemented

9. Colorado State University should implement a policy requiring the Human Resources Department to notify the Information Technology employee within a specific timeframe when an employee is terminated so that employee access is removed on a timely basis.	Implemented
10. The System should evaluate GASB Statement No. 39 and its impact on the System's financial reporting. The System should at a minimum evaluate the impact and, if other entities are to be included in the System's reporting entity, the System should develop an implementation plan to include these entities, as appropriate, in its fiscal year 2004 basic financial statements.	Implemented
11. Colorado State University should ensure cash management requirements are adhered to by:	
a. Ensuring the request-for-funds function is assigned to someone familiar with cash management compliance requirements.	a. Implemented
b. Implementing a formal secondary review by a person who did not directly prepare the draw. All reports submitted to a federal agency should be formally reviewed by a person at least one level above the preparer.	b. Implemented
c. Considering a cursory review by the Office of Sponsored Programs, for those programs that are not already drawn or billed by OSP, to ensure cash management compliance.	c. Implemented
d. Designating a knowledgeable person or group to monitor interest earned on the advancement of federal funds to ensure that interest earned is remitted to the appropriate federal agency.	d. Implemented

(Continued)

12. Colorado State University should include a standard clause in all cooperator and vendor agreements or obtain a separate certification from the vendors and cooperators stating that the cooperator/vendor is not suspended or debarred from federal procurement and nonprocurement programs.	Partially implemented Although this recommendation was implemented by some departments of CSU, during federal testwork of the Research and Development Cluster, we noted that the CSU Purchasing Department did not verify contracting entities status to ensure the contracting entity was not suspended or debarred as discussed in current year *Recommendation No. 21*.
13. Colorado State University should comply with subrecipient monitoring compliance requirements by: a. Developing a formal policy requiring subrecipients to take timely and appropriate corrective action on all audit findings. b. Requiring proper follow-up procedures to be performed to ensure the corrective action plan was properly adhered to by the subrecipient reporting significant noncompliance findings. c. Incorporating procedures into the policy regarding the monitoring of subrecipients not subject to OMB Circular A-133 audits.	a. Implemented b. Implemented c. Implemented
14. Colorado State University should establish procedures to ensure that the withdrawal dates of students who withdraw from CSU without providing notification are determined by 30 days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. Also, these procedures should ensure proper return of Title IV funds.	Implemented
15. Colorado State University should establish procedures to ensure that cost of attendances (COAs) that have been manually changed prior to receiving data corrections from the Central Processing System (CPS) are examined to ensure appropriateness.	Implemented

(Continued)

16. Colorado State University should implement procedures to ensure that documentation is maintained to substantiate its compliance with exit counseling requirements.	Implemented
17. Colorado State University should implement procedures to ensure that all elements of the FISAP are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.	Partially implemented CSU did implement a formal review process of the FISAP; yet, certain errors were noted during the review of the current year FISAP. Please refer to current year *Recommendation No. 16.*

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado State University System (the System), a blended component unit of the State of Colorado, and its discretely presented component unit as of and for the years then ended June 30, 2004 and 2003. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the System and its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the basic financial statements, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units,* an amendment to GASB Statement No. 14, *The Financial Reporting Entity,* as of July 1, 2002.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 24, 2004 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 48 to 56 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 24, 2004

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System) for the fiscal years ended June 30, 2004 and 2003. 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, 2004 by approximately $550.0 million (net assets). Of this amount $75.3 million was restricted for purposes which the donor or grantor or other external party intended. $115.2 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 by $4.5 million during fiscal year 2004.
- In fiscal year 2004, State General Fund appropriations for the System decreased by approximately $16.8 million over prior year levels.
- Fiscal year 2004 state capital appropriations for the System decreased by approximately $11.6 million over prior year levels. During fiscal year 2004, the System expended a total of $486,000 in prior year state-funded capital appropriations. The System received no funding for new state-funded capital construction projects in fiscal year 2004. No state capital appropriations for the System are budgeted for fiscal year 2005.

The Basic Financial Statements

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

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

The Statements of Revenue, Expenses, and Changes in Net Assets present information showing how the System's net assets changed during the most recent fiscal year. 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).

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

The System reports its financial 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 State).

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 System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB No. 14, *The Financial Reporting Entity*, during the fiscal year ended June 30, 2004. As a result of this implementation, the Colorado State University Foundation (the Foundation) was determined to be a component unit of the System and has therefore been included as a discretely presented component unit in the System's financial reporting entity. The Foundation's assets exceeded liabilities resulting in net assets at June 30, 2004 and 2003 of $178,668,000 and $156,739,000, respectively. The Foundation reported total support and revenue of $47,353,000 and $52,911,000 for the years ended June 30, 2004 and 2003, respectively. The Foundation's Statements of Financial Position and Statements of Activities are discretely presented in the basic financial statements of the Colorado State University System as of and for the years ended June 30, 2004 and 2003.

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

Financial Analysis

The Statements of Net Assets present the assets, liabilities, and net assets of the System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2004 and 2003 of $550,032,000 and $545,518,000, respectively. The majority (65% and 65%, 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.

Effective September 1, 2002, Fort Lewis College was no longer part of the Colorado State University System. As a result, the June 30, 2004 and 2003 financial information does not include data for Fort Lewis College. The financial information presented for fiscal year 2002 does include data for Fort Lewis College.

Summary of Net Assets
(Amounts expressed in thousands)

		June 30		
		2004	**2003**	**2002**
Current assets	$	270,274	280,406	269,845
Noncurrent assets, including capital assets of $433,951, $412,406, and $500,901, respectively		503,755	480,826	551,510
Total assets	$	774,029	761,232	821,355
Current liabilities	$	120,611	112,278	109,259
Noncurrent liabilities		103,386	103,436	96,881
Total liabilities	$	223,997	215,714	206,140

		June 30		
		2004	**2003**	**2002**
Net assets:				
Invested in capital assets, net of related debt	$	359,520	354,525	427,961
Restricted		75,312	78,310	83,018
Unrestricted		115,200	112,683	104,236
Total net assets	$	550,032	545,518	615,215

In order to present a more comparative analysis, the following summary of net assets is shown without Fort Lewis College in the June 30, 2002 financial information:

Summary of Net Assets – Excluding Fort Lewis College
(Amounts expressed in thousands)

		June 30		
		2004	**2003**	**2002**
Current assets	$	270,274	280,406	256,899
Noncurrent assets, including capital assets of $433,951, $412,406, and $407,882, respectively		503,755	480,826	453,084
Total assets	$	774,029	761,232	709,983
Current liabilities	$	120,611	112,278	95,528
Noncurrent liabilities		103,386	103,436	86,974
Total liabilities	$	223,997	215,714	182,502
Net assets:				
Invested in capital assets, net of related debt	$	359,520	354,525	352,015
Restricted		75,312	78,310	77,129
Unrestricted		115,200	112,683	98,337
Total net assets	$	550,032	545,518	527,481

- The assets of the System increased $12.8 million in fiscal year 2004. This increase is attributable to a variety of factors, including a $11.6 million reduction in Colorado State University (CSU) cash and cash equivalents in conjunction with an $18 million increase in construction in progress for the CSU south residence hall project, and a $1.4 million increase on the CSU endowment investment held by the Colorado State University Foundation. The fiscal year 2003 increase in System assets of $51.2 million is primarily attributable to an increase in cash resulting from legislation that shifted the state employee paydate for June 2003 pay periods into the 2004 fiscal year. Also contributing to this increase was a $23.7 million increase in cash from unspent bond proceeds.

- The approximately $8.3 million increase in the System liabilities for fiscal year 2004 is partially attributable to an approximately $4.3 million increase in accrued liabilities related to the CSU merit salary increase for faculty. The remainder of the increase is primarily attributable to an approximately $4.5 million accrual for the workers' compensation liability assumed by CSU from State Risk Management as part of CSU's transition to self-insurance for workers' compensation claims. This liability was partially offset by a $1.5 million receivable from State Risk Management. This receivable was recognized because State Risk Management agreed to transfer funds held on behalf of CSU back to CSU for the administration of workers' compensation claims incurred prior to July 1, 2004. The fiscal year 2003 increase in the System liabilities of $33.2 million was attributable to the shift in the state employee paydate from June 2003 to fiscal year 2004. The paydate shift resulted in an additional accrual of approximately $27.0 million at June 30, 2003.

The Statements of Revenue, 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 year.

Summary of Revenue, Expenses, and Changes in Net Assets
(Amounts expressed in thousands)

		June 30	
	2004	**2003**	**2002**
Operating revenues:			
Tuition and fees, net	$ 143,951	131,513	137,298
Grants and contracts	239,008	226,585	215,562
Auxiliary enterprises	109,872	108,170	122,158
Other	22,755	21,242	19,724
Total operating revenues	515,586	487,510	494,742
Operating expenses:			
Instruction	164,832	159,546	180,986
Research	136,181	120,681	119,297
Public service	71,010	75,203	79,685
Academic support	36,726	38,555	40,105
Student services	23,805	22,357	27,413
Institutional support	20,995	19,957	22,784
Operation and maintenance of plant	42,190	45,903	46,438
Scholarships and fellowships	9,201	13,773	12,672
Auxiliary enterprises	109,788	110,255	114,840
Depreciation	35,429	42,362	32,691
Other operating expenses	228	165	1,624
Total operating expenses	650,385	648,757	678,535
Operating loss	(134,799)	(161,247)	(183,793)

Summary of Revenue, Expenses, and Changes in Net Assets
(Amounts expressed in thousands)

		June 30	
	2004	**2003**	**2002**
Nonoperating revenues:			
State appropriations	$ 109,184	126,011	151,156
Other net nonoperating revenues	18,422	30,497	26,389
Net nonoperating revenues	127,606	156,508	177,545
Loss before other revenues, expenses, gains or losses	(7,193)	(4,739)	(6,248)
State capital contributions	486	12,041	39,042
Capital grants	2,131	1,761	1,613
Capital gifts	8,566	9,414	7,967
Payments to governing boards or other institutions	(420)	(440)	(603)
Additions to permanent endowments	944	—	—
Increase in net assets	4,514	18,037	41,771
Net assets:			
Net assets, beginning of year, as previously reported	545,518	615,215	573,444
Change in entity	—	(87,734)	—
Net assets beginning of year, as adjusted	545,518	527,481	573,444
Net assets, end of year	$ 550,032	545,518	615,215

It is the nature of public higher education institutions to report a loss from operations because the loss is reported before the state appropriation is taken into consideration. The System experienced a $134.8 million loss from operations in fiscal year 2004 and a $161.2 million loss from operations in fiscal year 2003. In fiscal year 2004, this operating loss was offset by state appropriations of $109.2 million and other nonoperating net revenues of $30.1 million, including $24.2 million of gifts and capital gifts. In fiscal year 2003, the operating loss was offset by state appropriations of $126.0 million and other nonoperating net revenues of $53.3 million, including $28.4 million of gifts and capital gifts.

(Continued)

In order to present a more comparative analysis, the following summary of revenue, expenses, and changes in net assets is shown without Fort Lewis College in the June 30, 2002 financial information:

Summary of Revenue, Expenses, and Changes in Net Assets – Excluding Fort Lewis College
(Amounts expressed in thousands)

	June 30		
	2004	**2003**	**2002**
Operating revenues	$ 515,586	487,510	463,160
Operating expenses	650,385	648,757	631,405
Operating loss	(134,799)	(161,247)	(168,245)
Nonoperating revenues	127,606	156,508	162,249
Loss before other revenue	(7,193)	(4,739)	(5,996)
Other revenue	11,707	22,776	43,895
Increase in net assets	$ 4,514	18,037	37,899

- The fiscal year 2004 increase in System operating revenues is attributable to a $12.4 million increase in tuition and fees and a $12.4 million increase in grant and contract revenue. The increase in tuition and fee revenue is primarily attributable to a tuition and fee increase at CSU. The increase in grant and contract revenue for the System is primarily attributable to an increase in sponsored research grants at CSU. The fiscal year 2003 increase in operating revenues of $24.4 million is primarily attributable to an $18.3 million increase in revenues from grants and contracts and an $8.5 million increase in tuition and fee revenue.
- Fiscal year 2004 System operating expenses increased by $1.6 million in relation to prior year levels. The fiscal year 2003 increase in operating expenses of $17.4 million for the System is primarily attributable to a $13.3 million increase in depreciation expense and a $6.0 million increase in expense for auxiliary enterprises. The increase in depreciation expense resulted from a componentization study that was conducted during fiscal year 2003. The increase in expenses for auxiliary enterprises resulted from increased auxiliary activity during the fiscal year.
- The fiscal year 2004 decrease in nonoperating revenues of $28.9 million is due to a $16.8 million decrease in state appropriations from the prior year in addition to a $11.2 million decrease in other net nonoperating revenues. As mentioned previously, the decrease in state appropriations was due to reductions in state funding for the System. The decrease in other net nonoperating revenues is primarily attributable to an unrealized loss on funds deposited with the state treasury. The 2003 decrease in nonoperating revenues of $5.7 million is primarily due to a $10.9 million dollar decrease in state appropriations from the prior year. This decrease in state appropriations was also due to State General Fund reductions. The total decrease in nonoperating revenues is offset by a $3.3 million increase in System gift fund revenue for the fiscal year.

- The fiscal year 2004 decrease in other revenues of $11.1 million is primarily attributable to an approximate $11.6 million reduction in State capital contributions from the prior year. The fiscal year 2003 decrease in other revenues of $21.1 million is primarily attributable to an approximate $23.0 million reduction in State capital contributions from the prior year. These System decreases in State capital contributions were attributable to reduced state funding for capital projects.

Capital Assets and Debt Administration

At June 30, 2004, the System had approximately $434.0 million invested in capital assets, net of accumulated depreciation of $377.6 million. At June 30, 2003, the System had approximately $412.4 million invested in capital assets, net of accumulated depreciation of $357.9 million.

Depreciation charges were approximately $35.4 million and $42.4 million for the years ended June 30, 2004 and 2003, respectively. This approximately $7.0 million reduction in depreciation expense is primarily attributable to a prior year componentization study that resulted in a fiscal year 2003 one-time accelerated depreciation expense resulting from the change in estimate of useful lives of those assets. This one-time depreciation expense did not occur in fiscal year 2004, thus resulting in a decrease in depreciation expense for the fiscal year.

During the fiscal year ended June 30, 2004, the System received no State contributions for new capital construction projects. $486,000 of State capital contributions related to prior year appropriations were utilized to complete ongoing capital projects.

During the fiscal year ended June 30, 2003, the System received no State contributions for new capital construction projects. Approximately $12.0 million of State capital contributions were received for ongoing capital construction projects during fiscal year 2003.

To date, no State contributions for capital construction projects have been received in fiscal year 2005.

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

Capital Assets, Net of Accumulated Depreciation
(Amounts expressed in thousands)

	June 30		
	2004	**2003**	**2002**
Land	$ 9,050	9,698	9,958
Land improvements	31,244	31,405	32,755
Building and improvements	289,281	286,553	316,278
Leasehold improvements	169	189	141
Equipment	43,910	45,251	43,103
Collections	2,159	2,145	2,052
Library materials	31,331	28,858	26,410
Construction in progress	26,807	8,307	70,204
Total capital assets, net	$ 433,951	412,406	500,901

(Continued)

The fiscal year 2004 increase in capital assets is primarily attributable to a $2.7 million increase in buildings and improvements capitalized during fiscal year 2004 and an $18 million increase to construction in progress relating to the CSU south residence hall project. The fiscal year 2003 reduction in capital assets is primarily due to the fact that Fort Lewis College was no longer part of the System at June 30, 2003. At June 30, 2002, the System reported approximately $93.0 million in capital assets for Fort Lewis College.

The System had capital construction commitments outstanding of approximately $14.4 million at June 30, 2004. Approximately $3.2 million of this amount was for the improvements at CSU Hughes Stadium, $2.5 million for the CSU-Pueblo energy performance contract controlled maintenance project and $1.0 million for the CSU chill radar antenna. In addition, $741,000 in outstanding capital construction commitments were for the CSU Hughes Stadium Scoreboard, $637,000 were for the CSU Center for the Arts, and $500,000 remained outstanding for the CSU south residence hall project. The remaining commitments were for various small construction projects at CSU.

The System had capital construction commitments outstanding of approximately $23.7 million at June 30, 2003. Approximately $16.1 million of this amount was for the construction of the CSU south residence hall project and $3.4 million was for the CSU Center for the Arts project. The remaining commitments were for various small construction projects.

The System had approximately $76.6 million and $80.5 million of debt outstanding at June 30, 2004 and 2003, respectively.

Summary of Debt
(Amounts expressed in thousands)

		June 30		
		2004	**2003**	**2002**
Debt outstanding:				
Revenue bonds, certificates of participation	$	71,487	75,309	72,630
Capital lease obligations		5,146	5,171	3,702
	$	76,633	80,480	76,332

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

The System completed two bond financings during fiscal year 2003.

The CSU Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A were issued in the total par amount of approximately $15.6 million. Proceeds of the bonds were used for a current refunding of all the outstanding Series 1992 Bonds and the outstanding Series 1993 Bonds and also to finance the construction, acquisition, renovation, and equipping of improvements to the Lory Student Center. The bonds mature in March 2017 and were sold at yields ranging from 1.20% to 4.33%.

The CSU Enterprise System Revenue Bonds, Series 2003B were issued in the total par amount of approximately $20.5 million. Proceeds from this issue are being used to finance the construction, acquisition, and equipping of student housing facilities and related surface parking on campus. These bonds mature in March 2035 and carry yields ranging from 1.75% to 5.00%.

Economic Outlook/Future of the Colorado State University System

The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projections (September 2004) from these entities estimate that the State's General Fund revenue is projected to increase in fiscal year 2004-05 between 3.4% and 4.6%. For fiscal year 2005-06, the General Fund revenue is projected to increase between 5.4% and 7.1%. Both projections also indicate required refunds to the taxpayers. 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. These factors could potentially affect the availability of funding for public higher education institutions in Colorado.

The budgetary situation for higher education will be changing with the implementation of the College Opportunity Fund in fiscal year 2005-06. As a result of legislation adopted in the 2004 session (Senate Bill 04-189), the State will no longer be providing a direct state General Fund appropriation to the governing boards. Instead, the State will be providing stipends to the qualified, resident undergraduate students, and institutions will be receiving fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, Senate Bill 04-189 also allows qualifying institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status would eliminate institutional cash funds, such as tuition, from counting as revenue against the State's TABOR limitation.

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 Vice Chancellor for Administrative Affairs, Colorado State University System, 410 Seventeenth Street, Suite 1415, Denver, CO 80202.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2004 and 2003

(Amounts expressed in thousands)

Assets		**2004**	**2003**
Current assets:			
Cash and cash equivalents	$	206,265	217,898
Student accounts receivable, net		5,759	5,889
Other accounts receivable, net		45,759	42,975
Student loans receivable, net		3,666	3,781
Inventories		7,568	7,856
Prepaid expenses		1,257	2,007
Total current assets		270,274	280,406
Noncurrent assets:			
Restricted cash and cash equivalents		33,599	33,432
Restricted investments		16,180	14,830
Student loans receivable, net		20,025	20,158
Nondepreciable capital assets:			
Land		9,050	9,698
Construction in progress		26,807	8,307
Collections		2,159	2,145
Total nondepreciable capital assets		38,016	20,150
Depreciable capital assets, net:			
Land improvements		31,244	31,405
Buildings and improvements		289,281	286,553
Leasehold improvements		169	189
Equipment		43,910	45,251
Library materials		31,331	28,858
Total depreciable capital assets (net of accumulated depreciation)		395,935	392,256
Total noncurrent assets		503,755	480,826
Total assets	$	774,029	761,232

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2004 and 2003

(Amounts expressed in thousands)

Liabilities		**2004**	**2003**
Current liabilities:			
Accounts payable	$	20,024	20,832
Accrued liabilities		48,765	42,317
Deferred revenue		18,252	19,946
Deposits held for others		23,987	21,411
Bonds payable and certificates of participation, current portion		4,480	4,170
Capital leases payable, current portion		1,113	1,136
Other long-term liabilities, current portion		1,986	726
Compensated absence liabilities, current portion		2,004	1,740
Total current liabilities		120,611	112,278
Noncurrent liabilities:			
Bonds payable and certificates of participation		67,007	71,139
Capital leases payable		4,033	4,035
Other long-term liabilities		6,107	2,607
Compensated absence liabilities		26,239	25,655
Total noncurrent liabilities		103,386	103,436
Total liabilities	$	223,997	215,714
Net Assets			
Net assets:			
Invested in capital assets, net of related debt	$	359,520	354,525
Restricted for nonexpendable purposes		16,058	14,140
Restricted for expendable purposes – other		59,254	64,170
Unrestricted		115,200	112,683
Total net assets	$	550,032	545,518

See accompanying notes to basic financial statements.

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

Statements of Financial Position

June 30, 2004 and 2003

(Amounts expressed in thousands)

		2004				2003			
Assets		**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Cash and cash equivalents	$	121	342	17	480	121	378	7	506
Investments		16,695	92,605	69,453	178,753	10,992	60,804	63,970	135,766
Receivables:									
Pledges, net of allowance		—	6,441	4,187	10,628	—	27,956	2,504	30,460
Life income trusts		—	—	170	170	—	—	212	212
Investment in equity affiliate		—	46	1,846	1,892	—	46	845	891
Property and equipment, net of accumulated depreciation		24	250	—	274	42	250	—	292
Property held for sale		494	—	—	494	1,100	—	—	1,100
Cash surrender value of life insurance policies		55	—	96	151	52	—	91	143
Prepaids and other assets		50	161	312	523	39	178	335	552
Total assets	$	17,439	99,845	76,081	193,365	12,346	89,612	67,964	169,922
Liabilities and Net Assets									
Accounts payable (primarily to CSU)	$	24	1,116	—	1,140	37	—	—	37
Other accrued liabilities		73	—	—	73	62	—	—	62
Life income agreements		624	97	291	1,012	635	101	302	1,038
Deposit held in custody for CSU		—	4,075	8,339	12,414	—	3,690	7,603	11,293
Deferred revenue		58	—	—	58	753	—	—	753
Total liabilities		779	5,288	8,630	14,697	1,487	3,791	7,905	13,183
Net assets:									
Unrestricted:									
Undesignated		2,278	—	—	2,278	2,913	—	—	2,913
Board designated		14,382	—	—	14,382	7,946	—	—	7,946
Total unrestricted		16,660	—	—	16,660	10,859	—	—	10,859
Temporarily restricted		—	94,557	—	94,557	—	85,821	—	85,821
Permanently restricted		—	—	67,451	67,451	—	—	60,059	60,059
Total net assets		16,660	94,557	67,451	178,668	10,859	85,821	60,059	156,739
Total liabilities and net assets	$	17,439	99,845	76,081	193,365	12,346	89,612	67,964	169,922

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenue, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

(Amounts expressed in thousands)

	2004	2003
Operating revenues:		
Student tuition and fees (including $11,348 and $11,305 of revenues pledged for bonds in 2004 and 2003, respectively, and net of scholarship allowances of $34,241 and $31,983 for 2004 and 2003, respectively)	$ 143,951	131,513
Grants and contracts (including $33,175 and $30,503 of revenues pledged for bonds in 2004 and 2003, respectively)	239,008	226,585
Sales and services of educational activities	15,220	14,123
Auxiliary enterprises (including $73,012 and $71,023 of revenues pledged for bonds in 2004 and 2003, respectively, and net of scholarship allowances of $3,572 and $3,306 for 2004 and 2003, respectively)	109,872	108,170
Other operating revenue	7,535	7,119
Total operating revenues	515,586	487,510
Operating expenses:		
Instruction	164,832	159,546
Research	136,181	120,681
Public service	71,010	75,203
Academic support	36,726	38,555
Student services	23,805	22,357
Institutional support	20,995	19,957
Operation and maintenance of plant	42,190	45,903
Scholarships and fellowships	9,201	13,773
Auxiliary enterprises	109,788	110,255
Depreciation	35,429	42,362
Other operating expenses	228	165
Total operating expenses	650,385	648,757
Operating loss	(134,799)	(161,247)
Nonoperating revenues (expenses):		
State appropriations	109,184	126,011
Gifts	15,658	18,952
Investment income	193	13,348
Interest expense on capital debt	(2,538)	(3,341)
Loss on disposal of assets	(665)	(418)
Other nonoperating revenues	5,774	1,956
Net nonoperating revenues	127,606	156,508
Loss before other revenues (expenses)	(7,193)	(4,739)
Other revenues (expenses):		
State capital contributions	486	12,041
Capital grants	2,131	1,761
Capital gifts	8,566	9,414
Payments to governing boards or other institutions	(420)	(440)
Additions to permanent endowments	944	—
Increase in net assets	4,514	18,037
Net assets:		
Net assets, beginning of year, as previously recorded	545,518	615,215
Change in entity	—	(87,734)
Net assets, beginning of year, as adjusted	545,518	527,481
Net assets, end of year	$ 550,032	545,518

See accompanying notes to basic financial statements.

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

Statements of Activities and Changes in Net Assets

Years ended June 30, 2004 and 2003

(Amounts expressed in thousands)

		2004				2003			
		Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**2004**	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**2003**
Support and revenue:									
Contributions	$	210	14,245	7,130	21,585	260	36,009	5,700	41,969
In-kind contributions		3	4,840	1,055	5,898	569	3,222	922	4,713
Allowance for uncollectible pledges		—	(98)	(99)	(197)	—	(103)	(27)	(130)
Total contributions		213	18,987	8,086	27,286	829	39,128	6,595	46,552
Net investment income		7,059	12,083	59	19,201	1,347	4,468	56	5,871
Actuarial change in value of life income agreements		(29)	(20)	(34)	(83)	(9)	(9)	199	181
Other changes in net assets		(25)	646	(621)	—	(45)	411	(366)	—
Other revenue		766	281	(98)	949	259	96	(48)	307
Net assets released from restrictions:									
Satisfaction of program restrictions		23,241	(23,241)	—	—	23,570	(23,570)	—	—
Total support and revenue		31,225	8,736	7,392	47,353	25,951	20,524	6,436	52,911
Expenses:									
Program services:									
CSU College of:									
Agricultural Sciences		1,392	—	—	1,392	2,126	—	—	2,126
Applied Human Sciences		1,436	—	—	1,436	1,257	—	—	1,257
Business		430	—	—	430	280	—	—	280
Engineering		5,391	—	—	5,391	2,345	—	—	2,345
Liberal Arts		2,195	—	—	2,195	3,628	—	—	3,628
Natural Resources		520	—	—	520	431	—	—	431
Natural Sciences		1,080	—	—	1,080	1,232	—	—	1,232
Veterinary Medicine and Biomedical Sciences		5,170	—	—	5,170	8,544	—	—	8,544
Athletics		3,716	—	—	3,716	1,954	—	—	1,954
Other CSU programs		2,270	—	—	2,270	2,247	—	—	2,247
Total program services		23,600	—	—	23,600	24,044	—	—	24,044
Support services:									
Development		340	—	—	340	440	—	—	440
Management and general		1,484	—	—	1,484	1,311	—	—	1,311
Total support services		1,824	—	—	1,824	1,751	—	—	1,751
Total expenses		25,424	—	—	25,424	25,795	—	—	25,795
Change in net assets		5,801	8,736	7,392	21,929	156	20,524	6,436	27,116
Net assets, beginning of year		10,859	85,821	60,059	156,739	10,703	65,297	53,623	129,623
Net assets, end of year	$	16,660	94,557	67,451	178,668	10,859	85,821	60,059	156,739

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2004 and 2003

(Amounts expressed in thousands)

		2004	2003
Cash flows from operating activities:			
Cash received:			
Tuition and fees	$	143,333	131,561
Student loans collected		6,439	6,393
Sales of products		19,528	16,090
Sales of services		105,088	121,860
Grants, contracts, and gifts		236,990	227,852
Other operating receipts		4,485	3,749
Cash payments:			
Scholarships disbursed		(10,818)	(8,547)
Student loans disbursed		(5,621)	(6,697)
Payments to employees		(397,972)	(381,430)
Payments to suppliers		(191,331)	(218,840)
Other operating payments		(228)	(166)
Net cash used by operating activities		(90,107)	(108,175)
Cash flows from noncapital financing activities:			
State appropriations – noncapital		109,184	126,011
Gifts and grants for other than capital purposes		14,975	16,472
Agency (direct lending inflows)		86,234	78,360
Agency (direct lending outflows)		(86,234)	(78,365)
Other agency (inflows)		25,768	11,564
Other agency (outflows)		(22,278)	(11,464)
Payment to Fort Lewis College		—	(14,156)
Payments to governing boards or other institutions		(420)	(440)
Other nonoperating revenues		5,606	1,641
Net cash provided by noncapital financing activities		132,835	129,623
Cash flows from capital and related financing activities:			
Proceeds from capital debt		3,625	24,114
State appropriations – capital		486	12,041
Capital grants, contracts, and gifts		7,078	7,455
Acquisition and construction of capital assets		(54,555)	(36,134)
Principal paid on capital debt		(8,219)	(5,451)
Interest on capital debt		(2,558)	(3,374)
Net cash used by capital and related financing activities		(54,143)	(1,349)
Cash flows from investing activities:			
Proceeds from sale and maturities of investments		2,173	2,210
Purchase of investments		(2,417)	(2,399)
Investment earnings		193	14,116
Net cash (used by) provided by investing activities		(51)	13,927
Net (decrease) increase in cash and cash equivalents		(11,466)	34,026
Cash and cash equivalents, beginning of the year		251,330	217,304
Cash and cash equivalents, end of the year	$	239,864	251,330

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2004 and 2003

(Amounts expressed in thousands)

		2004	2003
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$	(134,799)	(161,247)
Adjustments:			
Depreciation expense		35,429	42,362
Noncash operating transactions		1,221	(2,259)
Decrease (increase) in assets:			
Receivables, net		(1,744)	(908)
Inventories and prepaids		1,038	362
Increase (decrease) in liabilities:			
Accounts payable		(808)	3,016
Accrued liabilities		5,748	(3,865)
Deferred revenue		(1,694)	97
Deposits held for others		(72)	12,270
Compensated absence liabilities		848	1,997
Other long-term liabilities		4,726	—
Net cash used by operating activities	$	(90,107)	(108,175)
Noncash activities:			
Equipment purchased through capital lease	$	1,279	3,263
Noncash gifts		3,620	3,721

See accompanying notes to basic financial statements.

(1) Governance and Reporting Entity

(a) Governance

The Colorado State University System (the System) is an institution of higher education of the State of Colorado. For financial reporting purposes, the System is included as part of the State of Colorado's primary government. The Board of Governors (the Board) is the governing board of the Colorado State University System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. The annual appropriations and the funding for construction of capital facilities of the institutions are evidence of a financial burden of the State. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

(b) Reporting Entity

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

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

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

Effective September 1, 2002, Fort Lewis College was no longer part of the System. During the 2002 Colorado legislative session, House Bill 02-1419 became law and created a Board of Trustees to be the governing authority for Fort Lewis College beginning September 1, 2002. The legislation transferred all assets and liabilities for Fort Lewis College from the Colorado State University Board of Governors to the new Board of Trustees. The System's financial statements as of and for the year ended June 30, 2003 include only the financial activity of CSU and CSUP. Fort Lewis College issued separate financial statements as of and for the year ended June 30, 2003. This change in reporting entity resulted in an $87,734,000 reduction to the System's July 1, 2002 net assets.

Although the change in reporting was effective September 1, 2002, it was accounted for as of July 1, 2002 (beginning of fiscal year 2003) due to the immaterial impact of the July and August 2002 financial activity of Fort Lewis College on the System.

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

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of the System would be subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The System had no material unrelated business income for the years ended June 30, 2004 and 2003.

(c) Discretely Presented Component Unit

The System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14, *The Financial Reporting Entity*, during the fiscal year ended June 30, 2004. This Statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. As a result of this implementation, the Colorado State University Foundation (the Foundation) was determined to be a component unit of the Colorado State University System and has therefore been included as a discretely presented component unit in the System financial reporting entity. The Colorado State University Research Foundation and the Colorado State University – Pueblo Foundation did not meet the criteria to be reported as a component 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 majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, CSU, the Foundation is considered a component unit of the System and is discretely presented in the CSU System 2004 and 2003 financial statements.

The Foundation is a private nonprofit organization that reports under 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 university’s financial reporting entity for these differences, as permitted by GASB 39.

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

The major source for the Foundation’s revenue is gifts. Of the $47,353,000 in revenue for the 2003-04 fiscal year, gifts accounted for $27,484,000. Of the $52,912,000 in revenue for the 2002-03 fiscal year, gifts accounted for $46,682,000. The differences were 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 receipts and invests philanthropic gifts. Approximately $23,600,000 and $24,044,000 was transferred to CSU for the years ended June 30, 2004 and 2003, respectively, in pursuit of the above-stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to $12,414,000 and $11,293,000 as of June 30, 2004 and 2003, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

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

(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 Financial Accounting Standards Board (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 basis of accounting and other requirements for the presentation of such information.

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

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

(a) Cash and Cash Equivalents

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

(b) Investments

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenue, 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 being determined either on the first-in/first-out, average-cost, specific-identification, or on the retail method. Livestock inventories have been recorded at lower of cost or market using unit livestock costing methods and estimated animal weights.

(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, restricted cash and cash equivalents and restricted investments are those that cannot be used to pay current liabilities in fiscal years 2004 and 2003. For the System, examples of restricted cash and cash equivalents and restricted investments include cash and cash equivalents required as bond reserves and investments held by endowment funds.

(e) Capital Assets

Land, land improvements, buildings and improvements, library materials, 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 40 years for buildings, 20 to 50 years for land improvements, 10 to 15 years for library books, and 5 to 12 years for equipment. Depreciation expense was not allocated among functional categories.

Renovations to buildings and other improvements that significantly increase the value or 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.

(f) Compensated Absence Liabilities

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

(g) Net Assets

Net Assets of the System are classified as follows:

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

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

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

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

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

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

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

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

(h) *Classification of Revenues*

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

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

Operating expenses represent the full cost of providing the services and goods associated with operating revenues. These expenses are accrued when incurred and measurable and reported using functional classifications.

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

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

(i) *Summer Session Revenue and Related Expenses*

The System prorates the summer session revenues and expenses based on the number of days between the first day of the summer session and the last day of the summer session 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.

(Continued)

(l) Reclassifications

Certain 2003 amounts have been reclassified to conform with the 2004 basic financial statement presentation.

(4) Cash and Cash Equivalents

The System deposits cash 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. As of June 30, 2004 and 2003, respectively, the System had $242,313,000 and $236,533,000 on deposit with the State Treasurer. Interest earned on deposits with the State for the fiscal years ended June 30, 2004 and 2003 was approximately $7,042,000 and $10,466,000, respectively. These amounts reflect increases in cash and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. These amounts for the fiscal years ended June 30, 2004 and 2003, respectively, were $1,445,000 and $7,878,000 for cash and $(6,433,000) and $3,279,000 for investment income. Custodial credit risk classifications for amounts held by the State Treasurer are not available at the System level. Detailed information on the State Treasurer's pooled cash and investments is available from the State Treasurer's office.

At June 30, 2004 and 2003, the System's cash not on deposit with the State Treasurer was $(2,449,000) and $14,797,000, respectively. Cash included petty cash/change funds and bank accounts of $158,000 and $(2,607,000) as of June 30, 2004 and $392,000 and $14,405,000 as of June 30, 2003. Balances per the banks for these accounts as of June 30, 2004 and 2003 were $6,017,000 and $22,330,000, respectively. Of the balances per the banks, $469,000 for fiscal year 2004 and $367,000 for fiscal year 2003 were insured by the FDIC or were fully collateralized with securities held by the State or its agent in the State's name. The remaining $5,548,000 and $21,963,000 amounts for the fiscal years ended June 30, 2004 and 2003, respectively, were uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. At June 30, 2004 and 2003, the difference between the System's cash not on deposit with the State Treasurer and the balances per the banks was due to outstanding checks and deposits in transit.

(5) Investments

As of June 30, 2004 and 2003, System investments with a fair value of $16,180,000 and $14,830,000, respectively, were categorized to give an indication of the level of risk assumed by the System. Of these totals, $3,766,000 as of June 30, 2004 and $3,537,000 as of June 30, 2003 were investments insured or registered in the institutions' name or held by the institutions or their custodial agents in the institutions' name. The remaining $12,414,000 as of June 30, 2004 and $11,293,000 as of June 30, 2003 were investments held by the institutions' foundations, not evidenced by securities that exist in physical or book form. Of the $16,180,000 as of June 30, 2004 and of the $14,830,000 as of June 30, 2003, $3,766,000 and $3,537,000, respectively, were invested in U.S. Treasury obligations and $12,414,000 and $11,293,000, respectively, were invested as part of the institutions' foundation long-term endowment pool. The Foundation's endowment pool, recorded at fair value, included money market funds, U.S. Treasury bonds and notes, corporate bonds and notes, and common stock. Investment earnings for the fiscal years 2004 and 2003 were $84,000 and $201,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2004 and 2003. The System only invests in treasury notes, which are federal guaranteed investments, as required by state law.

Discretely presented component unit – As of June 30, 2004, investments for the Foundation consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments are comprised of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2004 and 2003:

	June 30	
	2004	**2003**
Cash and cash equivalents subject to investment management direction	$ 636,000	2,588,000
Small cap equities	14,958,000	11,370,000
Large cap equities	49,000	8,475,000
Mutual funds:		
Large cap equities	43,774,000	18,085,000
Alternative investments	43,373,000	30,773,000
Fixed income	41,424,000	47,896,000
International equities	24,056,000	11,375,000
Micro cap equities	9,680,000	5,204,000
Other investments	803,000	—
	$ 178,753,000	135,766,000

Net investment income of the Foundation consisted of the following for the years ended June 30, 2004 and 2003:

	2004	**2003**
Interest, dividends, and other income	$ 3,094,000	2,264,000
Net unrealized and realized gain on investments	18,835,000	4,556,000
Less investment management fees	(719,000)	(296,000)
Less unrealized loss on property held for sale	(606,000)	(100,000)
	20,604,000	6,424,000
Less income on deposits held in custody for CSU	(1,403,000)	(553,000)
	$ 19,201,000	5,871,000

(6) Accounts Receivable

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

	June 30 2004	June 30 2003
Student accounts receivable	$ 8,782,000	8,496,000
Less allowance for doubtful accounts	(3,023,000)	(2,607,000)
Student accounts receivable, net	5,759,000	5,889,000
Student loans receivable	25,921,000	26,142,000
Less allowance for doubtful accounts	(2,230,000)	(2,203,000)
Student loans receivable, net	23,691,000	23,939,000
Other accounts receivable:		
Sponsored Programs	37,695,000	23,018,000
Conferences and summer programs	2,348,000	2,761,000
Emergency firefighting receivables	2,151,000	14,226,000
Workers' compensation accrual (see Note 17)	1,480,000	—
Commercial receivables	1,010,000	553,000
Receivables from Foundation	1,115,000	—
Insurance trust fund	407,000	—
Capital construction – due from State	66,000	377,000
Due from employees – paydate shift	—	3,780,000
Vendor credits	—	48,000
Athletics	375,000	294,000
Other	2,651,000	1,334,000
Total other accounts receivable	49,298,000	46,391,000
Less allowance for doubtful accounts	(3,539,000)	(3,416,000)
Other accounts receivable, net	45,759,000	42,975,000
Total accounts receivable, net	$ 75,209,000	72,803,000

Discretely presented component unit – As of June 30, 2004 and 2003, the Foundation's pledges receivable consisted of the following:

	June 30 2004	June 30 2003
Receivables due in less than one year	$ 3,237,000	7,357,000
Receivables due in one to five years	8,884,000	25,762,000
	12,121,000	33,119,000
Less allowance for uncollectible pledges	(242,000)	(130,000)
Less present value discounting	(1,251,000)	(2,529,000)
	$ 10,628,000	30,460,000

Unconditional promises to give (pledges receivable) are from foundations, corporations, and individuals. The discount factors utilized in the present value calculations are commensurate with the applicable risk involved.

(7) Capital Assets

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

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

Following are the changes in capital assets for the year ended June 30, 2003:

	Balance July 1, 2002, as previously reported	Change in entity	Balance July 1, 2002, as adjusted	Additions	Deletions	Transfers	Balance June 30, 2003
Nondepreciable capital assets:							
Land	$ 9,958,000	(260,000)	9,698,000	—	—	—	9,698,000
Construction in progress	70,204,000	(4,556,000)	65,648,000	23,242,000	—	(80,583,000)	8,307,000
Collections	2,052,000	(750,000)	1,302,000	852,000	(9,000)	—	2,145,000
Total nondepreciable capital assets	82,214,000	(5,566,000)	76,648,000	24,094,000	(9,000)	(80,583,000)	20,150,000
Depreciable capital assets:							
Land improvements	48,486,000	(11,794,000)	36,692,000	245,000	—	8,895,000	45,832,000
Buildings and improvements	503,482,000	(102,540,000)	400,942,000	1,800,000	(1,594,000)	68,318,000	469,466,000
Leasehold improvements	1,400,000	—	1,400,000	—	(849,000)	87,000	638,000
Equipment	156,949,000	(4,544,000)	152,405,000	15,299,000	(7,497,000)	3,283,000	163,490,000
Library materials	65,964,000	(2,796,000)	63,168,000	7,759,000	(208,000)	—	70,719,000
Total depreciable capital assets	776,281,000	(121,674,000)	654,607,000	25,103,000	(10,148,000)	80,583,000	750,145,000
Less accumulated depreciation:							
Land improvements	15,731,000	(3,149,000)	12,582,000	1,845,000	—	—	14,427,000
Buildings and improvements	187,204,000	(25,831,000)	161,373,000	22,838,000	(1,298,000)	—	182,913,000
Leasehold improvements	1,259,000	—	1,259,000	39,000	(849,000)	—	449,000
Equipment	113,846,000	(3,230,000)	110,616,000	13,112,000	(5,489,000)	—	118,239,000
Library materials	39,554,000	(2,013,000)	37,541,000	4,528,000	(208,000)	—	41,861,000
Total accumulated depreciation	357,594,000	(34,223,000)	323,371,000	42,362,000	(7,844,000)	—	357,889,000
Net depreciable capital assets	418,687,000	(87,451,000)	331,236,000	(17,259,000)	(2,304,000)	80,583,000	392,256,000
Total capital assets, net	$ 500,901,000	(93,017,000)	407,884,000	6,835,000	(2,313,000)	—	412,406,000

Interest expense capitalized, net of related interest income for the System, was $589,000 and $187,000 for the years ended June 30, 2004 and 2003, respectively.

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2004 and 2003 were comprised of:

	June 30 2004	June 30 2003
Accrued payroll and benefits	$ 45,706,000	40,889,000
Accrued interest payable	1,014,000	919,000
Other liabilities	2,045,000	509,000
	$ 48,765,000	42,317,000

(9) Long-Term Liabilities

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

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

Long-term liability activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002, as previously reported	Change in Entity	Balance July 1, 2002, as adjusted	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Bonds and capital lease obligations:							
Revenue bonds and COPs payable	$ 72,630,000	(17,480,000)	55,150,000	36,844,000	(16,685,000)	75,309,000	4,170,000
Capital leases payable	3,702,000	(298,000)	3,404,000	3,389,000	(1,622,000)	5,171,000	1,136,000
Total bonds and capital leases	76,332,000	(17,778,000)	58,554,000	40,233,000	(18,307,000)	80,480,000	5,306,000
Other liabilities:							
Accrued compensated absences	26,767,000	(1,369,000)	25,398,000	2,011,000	(14,000)	27,395,000	1,740,000
Other	2,616,000	(357,000)	2,259,000	6,736,000	(5,662,000)	3,333,000	726,000
Total long-term liabilities	$ 105,715,000	(19,504,000)	86,211,000	48,980,000	(23,983,000)	111,208,000	7,772,000

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

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

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2004 and 2003 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2004 and 2003:

	Interest range	2004	2003
Colorado State University:			
Colorado State University Student Sports Recreational Facilities Bonds of 1998, issued in the original amount of $2,785,000 and mature in varying annual amounts to April 2017	3.80% – 5.13%	$ 2,145,000	2,260,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of $17,380,000 and and mature in varying annual amounts to March 2008	3.80% – 5.60%	5,965,000	7,605,000
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%	12,185,000	12,435,000
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%	2,440,000	2,865,000
Colorado State University Research Building and Revolving Fund Bonds of 2001, issued in the original amount of $6,965,000 and mature in varying annual amounts to December 2010	4.00% – 4.30%	5,190,000	5,820,000

	Interest range	2004	2003
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of $15,615,000 and mature in varying annual amounts to March 2017	2.50% – 5.25%	$ 14,990,000	15,615,000
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of $20,535,000 and mature in varying annual amounts to March 2035	2.50% – 4.63%	20,535,000	20,535,000
Bond premium		592,000	694,000
Total CSU revenue bonds		64,042,000	67,829,000
Series 1997 Certificates of Participation:			
Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPs) for finance or refinance of construction, other acquisition, and equipping of buildings with a value of $4,709,000. The COPS bear interest ranging from 4.45% to 5.13%, payable semiannually with a final maturity in 2018	4.25% – 5.35%	3,820,000	4,005,000
Total CSU certificates of participation		3,820,000	4,005,000
Total CSU revenue bonds and certificates of participation		67,862,000	71,834,000

(Continued)

	Interest range	2004	2003
Colorado State University – Pueblo:			
Colorado State University – Pueblo Recreational Facilities Bonds of 1992, issued in the original amount of $5,745,000 and refunded by the 2003 bonds	3.40% – 6.38%	$ —	3,475,000
Colorado State University – Pueblo Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of $3,625,000 and mature in varying annual amounts to August 2011	2.00% – 3.25%	3,625,000	—
Total CSUP revenue bonds		3,625,000	3,475,000
System total revenue bonds and certificates of participation		$ 71,487,000	75,309,000

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

	Principal	Interest	Total payments
2005	$ 4,480,000	3,158,000	7,638,000
2006	5,055,000	2,968,000	8,023,000
2007	5,255,000	2,754,000	8,009,000
2008	5,380,000	2,531,000	7,911,000
2009	5,360,000	2,307,000	7,667,000
2010-2014	18,860,000	8,760,000	27,620,000
2015-2019	12,405,000	4,751,000	17,156,000
2020-2024	3,335,000	3,062,000	6,397,000
2025-2029	4,205,000	2,223,000	6,428,000
2030-2034	5,330,000	1,129,000	6,459,000
2035-2039	1,230,000	62,000	1,292,000
Total debt service maturities	70,895,000	$ 33,705,000	104,600,000
Unamortized premium	592,000		
Total	$ 71,487,000		

The CSU Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of net revenues of the RBRF Enterprise. These revenues include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. See note 12 below 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 CSUP Series 1992 revenue bonds, secured by the net pledged revenues derived from student fees and net revenues from the operation of the CSUP's auxiliary facilities, including the CSUP's student housing facilities, student center facilities, parking facilities, and facilities comprising the construction project, were refunded by the Series 2003 Bonds. The CSUP Series 2003 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of CSUP auxiliary facilities, including CSU Pueblo's student housing facilities, and student center facilities. See note 12 for more information regarding these pledged revenues.

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

(11) Defeased Obligations

On July 9, 2003, CSUP Series 2003, Bonds were issued to refund the Series 1992 Bonds and to finance remodeling at the Occiato Student Center. The 1992 Bonds were called on July 10, 2003 and were defeased on August 1, 2003. The refunding reduces total debt service over the next seven years by $477,000 and resulted in an economic loss of approximately $157,000.

(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	
		2004	**2003**
Operating revenues – pledged auxiliary revenues	$	2,462,918	2,707,588
Operating expenses		1,600,608	867,864
Pledged revenues over operating expenses		862,310	1,839,724
Net nonoperating expenses		(345,834)	(10,427)
Other expenses and transfers		(915,348)	(8,410,767)
Net decrease	$	(398,872)	(6,581,470)

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes only $1,308,641 in such indirect cost recoveries, 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 $33,174,851.

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

		2004	2003
Operating revenues – pledged auxiliary revenues	$	72,970,221	71,518,673
Operating expenses		69,490,453	67,314,677
Pledged revenues over operating expenses		3,479,768	4,203,996
Net nonoperating expenses		(2,046,212)	(601,054)
Other revenues and transfers		278,679	4,422
Net increase	$	1,712,235	3,607,364

Colorado State University-Pueblo Auxillary Facilities Enterprise Refunding and Improvement Revenue Bonds.

		June 30	
		2004	2003
Operating revenues – pledged auxiliary revenues	$	9,004,026	8,510,017
Operating expenses		6,948,875	7,285,326
Pledged revenue over operating expenses		2,055,151	1,224,691
Net nonoperating revenues (expenses)		2,162	(114,028)
Transfers		(1,230,094)	(484,725)
Net increase	$	827,219	625,938

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.

(Continued)

(13) Capital Lease Obligations

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

		Total
Fiscal year ending June 30:		
2005	$	1,360,000
2006		1,229,000
2007		1,005,000
2008		808,000
2009		385,000
2010-2014		618,000
2015-2019		586,000
2020-2024		321,000
Minimum future lease payments		6,312,000
Less amount representing interest		1,166,000
Present value of minimum lease payments	$	5,146,000

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2004 and 2003, respectively, the System had capital lease obligations in effect with capitalized asset costs of $7,829,000 and $14,761,000; accumulated depreciation of $2,201,000 and $6,685,000; and related outstanding liabilities of $5,146,000 and $5,171,000.

(14) Operating Leases

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

		Future minimum obligations for operating leases
Fiscal year ending June 30:		
2005	$	834,000
2006		677,000
2007		531,000
2008		490,000
2009		344,000
2010-2014		343,000
Total	$	3,219,000

(Continued)

Rent expense was $1,182,000 and $943,000 for fiscal years 2004 and 2003, 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.

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 $14,592,000 and $16,020,000 are reported as restricted net assets expendable on the financial statements as of June 30, 2004 and 2003, 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, 2004 and 2003, this reserve had net assets of $1,358,000 and $1,397,000, respectively. These amounts were reported as restricted expendable net assets on the statements of net assets.

Total restricted net assets were as follows:

		2004	2003
Restricted for nonexpendable purposes:			
Scholarships, research, and other	$	12,207,000	10,457,000
Federal Land Grant Act Account – nonexpendable		3,851,000	3,683,000
Total	$	16,058,000	14,140,000
Restricted for expendable purposes:			
Federal Land Grant Act Income Account – expendable	$	6,361,000	6,121,000
Student loans		26,324,000	26,113,000
Gifts		2,118,000	5,107,000
Bond reserves		1,300,000	1,300,000
Auxiliary pledged net assets		14,592,000	16,020,000
Research Building Revolving Fund		6,428,000	7,034,000
Equipment reserve for Vet Med		1,358,000	1,397,000
Wildfire Emergency Fund		—	243,000
Other		773,000	835,000
Total	$	59,254,000	64,170,000

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

The Taxpayer Bill of Rights (TABOR) is an amendment to the Colorado Constitution that was passed in 1992 as a voter referendum. TABOR essentially restrains the growth of government other than for self-supporting activities that are classified as an enterprise. The System has five enterprises: Student and Faculty Services at CSU; Research Building Revolving Fund at CSU; Educational Outreach at CSU; Seedling Tree Nursery at CSU; and auxiliary operations at CSUP. The annual overall spending limits imposed by TABOR on the State are then passed on to public institutions of higher education through an appropriation bill that acts as a limit for certain cash revenue sources such as tuition, fees and services, and use of enterprise resources for unrestricted purposes. For the years ended June 30, 2004 and 2003 the System was limited from using enterprise net assets of approximately $3,201,000 and $3,800,000, respectively, for unrestricted purposes as a result of the TABOR Constitutional provision and the actions of the Legislature in setting the annual revenue limit. This TABOR restriction is not presented as restricted net assets in the accompanying financial statements since the Legislature has historically provided supplemental increases to the previously imposed limits on revenue.

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held indefinitely, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2004 and 2003, the Foundation's board has designated $14,382,000 and $7,946,000, 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, 2004 were $37,574,000 for the System. These outstanding purchase order commitments included System capital construction commitments of approximately $14,386,000. Approximately $3,200,000 of the capital construction commitments was for the improvements at CSU Hughes Stadium, $2,464,000 for the CSUP energy performance contract controlled maintenance project, $1,008,000 for the CSU chill radar antenna, $741,000 for the new scoreboard at CSU Hughes Stadium, $637,000 for the CSU Center for the Arts, $500,000 for the construction of the CSU residence hall, and the remaining commitments were for other small construction projects at CSU. Of the remaining outstanding purchase order commitments, $16,739,000 related to CSU-sponsored contracts and grants.

In addition to purchase order commitments, the System had contracted obligations of $12,301,000 at June 30, 2004 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position offer. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such costs are considered highly probable in the future. In both cases, settlement of the obligation involves payment to third parties, generally within three years.

Outstanding commitments at June 30, 2004 were:

Purchase order commitments	$	37,574,000
Shared cost obligations on long-term revenue contracts		4,710,000
Obligations under accepted employment offers		7,591,000
Total	$	49,875,000

(17) Employment Benefits

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

The System's total payroll for the fiscal years ended June 30, 2004 and 2003 was $365,099,000 and $331,119,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan and the student retirement plan was $130,270,000, $166,390,000, and $4,511,000, respectively, for the fiscal year ended June 30, 2004 and $141,005,000, $160,010,000, and $4,406,000, respectively, for the fiscal year ended June 30, 2003. The remaining employees were not eligible for participation in any of the System's plans.

(a) PERA Defined Benefit Pension Plan

Plan Description

For eligible System employees participating in The Public Employees' Retirement Association plan (PERA), the plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State plan, as well as the other divisions' plans, is included in PERA's financial statements which may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit.

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

Funding Policy

Most employees contribute 8% of their gross covered wages to an individual account of the plan. During fiscal year 2003-04, the System contributed 10.15% of the employee's gross covered wages. Effective January 1, 2003, 1.1% of the total contribution was allocated to the Health Care Trust Fund. During fiscal year 2002-03, the System contributed 10.04% of the employee's gross covered wages. Before January 1, 2003, 1.64% was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1% was allocated to the Health Care Trust Fund. Throughout each fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Voluntary Tax-Deferred Retirement Plans below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The System's contributions to PERA for the fiscal years ended June 30, 2004, 2003, and 2002 were $12,090,000, $11,976,000, and $14,771,000, respectively. These contributions were equal to the contribution requirement.

(b) Voluntary Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker program established a State match for PERA members' voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100% of up to 3% of the employees' gross covered wages paid during the month. For calendar year 2003, the match was 100% of up to 2% of employees' gross covered wages paid during the month. For calendar year 2004, the match was 100% of up to 1% of employees' gross covered wages paid during the month. For fiscal years ended 2004 and 2003, the matches paid were approximately $1,133,000 and $2,180,000, respectively. The PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. 2% of gross salary plus 50% of any reduction in the overall contribution rate due to over-funding of the pension plan was available for the match. While the plan was not overfunded in the current year, the maximum one-year change in the match rate is statutorily limited to 1%, and therefore, the match changed from 2% to 1%. PERA offers a voluntary 401k plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and institutions of the State offer a 403b plan. Members who contribute to any of these plans also receive the State match.

(c) Defined Contribution Pension Plan

Under the optional defined contribution plan, eligible faculty and administrative professionals of the System have the option of selecting a defined contribution plan as an alternative to PERA. Three vendor choices are offered through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC) and Fidelity Investments. The defined contribution pension plan is established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S) and was adopted by the Board in December 1992 and April 1993 for CSU and CSUP, respectively. The defined contribution pension plan is a qualified plan under Section 401(A) of the IRC. Colorado State University is the administrator of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 8.6% 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 non-student employees, including those employees at less than half-time and non-student temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the three authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or $14,516,000 for the fiscal year ended June 30, 2004 and 8.9% of covered payroll or $14,307,000 for the fiscal year ended June 30, 2003. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or $13,312,000 for the fiscal year ended June 30, 2004 and 8.0% of covered payroll or $12,795,000 for the fiscal year ended June 30, 2003.

A Federal Retirement program covers some employees employed by the Cooperative Extension Service at Colorado State University. The System's contribution to this plan for the fiscal years ended June 30, 2004 and 2003 was $253,000 and $302,000, respectively.

(d) Student Employee Retirement Program

Eligible student employees contribute 7.5% of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but 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 non-qualified plan under 403(B) of the IRC in lieu of mandatory OASDI coverage. The plan administrator is the "Committee". This Committee is comprised of thirteen individuals representing participating state institutions of higher education and one representative appointed by the Colorado student association. All contributions are vested immediately and are participant-directed within the funds available through the one vendor for the SERP, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2004 and 2003 was $338,000 and $330,000, respectively. The System is not liable for any matching contributions to the student employee retirement program.

(e) Health Insurance Programs

The System's contribution to the various health insurance programs was $5,415,000 and $5,908,000 for the fiscal years ended June 30, 2004 and 2003, respectively.

(Continued)

(18) Risk Financing and Insurance-Related Activities

The System is subject to risks of loss from liabilities from accidents or acts of nature. Such risks related to workers' compensation liabilities and property liabilities were managed under statutory authority by the State Office of Risk Management, an agency formed by statute and funded by the Long Bill. The System did not retain risk of loss except for damage incurred to property belonging to the System, limited to a $1,000 deductible per occurrence. For the years ended June 30, 2004 and 2003, CSU participated in this program (State Risk Pool).

The amount of settlements has not exceeded insurance coverage for each of the past three fiscal years.

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

Effective September 1, 2004, CSU withdrew from the State Risk Pool in order to purchase insurance for property claims more than $100,000 per occurrence. CSU will self-insure for claims less than $100,000 per occurrence and will continue to internally retain the risk of loss for damage incurred to property limited to a $1,000 deductible per occurrence.

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

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

The above Insurance Trust self-insurance programs had estimated claim liabilities of $4,774,000 and $4,677,000 at June 30, 2004 and 2003, 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 and as a result of withdrawing from the State Risk Pool, CSU was required to assume the actuarially-determined estimate of $4,548,000 in workers' compensation tail claims that were incurred prior to June 30, 2004. In return, CSU is to receive $1,480,000 from the State Risk Pool to subsidize a portion of the assumed costs.

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

		2004	2003
Claim liabilities, beginning of year	$	4,677,000	3,577,000
Incurred claims (including IBNR)		11,929,000	12,315,000
Claims assumed from State Risk Pool		4,548,000	—
Claim payments		(11,832,000)	(11,215,000)
Claim liabilities, end of year	$	9,322,000	4,677,000

(19) Post Employment Health Care and Life Insurance Benefits

(a) PERA Post Employment Health Care Plan

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal years 2004 and 2003, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65), and it was reduced by 5% for each year of service fewer than 20.

The Health Care Trust Fund was maintained by an employer's contribution of 1.1% of covered salary effective January 1, 2003. The System paid $1,433,000 into this fund during fiscal year 2004 and $1,946,000 during fiscal year 2003. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2003, there were approximately 37,067 participants, including spouses and dependents, from all contributors to the plan.

(b) Post Retirement Health Care Premium Refund

CSU's post retirement health care premium refund was established by the authority of the Board. For eligible retirees, CSU pays retirees a health care premium refund of the lesser of $200 per month or the actual cost of health insurance. Eligible retirees include former employees who were hired after March 1, 1993 who had no previous participation in PERA or former employees with previous participation in PERA who elect to receive benefits under this plan. Retirees become eligible for this benefit at age 55 with 20 years of service or age 60 with 5 years of service. Benefits are prorated for lesser years of service.

For 2004 and 2003, funding for the retirement refund was provided wholly by CSU through actuarially required contributions of 1% of covered participant's payroll. CSU's program is advance funded and contributions into the program totaled $1,476,000 and $1,417,000 for the years ended June 30, 2004 and 2003, respectively. The amount of net assets available for these benefits was $8,580,893 and $7,744,871 for the years ended June 30, 2004 and 2003, respectively. Actuarial assumptions used to determine funding requirements include an annual investment return of 6.5%, annual salary increases of 4%, and annual inflation of 3% for increase in starting salary. Non-economic assumptions include rates of retirement, non-retirement termination, and mortality. Retirement and non-retirement rates were based on plan experience. Actuarial accrued liability was $4,293,233 and $5,066,042 for the years ended June 30, 2004 and 2003, respectively, and the unfunded actuarial accrued liability for the benefit according to the actuarial-cost method as stated above was $0 and $0 for the years ended June 30, 2004 and 2003, respectively.

Total amounts paid by CSU to retirees for these health care subsidies were $233,000 and $198,000 for 2004 and 2003, respectively. As of June 30, 2004 and 2003, 134 and 116 former employees, respectively, were qualified to receive such benefits.

(c) Life Insurance Program

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

(20) Compensated Absence Liability

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested as of June 30, 2004 and 2003 was $28,243,000 and $27,395,000, respectively.

Expenses for the fiscal years ended June 30, 2004 and 2003 include $948,000 and $2,011,000, respectively, for the increase in the estimated compensated absence liabilities.

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2004 and 2003, 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, 2004 and 2003 were $86,234,000 and $78,341,000, respectively.

(22) Scholarship Allowance

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

		2004		
		Tuition and fees	**Auxiliary revenues**	**Total**
Gross revenue	$	178,192,000	113,444,000	291,636,000
Scholarship allowances:				
Federal		10,982,000	1,271,000	12,253,000
State		6,152,000	571,000	6,723,000
Private		150,000	53,000	203,000
Institutional		16,957,000	1,677,000	18,634,000
Total allowances		34,241,000	3,572,000	37,813,000
Net revenue	$	143,951,000	109,872,000	253,823,000

Tuition, fees and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2003 were as follows:

		2003		
		Tuition and fees	**Auxiliary revenues**	**Total**
Gross revenue	$	163,496,000	111,476,000	274,972,000
Scholarship allowances:				
Federal		10,748,000	1,221,000	11,969,000
State		7,480,000	677,000	8,157,000
Private		142,000	50,000	192,000
Institutional		13,613,000	1,358,000	14,971,000
Total allowances		31,983,000	3,306,000	35,289,000
Net revenue	$	131,513,000	108,170,000	239,683,000

(Continued)

(23) System Foundations and Endowments

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

(a) Colorado State University Research Foundation

CSURF is a private, not-for-profit Colorado corporation established in 1941 to aid and assist the institutions governed by the Board of the System in their research and educational efforts. CSURF officers are appointed annually by the Board of Directors. The Board of Directors consists of five voting members and two non-voting 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, 2004 and 2003, royalty revenues equaled $743,000 and $948,000, respectively, and expenses were $421,000 and $331,000, respectively.

On March 26, 1982, the University Services Center was leased to CSU by CSURF through June 30, 2003, with a total lease obligation of $6,620,000. Rental payments were established annually as agreed on by the lessor and lessee and were $737,000 for the year ended June 30, 2003. CSURF also serves as an accommodation party in the Series 1997 Master Lease Purchase Agreement to facilitate the financing for which the Series 1997 Certificates of Participation were issued.

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

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

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

At June 30, 2003, CSURF debt to provide buildings for use by the university was $5,843,000.

At June 30, 2003, assets of CSURF consisted of:

Cash and current assets	$	2,031,000
Property and equipment		8,125,000
Other assets		9,623,000
Total assets	$	19,779,000

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

(b) Colorado State University – Pueblo Foundation

CSUP Foundation was established in 1966 as an independent 501(c)(3) non-profit 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 ex-officio members.

CSUP Foundation recorded $1,242,000 and $1,413,000 in transfers of gifts and other assets to CSUP during fiscal year 2004 and 2003, respectively. During the same periods, CSUP provided $12,000 in in-kind support to CSUP Foundation for 2004 and 2003. Further, CSUP did not incur any expenses on behalf of CSUP Foundation during the fiscal years ended June 30, 2004 and 2003.

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

Cash	$	774,000
Investments		15,534,000
Property and equipment, net		5,000
Other assets		2,285,000
Total assets	$	18,598,000

At June 30, 2003, the assets of CSUP Foundation consisted of:

Cash	$	1,154,000
Investments		14,031,000
Property and equipment, net		1,000
Other assets		2,300,000
Total assets	$	17,486,000

CSUP Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSUP Foundation had $145,000 and $42,000 in outstanding liabilities as of June 30, 2004 and 2003, 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 three parcels of land with the proceeds from the sales being placed in a board-designated fund.

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

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

The Walking Stick Fund assets at June 30, 2003 consisted of:

Cash	$	659,000
Land		177,000
Due from other funds		88,000
Total assets	$	924,000

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

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

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

The KTSC Fund assets at June 30, 2003 consisted of:

Cash	$	2,283,000
Due from other funds		250,000
Total assets	$	2,533,000

(24) Legislative Appropriations

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

For the fiscal years ended June 30, 2004 and 2003, appropriated expenditures were within the authorized spending authority. The System had total appropriations, actual appropriated revenues, and actual appropriated expenses of $306,321,000, $269,087,000, and $258,475,000, respectively, for the year ended June 30, 2004 and $310,179,000, $275,353,000, and $275,181,000, respectively, for the year ended June 30, 2003.

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

(25) Contingencies

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

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

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 basic financial statements of the Colorado State University System (the System), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated September 24, 2004. Our report included an explanatory paragraph discussing the System's implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of the discretely presented component unit, the Colorado State University Foundation (the Foundation), were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the management of the System in the findings and recommendations section of this report dated September 24, 2004.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Colorado State University System Board of Governors, the Colorado State University System 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

September 24, 2004

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

September 24, 2004

Members of Legislative Audit Committee:

We have audited the basic financial statements of the Colorado State University System (the System) for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004, which included an explanatory paragraph discussing the System's implementation of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units,* an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. Under our professional standards, we are providing you with information related to the conduct of our audit.

Our Responsibility Under Professional Standards

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

In addition, in planning and performing our audit, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control.

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 1(c), the System implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. As a result, the Colorado State University Foundation was determined to be a component unit of the System and is now reported as a discretely presented component unit in the System's financial reporting entity.

Management Judgments and Accounting Estimates

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

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

Significant Audit Adjustments

We proposed corrections to the 2004 basic financial statements, which included the following entries:

Colorado State University:

- To recognize revenue of approximately $461,000 that had been deferred for a conference that ended July 1, 2004.
- To reduce the scholarship allowance by approximately $693,000 as a result of (1) inappropriate inclusion of certain financial aid types and (2) inappropriate exclusion of certain financial aid types in the original calculation.
- To reclassify grant revenues of approximately $360,000 from the capital gift account to the capital grant account.
- To reclassify deferred revenue of approximately $2.3 million to accounts payable (approximately $1.7 million) and a reduction of receivables (approximately $604,000), as a result of the University refunding cash to the State when it collects fire reimbursement monies from the federal government.
- To remove a receivable and deferred revenue of approximately $1.1 million for cash received that should have been applied against the receivable, but was recorded as a deferred revenue erroneously.
- To recognize revenue for nonexchange revenue transactions that were originally deferred for a total of $946,000.
- To reclassify $127,000 from deferred revenue to accounts payable as a result of a contractor requesting that a contract be terminated and monies refunded.
- To recognize operating expenses for approximately $3.6 million. These expenses were incurred during fiscal year 2004 but were incorrectly deferred.
- To recognize federal revenues and receivables totaling $3.6 million for reimbursements CSU was to receive after year-end for expenses incurred during fiscal year 2004.

Colorado State University – Pueblo:

- To recognize $483,000 in summer tuition revenue that was incorrectly deferred.
- To recognize $516,000 for a nonexchange revenue transaction that was incorrectly deferred.
- To reclassify $363,000 of restricted net assets to unrestricted net assets due to an error.

Uncorrected Misstatements

In connection with our audit of the System's basic financial statements, we have discussed with management certain financial statements misstatements that have not been accounted for in the basic financial statements as of and for the year ended June 30, 2004. We have reported such misstatements to management on a Summary of Uncorrected Misstatements and have received written representation from management that management believes these misstatements are immaterial. Page 101 includes a copy of the summary that has been provided to, and discussed with, management.

Other Information in Documents Containing Audited Financial Statements

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

Disagreements with Management

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

Consultation with Other Accountants

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

Major Issues Discussed with Management Prior to Appointment

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

Difficulties Encountered in Performing the Audit

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

Material Written Communications

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

(1) Management representation letter; and

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

Independence

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

Confirmation of Audit Independence

We hereby confirm that as of September 24, 2004, we are independent accountants with respect to the System under all relevant professional and regulatory standards.

* * * * * * *

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

Very truly yours,

KPMG LLP

COLORADO STATE UNIVERSITY SYSTEM

Summary of Uncorrected Misstatements

Year ended June 30, 2004

			Adjustments on financial statement captions							
			Change in net assets unadjusted audit differences arising in			Balance sheet				
Adj No.	Description		Current period	Prior period	Total	Net assets	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities
1	Cash	$	—	—	—	—	263,687	—	—	—
	Accrued liabilities		—	—	—	—	—	—	263,687	—
	To recognize cash for checks that were not outstanding at year-end.									
2	Accounts receivable		—	—	—	—	304,180	—	—	—
	Net assets		—	—	—	304,180	—	—	—	—
	To reclass a negative accounts receivable balance into net assets.									
3	Payroll operating expenses		(421,029)	—	(421,029)	(421,029)	—	—	—	—
	Accrued liabilities		—	—	—	—	—	—	421,029	—
	To accrue for three days of hourly employees' pay that was worked prior to June 30, 2004 but not paid until after year-end. This amount was not included in the payroll accrual calculation.									
4	Construction in progress		—	—	—	—	—	729,707	—	—
	Research operating expense		(103,268)	—	(103,268)	(103,268)	—	—	—	—
	Accounts payable		—	—	—	—	—	—	832,975	—
	To accrue for invoices received after year-end for which the liability was incurred prior to year-end.									
5	Deferred revenue		—	—	—	—	—	—	(471,064)	—
	Grants and contracts revenue		471,064	—	471,064	471,064	—	—	—	—
	To recognize revenue for advanced monies in accordance with GASB Statement No. 33.									
6	Construction in progress		—	—	—	—	—	430,445	—	—
	Equipment		—	—	—	—	—	(430,445)	—	—
	To reclass equipment that had not yet been placed into service from the depreciable equipment category to the nondepreciable construction in progress category									
7	Beginning net assets		—	(340,026)	(340,026)	(340,026)	—	—	—	—
	Research operating expense		340,026	—	340,026	340,026	—	—	—	—
	In prior year, an asset was inappropriately capitalized by CSU. In order to correct this error, CSU reversed this entry by recognizing the expense during the current year. This entry is to correct the effect of the prior year error on the current year activity.									
8	Deferred revenue		—	—	—	—	—	—	(376,926)	—
	Deposits held for others		—	—	—	—	—	—	376,926	—
	To reclass employee premiums for the self-insurance program.									
	Total	$	286,793	(340,026)	(53,233)	250,947	567,867	729,707	1,046,627	—

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of the Colorado State University System (the System), a blended component unit of the State of Colorado, and its discretely presented component unit as of and for the years then ended June 30, 2004 and 2003, and have issued our report thereon dated September 24, 2004.

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 103-106.

This report is intended solely for the information and use of the Board of Governors and management of the System, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 24, 2004

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2004

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 and 2001 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	$	2,462,918
Add interest from the Research Building Revolving Fund		174,407
Net auxiliary revenues		2,637,325
Indirect cost recoveries not credited to bond fund		33,174,851
Total pledged revenue		35,812,176
Operating expenses		(1,600,608)
Add back:		
Noncapital plant facilities expenses		344,613
Depreciation expense		55,711
Net income to meet requirement under the bond resolution	$	34,611,892
Net income required under the bond resolution:		
Current year principal and interest payments	$	1,399,213
Minimum earnings ratio required by bond resolution and parity obligation		150%
Net income required under the bond resolution	$	2,098,820

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 and 2003B which reports the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities and the Student Sports Recreational Facilities; b) Auxiliary Facilities Revenue Bonds, Series 1996 and 1997; and c) Student Sports Recreational Facilities Revenue Bonds, Series 1998.

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2004

a) The bond resolutions requires 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	$	72,970,221
Add:		
Investment income from investment funds		(609,325)
Transferable interest income from plant funds		215,974
GASB 31 unrealized losses		1,144,240
		73,721,110
Less old series bond obligations and new bonds operating expenses:		
Operating expenses		69,490,453
Less plant facilities expenses		(1,763,758)
Less depreciation expense		(2,920,332)
Less excluded equipment expenditures		(258,084)
Less compensated absences adjustment		(217,619)
		64,330,660
Principal and interest Payments on old bond series		3,148,648
Reserve funds deposits		—
		67,479,308
Net income to meet requirement under the bond resolution	$	6,241,802
Net income required under the bond resolution:		
Current year principal and interest payments	$	2,061,658
Minimum earnings ratio required by bond resolution		100%
Net income required under the bond resolution	$	2,061,658

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

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2004

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

Auxiliary revenues	$	69,642,276
Add:		
Investment income from investment funds		499,054
Transferable interest income from plant funds		126,207
		70,267,537
Unrestricted expenses		62,682,230
Less:		
Excluded equipment expenditures		(247,023)
Compensated absences adjustment		(216,860)
		62,218,347
Net income to meet requirement under the bond resolution	$	8,049,190
Net income required under the bond resolution:		
Current year principal and interest payments	$	2,922,310
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	$	3,652,888

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

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

Auxiliary revenues	$	3,394,484
Add:		
Investment income from investment funds		35,861
Transferable interest income from plant funds		89,767
		3,520,112
Unrestricted expenses		2,190,672
Less:		
Excluded equipment expenditures		(11,061)
Compensated absences adjustment		(759)
		2,178,852
Net income to meet requirement under the bond resolution	$	1,341,260
Net income required under the bond resolution:		
Current year principal and interest payments	$	226,338
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	$	282,923

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

(Continued)

COLORADO STATE UNIVERSITY SYSTEM

Revenue Bonds' Earnings Requirements Schedules

June 30, 2004

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.

		Series 2003
Gross revenue	$	9,004,026
Less general operating expenses		6,948,875
Available net revenue		2,055,151
Debt service requirement		49,974
		125%
Minimum excess requirement		62,468
Excess of available net revenue over minimum excess requirement	$	1,992,683

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2004

Introduction

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

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

The financial and compliance audit of the State-funded student financial assistance programs at the System for the fiscal year ended June 30, 2004 was directed toward the objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted April 2002. The state student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2004.

State-Funded Student Financial Assistance Programs

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

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

The State-funded student financial assistance awards made by the institutions during fiscal years 2004 and 2003 and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	Fiscal year ended June 30	
	2004	**2003**
State-Funded Student Financial Assistance Awards:		
Colorado State University	$ 7,229,000	8,899,000
Colorado State University – Pueblo	3,126,000	3,458,000
Perkins and Health Professionals Student Loans Matching Program:		
Colorado State University	62,000	58,000
Colorado State University – Pueblo	36,000	36,000

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.

COLORADO STATE UNIVERSITY SYSTEM

State-Funded Student Financial Assistance Programs

Introduction

Year ended June 30, 2004

During the fiscal year ended June 30, 2004, the System obtained authorizations to award federal student financial aid funds of approximately $1,133,000 in the Supplemental Educational Opportunity Grant program, $1,593,000 in the College Work-Study program, and $238,000 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, 2004, the System obtained authorizations to award Colorado student financial aid funds of approximately $274,000 in the Colorado Leveraging Educational Assistance program, $5,194,000 in the Colorado Student Grant program, $2,167,000 in the Colorado Work-Study program, $1,086,00 in the Merit program, $1,394,000 in the Governor's Opportunity Scholarship, $130,000 in Colorado Supplemental Leveraging Educational Assistance program, and $99,000 in the Perkins and Health Professionals Student Loan Matching Program.

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

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

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, 2004. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth and last revised November 1998 in the Colorado Commission on Higher Education (CCHE) Audit Guides, and in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002. The Statement is a summary of cash activity of the State-Funded Student Financial Assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be included in the Statement of the State-Funded Student Financial Assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America.

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

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance programs of the System for the year ended June 30, 2004, in conformity with the provisions of the CCHE Financial Aid Policy, adopted April 2002, as described in Note 1 to the Statement.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 24, 2004 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, grants 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, adopted April 2002. The accompanying schedules of appropriations, expenditures, transfers, and reversions of Colorado State University and Colorado State University – Pueblo (the Schedules) are presented for purposes of additional analysis and are not a required part of the Statement. The Schedules have been subjected to the auditing procedures applied in the audit of the Statement and, in our opinion, are fairly stated in all material respects in relation to the Statement taken as a whole.

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

KPMG LLP

October 22, 2004

COLORADO STATE UNIVERSITY SYSTEM

Statement of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – System

Year ended June 30, 2004

	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	$ 10,297,783	273,577	5,194,452	2,125,636	1,086,000	94,203	130,136	1,393,779
Supplementals	57,489	—	—	41,377	—	4,436	—	11,676
Transfers	—	—	—	—	—	—	—	
Total appropriations	10,355,272	273,577	5,194,452	2,167,013	1,086,000	98,639	130,136	1,405,455
Expenditures	10,355,272	273,577	5,194,452	2,167,013	1,086,000	98,639	130,136	1,405,455
Reversions to State General Fund	—	—	—	—	—	—	—	
	10,355,272	273,577	5,194,452	2,167,013	1,086,000	98,639	130,136	1,405,455
Net increase (decrease) in fund balance	$ —	—	—	—	—	—	—	—

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

Year ended June 30, 2004

(1) Basis of Presentation and Accounting

The accompanying statement of appropriations, expenditures, transfers, and reversions of State-funded student financial assistance programs by campus (the Statement) has been prepared in accordance with the format as set forth in the CCHE Audit Guides, and in conformity with provisions of the CCHE Financial Aid Policy, adopted April 2002. 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, 2004.

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

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

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

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

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University

Year ended June 30, 2004

		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	$	7,185,891	191,614	3,651,015	1,483,294	925,819	57,879	88,820	787,450
Supplementals		43,225	—	—	29,059	—	4,436	—	9,730
Transfers		—	—	—	—	—	—	—	
Total appropriations		7,229,116	191,614	3,651,015	1,512,353	925,819	62,315	88,820	797,180
Expenditures		7,229,116	191,614	3,651,015	1,512,353	925,819	62,315	88,820	797,180
Reversions to State General Fund		—	—	—	—	—	—	—	
		7,229,116	191,614	3,651,015	1,512,353	925,819	62,315	88,820	797,180
Net increase (decrease) in fund balance	$	—	—	—	—	—	—	—	—

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

COLORADO STATE UNIVERSITY SYSTEM

Schedule of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University – Pueblo

Year ended June 30, 2004

		Total Colorado Financial Aid	CLEAP	Student Grant Program	Work-Study Program	Undergraduate Merit Award Program	Perkins Loan Matching Program	SLEAP	Governor's Opportunity Scholarship
Appropriations:									
Original	$	3,111,892	81,963	1,543,437	642,342	160,181	36,324	41,316	606,329
Supplementals		14,264	—	—	12,318	—	—	—	1,946
Transfers		—	—	—	—	—	—	—	—
Total appropriations		3,126,156	81,963	1,543,437	654,660	160,181	36,324	41,316	608,275
Expenditures		3,126,156	81,963	1,543,437	654,660	160,181	36,324	41,316	608,275
Reversions to State General Fund		—	—	—	—	—	—	—	—
		3,126,156	81,963	1,543,437	654,660	160,181	36,324	41,316	608,275
Net increase (decrease) in fund balance	$	—	—	—	—	—	—	—	—

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

Please see Recommendations No. 22 and No. 23 at pages 36-37 of this report for audit comments and recommendations related to the State-Funded Student Financial Assistance programs.

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

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

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

Report Control Number 1607