Colorado State University System

(A Component Unit of the State of Colorado)

Financial Statements

June 30, 2009 and 2008

Compliance Audit

June 30, 2009

LEGISLATIVE AUDIT COMMITTEE
2009 MEMBERS

Representative Dianne Primavera
Chair

Senator David Schultheis
Vice-Chair

Senator Morgan Carroll
Representative James Kerr
Representative Frank McNulty
Representative Joe Miklosi
Senator Shawn Mitchell
Senator Lois Tochtrop

Office of the State Auditor Staff

Sally Symanski, CPA
State Auditor

Dianne Ray, CPA
Deputy State Auditor

Lou Skull
Audit Manager

BKD, LLP
Contract Auditors

THIS PAGE LEFT BLANK INTENTIONALLY

Colorado State University System
(A Component Unit of the State of Colorado)
Table of Contents

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Table of Contents

Colorado State University System

(A Component Unit of the State of Colorado)

Report Summary

Year Ended June 30, 2009

Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado State University System (the System) for the year ended June 30, 2009. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. BKD 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 the Independent Accountants' Report on Financial Statements and Supplementary Information, and the Foundation's audit was not performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

The purposes and scope of the audit were to:

- Express opinions on the financial statements of the System as of and for the year ended June 30, 2009, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2009.
- Issue a report on the System's compliance with certain provisions of laws, regulations, contracts and grants and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Report on the System's compliance with applicable bond covenants.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the System for the year ended June 30, 2009.
- Evaluate progress in implementing prior year audit recommendations.

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Report Summary

Year Ended June 30, 2009

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the System's financial statements as of and for the years ended June 30, 2009 and 2008, and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs for the year ended June 30, 2009.

One material weakness in internal controls over financial reporting was identified related to the required restatement of the System's 2008 financial statements. A discussion of this material weakness can be found in the Auditors' Findings and Recommendations section of this report (Finding Number 1).

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

We did note certain other areas in which the System could improve its internal controls and other procedures. These areas are discussed in the Auditors' Findings and Recommendations section of this report.

Significant Audit Adjustments

There were ten proposed audit adjustments identified during the audit. Seven of these adjustments were made to the financial statements and three were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease beginning net assets as of July 1, 2008 by approximately $18,000, to decrease the change in net assets by approximately $209,000 for the year ended June 30, 2009, increase current assets by approximately $269,000, increase noncurrent assets by approximately $167,000, and increase current liabilities by approximately $663,000 as of June 30, 2009.

Summary of Audit Recommendations

Auditor's Findings and Recommendation Section

Exclusive of the findings and recommendations with respect to our testing of expenditures of Federal Awards, state-funded assistance and Information Technology discussed below, our findings and recommendations address a) Colorado State University's need to improve its control over the implementation of new accounting pronouncements, b) the System improving its controls over the identification and recording of transactions relevant to the closing process, and c) Colorado State University – Pueblo (CSU-P) assuring that its existing procurement card policies and procedures are followed (See Recommendation Nos. 1, 2 and 3).

(Continued)

Expenditures of Federal Awards

There were three findings related to our testing of Federal expenditures under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Single Audit). The findings related to a) CSU-P assuring that institutionally scheduled breaks are excluded from its calculation of the return of Title IV funds (Student Financial Aid Cluster), b) CSU-P assuring amounts reported on the Fiscal Operations Report and Application to Participate (FISAP) are reconciled to both the financial aid and financial reporting systems prior to submission (Student Financial Aid Cluster), and c) CSU assuring that discrepancies in federal grant information are investigated and addressed on a timely basis (Research and Development Cluster) (See Recommendations Nos. 4, 5 and 6).

State-Funded Student Assistance Programs

There was one finding related to our testing of the state-funded student assistance expenditures. The finding related to CSU's need to assure that data are entered correctly into Banner to prevent awarding errors (See Recommendation No. 7).

Information Technology Environment

There were three findings related to our testing of the information technology environment. The findings related to a.) CSU and CSU-P improving information system security, b.) CSU assuring that all IT changes are adequately documented with appropriate approvals and documentation of testing prior to implementation and c.) CSU-P establishing a formal documented agreement of IT services and service levels supporting business operations (See Recommendation Nos. 8, 9 and 10).

Summary of Progress in Implementing Prior Audit Recommendations

Our audit report for the year ended June 30, 2008 included nine recommendations in our report dated December 18, 2008. The disposition of these audit recommendations as of June 30, 2009 was as follows:

Implemented	4
Partially implemented	2
Not implemented	3
	9

THIS PAGE LEFT BLANK INTENTIONALLY

Colorado State University System

(A Component Unit of the State of Colorado)

Recommendation Locator

Year Ended June 30, 2009

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	14	CSU should improve its controls over the implementation of new accounting pronouncements.	Agree	December 2009
2	16	The System should improve its controls over the identification and recording of transactions relevant to the closing process.	Agree	CSU - November 2009, CSU-P - June 2010
3	17	CSU-P should assure that its existing procurment card policies and procedures are being followed.	Agree	March 2010
4	19	CSU-P should assure that institutionally scheduled breaks are excluded from its calculation of the return of Title IV funds.	Agree	September 2009
5	20	CSU-P should assure the amounts reported on the Fiscal Operations Report and Application to Participate (FISAP) are reconciled to both the financial aid and financial reporting systems prior to submission.	Agree	October 2010
6	21	CSU should assure that discrepancies in federal grant information are investigated and addressed on a timely basis.	Agree	September 2009
7	22	CSU should assure that data are entered correctly into Banner to prevent awarding errors.	Agree	October 2009

(Continued)

Colorado State University System
(A Component Unit of the State of Colorado)
Recommendation Locator
Year Ended June 30, 2009

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
8	25	CSU and CSU-P should improve information system security.	Agree	CSU - February 2010 CSU-P - May 2009, June 2009, September 2010
9	27	CSU should work to assure that all IT changes are adequately documented with appropriate approvals and documentation of testing prior to implementation.	Agree	July 2009
10	28	CSU-P should establish a formal documented agreement of IT services and service levels supporting business operations.	Agree	April 2010

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 three distinct institutions: Colorado State University (a land-grant university), Colorado State University – Pueblo (a regional, comprehensive university) and Colorado State University – Global Campus (an on-line educational program).

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 (Colorado State University and Colorado State University – Pueblo) institutions, elected for one-year terms

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

Colorado State University

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

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

State legislation also made the College responsible for the Colorado State Forest Service. Following several name changes, the College became Colorado State University in 1957. In this report, the terms Colorado State University and CSU refer to Colorado State University – Fort Collins.

(Continued)

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

Agricultural Experiment Station

The Agricultural Experiment Station provides a basis for agricultural research and study programs on the Fort Collins campus and at nine research centers located throughout the State. The mission of the Agricultural Experiment Station is to conduct research that addresses the economic viability, environmental sustainability, and social acceptability of activities impacting agriculture, natural resources, and consumers in Colorado. It is a public service organization that disseminates the results of its research to the public through CSU Extension and various publications and conferences.

CSU Extension

The mission of CSU Extension is to provide information and education, and encourage the application of research-based knowledge in response to local, state, and national issues affecting individuals, youth, families, agricultural enterprises, and communities of Colorado. CSU Extension disseminates among the people of Colorado useful and practical information on subjects related to (a) agricultural production, marketing, and natural resources; (b) family living; (c) 4-H and other youth activities; and (d) rural and community development. The location of professional staff throughout the State permits CSU Extension to respond to the needs of local communities.

Colorado State Forest Service

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

(Continued)

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 (CSU-P) is accredited at the bachelor's and master's levels. CSU-P is a regional, comprehensive university, with moderately selective admissions standards displaying excellence in teaching and learning. CSU-P emphasizes professional, career-oriented, and applied programs at the undergraduate and graduate levels while maintaining strong programs in the liberal arts and sciences. CSU-P 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.

Colorado State University – Global Campus

Colorado State University – Global Campus (CSU-Global) was incorporated in 2008. CSU – Global Campus is a baccalaureate and graduate online university with the mission in Colorado of offering upper division baccalaureate degree completion programs for nontraditional students in partnership with the Colorado community college system and selected master-level graduate programs. The mission of CSU-Global is to offer on-line programs that are career-relevant and tailored to existing and emerging industry and occupational trends within Colorado. CSU-Global will cater to working adults and other nontraditional students who already have college credit or a two-year degree and want to complete their bachelor's and or master's degrees. CSU-Global admitted its first students during the fall 2008 semester.

Enrollment and Faculty

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

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

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

	Resident	Nonresident	Total
Fiscal year:			
2008-2009	17,883	4,428	22,311
2007-2008	17,691	4,489	22,180
2006-2007	17,752	4,375	22,127

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

	Faculty	Staff	Total
Fiscal year:			
2008-2009	1,604	4,486	6,090
2007-2008	1,549	4,435	5,984
2006-2007	1,535	4,241	5,776

CSU-P 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:			
2008-2009	3,419	566	3,985
2007-2008	3,080	328	3,408
2006-2007	3,003	384	3,387

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

	Faculty	Staff	Total
Fiscal year:			
2008-2009	221	326	547
2007-2008	203	288	491
2006-2007	206	280	486

(Continued)

Colorado State University Foundation (the Foundation)

The System's reporting entity includes the Foundation as a discretely presented reporting unit. The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU. The Foundation is governed by its board of directors, which includes five voting members and three ex-officio nonvoting members. No person who is an employee of the University is eligible to serve as an officer of the Foundation or as a voting board member.

THIS PAGE LEFT BLANK INTENTIONALLY

In planning and performing our audit of the financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2009 in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the System's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the System's financial statements will not be prevented or detected by the System's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses.

Material Weaknesses-Internal Control Over Financial Reporting

Restatement of Prior Year Financial Statements

Colorado State University (CSU) has a self-funded long term disability plan (the Plan) for academic faculty and administrative professional staff. The Plan is intended to provide, in conjunction with accrued paid leave from CSU and certain other sources of income which may be available, a means of replacing a substantial portion of the earnings which are lost when an individual covered by the Plan is unable to work because of illness or injury. A beneficiary under the Plan may be placed on approved leave of absence or have his/her employment terminated. Under the Plan, benefits will become payable as of the first day following 90 days of continuous disability and will continue until the earlier of termination of disability or attainment of one of the following age or time limits:

(Continued)

Age When Disability Starts	Maximum Duration of Benefits
Less than 60	to age 65
60 but less than 65	4 ¾ years
65 but less than 68 ¾	to ago 70
68 ¾ or over	1 year

Because benefits can be paid to beneficiaries after separation from employment based on the provisions of the Plan as outlined above, the Plan meets the definition of a postemployment benefits other than pensions (OPEB) plan under Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). Under GASB 45, employers with single-employer OPEB plans are required to record annual OPEB costs and net OPEB obligations using actuarial valuations developed using the calculation methodology set forth in GASB 45.

During the implementation of GASB 45 for fiscal year ended June 30, 2008, CSU did not identify its self-funded long term disability plan as an OPEB plan because the original intent of the plan was to not provide benefits to retired personnel. CSU had recorded a liability of $4,200,000 as of June 30, 2008 for the Plan using generally accepted accounting principles in effect prior to the effective date of GASB 45.

An actuarial valuation as required by GASB 45, was obtained during the fiscal year 2009 audit. The actual liability for the plan is approximately $200,000, a difference of approximately $4,000,000 from the recorded liability as of June 30, 2008. Based on that actuarial valuation, CSU's 2008 financial statements have been restated. The restatement resulted in increasing net assets as of July 1, 2007 by approximately $4,700,000, decreasing liabilities as of June 30, 2008 by approximately $4,000,000, increasing net assets as of June 30, 2008 by approximately $4,000,000 and decreasing the change in net assets for the year ended June 30, 2008 by approximately $700,000.

Recommendation No. 1

CSU should improve its controls over the implementation of new accounting pronouncements to assure that all applicable transactions that are impacted by the provisions of such pronouncements are thoroughly evaluated.

Colorado State University System Response

Agree. Procedures will be established to ensure additional reviews are conducted in the course of implementing new accounting pronouncements.

Implementation date: December 2009.

(Continued)

Significant Deficiencies-Internal Control Over Financial Reporting

See Finding No. 1 discussed under Material Weaknesses – Internal Control Over Financial Reporting.

Other Control Deficiencies-Internal Control Over Financial Reporting

Financial Reporting

Several audit adjustments were identified as part of the FY 2009 audit process. Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded

CSU-P

- Increase retainage payable and capital assets on construction project (approximately $215,000)
- Reduce capitalized interest recorded in capital assets and increase interest expense relating to System Enterprise Revenue Bonds, Series 2009A (approximately $298,000) and increase capitalized interest and decrease interest expense on Certificates of Participation (approximately $416,000)
- Record bond issuance costs relating to System Enterprise Revenue Bonds, Series 2009A, as an asset which were originally expensed (approximately $209,000)
- Reclassify accrued interest on System Enterprise Revenue Bonds, Series 2009A from a prepaid expense account to an accrued liability account (approximately $811,000)
- Record asbestos remediation outlays as expenses rather than construction in progress in accordance with GASB 49 (approximately $780,000)
- Reconcile Administrative Information System (AIS) trial balance to COFRS trial balance and remove fund 461 accounts duplicated on AIS (decrease assets by approximately $256,000, decrease liabilities by approximately $121,000, decrease revenue by approximately $135,000, decrease interfund transfers by approximately $135,000 and decrease expenses by approximately $135,000)

Proposed Audit Adjustments Not Recorded

The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

CSU

- Increase construction in progress and related accounts payable (approximately $641,000)

CSU-P

- Increase depreciation expense and increase accumulated depreciation on capital assets due to net errors in depreciation spreadsheet of approximately $474,000
- Reconcile differences between the AIS trial balance and COFRS financial statements (increase total assets by approximately $269,000, increase total liabilities by approximately $22,000, decrease revenues by approximately $364,000, decrease expenses by approximately $629,000 and decrease beginning net assets by approximately $18,000)

In addition, two exhibits that CSU-P is required to file with the State Controller's Office for its use in preparing the State's annual financial statements required revision for corrections noted during the audit.

Strong internal controls over financial reporting require that an entity implement processes to assure transactions are identified and recorded on a timely basis and that there is adequate review over the year-end closing process. Transactions/adjustments should be reviewed for accuracy and completeness by an individual other than the individual responsible for preparing the entry that records the transaction. Such a review is also necessary for any external reporting of financial information.

Failure to implement such processes increases the risk for inaccurate financial reporting that could be material to the System's financial statements.

Recommendation No. 2

The System should assure that its existing policies and procedures include controls over the identification and recording of transactions relevant to the closing process. These controls should include adequate levels of management review. Such processes should be followed to assure timely recording of transactions and ultimately, accurate external reporting of financial information.

Colorado State University System Response

Agree. Procedures have been developed and put into place to ensure that our accrual process achieves a proper cutoff at year-end. Some of these procedures were not competed. Additional oversight will be put into place to ensure the year-end accrual procedures are followed in their entirety. Implementation date: November 2009.

Colorado State University – Pueblo Response

Agree. CSU-P will review its year-end procedures to ensure that transactions are recorded in a more timely manner.

Implementation date: June 2010.

(Continued)

Procurement Cards: Colorado State University-Pueblo

According to CSU-P Procurement Card policies, all cardholders must review their monthly Statement of Account and assure that supporting documentation is provided for every transaction. Once the Statement of Account is complete, the cardholder signs, dates and forwards the entire Statement of Account packet to the approver on the account. The approver is responsible for reviewing and signing each Statement of Account by the 15^{th} of the following month.

We judgmentally selected five Statements of Accounts for testing. We noted that two supervisory reviews were not dated. A third supervisory review was dated on the date of our audit testing, approximately six months after the transaction dates.

Failure to review purchasing card statements in a timely manner may allow unauthorized purchases to remain undetected.

Recommendation No. 3

CSU-P should assure that its existing policies and procedures are being followed and reviews are clearly documented to provide for evidence of timely review.

Colorado State University – Pueblo Response

Agree. CSU-Pueblo is in the process of implementing an online training program on Blackboard to improve training while simplifying training procedures. The CSU-Pueblo Purchasing Department will add the areas uncovered by the audit to its random review procedures to reduce the probability of any future reoccurrences.

Implementation date: March 2010

(Continued)

OMB Circular A-133 (Single Audit) Findings

Major Program Compliance-Instance of Noncompliance
Internal Controls Over Major Programs-Control Deficiency

Return of Title IV Funds (Student Financial Aid Cluster): Colorado State University--Pueblo

Federal Family Education Loans (CFDA No. 84.032); Federal Perkins Loans (CFDA No. 84.038); Federal Pell Grant Program (CFDA No. 84.063); Academic Competitiveness Grant (CFDA No. 84.375); National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) (CFDA No. 84.376); Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA No. 84.007)

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance (not including Federal Work Study or the non-federal share of FSEOG awards if an institution meets its FSEOG matching share by the individual recipient method or the aggregate method) that the student earned (amount earned) as of the student's withdrawal date. Any unearned funds must be returned to the Department of Education. Per CFR Title 34, Subtitle B, Chapter VI, Part 668, subpart b, 668.22(f)(2)(i), in determining the percentage of payment period or period of enrollment completed for purposes of calculating the amount earned, "the total number of calendar days in a payment period or period of enrollment includes all days within the period, except that **scheduled breaks of at least five consecutive days are excluded** *(emphasis added)* from the total number of calendar days in a payment period or period of enrollment and the number of calendar days completed in that period." Per CFR Title 34, Subtitle B, Chapter VI, Part 668, subpart b, 668.22(j)(1) "The institution must return the amount of title IV funds for which it is responsible…no later than 45 days after the date of the institution's determination that the student withdrew." CSU-P distributed approximately $8,000,000 in Title IV funds during the fiscal year 2009.

Out of the 17 student files sampled, CSU-P did not exclude semester breaks of five days or more from its return of Title IV funds calculations in all 17 instances. As a result, the total dollar amount of funds returned for the 17 sampled students exceeded the required amount by $2,560.

The University personnel performing the calculations are not aware of the provisions for the exclusion of institutionally scheduled breaks from the amount earned calculation. Also, no other person reviewed the appropriateness of the calculations.

Additionally, in four of 17 student files sampled, CSU-P did not return funds within the required 45 day timeframe. The funds were returned 82 days after the student withdrew from the University. This was an oversight by the financial aid department.

(Continued)

By not excluding from its amount earned calculations institutionally scheduled breaks that meet the definition provided for in the regulations cited above, the University could potentially refund an incorrect amount of Title IV grant or loan assistance for students who withdraw from the University. Additionally, by not returning funds within a timely manner, the University is in violation of the Department of Education requirements.

Recommendation No. 4

CSU-P should develop policies and procedures to help assure that institutionally scheduled breaks are excluded from its calculation of amount earned for the return of Title IV funds for students who have withdrawn and have been recipients of Title IV grant or loan assistance. In addition, a detailed review of the return of Title IV funds calculations should be performed by someone other than the preparer to help assure that calculations are performed accurately and in accordance with existing federal regulations.

Colorado State University – Pueblo Response

Agree. The Financial Aid Counseling Manager now calculates the number of days for each semester as soon as the academic calendar is established and provides a schedule of those dates to the financial aid counselors. One counselor is responsible for calculating returns and a second counselor is responsible for reviewing all return of Title IV funds calculations prior to actual transaction execution.

Implementation date: September 2009

Major Program Compliance-Instance of Noncompliance
Internal Controls Over Major Programs-Control Deficiency

Fiscal Operations Report and Application to Participate (FISAP) (Student Financial Aid Cluster): Colorado State University--Pueblo

Federal Perkins Loans (CFDA No. 84.038); Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA No. 84.007); Federal Work-Study Program (CFDA No. 84.033)

The University is required to submit the Fiscal Operations Report and Application to Participate (FISAP) annually by October 1 following the end of the award year in order to obtain campus based program funds. Campus based programs consist of the Federal Perkins Loans, the Federal Supplemental Educational Opportunity Grants and Federal Work-Study Program. The FISAP reports the institution's campus based program expenditures in the previous award year and applies for campus based program funds for the following year. Code of Federal Regulations Title 34, Section 668.24 outlines requirements for establishing and maintaining records that support Title IV transactions.

During our testing of the FISAP submitted for the award year July 1, 2007 to June 30, 2008, the most recent report available for testing, we noted discrepancies between the amounts reported in the FISAP when compared to the financial reporting systems. These discrepancies were noted in Part III, sections A and C for the Federal Perkins Loans (FPL discrepancies) and Part V, sections G and H for the Federal

Work-Study Program (FWS discrepancies). The FWS discrepancies resulted from incorrect data that were extracted from the financial aid and financial reporting systems. According to CSU-P personnel, a data entry error caused the discrepancy in Part III, Section C for Federal Perkins Loans. Additionally, the general ledger does not agree to amounts reported in Part III, Section A for Federal Perkins Loans. According to CSU-P personnel, the data utilized for Part III, section A, resulting in the FPL discrepancies have not reconciled to the general ledger since conversion to the current financial reporting system in 1997.

The errors noted resulted principally from a lack of sufficient independent review of the FISAP prior to submission of the report.

Failure to properly review the information on the FISAP prior to submission could result in an inaccurate reporting of required information.

Recommendation No. 5

CSU-P should implement a review process to assure the amounts reported on the FISAP are reconciled to both the financial aid and financial reporting systems prior to the October 1 submission of the FISAP report. Differences noted on such reconciliations should be investigated and documented on a timely basis. Additionally, CSU-P should also contact the FISAP administrator at the Campus-Based Call Center to determine if corrections should be submitted for FISAP reports filed in previous years.

Colorado State University – Pueblo Response

Agree, will implement for the next FISAP report. The Grant Accounting Coordinator will work closely with the Director of Financial Aid and the Systems Manager to assure that the FISAP has been reconciled to both the financial aid and financial reporting systems prior to its October 1 submission. If any differences are found, steps will be taken to investigate, document, and reconcile them on a timely basis. The Grant Accounting Coordinator will provide the FISAP and the balancing report to the University Controller for review prior to October 1 submission deadline. The FISAP will not be submitted until approved by the University Controller.

The Grant Accounting Coordinator will contact the FISAP administrator at the federal Campus-Based Call Center to determine if corrections should be submitted for FISAP reports filed in previous years.

Implemented date: October 2010

Major Program Compliance-Instance of Noncompliance
Internal Controls Over Major Programs-Control Deficiency

Reporting (Research and Development Grant Cluster): Colorado State University

OMB Circular A-133 (OMB A-133) sets forth standards for consistency and uniformity among federal agencies for the audit of non-federal entities expending federal awards. According to OMB A-133, the University is responsible, among other requirements, for identifying all federal programs for which the University had expenditures during the year. Federal award and program identification should include, as applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the federal agency, and name of the pass through entity, if applicable. The University provides this information on the Exhibit K and submits the information to the Office of the State Controller who then prepares the Schedule of Expenditures of Federal Awards (SEFA) for the State of Colorado.

Colorado State University receives funding from the Department of Health and Human Service's National Institute of Health. The University receives notices of awards for each budget period, which includes the funding source by CFDA number. During Fiscal Year 2009, CSU received approximately $10 million for Allergy, Immunology and Transplantation Research under CFDA No. 93.855.

We found during our Fiscal Year 2009 audit that CSU's reporting of Allergy, Immunology and Transplantation Research expenditures on its preliminary Exhibit K was inconsistent with the CSU's award document from the Department of Health and Human Services. Specifically, CSU reported expenditures under CFDA 93.856, which is for Microbiology and Infectious Diseases Research. During the course of the grant, the CFDA number for the award was originally CFDA number 93.856 and was changed to CFDA number 93.855 as stated in the notice of award for budget period four (May 1, 2008 to April 30, 2009). The University did not contact the federal grant awarding agency to determine the reason for and appropriateness of the change in CFDA number until the end of Fiscal Year 2009 when we brought the discrepancy to its attention. Upon discussion with the federal grant awarding agency, it was noted that the CFDA number did change to 93.855. Further, because the University did not contact the grantor in a timely manner, it did not communicate the change of the CFDA number to its subrecipients.

The incorrect reporting on the preliminary Exhibit K resulted from not investigating the CFDA grant number discrepancy in a timely manner.

By reporting incorrect information on the Exhibit K, the State of Colorado might include inaccurate information on its statewide SEFA.

Recommendation No. 6

Colorado State University should ensure that discrepancies in federal grant information are investigated and addressed on a timely basis. Furthermore, any required changes should also be communicated timely to subrecipients. Differences in the CFDA number should be discussed by CSU and the awarding agency to resolve the discrepancy in a timely manner.

(Continued)

Colorado State University System Response

Agree. At the time of the initial award the CFDA noted in the Notice of Grant Award (NGA) was 93.856. In 2006 the National Institute of Allergies and Infectious Disease (NIAID) combined the two numbers-- 93.856 and 93.855-- and began using 93.855 exclusively. When the incremental NGA was awarded the CFDA number changed to 93.855 but was not referenced as a change in the NGA. Unfortunately, since changes in CFDA numbers do not often occur in the middle of a project cycle, the change was not caught and noted in the CSU system. The change has been noted in the most recent project and is being reported correctly on the final Exhibit K. It should be noted that the expenditures were reported to the awarding institute and that the SEFA was not materially misstated.

A procedure will be developed and communicated to Sponsored Programs (SP) staff regarding the importance of checking each Notice of Grant Award, not just the initial ones, to assure the correct CFDA number is being used.

Implementation date: September 2009

State-Funded Student Financial Assistance Program Finding

Eligibility: Colorado State University

In order to receive financial aid from the State of Colorado, including awards such as the Colorado Student Grant, Colorado Work Study, Colorado Merit Program, etc., students must be residents of Colorado. A Colorado Resident Student is a student who is eligible for in-state tuition classification as defined in Title 23, Article 7, C.R.S. for public institutions.

Out of thirty students selected for State Financial Aid Eligibility testing, one student was not a resident of the State of Colorado. The student was incorrectly coded as an undergraduate resident within the Banner financial aid system. As a result, this student was erroneously awarded a Colorado Student Grant totaling $1,300 for the 2008-2009 school year.

If a student's state of residence information is not properly coded within the Banner financial aid system, state-funded student financial assistance may be incorrectly awarded to the student.

Recommendation No. 7

Colorado State University should ensure that data are entered correctly into Banner to prevent awarding errors.

Colorado State University System Response

Agree. The data for the one student was entered into the Banner Student module section incorrectly. The error was corrected and the student did not receive the funds.

(Continued)

Student Financial Services will develop a training session for Admissions Office staff which will include a review of the significance of residency data and will develop a process that implements a review of manually coded data.

Implementation date: October 2009

<u>Information Technology Environment Finding</u>

Introduction

The Information Technology (IT) environment at the System is highly decentralized. The Chief Information Officer (CIO) is responsible for central academic computing, administrative computing, central networking, telecommunications, support for the general assignment (GA) classrooms, IT security and privacy, the central help desk, and coordinating IT on campus. Individual units are responsible for their own IT environments, including their servers, desktops, networks, applications, and users. IT staff in the departments work collaboratively with central IT staff on problems of common interest and scope.

Central academic computing consists of operations, implementation, management and support for central email, central spam and email virus filtering, central web services (static, dynamic, portal), and dozens of other general computing applications.

Administrative computing is centralized and consists of the Student Information Systems, the Human Resources System (HRS), the Financial Records System (FRS), and various other administrative functions including support for the Student and Exchange Visitor Information System (SEVIS), the College Opportunity Fund (COF), etc.

Central networking consists of operations, implementation, management and support for the Wide Area Network (WAN), the Local Area Network (LAN) backbone, the secure wireless network, remote access (modem pool) and IT security.

Telecommunications is centralized on campus, and provides voice switching services, including on-campus, local and long distance services, voice mail, E911, and physical IT infrastructure (off campus, between-building, and in-building copper voice and data and fiber data circuits).

Information Technology-Information System Security: Colorado State University and Colorado State University – Pueblo

Information system security should prevent unauthorized access to critical information system assets by managing security controls. Logical security controls are safeguards which support user ID and password access, user authentication, user access rights, data classification and security monitoring. These measures are to ensure that only authorized users perform actions or access information.

In order for the organization to establish and maintain effective information system security, the entity should have adequate controls in place including:

- Periodic documented reviews of user's access and responsibilities to ensure that individual's access is appropriate to user's job responsibilities.
- Formal documented policies and/or procedures to assure that the security design features facilitate password rules (e.g., maximum length, characters, expiration, and reuse).
- Formal documented policy or procedures for requesting, establishing, issuing, suspending, modifying, and closing user accounts and related user privileges with a set of user account management procedures.
- Secured default database administration and system accounts to prevent unauthorized use including, but not limited to:
    - Changing the password on all default administration and system accounts
    - Disabling default application accounts not required to support the application
    - Renaming (when applicable) default application accounts

During our review of the Colorado State University System's information security policies and procedures, we noted the following:

Colorado State University

- The organization does not have a formal, documented User Account Management Policy in place.
- Weekly reports are being generated and reviewed; however, these reports at times contain user accounts for employees that had termination dates weeks to even months prior to the date of the weekly report. A process currently exists but it does not communicate employee termination effectively to assure that access is removed in a timely manner, leaving the risk of accidental or deliberate access to sensitive or financial data open.
- During our review of the Oracle default accounts, we discovered that the default account "SCOTT" was open and that the password for this account is still set to the factory default. Default accounts enabled, with default passwords, provides an account whereby an attacker (e.g.; hacker, business spy or employee) may guess the account name and password and access, either accidentally or deliberately, sensitive or financial data. In most cases, these default accounts also have SYSTEM PRIVILEGES, making the possible risk even greater.

Colorado State University – Pueblo

- The University does not have a formal, documented User Account Management Policy in place.
- The process currently in place to communicate employee termination does not assure that access is removed in a timely manner, leaving the risk of accidental or deliberate access to financial data open.
- There are no formal documented policies or procedures for reviewing the level of user accounts for access or permission levels.
- Within the system generated user account output from Oracle and AIS, we discovered that there are 27 active accounts, which have a password expiration date greater than 90 days and 19 active accounts do not have a password reset date or expiration date listed. This is not in compliance with the password policy of 90 days.
- Several default accounts (DBSNMP, OUTLN, MDSYS, etc.) were open and the passwords for these acccounts were still set to the factory defaults. Default accounts enabled with default passwords provides an account whereby an attacker (e.g.; hacker, business spy or employee) may guess the account name and password and access, either accidentally or deliberately, sensitive or financial data. In most cases, these default accounts also have SYSTEM PRIVILEGES, making the possible risk even greater.

Recommendation No. 8

CSU and CSU-P should improve information system security as follows:

a) Implement a formal documented process to periodically review (at least annually) user accounts and access rights. The review should assure that all user accounts are valid and that access is appropriate for each individual's role within the organization. This review should also include the Information Technology departments' review of default systems accounts to assure they are appropriately secured to prevent unauthorized use.

b) Assure that accounts that do not meet policy guidelines for password rules (expirations-reset, etc.) are locked or disabled and that default passwords have been changed to avoid potential security risk.

c) Develop and implement a User Account Management Policy that:

1) addresses requesting, establishing, issuing, suspending, modifying, and closing user accounts and related user privileges with a set of user account management procedures
2) includes an approval procedure outlining the data or system owner granting the access privileges and

(Continued)

3) defines set procedures and timelines for communicating across the organization, to relevant parties, termination notices for employees leaving the organization voluntarily and/or involuntarily.

These procedures should apply for all users, including administrators (privileged users) and internal and external users to limit potential risks to the IT systems and unauthorized access to confidential data.

Colorado State University System Response

Colorado State University:

a.) Agree. CSU has a formal process which calls for annual reviews of user accounts and access rights for all user accounts. However, this process is not currently documented. CSU will formally document this process by February 2010.

b.) Agree. CSU did have one default account 'SCOTT' that was open and set at the factory default. This account has been deleted. CSU has procedures in place to ensure that accounts that do not meet policy guidelines for password rules (expirations-reset, etc.) are locked or disabled and that default passwords have been changed to avoid potential security risk. These procedures will be reviewed to ensure that situations such as the 'SCOTT" account are identified and handled correctly based upon the existing policy. Implementation date: February 2010.

c.) Agree. CSU has identified the need for, and is in the early stages of planning for the selection and implementation of an Identity and Access Management system. Such systems enable the automation of granting and revoking access due to users' roles within the organization. Such a system will be the basis for formulating and establishing a formal User Account Management Policy. Until such a system can be acquired, targeted for 2011, CSU will ensure, as indicated in a.) above, that all existing procedures are identified, documented and adequate for the respective circumstances. Implementation date: February 2010.

Colorado State University – Pueblo:

a.) Agree. A facility has been implemented that allows data owners to review user access and gives the data owner the ability to flag access to be removed, if necessary. Action dates of the data owner activities are recorded electronically. Implementation date: June 2009 (enhancements to be completed by March 2010).

b.) Agree. Default accounts and associated passwords that are created by Oracle upon installation of the product have been changed and/or removed if they are not utilized in our environment. An automated process, driven by HR employee contracts, has been implemented to deactivate user access upon termination of employment or campus agreement (for non-contract users). An account is automatically deactivated after 90 days of the last login date. Implementation date: May 2009.

c.) CSU-P is in the process of reviewing and updating policies; establishment of a User Account Management Policy document is a task to be completed by the recently filled IT System Security Administrator. Implementation date: September 2010.

Other Matters

Information Technology – Change Management: Colorado State University

A change management policy outlines formal change management procedures for standardizing the request for program changes, system changes, and maintenance (including changes to system software) and assures all requests are appropriately logged, approved, and documented. This process should be implemented to manage modifications to system functionality in order to assist CSU in meeting its financial reporting objectives.

Colorado State University has developed and implemented a change management policy and procedure for documenting the change management process. However, through review of a judgmental sample of ten change requests, we noted that two changes were implemented that did not have appropriate approvals and/or test plans documented.

Recommendation No. 9

CSU should work to assure that all IT changes are adequately documented with appropriate approvals and documentation of testing attached prior to implementation.

Colorado State University Response

Agree. IT has added a management review process to ensure adequate application testing and verification as a component of change management.

Implementation date: July 2009

Information Technology-IT Governance: Colorado State University – Pueblo

IT Governance is a structure of relationships and processes to direct and control the organization in order to achieve the organization's goals by adding value while balancing risk versus return over IT and its processes. IT management should establish appropriate standards of measurement to effectively monitor the organization's delivery of services, to identify shortfalls and to promptly act upon deviations. Deficient or nonexistent IT Governance activities and procedures typically result in the following:

- Decreased cost-efficiency of IT processes
- Decreased satisfaction of end users
- Decreased staff productivity
- Decreased linkage between IT and enterprise governance

CSU-P does not currently have a formal documented IT Metrics/baselines established to effectively measure the organization's delivery of IT services.

Recommendation No. 10

CSU-P should establish and implement a formal documented definition and agreement of IT services and service levels which, for key systems supporting business operations, establishes operating baselines and/or service level agreements that define relevant performance indicators, systematic and timely reporting of performance and prompt acting upon deviations.

Colorado State University - Pueblo Response

Agree. CSU-P does not have a formal IT Governance Metrics/baseline process / document. However, on a regular basis IT conducts reviews of technology services and provides information and findings to senior management on the cost effectiveness of IT processes and addresses concerns and/or options. The current informal process is thought to be sufficient but we agree needs some formalization in the form of a brief written policy supporting and enforcing the existing process. A policy will be developed and submitted to the appropriate administrators. Any need for a more formal process will be determined based on the needs of the University.

Implementation date: April 2010

Summary of Progress in Implementing Prior Audit Recommendations

Following are the audit recommendations for the year ended June 30, 2008. The disposition of these audit recommendations as of June 30, 2009 was as follows:

No.	Recommendation	Disposition
1	Colorado State University should ensure that construction in progress is recorded accurately and completely at year-end by improving the estimation process and excluding costs for work not yet performed.	Partially implemented. An audit adjustment was proposed to increase accruals relating to construction costs for fiscal year 2009 totaling approximately $641,000. See current year recommendation No. 2.
2	Colorado State University – Pueblo should ensure construction expenditures are properly recorded by identifying differences through reconciliations, investigating the cause of the differences and recording appropriate adjustments.	Not implemented: During fiscal year 2009, CSU-P incorrectly recorded a portion of a project in fund 461 on AIS causing a reconciling item between AIS and COFRS. The adjustment increased current assets by approximately $269,000, increased current liabilities by approximately $22,000, decreased revenues by approximately $364,000, decreased expenses by approximately $629,000 and decreased beginning net assets by approximately $18,000. See current year recommendation No. 2.
3	Colorado State University – Pueblo should implement procedures to ensure that there is documented proof that the notifications to students and parents regarding disbursement of federal financial aid required by federal regulations is maintained.	Implemented

(Continued)

No.	Recommendation	Disposition
4	Colorado State University – Pueblo should improve controls over cash held at financial institutions by creating separate general ledger accounts for each bank account and ensuring that a monthly reconciliation is performed for every bank account where the ending balance per the bank is reconciled to the balance on the general ledger.	Partially implemented. During fiscal year 2009, one bank reconciliation did not reconcile to the trial balance. The difference was approximately $146,000. Implementation date: January 2010.
5	Colorado State University – Pueblo should implement a review process to ensure that the spreadsheets used to track capital assets do not contain formula and clerical errors and that the cost basis of assets is accurately stated. Errors should be corrected as identified.	Not Implemented: During fiscal year 2009, the following errors were identified during the audit: a) 23 assets were over depreciated by approximately $150,000. b) Depreciation expense was understated on 32 assets by approximately $624,000. c) An error on the spreadsheet caused one capital asset to be excluded resulting in an understatement by approximately $56,000. See current year recommendation No. 2.
6	Colorado State University – Pueblo should implement procedures to annually evaluate accounts receivable and request appropriate write-offs to ensure that it is in compliance with the State's accounts receivable write-off policy.	Implemented

(Continued)

No.	Recommendation	Disposition
7	In addition to reviewing the IDS logs, Colorado State University's management should implement procedures to ensure that the process for logging and monitoring of security and/or audit logs for FRS/IDMS, Banner, SAGE and Oracle HRMS as well as AIX-UNIX, Oracle and Top Secret, is formally documented and included in the CSU Information Security Policy and data security requirements. Colorado State University – Pueblo should review the current number of individuals granted administrative access within the AIS system and determine whether such access should be segregated or limited to certain individuals within the Information Support Services Team. In addition, management should implement a formal documented process to periodically review Oracle, UNIX and AIS user accounts to ensure appropriateness of the level of access.	Implemented

(Continued)

Colorado State University System
(A Component Unit of the State of Colorado)
Disposition of Prior Audit Recommendations
Year Ended June 30, 2009

No.	Recommendation	Disposition
8	Colorado State University and Colorado State University – Pueblo should draft and implement a formal documented Business Continuity and Disaster Recovery Plan.	a) Colorado State University: Implemented Colorado State University-Pueblo: Not Implemented The ITS System Security Administrator position was filled in September 2008. The Business Continuity and Disaster Recovery Plan is included in this position's responsibilities. Implementation date: Fall 2010.
	Colorado State University – Pueblo should ensure that off-site storage facilities used to store backup media are located far enough away from the original site to reduce the likelihood that both sites would be affected by the same event (e.g.; tornado, flood, fire, etc.).	b) Colorado State University: Not Implemented. Implementation date is dependent on funding. Colorado State University-Pueblo: Not Implemented as of the date of testing. However, as of August 2009, CSU-Pueblo has implemented an offsite disk-based backup system of the University's Data Center data-stores. The secure site establishes a viable backup and disaster recovery solution.
9	Colorado State University – Pueblo should perform a periodic risk assessment as part of an overall IT risk management process. Results of this risk assessment process should be used to prioritize future IT audit activities and IT expenditures.	Implemented

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years ended June 30, 2009 and 2008, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other accountants.

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 financial statements are free of material misstatement. The financial statements of the Colorado State University Foundation, 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 audit and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Colorado State University System as of June 30, 2009 and 2008, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 26, in 2009 the System changed its method of accounting for certain postemployment benefits by restating its prior year financial statements. The previously issued 2008 financial statements have been restated. Our previously issued report on those financial statements dated December 18, 2008 is no longer to be relied upon because the previously issued 2008 financial statements were materially misstated and that report is replaced by this report on the restated 2008 financial statements.

Members of the Legislative Audit Committee

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

BKD, LLP

December 4, 2009

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, 2009 and 2008. The System includes Colorado State University (CSU), Colorado State University Pueblo (CSU-Pueblo), and Colorado State University Global Campus (CSU-Global). This discussion provides an analysis of the System's financial activities based on currently known facts, decisions, or existing 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

- Due to the economic downturn experienced across the United States in fiscal year 2009, the State of Colorado reduced its funding to the System by $33.3 million. Of the $33.3 million, $19.2 million related to the Fee For Service Contract with the remaining $14.1 million decline resulting from the reduction in the College Opportunity Fund stipend from $92 to $68 per credit hour. State Fiscal Stabilization Funds (SFSF) in the form of a federal grant from the U.S. Department of Education was granted to the State of Colorado to offset such reductions in state funding. SFSF funds were distributed primarily to local educational agencies (K-12) and institutions of higher education. The System received $33.3 million in resources from this funding source in 2009 as "backfill" for the reduction in state funding. This funding source is restricted for use in supporting educational and general expenditures in such a manner as to mitigate the need to raise tuition and fees for in-state residents.

- In addition to experiencing reductions in state funding, the System also realized a $2.5 million reduction in its restricted investments. The majority of these investments are held for the benefit of CSU by the Colorado State University Foundation.

- The assets of the System exceeded its liabilities at June 30, 2009 by $711.3 million (net assets). Of this amount $104.0 million is restricted for purposes which the donor or grantor or other external party intended, and $489.9 million related to investments in capital assets, net of related debt. The remaining $117.4 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.

- The System's net assets increased $37.4 million during fiscal year 2009. Of this amount, $50.4 million and $2.5 million relate to increases in capital assets, net of related debt and donor/grantor restricted net assets, respectively. These increases are offset by a $15.5 million reduction in unrestricted net assets.

- The System issued a System Enterprise Revenue Bond totaling $56.1 million in fiscal year 2009. The majority of these funds will be utilized to create a residential village on existing CSU-Pueblo campus grounds providing accommodations for 750 students. The remaining funds, $1.2 million, will be used to provide an additional 4,418 square feet to the existing Cooperative Institute for Research in the Atmosphere (CIRA) facility at CSU.

- In fiscal year 2008, the System created a new enterprise, CSU-Global Campus, to offer on-line programs that are career-relevant and tailored to existing and emerging industry and occupational trends within Colorado. CSU-Global Campus caters to working adults and other nontraditional students who already have college credit or a two-year degree and want to complete their bachelor's and/or master's degrees. In fiscal year 2009, CSU-Global Campus's first year to offer courses, CSU-Global Campus realized $1.6 million in tuition and fees.

The Basic Financial Statements

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

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

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

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

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

The Notes to Basic 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 Basic Financial Statements follow the basic financial statements.

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

(Continued)

Financial Analysis

The statements of net assets present the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2009 and 2008 of $711.3 million and $674.0 million, respectively. The majority (69% 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.

Summary of Net Assets
(Amounts expressed in thousands)

	June 30		
	2009	**2008 ***	**2007**
Current assets	$ 356,784	339,002	309,855
Noncurrent assets, including capital assets of $754,522, $615,797, and $523,365, respectively	998,078	903,783	607,669
Total assets	$1,354,862	1,242,785	917,524
Current liabilities	$ 162,168	150,309	116,467
Noncurrent liabilities	481,379	418,535	158,608
Total liabilities	$ 643,547	568,844	275,075
Net assets:			
Invested in capital assets, net of related debt	$ 489,880	439,525	409,943
Restricted	104,023	101,494	83,522
Unrestricted	117,412	132,922	148,984
Total net assets	$ 711,315	673,941	642,449

* As restated

- The $112.1 million increase in System assets in 2009 over that of 2008 is primarily related to the increase in noncurrent assets which increased $94.3 million. This increase is related to increases of $110.7 million in construction in progress, $20.9 million in building and improvements and $5.7 million in land which is offset by a decline in restricted cash and cash equivalents of $42.3 million. The changes in construction in progress, building and improvements, and land are discussed within the capital assets portion of this document. The reduction in restricted cash and cash equivalents is the result of the use of bond proceeds to support construction activities of $99.0 million offset by additional resources provided through the 2009 bond issue of $56.1 million. The $325.3 million increase in System assets from fiscal year 2007 to fiscal year 2008 was primarily attributable to a $296.1 million increase in noncurrent assets. The increase in noncurrent assets was primarily due to a $200.0 million increase in restricted cash and cash equivalents attributable to remaining cash proceeds from the 2007A and 2008A bond issues. In

(Continued)

addition, depreciable capital assets, net of accumulated depreciation increased by $112.9 million. These two large increases were offset by a $20.5 million decrease in nondepreciable capital assets which was attributable to construction in progress. The remaining increase in assets of $17.8 was primarily attributable to an increase in current assets in the area of cash and cash equivalents of $16.1 million.

- In 2009, total liabilities increased $74.7 million which is primarily related to the new bond issue in the amount of $56.1 million. The remaining increase is related to accounts payable in the amount of $6.3 million, which relates to the on-going construction activities and an increase in other long-term liabilities that is the result of additional accrued liabilities for other post-retirement benefits, compensated absences and other self-insured related liabilities. Total liabilities of the System increased $293.8 million from fiscal year 2007 to fiscal year 2008. The majority of this increase, $258.0, was attributable to bonds payable and certificates of participation. Additionally, accounts payable increased $17.3 million and accrued liabilities increased $12.7 million.

The statements of revenues, expenses, and changes in net assets report the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the fiscal year.

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

	June 30		
	2009	**2008 ***	**2007**
Operating revenues:			
Tuition and fees, net	$ 248,267	234,380	211,010
State fee for service revenue	73,233	82,669	74,182
Grants and contracts	297,497	281,642	260,602
Auxiliary enterprises	125,262	115,626	107,439
Other	25,909	24,093	24,513
Total operating revenues	$ 770,168	738,410	677,746
Operating expenses:			
Instruction	$ 219,522	203,506	182,871
Research	174,170	168,223	166,479
Public service	92,504	86,970	72,498
Academic support	54,186	50,676	43,802
Student services	28,840	26,288	25,355
Institutional support	47,434	41,083	27,988
Operation and maintenance of plant	59,978	57,657	50,305
Scholarships and fellowships	11,319	8,541	7,719
Auxiliary enterprises	117,261	109,625	97,572
Depreciation	43,593	41,151	37,540
Total operating expenses	848,807	793,720	712,129
Operating loss	(78,639)	(55,310)	(34,383)

(Continued)

Nonoperating revenues:			
State appropriations	4,750	3,250	3,250
State fiscal stabilization	33,271	-	-
Other net nonoperating revenues	36,470	42,882	32,804
Net nonoperating revenues	74,491	46,132	36,054
Income/(loss) before other revenues (expenses)	(4,148)	(9,178)	1,671
State capital contributions	32,951	28,418	8,246
Capital grants	6,166	5,482	16,922
Capital gifts	4,028	1,474	4,734
Payments from governing boards or other institutions	938	1,193	754
Additions (reductions) to permanent endowments	(2,561)	(546)	2,022
Increase in net assets	37,374	26,843	34,349
Net assets:			
Net assets, beginning of year, as previously reported	673,941	642,449	608,100
Adjustment to correct liability accrual under GASB 45	-	4,649	-
Net assets, beginning of year, as restated	673,941	647,098	608,100
Net assets, end of year	$ 711,315	$ 673,941	$ 642,449

* As restated

The System experienced a $78.6 million, $55.3 million and $34.4 million loss from operations in fiscal years 2009, 2008 and 2007, respectively. The operating loss in 2009 was offset by net nonoperating and other revenues of $116.0 million which included $4.75 million in state appropriations, $33.3 million in State Fiscal Stabilization Funds, $31.7 million in gifts and capital gifts, $11.2 million in investment income, and $39.1 million in State capital contributions and capital grants. The state appropriations of $4.75 million included $3.25 million for wildfire preparedness, $1 million for forest restoration and $500 thousand for the Colorado Water Institute. In fiscal year 2008, this operating loss was offset by net nonoperating and other revenues of $82.2 million, including $3.25 million of state appropriations for wildfire preparedness, $28.4 million of state capital contributions, $28.4 million of gifts and capital gifts, $14.4 million of investment income, and $5.5 million of capital grants. In fiscal year 2007, this operating loss was offset by net nonoperating and other revenues of $68.7 million, including $3.25 million of state appropriations for wildfire preparedness, $8.2 million of state capital contributions, $25.6 million of gifts and capital gifts, $13.5 million of investment income, and $16.9 million of capital grants.

- Fiscal year 2009 System operating revenues increased $31.8 million in relation to prior year levels. This is primarily attributable to a $13.9 million increase in tuition and fee revenue, a $15.9 million increase in grants and contracts, a $1.2 million increase in educational sales and services, and a $9.6 million increase in revenue from auxiliary enterprises. These increases are offset by a reduction of $9.4 million in state fee for service revenue. State fee for service (FFS) revenue and the Colorado

(Continued)

Opportunity Fund (COF) stipend included within tuition and fees were reduced by the state as a result of the economic downturn. These reductions were "backfilled" by the state with State Fiscal Stabilization Funds. The FFS was reduced $19.2 million with the remaining $14.1 million relating to COF. Had these reductions not occurred, these two revenue sources would have increased approximately 11%. The majority of this overall increase is related to the approved 9% increase in tuition and fees and the incremental increase in the enrolled students. The increase in grants and contracts is mostly related to an increase in sponsored agreements of $11.3 million. The increase in auxiliary enterprise is primarily the result of increases in bookstore sales, resident housing, and residential dining of $5.8 million.

- Fiscal year 2009 System operating expenses increased $55.1 million in relation to prior year levels. This represents an overall increase of 6.94% which is comparable to the overall operating revenue increase, had the state revenue reductions not occurred, of 8.8%. This increase is in part attributable to a $16.0 million increase in instruction expenses which is primarily the result of strategic investments by all campuses in this area. The increase in public service and research expenditures is tied to the increase in grants and contracts revenue through sponsored agreements as noted above. Expenditures for academic support and student services increased by $3.5 million and $2.6 million, respectively. These increases are both primarily associated with CSU-Global offering courses for their first year. Institutional support increased by $6.4 million which is related to additional costs incurred at CSU of approximately $4.0 million for the implementation of the Kuali Financial System, additional investments in CSU Ventures (a subsidiary of Colorado State University Research Foundation), and increased activities in support of the Capital Campaign. In addition, costs at both CSU-Pueblo and CSU-Global increased $1.2 million in this area. Operation and maintenance costs increased $2.3 million which is primarily related to non-capitalized projects at CSU. The increase in auxiliary enterprise expenditures of $7.6 million is directly tied to the incremental increase in auxiliary revenue for residential life and dining.

- Fiscal year 2009 System net nonoperating revenues increased $28.4 million, which is primarily attributable to the initial receipt of the $33.3 million associated with the State Fiscal Stabilization Funds. In addition, state appropriations increased $1.5 million as a result of $1 million in funding for Forest Restoration and $500 thousand for the Colorado Water Institute. This increase of $ 1.5 million was offset by a corresponding increase in interest expense relating to the increase in outstanding bonds payable.

- Other revenues increased $5.5 million in fiscal year 2009. This increase was due to a $4.5 million increase in state capital contributions and a $3.2 million increase in capital gifts and grants. These increases are offset by a $2.0 million decline in permanent endowments relating to the declining economy. Of the $33.0 million state capital contributions in 2009, $26.7 million was used in support of the CSU Diagnostic Medicine Center (DMC) while in the prior year the state capital contributions supported the DMC for $13.4 million and the Academic Resource Center at CSU-Pueblo for $8.1 million.

(Continued)

Capital Assets and Debt Administration

At June 30, 2009, the System had approximately $754.6 million invested in capital assets, net of accumulated depreciation of $521.8 million. At June 30, 2008, the System had approximately $615.8 million invested in capital assets, net of accumulated depreciation of $487.5 million.

Depreciation charges were $43.6 million and $41.2 million for the years ended June 30, 2009 and 2008, respectively.

During the fiscal year ended June 30, 2009, the System received $33.0 million of state capital contributions for capital construction projects. Of this amount $26.7 million is attributable to the CSU Diagnostic Medicine Center, $1.0 million relates to the CSU Clark Building Revitalization project, $2.0 million relates to the CSU-Pueblo student housing and library projects with the remaining funds being attributable to smaller projects primarily on the CSU campus.

For the fiscal year ending June 30, 2010, CSU will receive state capital appropriation funding of $2.5 million for controlled maintenance projects. This includes $1.4 million to replace the deteriorating steam and condensate north line, $700 thousand to improve the main campus sanitary sewer system, and $400 thousand to replace the environmental control systems in several campus facilities.

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

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

	June 30		
	2009	2008	2007
Land	$ 16,639	10,953	10,898
Land improvements	29,975	30,155	30,709
Building and improvements	455,315	434,380	323,241
Leasehold improvements	575	325	366
Equipment	55,919	52,043	47,331
Collections	1,384	1,337	1,318
Library materials	20,798	23,332	25,658
Construction in progress	173,947	63,272	83,844
Total capital assets, net	$ 754,552	615,797	523,365

In 2009 capital assets, net, increased $138.8 million. This increase is primarily attributable to a $5.7 million increase in land, a $21.0 million increase in building and improvements, and a $110.7 million increase in construction in progress. The increase in land is the result of two easements purchased with federal funds for the benefit of the Colorado State Forest Service. The increase in building and improvements is primarily related to the completion of the CSU Computer Science Building at a cost of $13.3 million, the completion of the CSU Bio-environmental Hazards Research Building (BSL-3) facility

(Continued)

for $6.4 million, $4.6 million for the Atmospheric Science addition, the Music Building Renovation of $1.2 million, the Foothills Biomass Project of $1.1 million, the Forestry Renovation of $1.1 million, the CSU-Pueblo Recreation Center at a cost of $10.0 million, and several smaller projects on the CSU campus. These costs are offset by depreciation expense in the amount of $20.4 million. The increase in Construction in Progress is related to the resident housing and library remodel projects at CSU-Pueblo for $20.1 million and several projects at CSU for a total of $109.1. These costs are offset by projects from the prior year that were capitalized in the amount of $18.5 million. The projects at CSU include the Diagnostic Medicine Center for $26.7 million, the Research Innovation Center for $19.0 million, the Academic Village housing project for $16.6 million, the Athletic Indoor Practice Facility for $14.8 million, the Academic Instruction Building for $10.6 million, the Lake Street Parking Garage for $9.1 million, the Rockwell Building Expansion for $6.4 million, and the Student Recreation Center for $5.9 million. The buildings capitalized include the Computer Science Building, the BSL-3 facility, the Atmospheric Science addition, and a project in the Forestry Building.

The fiscal year 2008 $92.4 million increase in net capital assets was primarily attributable to a $111.1 million net increase in buildings and improvements offset by a $20.6 million decrease in construction in progress. The decrease in construction in progress was primarily the net of incurring $107.1 million in additional construction costs on on-going and completed projects and the transfer of $122.2 million into the other asset categories. The $111.1 million net increase in buildings and improvements was primarily related to the completed projects transferred in from construction in progress. The completed projects were primarily related to CSU-Pueblo's Health, Education, and Physical Recreation center at $13.4 million, CSU's Academic Village at $44.7 million, University Center for the Arts at $28.8 million, and the Regional Biocontainment Laboratory at $26.0 million. The $63.3 million remaining balance in construction in progress at year end were primarily related to CSU-Pueblo's Student Recreation Center at $7.1 million and CSU's BSL-3 Facility at $6.5 million, Computer Science building at $10.3 million, Cooling Plant upgrades at $5.0 million, the Veterinary Teaching Hospital Diagnostic Laboratory at $14.9 million, and the Research Innovation Center at $1.9 million.

The System had capital construction commitments outstanding of approximately $102.1 million at June 30, 2009. The total commitment at CSU was $97.8 million relating to the Student Recreation Center for $25.7 million, the Academic Instruction Building for $24.9 million, the Research Innovation Center for $11.2 million, the Clark Building Revitalization for $9.9 million, the Lake Street Parking Garage for $9.0 million, the Rockwell Building Expansion for $8.1 million, and several smaller projects. The remaining commitment of $4.3 million relates to the Student Housing project at CSU-Pueblo.

The System had $427.2 million and $376.3 million of debt outstanding at June 30, 2009 and 2008, respectively.

Colorado State University System

(A Component Unit of the State of Colorado)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Unaudited)

Summary of Debt

(Amounts expressed in thousands)

	June 30		
	2009	2008	2007
Debt outstanding:			
Revenue bonds, certificates of participation	$ 419,865	369,103	112,220
Capital lease obligations	7,331	7,183	6,032
	$ 427,196	376,286	118,252

On March 5, 2009, the System issued $56.1 million in System Enterprise Revenue Bonds, Series 2009A. The proceeds will be primarily used to construct and equip student housing facilities at CSU-Pueblo. A small portion of this issuance will be utilized to build an addition to the Cooperative Institute for Research in the Atmosphere (CIRA) building at CSU. The bonds bear interest rates from 3 to 5 percent with final maturity falling in 2039.

On June 12, 2008, the System issued $83.3 million in System Enterprise Revenue Bonds, Series 2008A. The proceeds from the sale of the Series 2008A are being used to defray the costs of constructing, acquiring, renovating, expanding, and equipping certain facilities at CSU. The improvement projects include the Academic Village Phase 1B, the Lake Street Parking Garage, the Student Recreation Center and the Academic Computing Center. The bonds bear interest rates from 3 to 5 percent with final maturity in 2028.

On September 6, 2007, the System issued $210.0 million in System Enterprise Revenue Bonds, Series 2007A-C. The proceeds from the sale of the Series 2007A-C Bonds are being used to defray the costs of constructing, acquiring, renovating, expanding, and equipping buildings and facilities at CSU and CSU-Pueblo in addition to refunding all or a portion of certain outstanding bonds. These improvement projects will include the CSU Academic Instruction Building, Computer Science Building, Research Innovation Center, Athletics Facilities, University Center for the Arts, Rockwell Hall Addition, Research Building Revolving Fund Multi-Scale Modeling of Atmospheric Process (RBRF MMAP) Building, Chiller Plant, Greenhouse and Research Space, Animal Research Infrastructure, Research Campus Renovations, and the Student Recreation Center at CSU-Pueblo. The revenue bonds bear interest rates from 4 to 5.883 percent with final maturity in 2037.

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

Advanced refunded bonds include Colorado State University Student Sports Recreational Facilities Revenue Bonds, Series 1998 ($1,755,000), Colorado State University Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A (partial refund of $3,610,000), and Colorado State

University Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005A ($9,535,000). A portion of the proceeds of the Series 2007B Bonds were used to purchase U.S. Treasury Securities and to provide cash which was placed in an escrow account to refund the refunded bonds. The Escrow Agent paid the debt service requirements of the 1998 Bonds through April 1, 2008 and redeemed those maturing on April 1, 2009. The Escrow Agent will pay the debt service requirements on each of the remaining refunded bonds on each of their scheduled payment dates through and including the 2003A Bonds, March 1, 2013 and will redeem those maturing on March 1, 2014 and thereafter, at a redemption price equal to 100% of par ($1,600,000) on March 1, 2013; and for the 2005A Bonds, December 1, 2015 and will redeem those maturing on December 1, 2016 and thereafter, at a redemption price equal to 100% of par ($4,010,000) on December 1, 2015.

Economic Outlook/Future of the Colorado State University System

The Colorado State University System is a group of higher education institutions in the State of Colorado run under one common leadership structure as identified above.

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

The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projection by Legislative Council (September, 2009) estimates that the State General Fund revenue will decrease in fiscal year 2010 by 13.7% from the previous fiscal year. For fiscal year 2011, the General Fund revenue used for the State's budgeting process is projected to decrease by an additional 3.7% beyond the decrease experienced in fiscal year 2010. 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 amounts in state support for K-12 Education. The budgetary situation for higher education has changed with the implementation of the College Opportunity Fund in fiscal year 2006. As a result of legislation adopted in the 2004 session (S.B. 04-189), the State no longer provides direct State General Fund appropriation to the governing boards. Instead, the State provides stipends to qualified, resident undergraduate students, and institutions receive fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, S.B. 04-189 also allows institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the state's TABOR limitation. The State's voters modified TABOR at the November 2005 election. The modification allowed the State to retain all revenues in excess of TABOR spending limitations for fiscal years 2006 through 2010.

In fiscal year 2007, the System was designated a Single Enterprise providing it greater flexibility and expanded financial capabilities in a host of areas. This designation allows the System to raise revenues and finance projects outside of the revenue limits set for most governmental entities. With this TABOR status, the cash funds collected by the System's institutions no longer count toward the State's overall revenue limit. In addition, as enterprises, the institutions can consider issuing revenue bonds backed by student fees for academic buildings.

Colorado State University System
(A Component Unit of the State of Colorado)
Management's Discussion and Analysis
Years Ended June 30, 2009 and 2008
(Unaudited)

The Colorado State University System is authorized to receive $72.1 million in fee for service contract revenue and $41.5 million in student stipends in fiscal year 2010. The $113.6 million of anticipated fiscal year 2010 fee for service contract revenue and the student stipends represents less than a 1% reduction in state support below that provided in 2009, taking the 2009 state reductions into consideration.

Overall enrollment at both System institutions increased 2.3% as measured by total enrollment from 2008 to 2009. CSU-Pueblo experienced an 11.7% increase in student FTE in 2009. This increase is a result of specific initiatives begun in 2007 to support the goal of increased enrollment including an expansion of academic programs, increased marketing and recruitment efforts, expansion of athletic programs, and approval of a new masters program in teacher education, a graduate incentive program, and construction of a new student recreation facility. Based on early enrollment indicators from the Department of Higher Education, there has been strong enrollment increases at some institutions and it is anticipated that enrollment will increase into fiscal years 2010 and 2011. Overall, the projected enrollment increase for the CSU System in the next three years should be in the 2% - 3% range.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the attention of the Chief Financial Officer, Colorado State University System, 410 Seventeenth Street, Suite 1415, Denver, CO 80202.

THIS PAGE LEFT BLANK INTENTIONALLY

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Net Assets

June 30, 2009 and 2008

(Amounts expressed in thousands)

Assets		2009	2008 (as restated)
Current assets:			
Cash and cash equivalents	$	265,511	249,440
Student accounts receivable, net		14,224	11,494
Grant and other accounts receivable, net		61,029	63,696
Student loans receivable, net		2,527	2,861
Inventories		9,194	8,031
Prepaid expenses		4,299	3,480
Total current assets		356,784	339,002
Noncurrent assets:			
Restricted cash and cash equivalents		201,414	243,730
Restricted investments		16,613	19,114
Student loans receivable, net		22,117	21,842
Other noncurrent assets		3,382	3,300
Nondepreciable capital assets:			
Land		16,639	10,953
Construction in process		173,947	63,272
Collections		1,384	1,337
Total nondepreciable capital assets		191,970	75,562
Depreciable capital assets, net:			
Land improvements		29,975	30,155
Building and improvements		455,315	434,380
Leasehold improvements		575	325
Equipment		55,919	52,043
Library materials		20,798	23,332
Total depreciable capital assets, (net of accumulated depreciation)		562,582	540,235
Total noncurrent assets		998,078	903,783
Total assets	$	1,354,862	1,242,785

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Net Assets

June 30, 2009 and 2008

(Amounts expressed in thousands)

Liabilities		2009	2008 (as restated)
Current liabilities:			
Accounts payable	$	51,449	45,184
Accrued liabilities		69,086	66,508
Deferred revenue		23,929	20,763
Deposits held for others		4,842	4,653
Bonds payable and certificates of participation, current portion		6,449	6,735
Capital leases payable, current portion		1,469	1,251
Other long-term liabilities, current portion		2,673	3,008
Compensated absences liabilities, current portion		2,271	2,207
Total current liabilities		162,168	150,309
Noncurrent liabilities:			
Bonds payable and certificates of participation		413,416	362,368
Capital leases payable		5,862	5,932
Deposits held for others		11,622	8,854
Other long-term liabilities		11,140	5,803
Compensated absences liabilities		39,339	35,578
Total noncurrent liabilities		481,379	418,535
Total liabilities	$	643,547	568,844
Net assets			
Net assets:			
Invested in capital assets, net of related debt	$	489,880	439,525
Restricted for nonexpendable purposes		16,886	19,359
Restricted for expendable purposes - other		87,137	82,135
Unrestricted		117,412	132,922
Total net assets	$	711,315	673,941

See accompanying notes to basic financial statements.

Colorado State University System

(A Component Unit of the State of Colorado)

Colorado State University Foundation

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2009 and 2008

(Amounts expressed in thousands)

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Cash and cash equivalents	$ 457	273	1,012	1,742	187	784	497	1,468
Investments	4,086	90,204	116,684	210,974	25,923	105,167	108,687	239,777
Receivables:								
Pledges, net of allowance	380	16,441	4,876	21,697	380	22,221	5,728	28,329
Life income trusts	-		34	34	-	-	206	206
Property and equipment, net of accumulated depreciation	35	250	-	285	33	250	-	283
Cash surrender value of life insurance policies	48	2	436	486	46	2	384	432
Prepaids and other assets	44	99	62	205	57	107	68	232
Total assets	$ 5,050	107,269	123,104	235,423	26,626	128,531	115,570	270,727
Liabilities and Net Assets								
Accounts payable (primarily to CSU)	$ 85	1,420	-	1,505	51	807	-	858
Other accrued liabilities	91	-	-	91	76	-	-	76
Life income agreements	563	88	216	867	575	92	225	892
Deposit held in custody for CSU	-	2,727	7,314	10,041	-	3,591	9,534	13,125
Total liabilities	739	4,235	7,530	12,504	702	4,490	9,759	14,951
Net Assets								
Unrestricted:								
Undesignated	4,341	-	-	4,341	4,471	-	-	4,471
Board designated	13,139	-	-	13,139	21,453	-	-	21,453
Endowment investment losses in excess of gift value	(13,169)	-	-	(13,169)	-	-	-	-
Total unrestricted	4,311	-	-	4,311	25,924	-	-	25,924
Temporarily restricted	-	103,034	-	103,034	-	124,041	-	124,041
Permanently restricted	-	-	115,574	115,574	-	-	105,811	105,811
Total net assets	4,311	103,034	115,574	222,919	25,924	124,041	105,811	255,776
Total liabilities and net assets	$ 5,050	107,269	123,104	235,423	26,626	128,531	115,570	270,727

See accompanying notes to basic financial statements.

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

		2009	2008 (as restated)
Operating revenues:			
Student tuition and fees, (including $46,470 and $46,282 of revenues pledged for bonds in 2009 and 2008, respectively, and net of scholarship allowances of $63,476 and $54,647 for 2009 and 2008, respectively)	$	248,267	234,380
State fee for service revenue		73,233	82,669
Grants and contracts (including $41,240 and $39,706 of revenues pledged for bonds in 2009 and 2008, respectively)		297,497	281,642
Sales and services of educational activities		20,449	19,282
Auxiliary enterprises, (including $94,884 and $86,378 of revenues pledged for bonds in 2009 and 2008, respectively, and net of scholarship allowances of $3,542 and $2,908 for 2009 and 2008, respectively)		125,262	115,626
Other operating revenue		5,460	4,811
Total operating revenues		770,168	738,410
Operating expenses:			
Instruction		219,522	203,506
Research		174,170	168,223
Public service		92,504	86,970
Academic support		54,186	50,676
Student services		28,840	26,288
Institutional support		47,434	41,083
Operation and maintenance of plant		59,978	57,657
Scholarships and fellowships		11,319	8,541
Auxiliary enterprises		117,261	109,625
Depreciation		43,593	41,151
Total operating expenses		848,807	793,720
Operating loss		(78,639)	(55,310)
Nonoperating revenues (expenses):			
State appropriations		4,750	3,250
State Fiscal Stabilization Fund		33,271	-
Gifts		27,670	26,907
Investment income (including $2,035 and $6,491 of revenues pledged for bonds in 2009 and 2008, respectively)		11,232	14,352
Interest expense on capital debt		(6,586)	(4,717)
Other nonoperating revenues		4,154	6,340
Net nonoperating revenues		74,491	46,132
Loss before other revenues (expenses)		(4,148)	(9,178)

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

		2009	2008 (as restated)
Other revenues (expenses):			
State capital contributions		32,951	28,418
Capital grants		6,166	5,482
Capital gifts		4,028	1,474
Payments from governing boards or other institutions		938	1,193
Reductions to permanent endowments		(2,561)	(546)
Total other revenues		41,522	36,021
Increase in net assets		37,374	26,843
Net assets, beginning of year, as previously reported		673,941	642,449
Adjustment to correct liability accrual for CSU's Long Term Disability Self-Funded Income Replacement Plan		-	4,649
Net assets, beginning of year, as restated		673,941	647,098
Net assets, end of year	$	711,315	673,941

See accompanying notes to basic financial statements.

Colorado State University System

(A Component Unit of the State of Colorado)

Colorado State University Foundation

Statements of Activities - Discretely Presented Component Unit

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008
Support and revenue:								
Contributions	$ 726	23,623	9,091	33,440	698	23,120	15,160	38,978
In-kind contributions	-	3,470	-	3,470	-	2,141	-	2,141
Increase in allowance for uncollectible pledges	-	-	-	-	(11)	(484)	(567)	(1,062)
Total contributions	726	27,093	9,091	36,910	687	24,777	14,593	40,057
Net investment income (loss)	(3,068)	(34,775)	60	(37,783)	1,286	(10,044)	77	(8,681)
Actuarial change in value of life income agreements	(28)	(10)	(206)	(244)	(27)	(11)	28	(10)
Other Changes in Net Assets	(954)	188	766	0	(911)	964	(53)	-
Other revenue	(15)	27	52	64	2	30	76	108
Net assets released from restrictions:								
Satisfaction of program restrictions	26,699	(26,699)	-	-	22,716	(22,716)	-	-
Total support and revenue	23,360	(34,176)	9,763	(1,053)	23,753	(7,000)	14,721	31,474
Expenses:								
Program services								
CSU College of:								
Agricultural Sciences	3,004	-	-	3,004	2,685	-	-	2,685
Applied Human Sciences	1,424	-	-	1,424	1,803	-	-	1,803
Business	1,166	-	-	1,166	1,679	-	-	1,679
Engineering	2,474	-	-	2,474	1,970	-	-	1,970
Liberal Arts	1,800	-	-	1,800	1,240	-	-	1,240
Warner College of Natural Resources	2,178	-	-	2,178	1,372	-	-	1,372
Natural Sciences	2,792	-	-	2,792	1,610	-	-	1,610
Veterinary Medicine and Biomedical Sciences	5,679	-	-	5,679	4,822	-	-	4,822
Athletics	3,067	-	-	3,067	2,676	-	-	2,676
Central Development	3,161	-	-	3,161	-	-	-	-
Other CSU programs	3,074	-	-	3,074	5,474	-	-	5,474
Total program services	29,819	-	-	29,819	25,331	-	-	25,331
Support services								
Management and general	1,985	-	-	1,985	2,097	-	-	2,097
Total expenses	31,804	-	-	31,804	27,428	-	-	27,428
Change in net assets	(8,444)	(34,176)	9,763	(32,857)	(3,675)	(7,000)	14,721	4,046
Endowment losses in excess of gift value	(13,169)	13,169	-	-	-	-	-	-
Net assets, beginning of year	25,924	124,041	105,811	255,776	29,599	131,041	91,090	251,730
Net assets, end of year	$ 4,311	103,034	115,574	222,919	25,924	124,041	105,811	255,776

See accompanying notes to basic financial statements.

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

		2009	2008 (as restated)
Cash flows from operating activites:			
Cash received:			
Tuition and fees	$	242,271	232,951
Student loans collected		2,941	3,679
Sales of products		19,689	18,426
Sales of services		128,413	115,538
Grants and contracts		302,898	82,669
State fee for service contract		73,233	286,148
Other operating reciepts		2,059	3,656
Cash payments:			
Scholarships disbursed		(8,377)	(5,638)
Student loans disbursed		(2,404)	(4,317)
Payments to employees		(551,233)	(498,993)
Payments to suppliers		(238,399)	(220,431)
Net cash provided by (used in) operating activities		(28,909)	13,688
Cash flows from noncapital financing activites:			
State appropriations - noncapital		4,750	3,250
State Fiscal Stabilization Fund		33,271	-
Gifts and grants for other than capital purposes		25,335	24,611
Agency (direct lending inflows)		115,622	95,863
Agency (direct lending outflows)		(115,723)	(95,863)
Other agency (inflows)		56,278	48,126
Other agency (outflows)		(54,584)	(46,172)
Payments to governing boards or other institutions		2,099	3,618
Other nonoperating revenues		4,554	4,923
Net cash provided by noncapital financing activities		71,602	38,356
Cash flows from capital and related financing activites:			
Proceeds from capital debt		60,066	260,327
State appropriations - capital		35,155	28,417
Capital grants, contracts and gifts		7,984	6,317
Proceeds from sale of capital assets		-	3,970
Acquisition and construction of capital assets		(166,639)	(129,530)
Principal paid on capital debt		(8,290)	(7,027)
Interest on capital debt		(16,720)	(9,127)
Net cash provided by (used in) capital and related financing activites		(88,444)	153,347

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

		2009	2008 (as restated)
Cash flows from investing activities:			
Proceeds from sale and maturities of investments		12,109	10,551
Purchase of investments		(12,614)	(11,165)
Investment earnings		20,011	21,576
Net cash provided by investing activites		19,506	20,962
Net increase (decrease) in cash and cash equivalents		(26,245)	226,353
Cash and cash equivalents		249,440	223,066
Restricted cash and cash equivalents		243,730	43,751
Cash and cash equivalents, beginning of the year		493,170	266,817
Cash and cash equivalents		265,511	249,440
Restricted cash and cash equivalents		201,414	243,730
Cash and cash equivalents, end of the year	$	466,925	493,170
Reconciliation of operating loss to net cash provided by (used in) operating activites:			
Operating loss	$	(78,639)	(55,310)
Adjustments:			
Depreciation expense		43,593	41,151
Noncash operating transactions		22	(109)
Decrease (increase) in assets:			
Receivables, net		(5,582)	480
Inventories and prepaids		(2,792)	(2,766)
Increase (decrease) in liablities:			
Accounts payable		444	12,649
Accrued liabilities		1,244	9,638
Deferred revenue		3,265	595
Deposits held for others		74	1,763
Compensated absence liabilities		3,826	3,535
Other liabilities		5,636	2,062
Net cash provided by (used in) operating activites	$	(28,909)	13,688

(Continued)

Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

(Amounts expressed in thousands)

		2009	2008 (as restated)
Noncash activites:			
Noncash gifts	$	3,860	2,683
Noncash capital leases		1,657	2,570
Noncash additions to investments held by Foundation		(3,084)	(1,347)
Unrealized gains on investments		3,799	3,770
Capitalized interest		6,901	2,430
Capital debt refinanced		-	34,458
Noncash bond issuance costs		7	2,427
Amortization of bond premium		196	451
Amortization of bond issuance costs		131	262
Retainage payable		960	1,443
Certificate of Participation		2,797	-

See accompanying notes to basic financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

(Continued)

(1) Governance and Reporting Entity

(a) *Governance*

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

(b) *Reporting Entity*

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

Colorado State University – (CSU)
Colorado State University – Pueblo (CSU-Pueblo)
Colorado State University – Global Campus (CSU-Global)

Since CSU is the state's land grant institution, it includes the Agriculture Experiment Station, CSU Extension, and the Colorado State Forest Service. In addition, the accompanying financial statements contain the financial activity of the System offices.

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of the System would be subject to tax under IRC Section 511(a)(2)(B). The System had no material unrelated business income for the years ended June 30, 2009 and 2008.

(c) *Discretely Presented Component Unit*

The System follows Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*, and GASB Statement No. 14, *The Financial Reporting Entity*. These statements provide guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. The Colorado State University Foundation (the Foundation or CSUF) has been determined to be a component unit of the System and has therefore been included as a discretely presented component unit in the System financial reporting entity and presented in the System's 2009 and 2008 financial statements. The Colorado State University Research Foundation and the Colorado State University – Pueblo Foundation do not meet the criteria to be reported as component units.

The Foundation is a legally separate, tax-exempt entity that was established to receive, manage and invest philanthropic gifts on behalf of CSU. The majority of resources or income thereon that the Foundation holds and invests is restricted for use by, or for the benefit of CSU by the donors. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation requirements are different from GASB revenue recognition criteria and presentation requirements. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences, as permitted by GASB Statement No. 39. In fiscal year 2009, CSUF implemented Financial Accounting Standards Board Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. CSUF fully discloses the nature of its endowment funds, both donor restricted endowment funds and board-designated endowment funds.

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 for the benefit of CSU. The officers of the Foundation are appointed by the Board of Directors. The Board of Directors consists of five voting members. Four voting members are community members elected by the Board of Directors and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board of Directors serve by virtue of title: President of Colorado State University, the CSU Vice President for Advancement and Strategic Initiatives, and the CSU Vice President for Finance. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a voting Board Member.

The major source for the Foundation's revenue is gifts. For the years ended June 30, 2009 and 2008, respectively, gifts were $36,910,000 and $41,119,000. Included in Total Support and Revenue is Net investment income (loss). The Foundation had Net investment losses for the years ended June 30, 2009 and 2008, respectively of ($37,783,000) and ($8,681,000). The large investment loss at June 30, 2009 resulted in an overall loss in Total Support and Revenue of ($1,053,000). The Total Support and Revenue at June 30, 2008 was $31,474,000. The change in revenue was primarily due to the change in contributions and the change in net investment loss.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities, educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately $29,819,000 and $25,331,000 was transferred to CSU for the years ended June 30, 2009 and 2008, 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 $10,041,000 and $13,125,000 as of June 30, 2009 and 2008, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

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

(2) Basis of Presentation

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

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

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

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

(a) Cash and Cash Equivalents

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

(b) Investments

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

(c) Inventories

Inventories, consisting of livestock; facilities and housing maintenance supplies; medical, pharmaceutical, and laboratory supplies; food supplies; books; and soft-goods; are stated at the lower of cost or market. Cost is determined either on the first-in/first-out, average-cost, specific-identification, or on the retail method. Livestock inventories have been recorded at the lower of cost or market using unit livestock costing methods and estimated animal weights.

(d) *Restricted Cash and Cash Equivalents and Restricted Investments*

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

(e) *Capital Assets*

Land, land improvements, buildings and improvements, leasehold improvements, library materials, collections, and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Capitalization limits vary at the three institutions ranging from \$5,000 to \$50,000. At CSU, library materials are valued at average acquisition cost. At CSU-P, library materials are valued at actual cost.

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

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

During capital construction, interest cost is capitalized from the date of the tax-exempt borrowing to the date the qualifying asset is ready for use. Once the capital asset is ready for use, the net cost of interest on the borrowing is capitalized and added to the acquisition cost of the asset.

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

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

The System evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Capital assets are generally considered impaired if a decline in service utility occurs, the impairment is material, and the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the

(Continued)

System are measured using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that impairment will be temporary, the capital asset is not written down. There were no impairments of capital assets at June 30, 2009 or June 30, 2008.

(f) Compensated Absences Liabilities

The amount of compensated absences 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 absences 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 fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the System and may be used to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets may be designated by actions of the Board.

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

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

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

(Continued)

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 including Pell Grants and private sources including businesses, individuals, and foundations; 3) state fee for service revenues; 4) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 5) fees for goods and services of auxiliary operations such as student housing and dining, student center retail stores, health services, and athletics. Revenues from exchange transactions are recognized when they are earned and measurable.

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

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. Also included in nonoperating revenues are State Fiscal Stabilization Funds, a federal grant from the U.S. Department of Education, which was granted to the State of Colorado and passed through to Higher Education to offset reductions to the College Opportunity Fund stipend and the Fee for Service contract. Nonoperating expenses include interest expense on capital debt.

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

(i) *Summer Session Revenue and Related Expenses*

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

(j) *Application of Restricted and Unrestricted Resources*

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

(k) ***Use of Estimates***

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

(l) ***Changes in Accounting Principles and Restatement of 2008 Financial Statements***

As discussed in Note 12, the System adopted GASB 48; *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* during Fiscal Year ended June 30, 2008. The change had no effect on net assets at June 30, 2008 or changes in net assets for the year then ended.

As discussed in Note 17, the System changed its method of disclosures for pension information in 2008 in accordance with GASB 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27.*

As discussed in Note 19(b), the System adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Also, as discussed in Note 26, the System restated its 2008 financial statements to correct the implementation of GASB 45 to include its long-term disability plan.

The System adopted GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* during Fiscal Year Ended June 30, 2009. The change had no effect on net assets at June 30, 2009 or 2008 or changes in net assets for the years then ended.

(m) ***Reclassifications***

Certain 2008 amounts have been reclassified to conform to the 2009 basic financial statement presentation.

(4) Cash and Cash Equivalents

The System deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2009, the System had cash on deposit with the State Treasurer of $456,709,000, which represented approximately 8.0% of the total $5,742.1 million fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2008, the System had cash on deposit with the State Treasurer of $485,630,000, which represented approximately 7.7% of the value of all deposits in the Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the System's participation in the Pool, the System reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The

State Treasurer does not invest any of the Pool's resources in any external investment pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

The difference between the System's cash carrying value, deposits with the State Treasurer and balances at other banks is due to outstanding checks and deposits in transit. Interest earned on deposits with the State for the fiscal years ended June 30, 2009 and 2008 was approximately $13,118,000 and $16,349,000, respectively. These amounts reflect increases in cash and cash equivalents and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. The System reflected an unrealized gain of $6,069,000 on cash and cash equivalents on deposits with the State Treasurer for fiscal year ended June 30, 2009 and an unrealized gain of $2,270,000 for the fiscal year ended June 30, 2008. The unrealized gains on investment income for the fiscal years ended June 30, 2009 and 2008, respectively, were $3,799,000 and $3,770,000. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2009 and 2008, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

At June 30, 2009 and 2008, the System's cash not on deposit with the State Treasurer was $10,216,000 and $7,541,000, respectively. Cash included petty cash/change funds and bank account balances of $134,000 and $10,082,000 as of June 30, 2009 and $87,000 and $7,454,000 as of June 30, 2008, respectively.

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

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2009, approximately 92.6% of investments of the Pool are subject to credit quality risk reporting. Except for $46,976,000 of corporate bonds rated lower medium and $38,237,000 of corporate bonds rated speculative, these investments are rated from upper medium to the highest quality which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2008, approximately 91.5% of investments in the Pool were subject to credit quality risk reporting. Except for

$14,782,000 of corporate bonds rated lower medium, these investments were rated from upper medium to the highest quality, which indicated the issuer had strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2009, the weighted average maturity of investments in the Pool was 0.08 years for Commercial Paper (1.8% of the Pool), .01 years for Money Market funds (7.1% of the Pool), 1.14 years for U.S. Government Securities (67.2% of the Pool), 1.55 years for Asset Backed Securities (16.7% of the Pool), and 2.01 years for Corporate Bonds (7.2% of the Pool). As of June 30, 2008, the weighted average maturity of investments in the Treasurer's Pool was 0.10 years for 16.6% of the Pool, .01 years for 6.2% of the Pool, .97 years for 50.8% of the Pool, 1.90 years for 18.6% of the Pool, and 2.10 years for 7.8% of the Pool.

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years 2009 or 2008.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2009.

(5) Restricted Investments

As of June 30, 2009 and 2008, the System's restricted investments had a fair value of $16,613,000 and $19,114,000, respectively. Investment earnings for the fiscal years 2009 and 2008 were $77,000 and $207,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2009 and 2008. The System only invests in U.S. Treasury securities, which are federally guaranteed investments, as required, by state law. The System's restricted investments include investments held by CSUF that are invested in the Foundation's long-term endowment pool, which are not evidenced by securities that exist in physical or book form.

The following details each major category of the System's investments at fair value as of June 30, 2009 and 2008:

	June 30	
	2009	**2008**
U.S. Treasury obligations	$ 6,572,000	5,989,000
Investments held by CSUF in long-term endowment pool:		
Corporate equities	325,000	1,044,000
Mutual funds	4,521,000	5,631,000
Hedge funds	3,279,000	4,645,000
Other investments	1,916,000	1,805,000
	10,041,000	13,125,000
Total investments	$ 16,613,000	19,114,000

(a) ***Credit Quality Risk***

At June 30, 2009 and June 30, 2008, the System (investments held by CSUF) had debt securities in the following credit risk categories:

	June 30	
	2009	**2008**
Bond mutual funds		
Aaa	$ 764,000	583,000
Aa	182,000	251,000
A	170,000	110,000
Baa	61,000	20,000
Ba	12,000	20,000
B	—	20,000
Below B	24,000	—
	$ 1,213,000	1,004,000

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

(b) ***Interest Rate Risk***

At June 30, 2009, the following System investments were subject to interest rate risk:

Type of investment		Fair value	Weighted average maturity (in years)	Duration (in years)
U.S. Treasury obligations	$	6,572,000	0.09	
Investments held by CSUF in long-term endowment pool:				
Bond mutual funds:				
PIMCO - Low Duration Fund		1,213,000	3.06	2.59
Total investments subject to interest rate risk	$	7,785,000		

At June 30, 2008, the following System investments were subject to interest rate risk:

Type of investment		Fair value	Weighted average maturity (in years)	Duration (in years)
U.S. Treasury obligations	$	5,989,000	0.09	
Investments held by CSUF in long-term endowment pool:				
Bond mutual funds:				
PIMCO - Low Duration Fund		1,004,000	1.89	1.91
Total investments subject to interest rate risk	$	6,993,000		

The Colorado State University Foundation's investment policy is utilized to manage interest rate risk relating to the System amounts invested in the Foundation's long-term endowment pool. This policy specifies that the portfolio's weighted average maturity is to be 10 years or less at all times and that the fixed income portion of the portfolio is to be targeted at 6% of the total portfolio with an acceptable range being between 3% and 10%.

The System's U.S. Treasury obligations are invested in accordance with Colorado Revised Statute 23-31-504. This statute requires these investments relating to the CSU land grant fund to be invested in specific types of investments, which includes U.S. Treasury obligations. The System does not have a specific policy relating to the management of interest rate risk.

Discretely presented component unit – As of June 30, 2009, Foundation investments consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments comprise two investment types: absolute return and long-term or short-term investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long-term or short-term investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2009 and 2008:

		June 30	
		2009	**2008**
Cash and cash equivalents subject to investment mangement discretion	$	6,204,000	1,970,000
Equities			
Large cap equities		39,673,000	51,460,000
International equities		23,684,000	31,092,000
Micro cap equities		6,814,000	9,489,000
Small cap equities		-	9,423,000
Fixed income		25,466,000	18,348,000
Alternative investments		68,818,000	84,863,000
Other investments		40,315,000	33,132,000
	$	210,974,000	239,777,000

Net investment loss of the Foundation consisted of the following for the years ended June 30, 2009 and 2008:

		2009	2008
Interest, dividends, and other income	$	2,828,000	3,069,000
Net unrealized and realized loss on investments		(40,837,000)	(8,427,000)
Less investment management fees		(2,415,000)	(4,136,000)
		(40,424,000)	(9,494,000)
Less loss on deposits held in custody for CSU		2,641,000	813,000
	$	(37,783,000)	(8,681,000)

(6) Accounts Receivable

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

	June 30 2009	June 30 2008
Student accounts receivable	$ 17,778,000	14,554,000
Less allowance for doubtful accounts	(3,554,000)	(3,060,000)
Student accounts receivable, net	$ 14,224,000	11,494,000
Student loans receivable	$ 26,485,000	26,774,000
Less allowance for doubtful accounts	(1,841,000)	(2,071,000)
Student loans receivable, net	24,644,000	24,703,000
Less current portion	(2,527,000)	(2,861,000)
Student loans receivable	$ 22,117,000	21,842,000
Grant and other accounts receivable:		
Sponsored programs	$ 48,557,000	51,161,000
Commercial receivables	3,819,000	3,136,000
Conferences and summer programs	1,133,000	968,000
Insurance trust fund	431,000	96,000
Receivables from Foundation	1,581,000	895,000
Athletics	629,000	950,000
Capital construction-due from state	2,276,000	3,454,000
Due from other employees - pay date shift	518,000	902,000
Vendor credits	83,000	4,000
Other	3,011,000	3,136,000
Total grant and other accounts receivable	62,038,000	64,702,000
Less allowance for doubtful accounts	(1,009,000)	(1,006,000)
Grant and other accounts receivable, net	$ 61,029,000	63,696,000

Discretely presented component unit – As of June 30, 2009 and 2008, the Foundation's pledges receivable consisted of the following:

	June 30	
	2009	**2008**
Receivables due in less than one year	$ 4,083,000	5,274,000
Receivables due in one to five years	21,533,000	12,439,000
Receivables due in more than five years	412,000	17,361,000
	26,028,000	35,074,000
Less allowance for uncollectible pledges	(549,000)	(614,000)
Less present value discounting	(3,782,000)	(6,131,000)
	$ 21,697,000	28,329,000

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

(Continued)

(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Nondepreciable capital assets:					
Land	$ 10,953,000	2,833,000	(302,000)	3,155,000	16,639,000
Construction in progress	63,272,000	150,754,000	—	(40,079,000)	173,947,000
Collections	1,337,000	65,000	(18,000)	—	1,384,000
Total nondepreciable capital assets	75,562,000	153,652,000	(320,000)	(36,924,000)	191,970,000
Depreciable capital assets:					
Land improvements	56,402,000	1,184,000	—	1,408,000	58,994,000
Buildings and improvements	687,987,000	7,618,000	(913,000)	34,322,000	729,014,000
Leasehold improvements	838,000	297,000	—	—	1,135,000
Equipment	192,838,000	19,388,000	(9,559,000)	1,194,000	203,861,000
Library materials	89,637,000	2,466,000	(754,000)	—	91,349,000
Total depreciable capital assets	1,027,702,000	30,953,000	(11,226,000)	36,924,000	1,084,353,000
Less accumulated depreciation:					
Land improvements	26,247,000	2,772,000	—	—	29,019,000
Buildings and improvements	253,607,000	20,408,000	(316,000)	—	273,699,000
Leasehold improvements	513,000	47,000	—	—	560,000
Equipment	140,795,000	15,366,000	(8,219,000)	—	147,942,000
Library materials	66,305,000	5,000,000	(754,000)	—	70,551,000
Total accumulated depreciation	487,467,000	43,593,000	(9,289,000)	—	521,771,000
Net depreciable capital assets	540,235,000	(12,640,000)	(1,937,000)	36,924,000	562,582,000
Total capital assets, net	$ 615,797,000	141,012,000	(2,257,000)	—	754,552,000

Following are the changes in capital assets for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Deletions	Transfers	Balance June 30, 2008
Nondepreciable capital assets:					
Land	$ 10,898,000	—	(64,000)	119,000	10,953,000
Construction in progress	83,844,000	107,145,000	(5,469,000)	(122,248,000)	63,272,000
Collections	1,318,000	26,000	(7,000)	—	1,337,000
Total nondepreciable capital assets	96,060,000	107,171,000	(5,540,000)	(122,129,000)	75,562,000
Depreciable capital assets:					
Land improvements	54,350,000	262,000	—	1,790,000	56,402,000
Buildings and improvements	559,851,000	12,545,000	(315,000)	115,906,000	687,987,000
Leasehold improvements	838,000	—	—	—	838,000
Equipment	182,016,000	18,167,000	(11,778,000)	4,433,000	192,838,000
Library materials	87,011,000	2,891,000	(265,000)	—	89,637,000
Total depreciable capital assets	884,066,000	33,865,000	(12,358,000)	122,129,000	1,027,702,000
Less accumulated depreciation:					
Land improvements	23,641,000	2,606,000	—	—	26,247,000
Buildings and improvements	236,610,000	18,565,000	(1,568,000)	—	253,607,000
Leasehold improvements	472,000	41,000	—	—	513,000
Equipment	134,685,000	14,723,000	(8,613,000)	—	140,795,000
Library materials	61,353,000	5,216,000	(264,000)	—	66,305,000
Total accumulated depreciation	456,761,000	41,151,000	(10,445,000)	—	487,467,000
Net depreciable capital assets	427,305,000	(7,286,000)	(1,913,000)	122,129,000	540,235,000
Total capital assets, net	$ 523,365,000	99,885,000	(7,453,000)	—	615,797,000

Interest expense capitalized, net of related interest income for the System, was $6,901,000 and $2,430,000 for the years ended June 30, 2009 and 2008, respectively.

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2009 and 2008 were comprised of:

	June 30 2009	June 30 2008
Accrued payroll and benefits	$ 59,329,000	53,888,000
Emergency firefighting accrual	1,940,000	6,728,000
Accrued interest payable	6,597,000	4,498,000
Other liabilities	1,220,000	1,394,000
	$ 69,086,000	66,508,000

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008 *	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	$ 369,103,000	57,766,000	(7,004,000)	419,865,000	6,449,000
Capital leases payable	7,183,000	1,657,000	(1,509,000)	7,331,000	1,469,000
Total bonds and capital leases	376,286,000	59,423,000	(8,513,000)	427,196,000	7,918,000
Other liabilities:					
Accrued compensated absences	37,785,000	3,825,000	—	41,610,000	2,271,000
Deposits held for others	13,507,000	3,091,000	(134,000)	16,464,000	4,842,000
Other	8,811,000	6,932,000	(1,930,000)	13,813,000	2,673,000
Total long-term liabilities	$ 436,389,000	73,271,000	(10,577,000)	499,083,000	17,704,000

* As restated

Long-term liability activity for the year ended June 30, 2008 was as follows:

		Balance July 1, 2007 *	Additions *	Reductions *	Balance June 30, 2008 *	Amounts due within one year *
Bonds and capital lease obligations:						
Revenue bonds and COPs payable	$	112,220,000	297,129,000	(40,246,000)	369,103,000	6,735,000
Capital leases payable		6,032,000	2,603,000	(1,452,000)	7,183,000	1,251,000
Total bonds and capital leases		118,252,000	299,732,000	(41,698,000)	376,286,000	7,986,000
Other liabilities:						
Compensated absences		34,249,000	3,536,000	—	37,785,000	2,207,000
Deposits held for others		10,195,000	5,871,000	(2,559,000)	13,507,000	4,653,000
Other		5,840,000	3,787,000	(816,000)	8,811,000	3,008,000
Total long-term liabilities	$	168,536,000	312,926,000	(45,073,000)	436,389,000	17,854,000

* As restated

(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.

On March 18, 2009 the System issued $56,090,000 in System Enterprise Revenue Bonds, Series 2009A. The proceeds from the sale of the Series 2009A will be used to defray the costs of constructing, acquiring, renovating, expanding, and equipping certain facilities at CSU and CSU-Pueblo. The improvement projects include the Cooperative Institute for Research in the Atmosphere (CIRA) at CSU and the Student Housing facilities at CSU-Pueblo.

On June 12, 2008, the System issued $83,285,000 in System Enterprise Revenue Bonds, Series 2008A. The proceeds from the sale of the Series 2008A Bonds are being used to defray the costs of constructing, acquiring, renovating, expanding, and equipping buildings and facilities at CSU. The improvement projects include the Academic Village Phase IB, the Lake Street Parking Garage, the Student Recreation Center, and the Academic Computing Center.

On September 6, 2007, the System issued $210,045,000 in System Enterprise Revenue Bonds, Series 2007A-C. The proceeds from the sale of the Series 2007A-C Bonds are being used to defray the costs of constructing, acquiring, renovating, expanding, and equipping buildings and facilities at CSU and CSU-Pueblo in addition to refunding all or a portion of certain outstanding bonds. These improvement projects included the CSU Academic Instruction Building, Computer Science Building, Research Innovation Center, Athletics Facilities, University Center for the Arts, Rockwell Hall Addition, Research Building Revolving Fund Multi-Scale Modeling of Atmospheric Process

(RBRF MMAP) Building, Chiller Plant, Greenhouse and Research Space, Animal Research Infrastructure, Research Campus Renovations, and the Student Recreation Center at CSU-Pueblo.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2009 and 2008 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2009 and 2008:

	Interest range		2009	2008
Colorado State University:				
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. $3,610,000 advance refunded with 2007B bond.	2.50% - 5.25%	$	7,325,000	8,430,000
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of $20,535,000 and mature in varying annual amounts to March 2035.	2.50% - 5.00%		18,990,000	19,390,000
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of $45,200,000 and mature in varying annual amounts to March 2035.	3.50% - 5.00%		44,700,000	45,200,000
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%		1,430,000	1,885,000

Colorado State University System

(A Component Unit of the State of Colorado)

Notes to Basic Financial Statements

Years Ended June 30, 2009 and 2008

Colorado State University System:

	Interest range		2009	2008
Colorado State University System Enterprise Revenue Bonds of 2007 A, issued in the original amount of $160,665,000 and mature in varying annual amounts to March 2037.	4.625% - 5.250%	$	160,665,000	160,665,000
Colorado State University System Enterprise Revenue Bonds of 2007 B, issued in the original amount of $34,260,000 and mature in varying annual amounts to March 2021.	4.00% - 5.00%		26,410,000	30,400,000
Colorado State University System Enterprise Revenue Bonds of 2007 C, issued in the original amount of $15,120,000 and mature in varying annual amounts to March 2020.	5.883%		15,120,000	15,120,000
Colorado State University System Enterprise Revenue Bonds of 2008 A, issued in the original amount of $83,285,000 and mature in varying annual amounts to March 2038.	3.00% - 5.00%		83,000,000	83,285,000
Colorado State University System Enterprise Revenue Bonds of 2009 A, issued in the original amount of $56,090,000 and mature in varying annual amounts to March 2039.	3.00% - 5.00%		56,090,000	—
Unamortized bond premium/discount			3,407,000	4,728,000
Total System Bonds			417,137,000	369,103,000
Colorado State University-Pueblo:				
Portion of the State of Colorado Certificate of Participation to remodel the Academic Resource Center (Library), payable annually with a final maturity in 2029.	5.10%		2,728,000	—
Total System Certificates of Participation			2,728,000	—
Total System Bonds and Certificates of Participation		$	419,865,000	369,103,000

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

		Principal	Interest	Total Payments
2010	$	6,449,000	20,066,000	26,515,000
2011		6,648,000	19,953,000	26,601,000
2012		7,113,000	19,705,000	26,818,000
2013		7,573,000	19,455,000	27,028,000
2014		7,972,000	19,146,000	27,118,000
2015-2019		46,646,000	89,868,000	136,514,000
2020-2024		61,791,000	76,907,000	138,698,000
2025-2029		80,426,000	59,813,000	140,239,000
2030-2034		101,980,000	37,974,000	139,954,000
2035-2039		89,860,000	10,804,000	100,664,000
Total debt service maturities		416,458,000	373,691,000	790,149,000
Unamortized bond premium/discount		3,407,000		
Total	$	419,865,000		

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.

The System Enterprise Revenue Bonds are secured by a pledge of 10% of all net revenues derived at the System from charges to students for the provision of general instruction by the System, 80% of the CSU facilities fee, 100% of the CSU-Pueblo facilities fee, and net revenues of the CSU Research Building Revolving Fund (RBRF) enterprise. Revenues from the RBRF enterprise 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. The pledge also includes the remaining pledged auxiliary revenue after current year debt service requirements on the 2003A, 2003B, and 2005B bonds. Investment earnings from revenue sources are also included. 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.

There were no material events to report for fiscal year 2009. For fiscal year 2008, the Board provided notice of the following rating changes. The 2003A and B bonds are insured by Ambac Financial Group ("Ambac"), Inc. Finch, Inc. removed its ratings on Ambac, Moody's Investors Service downgraded the financial strength rating of Ambac from "Aaa" to "Aa3", and Standard & Poor's Ratings Services lowered its financial strength rating on Ambac from "AAA" to "AA". The 2005B, 2007A, 2007B, and 2007C bonds are insured by Financial Guaranty Insurance Company ("FGIC"). Finch, Inc. downgraded the insurer financial strength of FGIC from "BBB" to "CCC" and placed the rating on Rating Watch Evolving, Moody's Investors Service downgraded the insurance financial strength of FGIC from "Baa3" to "B1", and Standard & Poor's Ratings Services had several rating actions on FGIC culminating in the current financial strength rating of "BB". The 2008A bonds are insured by Financial Security Assurance ("FSA"). Moody Investors Service placed its "Aaa" rating of FSA's financial strength on review for possible downgrade and Standard & Poor's Ratings Services revised its outlook on FSA to negative from stable and affirmed its "AAA" rating.

(11) Defeased Obligations

		Original Amount Refunded	Balance June 30, 2009
CSU Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A	$	3,610,000	2,830,000
CSU Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005A		9,535,000	8,460,000
	$	13,145,000	11,290,000

Of the Series 2007A-C bonds issued September 6, 2007, the System issued $34,260,000 in System Enterprise Revenue Bonds with an average interest rate of 4.4008% used to advance refund $34,185,000 of outstanding bonds with an average interest rate of 4.7205%. The following is a list of bonds and certificates of participation that were completely refunded: Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 1996; Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 1997; Research Building Revolving Fund Enterprise Revenue Bonds, Series 1997; Certificates of Participation, Series, 1997; Student Sports Recreational Facilities Revenue Bonds, Series 1998; Research Building Revolving Fund Enterprise Revenue Bonds, Series 2001; and, Research Building Revolving Fund Enterprise Revenue Bonds, series 2005A. The Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A were partially refunded. Net proceeds of $34,458,000 were deposited with an escrow agent and will be used to purchase certain United States governmental obligations. The principal and interest from the United States governmental obligations will be sufficient to enable the escrow agent to make all future debt service payments on the refunded bonds and COPs. As a result, the refunded bonds and COPs are considered to be defeased and the liability for those bonds is no longer reflected on the Statement of Net Assets.

The System advance refunded the above-mentioned bonds and COPs to reduce its total debt service payments over the next 14 years by $641,000 and obtain an economic gain (difference between the present value of the debt service payments on the old debt and new debt) of $312,000.

The sources and uses of funds required for the transaction are shown below:

Sources		
Principal amount of new debt	$	34,260,000
Net original issue premium		359,000
Total sources of funds	$	34,619,000
Uses		
Refunding escrow deposits	$	34,458,000
Issuance costs		161,000
Total uses of funds	$	34,619,000

Calculation of difference in cash flow requirements and economic gain:

Cash flow difference		
Old debt service cash flows	$	42,921,000
Less: New debt service cash flows		42,280,000
	$	641,000
Economic gain		
Present value of old debt service cash flows	$	34,413,000
Less: Present value of new debt service cash flows		33,940,000
Less: Issuance costs		161,000
	$	312,000

Issuance costs were as follows:

Cost of Issuance	$	6,000
Underwriter's Discount		94,000
FCIC Insurance		59,000
Other Uses of Funds		2,000
	$	161,000

(12) Pledged Revenues and Related Expenses

In 2008, the System adopted GASB 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* GASB 48, among other things, provides disclosure requirements for future revenues that are pledged. Adoption of GASB 48 had no effect on the System's beginning net assets as of July 1, 2007 or on its increase in net assets for the year ended June 30, 2008.

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

Pledged by auxiliary revenues.

	June 30	
	2009	**2008**
Operating revenues – pledged auxiliary revenues	$ 97,351,000	89,850,000
Operating expenses	86,638,000	79,254,000
Pledged revenues over operating expenses	10,713,000	10,596,000
Net nonoperating expenses	(7,216,000)	(6,396,000)
Other revenues and transfers	(952,000)	12,269,000
Net increase	$ 2,545,000	16,469,000

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

Pledged by auxiliary revenues.

	June 30	
	2009	**2008**
Operating revenues – pledged auxiliary revenues	$ 9,380,000	9,181,000
Operating expenses	8,576,000	5,722,000
Pledged revenues over operating expenses	804,000	3,459,000
Net nonoperating expenses	—	—
Other revenues and transfers	(488,000)	3,103,000
Net increase	$ 316,000	6,562,000

System Enterprise Revenue Bonds (including Tuition and University Facilities Fees Revenue Bonds):

(Continued)

Pledged by 10% System tuition revenues, 80% CSU facilities fees revenues, 100% CSU-P facilities fees revenues, CSU research building revolving fund revenues, and remaining auxiliary revenue after current year debt service requirements for the 2003A, 2003B, and 2005B bond issues.

	June 30	
	2009	**2008**
Operating revenues	$ 34,591,000	33,534,000
Operating expenses	3,628,000	2,404,000
Pledged revenues over operating expenses	30,963,000	31,130,000
Net nonoperating expenses	(1,105,000)	4,215,000
Other revenues and transfers	5,904,000	67,569,000
Net increase	$ 35,762,000	102,914,000

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes $1,831,000 and $2,768,000 in indirect cost recoveries for the fiscal years ended June 30, 2009 and 2008, respectively, which is the amount of actual cost recoveries used to support the related bond activity. The remaining amount of indirect cost recoveries required to be pledged is $41,240,000 and $39,706,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

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

(13) Capital Lease Obligations

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

		Total
Fiscal year ending June 30:		
2010	$	1,771,000
2011		1,624,000
2012		1,343,000
2013		1,136,000
2014		912,000
2015-2019		1,589,000
Minimum future lease payments		8,375,000
Less amount representing interest		1,044,000
Present value of future minimum lease payments	$	7,331,000

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2009 and 2008, respectively, the System had capital lease obligations in effect with capitalized asset costs of $14,505,000 and $13,745,000; accumulated depreciation of $3,287,000 and $2,813,000; and related outstanding liabilities of $7,331,000 and $7,183,000.

(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:		
2010	$	1,501,000
2011		566,000
2012		284,000
2013		183,000
2014		76,000
2015-2019		341,000
Total	$	2,951,000

Rent expense was $1,556,000 and $1,091,000 for fiscal years 2009 and 2008, respectively.

(Continued)

(15) Net Assets

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

Student loan money is expended according to external restrictions imposed by the program funding sources. The federal programs are administered according to Department of Education Blue Book guidelines. The state match money is restricted by the Colorado Commission on Higher Education policy for student loan programs. The amounts restricted are $26,661,000 and $25,980,000 and are reported as restricted net assets – expendable on the financial statements as of June 30, 2009 and 2008, respectively.

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted for use by the auxiliary operations. The amounts so restricted of $29,813,000 and $25,749,000 are reported as restricted net assets – expendable on the financial statements as of June 30, 2009 and 2008, 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, 2009 and 2008, this reserve had net assets of $2,028,000 and $1,875,000, respectively. These amounts were reported as restricted net assets – expendable on the statements of net assets.

(Continued)

Total restricted net assets were as follows:

		2009	2008 *
Restricted for nonexpendable purposes:			
Scholarships, research, and other	$	10,057,000	13,200,000
Federal Land Grant Act Account – nonexpendable		6,829,000	6,159,000
Total	$	16,886,000	19,359,000
Restricted for expendable purposes:			
Federal Land Grant Act Income Account – expendable	$	5,863,000	5,448,000
Student loans		26,661,000	25,980,000
Colorado Water Institute		503,000	—
Sponsored programs		1,285,000	1,109,000
Gifts		1,441,000	1,753,000
Auxiliary pledged net assets		29,813,000	25,749,000
Tuition and fee pledged assets		5,108,000	7,724,000
Research Building Revolving Fund		2,738,000	3,401,000
Equipment reserve for Vet Med		2,028,000	1,875,000
CSFS Legislative Funds		6,145,000	—
Other		5,552,000	9,096,000
Total	$	87,137,000	82,135,000

* As restated

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

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held in perpetuity, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2009 and 2008, the Foundation's board has designated \$13,139,000 and \$21,453,000, 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, 2009 were \$139,152,000. These outstanding purchase order commitments included \$102,103,000 of System capital construction commitments. Approximately \$2,796,000 of the capital construction commitments were for the Indoor Practice Facility, \$11,217,000 for the Research Innovation Center, \$8,112,000 for the Rockwell Hall Expansion, \$9,861,000 for the Clark Building Revitalization, \$1,936,000 for the Braiden Dining Hall, \$1,195,000 for the Moby Gymnasium Expansion and Renovation, \$2,658,000 for a PET/CT Scanner, \$24,878,000 for the Academic Instruction Building, \$9,022,000 for the Lake Street Parking Garage, and \$25,703,000 for the Student Recreation Center Expansion. The remaining capital construction commitments were for other small projects at CSU and CSU-Pueblo. Of the remaining non-capital purchase order commitments in the amount of $37,049,000, $21,849,000 were related to CSU- sponsored contracts and grants. In addition to purchase order commitments, the System had contracted obligations of $25,728,000 at June 30,2009 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. 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 obligation is considered highly probable. In both cases, settlement of the obligation involves payments to third parties, generally within three years.

Outstanding commitments at June 30, 2009 were:

Purchase order commitments	$	139,152,000
Shared cost obligations on long-term revenue contracts		13,312,000
Obligations under accepted employment offers		12,416,000
Total	$	164,880,000

(17) Employment Benefits

In 2008, the System adopted GASB 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27.* GASB 50, among other things, provides standards for the required note disclosures for defined benefit plans. Adoption of GASB 50 had no effect on the System's beginning net assets as of July 1, 2007.

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

The System's total payroll for the fiscal years ended June 30, 2009 and 2008 was $476,063,000 and $444,901,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was $161,290,000, $250,517,000, and $7,460,000 respectively, for the fiscal year ended June 30, 2009 and $155,183,000, $225,825,000, and $6,739,000 respectively, for the fiscal year ended June 30, 2008. The remaining employees were not eligible for participation in any of the System's plans.

(a) PERA Defined Benefit Pension Plan

Plan Description

Eligible System employees participate in PERA. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing to PERA of Colorado, P.O. Box 5800, Denver, Colorado 80217 or by calling PERA at 1-800-759-PERA (7372), or by visiting www.copera.org.

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

Plan members vest after five years of service, and if they were hired before July 1, 2005, most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with five years of service. Persons hired on or after July 1, 2005, (except plan members, inactive plan members, and retirees) are eligible for retirement benefits at any age with 35 years of service, at age 55 with 30 years of service, at age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of five years of service credit, and their age plus years of service equals 80 or more. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of twelve consecutive months of service credit. Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be disabled. PERA contains benefit provisions for both short and long term disability. If a member dies before retirement, his/her spouse or their eligible children under age 18 (23 if full-time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

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

Employees contribute 8% of their gross covered wages to an individual account with the plan. During fiscal years 2008-2009, 2007-2008, 2006-2007, and 2005-2006, the System contributed 10.15% of employees' gross covered wages to PERA of which 1.02% of the total contribution was allocated to the Health Care Trust Fund. Beginning January 1, 2006, in addition to the 10.15% contributed on employees' gross covered wages, the System remitted an Amortization Equalization Disbursement (AED) payment, discussed below, of 0.5% of employees', including annuitant retirees, gross covered wages.

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

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

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

The System's contributions to PERA for the fiscal years ended June 30, 2009, 2008, 2007, and 2006 were \$20,258,000, \$18,001,000, \$16,141,000, and \$14,978,000, respectively. These contributions were equal to the contribution requirement.

(b) Voluntary Tax-Deferred Retirement Plans

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

(c) Defined Contribution Pension Plan

Under the optional defined contribution plan, eligible faculty, administrative professionals, post doctoral fellows and veterinary interns of the System enrolled in the defined contribution plan as an alternative to PERA. Three vendor choices are offered at CSU through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC), and Fidelity Investments/MetLife. Eligible faculty and staff at CSU-Pueblo do not have the Fidelity Investments/MetLife option available. The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S). The CSU plan was adopted by the Board in December 1992 and the CSU-Pueblo plan was adopted in April 1993. The defined contribution retirement plan is a qualified plan under Section 401(a) of the IRC. CSU and CSU-Pueblo are the administrators of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all "permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSU-Pueblo provides a matching contribution of 11.1%, as required, of

(Continued)

eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or $21,812,000 for the fiscal year ended June 30, 2009 and $19,678,000 for the fiscal year ended June 30, 2008. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or $20,041,000 for the fiscal year ended June 30, 2009 and $18,066,000 for the fiscal year ended June 30, 2008.

A Federal retirement program covers some employees employed by the CSU Extension. The System's contribution to this plan was $239,000 for both fiscal years ended June 30, 2009 and 2008.

(d) Student Employee Retirement Program

Eligible student employees contribute 7.5% of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 C.R.S.) as a mandatory nonqualified plan under 403(b) of the IRC in lieu of mandatory old age, survivors, and disability insurance (OASDI) coverage. The plan administrator is the "Committee". This Committee 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, 2009 and 2008 was $560,000 and $505,000, respectively.

(e) Health Insurance Programs

The System's contribution to the various health insurance programs was $12,740,000 and $10,500,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

(18) Risk Financing and Insurance-Related Activities

CSU manages a combination of self-insured and fully insured property and casualty insurance programs to best protect the university's assets. CSU carries excess insurance for general liability and workers' compensation claims over $500,000 per occurrence, including claims arising from employment practices. CSU self-insures for property insurance claims less than $100,000 per occurrence with a $1,000 deductible per occurrence paid by the university department incurring the loss. CSU purchases property insurance with limits of $1 billion. In addition to this, CSU carries auto insurance for out of state vehicles and workers' compensation for out of state employees, student intern professional liability, professional liability insurance (Architects & Engineers), crime insurance, foreign liability insurance, TULIP (Tenant User Liability Insurance Program), and self-insures for in-state auto insurance.

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

The amount of claims and administrative costs for the self-funded plans for FY09 and FY08 did not exceed plan revenues and reserves. Exempt employees may select from various benefit plans and may elect to make certain contributions in the form of a pre-tax salary reduction.

The above health-related programs had estimated claim liabilities of $16,506,000 and $11,907,000 at June 30, 2009 and 2008, respectively, which include incurred but not reported claims (IBNR) along with known claims at year-end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines.

In addition to these claims, workers' compensation had estimated claim liabilities of $5,086,000 and $4,564,000 at June 30, 2009 and 2008, respectively. Liability self-insurance had estimated claim liabilities of $1,509,000 and $1,327,000 at June 30, 2009 and 2008, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2009 and 2008. These estimates are based on current data and actuarial reports.

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

		2009	2008
Claim liabilities, beginning of year	$	17,798,000	13,953,000
Incurred claims (including IBNR)		33,483,000	29,104,000
Claim payments		(28,180,000)	(25,259,000)
Claim liabilities, end of year	$	23,101,000	17,798,000

(19) Postemployment Healthcare and Life Insurance Benefits

(a) PERA Postemployment Healthcare Plan

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the program and the Health Care Fund; the program was converted to a trust fund in 1999. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual

Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of the premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution of 1.02% of covered salary. The System paid $1,672,000 into this fund during fiscal year 2009 and $1,452,000 during fiscal year 2008. In each year the amount contributed was 100 percent of the required contribution. Monthly premium costs for participants depend on the healthcare plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2008, there were 45,888 enrollees in the plan. At December 31, 2008, the plan had an unfunded actuarial liability of $1.11 billion, a funded ratio of 18.7 percent, and a 39-year amortization period.

(b) Other Postemployement Benefits (OPEB) – CSU (as restated)

Change in Accounting Principle

During the fiscal year ended June 30, 2008, the System implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB cost over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Plan Descriptions

CSU contributes to three single-employer defined benefit healthcare plans: CSU Retiree Medical Premium Refund plan (DCP Subsidy), Retiree Medical Premium Subsidy for PERA Participants (PERA Subsidy), and the Umbrella Rx (Rx Subsidy). Each plan provides medical benefits to eligible retired CSU faculty and nonclassified employees with the Rx Plan extending benefit coverage to spouses and dependents that elect to participate. CSU also has a self insured Long-Term Disability (LTD) Income Replacement Plan. This plan provides income replacement after the 91st consecutive calendar day of total disability. Benefit provisions for each of the plans are established and amended through the Board of Governors of the Colorado State University System. CSU does not issue separate financial reports for the plans.

DCP Subsidy – Employees who retire from the university at age 55 with 20 or more years of service or age 60 with five or more years of service are eligible for this benefit. For eligible retirees with 20 or more years of service, CSU pays a healthcare premium refund of the lesser of $200 per month or the actual cost of the retiree's (not including dependents) health insurance. Benefits are prorated for service between five and 20 years. DCP participants include employees who were hired after April 1, 1993 who have less than one year of participation in PERA or employees with such previous participation in PERA who elect to enroll in the DCP at the time of appointment. DCP participants also include certain employees hired prior to April 19, 1993 who made a one time, irrevocable election at the time of implementation to terminate participation in PERA and join the DCP. The plan is administered by American Administrators Group.

The DCP Subsidy is a revocable trust whereby the plan assets are restricted to expenditures necessary and appropriate to fulfilling the purpose of the plan. On an annual basis, CSU provides funding equal to 1% of covered participant's payroll. To the extent the funds are not utilized in covering benefits, they are maintained in the revocable trust and earn interest. The funds available to cover the plan benefits were $24,300,000 and $21,786,000 for the years ended June 30, 2009 and 2008, respectively. Funds provided for the benefit of the program include an amount equal to the annual OPEB cost of $2,389,000 and $1,998,000 for the years ended June 30, 2009 and 2008, respectively, plus the corresponding interest income less plan costs. Total amounts paid by CSU to retirees for this healthcare subsidy were $524,000 and $486,000 for 2009 and 2008, respectively. As of June 30, 2009 and 2008, 249 and 237 former employees, respectively, were qualified to receive such benefits.

PERA Subsidy – University faculty and nonclassified staff participating in the PERA retirement plan who retire from the University with at least ten years of University service, are eligible to receive a subsidy. The amount of the subsidy for eligible retirees is their out-of-pocket expenses for retiree only coverage or an amount equal to the premium for single coverage under the lowest cost plan available to active faculty and nonclassified staff, whichever is less. The plan is administered by the Colorado Public Employees' Retirement Association (PERA) which bills CSU on a monthly basis for the applicable premiums. On an annual basis, funds equal to the annual OPEB costs are set aside, along with the related interest income, in an internal service fund to cover plan benefits. The funds available to cover the plan benefits were $5,579,000 and $2,677,000 for the years ended June 30, 2009 and 2008, respectively. The annual OPEB costs for 2009 and 2008 were $4,005,000 and $3,768,000, respectively. The average number of beneficiaries of this subsidy was 492 and 480 for fiscal years 2009 and 2008, respectively. The benefits paid by the University were $1,202,000 and $1,092,000, for fiscal years 2009 and 2008, respectively.

Rx Subsidy – The University provides reimbursement for the prescription copayments made by eligible faculty and nonclassified staff who retire from the University under the PERA retirement plan with at least 10 years of service. Retirees have to be age 65 or older or eligible for Medicare and enrolled in the PERA Medicare supplement plan to be eligible for this plan. PERA provides a prescription insurance program through Caremark for retirees enrolled in any medical insurance plan. The Caremark Insurance program covers the cost of prescriptions after the member pays a copay which varies depending on whether the prescription is purchased through a local retail pharmacy or through Caremark's mail order pharmacy, and whether the drug is generic or a brand-name drug. The Umbrella Rx plan reimburses the retiree for the complete cost of the prescription copay less a $10 copay for retail and a $20 copay per prescription for mail-order drugs. Spouses and dependents of retirees enrolled in the plan can be covered with the payment of $44 per month for those enrolled in Medicare or $99 per month for those not enrolled in Medicare. The plan is administered by Employee Benefit Management Services, Inc.

CSU set aside funds in an internal service fund equal to the OPEB obligation of $196,000 and $130,000 at June 30, 2009 and 2008, respectively. These funds added to those previously set aside, along with the amounts paid in by participants of $35,000 in 2009 and the related interest income, have resulted in total funds available of $305,000 and $204,000 as of June 30 2009 and 2008, respectively, for this plan. Plan members were reimbursed $122,000 and $134,000 for the years ended June 30, 2009 and 2008, respectively.

Long Term Disability Insurance Subsidy – The University contributes to the LTD income replacement plan. This plan provides a monthly income replacement benefit which begins on the 91st consecutive calendar day of total disability. The LTD coverage provides the eligible PERA or Federal Retirement Plan participants with up to 60 percent of pre-disability covered monthly salary, not to exceed $6,000 per month, or up to 69% of covered monthly salary, not to exceed $6,900 per month for DCP participants. The income replacement benefit will increase three percent annually. The plan is offset by any other benefits or earnings received or eligible to receive from other sources such as Social Security or Workers' Compensation. The minimum income replacement benefit is $50 per month. Employees are eligible to receive benefits until one of the following circumstances occur: recovery, death, age 65 if disabled when less than 60, four and three-fourths years if disabled between the ages of 60 and 65, or age 70 if disabled between the ages of 65 and 70. This plan is administered by Assurant Insurance Company.

CSU set aside funds in an internal service fund equal to the OPEB obligation of $360,000 and $193,000 at June 30, 2009 and 2008, respectively. These funds added to those previously set aside and the related interest income have resulted in total funds available of $5,461,000 and $4,313,000 as of June 30, 2009 and 2008, respectively. Plan members received $914,000 and $794,000 in benefits for the years ended June 30, 2009 and 2008, respectively.

Funding Policy, Status, Progress, and Annual OPEB Cost

Contribution requirements are established and may be amended by the Board of Governors of the Colorado State University System. CSU's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. Fiscal 2008 was the year of transition and CSU has elected to prospectively implement GASB Statement 45 resulting in the net OPEB obligation at the beginning of the year being set at $0. For each of the plans, CSU has set aside funds to cover future benefits in varying amounts, however under GASB 45 in order to consider the assets available to the plan they must be segregated and restricted in a trust or equivalent arrangement. CSU's annual OPEB cost for 2009 and the related information for each plan are as follows:

	DCP Subsidy	PERA Subsidy	Rx Subsidy	LTD Subsidy
Actuarial accrued liability (a)	$ 25,188,000	54,271,000	2,899,000	12,219,000
Actuarial value of plan assets (b)	—	—	—	—
Unfunded actuarial accrued liability (a) – (b)	$ 25,188,000	54,271,000	2,899,000	12,219,000
Funded Ratio (a)/(b)	0%	0%	0%	0%
Covered payroll (c)	$ 238,827,000	N/A	N/A	N/A
Unfunded actuarial accrued liability as a percentage of covered payroll [(a) – (b)]/(c)	10.5%	N/A	N/A	N/A
Contribution rates:				
CSU	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Participants	N/A	N/A	$0-$99 Based on eligibility	N/A
Annual required contribution (ARC)	$ 2,377,000	4,049,000	190,000	1,080,000
Interest on net OPEB obligation	66,000	107,000	5,000	8,000
Adjustment to ARC	(54,000)	(151,000)	(7,000)	(7,000)
Annual OPEB Cost	2,389,000	4,005,000	188,000	1,081,000
Contributions Made	(524,000)	(1,202,000)	(122,000)	(914,000)
Increase in Net OPEB obligation	1,865,000	2,803,000	66,000	167,000
Net OPEB obligation – beginning of year	1,512,000	2,676,000	130,000	193,000
Net OPEB obligation – end of year	$ 3,377,000	5,479,000	196,000	360,000
Percentage of OPEB Cost Contributed	21.9%	30.0%	64.9%	84.6%
Assets held within internal service funds – revocable trusts for future plan benefits	$ 24,300,000	5,579,000	305,000	5,461,000

(Continued)

CSU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for 2009 and the preceding year for each of the plans were as follows:

	Year Ended		Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
DCP	3/30/2009	$	2,389,000	21.90%	3,377,000
Subsidy	6/30/2008		1,998,000	24.30%	1,512,000
PERA	6/30/2009		4,005,000	30.00%	5,479,000
Subsidy	6/30/2008		3,768,000	29.00%	2,676,000
Rx	6/30/2009		188,000	64.90%	196,000
Subsidy	6/30/2008		264,000	50.80%	130,000
LTD	6/30/2009		1,081,000	84.60%	360,000
Subsidy	6/30/2008		987,000	80.40%	193,000

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. OPEB liabilities are recorded in other long term liabilities as follows:

		DCP	PERA	Rx	LTD	Total
OPEB, current portion	$	763,000	1,644,000	196,000	360,000	2,963,000
OPEB, non-current portion		2,614,000	3,835,000	-	-	6,449,000
Total	$	3,377,000	5,479,000	196,000	360,000	9,412,000

(Continued)

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs, if applicable, between CSU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	DCP Subsidy	PERA Subsidy	Rx Subsidy	LTD Subsidy
Valuation Date	1/1/2009	1/1/2009	1/1/2009	1/1/2009
Actuarial Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization Method	Level Percent of Pay	Level Dollar	Level Dollar	Level Percent of Pay
Remaining Amortization Period	30 Years, open	29 Years, closed	29 Years, closed	30 Years, open
Asset Valuation Method	Unfunded	Unfunded	Unfunded	Unfunded
Actuarial Assumptions				
Investment Rate of Return	4.00%	4.00%	4.00%	4.00%
Inflation Rate	3.00%	3.00%	3.00%	3.00%
Salary Increase Rate	4.00%	N/A	N/A	4.00%
Healthcare Cost Trend Rate	8% initial, 5% ultimate	8% initial, 5% ultimate	N/A	N/A

(c) *Other Postemployment Benefits (OPEB)*

CSU-Pueblo – Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare. The retiree is responsible for paying 100% of the health insurance cost. As of June 30, 2009, there were 45 participants in the plan, of which 2 were CSU-Pueblo retirees.

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

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

(d) *Life Insurance Program*

During fiscal years 2009 and 2008, PERA provided its members access to a group decreasing term life insurance plan offered by Unum Provident. Active members may join the Unum Provident Plan and continue coverage into retirement. PERA retirees are not eligible to enroll in the insurance program. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

(20) Compensated Absences Liability

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2009 and 2008 was $41,610,000 and $37,785,000, respectively.

Overall, expenses increased for the fiscal years ended June 30, 2009 and 2008 by $3,825,000 and $3,536,000, respectively, for the estimated compensated absences liabilities.

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008 were $115,795,000 and $95,863,000, respectively.

(22) Scholarship Allowance

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2009 were as follows:

		2009	
	Tuition and fees	Auxiliary revenues	Total
Gross revenue	$ 311,743,000	128,804,000	440,547,000
Scholarship allowances:			
Federal	17,913,000	859,000	18,772,000
State	8,935,000	570,000	9,505,000
Private	380,000	160,000	540,000
Institutional	36,248,000	1,953,000	38,201,000
Total allowances	63,476,000	3,542,000	67,018,000
Net revenue	$ 248,267,000	125,262,000	373,529,000

(Continued)

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2008 were as follows:

	2008		
	Tuition and fees	**Auxiliary revenues**	**Total**
Gross revenue	$ 289,027,000	118,534,000	407,561,000
Scholarship allowances:			
Federal	15,486,000	775,000	16,261,000
State	8,593,000	675,000	9,268,000
Private	215,000	97,000	312,000
Institutional	30,353,000	1,361,000	31,714,000
Total allowances	54,647,000	2,908,000	57,555,000
Net revenue	$ 234,380,000	115,626,000	350,006,000

(23) System Foundations and Endowments

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

(a) Colorado State University Research Foundation

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

Colorado State University Ventures (CSUV) is a wholly owned subsidiary of Colorado State University Research Foundation. CSUV is used to assist in the promotion, development, improvement and expansion of the facilities and programs of the Colorado State University System (CSUS). The sole voting member of the nonprofit corporation is CSURF.

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, 2009 and 2008, royalty revenues equaled $2,790,000 and $820,000, respectively, and expenses were $1,759,000 and $558,000, respectively.

(Continued)

At June 30, 2009, CSURF's debt to provide buildings for use by the universities was $3,300,000.

At June 30, 2009, the assets of CSURF consisted of:

Cash and current assets	$	2,474,000
Property and equipment		8,785,000
Other assets		9,902,000
Total assets	$	21,161,000

At June 30, 2008, CSURF debt to provide buildings for use by the universities was $4,387,000.

At June 30, 2008, the assets of CSURF consisted of:

Cash and current assets	$	2,400,000
Property and equipment		8,408,000
Other assets		11,913,000
Total assets	$	22,721,000

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

CSU-Pueblo Foundation was established in 1954 as an independent 501(c)(3) nonprofit corporation. The CSU-Pueblo Foundation was formed to advance and assist in the development, growth and operation of CSU-Pueblo. Twenty-seven trustees of the CSU-Pueblo Foundation are elected by members of the CSU-Pueblo Foundation. In addition, one officer of CSU-Pueblo, and one member of the Board of Governors serve as nonvoting, ex-officio members.

CSU-Pueblo Foundation recorded $2,115,000 and $2,462,000 in transfers of gifts and other assets to CSU-Pueblo during fiscal year 2009 and 2008, respectively. During the same periods, CSU-Pueblo provided $173,000 and $36,000, respectively, in in-kind support to CSU-Pueblo Foundation for 2009 and 2008. Further, CSU-Pueblo did not incur any expenses on behalf of CSU-Pueblo Foundation during the fiscal years ended June 30, 2009 and 2008.

At June 30, 2009, the assets of CSU-Pueblo Foundation consisted of:

Cash	$	3,378,000
Investments		11,102,000
Property and equipment, net		26,000
Other assets		4,721,000
Total assets	$	19,227,000

At June 30, 2008, the assets of CSU-Pueblo Foundation consisted of:

Cash	$	4,503,000
Investments		13,756,000
Property and equipment, net		31,000
Other assets		4,809,000
Total assets	$	23,099,000

CSU-Pueblo Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSU-Pueblo Foundation had $262,000 and $336,000 in outstanding liabilities and $18,965,000 and $22,763,000 in net assets as of June 30, 2009 and 2008, respectively.

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

(c) *CSU-P Board-Designated Funds*

CSU-Pueblo 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 CSU-Pueblo 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 CSU-Pueblo. To date, CSU-Pueblo has sold 16 parcels of land with the proceeds from the sales being placed in a board-designated fund.

The Walking Stick Fund assets at June 30, 2009 consisted of:

Cash	$	5,344,000
Land		41,000
Total assets	$	5,385,000

(Continued)

The Walking Stick Fund assets at June 30, 2008 consisted of:

Cash	$	5,405,000
Land		41,000
Total assets	$	5,446,000

On June 30, 2000, CSU-Pueblo 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 CSU-Pueblo, and scholarships.

The KTSC Fund assets at June 30, 2009 consisted of:

Cash	$	2,386,000
Due from other funds		102,000
Total assets	$	2,488,000

The KTSC Fund assets at June 30, 2008 consisted of:

Cash	$	2,357,000
Due from other funds		125,000
Total assets	$	2,482,000

(24) State Support

In fiscal year 2006 state support for higher education changed with the implementation of the College Opportunity Fund. As a result of this legislation, which was adopted in S.B. 04-189 passed in the 2004 state legislative session, the state no longer provides a direct state general fund appropriation to the System. Instead, state support is provided to the System in the form of fee for service contracts with the state for the delivery of special programs, graduate programs, and high cost/high demand programs. In fiscal years 2009 and 2008 the System received $73,233,000 and $82,669,000, respectively, in state fee for service contract revenue.

State support was also provided to the System in the form of student tuition stipends provided to students by the state College Opportunity Fund. In fiscal years 2009 and 2008 stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo in the amount of $40,387,000 and $51,121,000 respectively.

(25) Contingencies

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

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

(26) Restatement of 2008 Financial Statements

During the implementation of GASB 45 for fiscal year ended June 30, 2008, CSU erroneously did not identify its self-funded long term disability plan as an OPEB plan. CSU had recorded a liability of $4,160,214 as of June 30, 2008 for the Plan using accounting principles generally accepted in the United States of America in effect prior to the effective date of GASB 45. Accordingly, CSU has restated its 2008 financial statements to report the Plan under the provisions of GASB 45. The effect of the restatement is summarized below:

		2008 Financial Statements		
		As previously reported	Ajustment	As restated
Statement of Net Assets				
Other long-term liabilities, current portion	$	3,556,000	-548,000	3,008,000
Other long-term liabilities		9,223,000	-3,420,000	5,803,000
Net assets - restricted for expendable purposes - other		78,167,000	3,968,000	82,135,000
Statement of Revenues, Expenses and Changes in Net Assets				
Operating expenses		793,039,000	681,000	793,720,000
Operating loss		-54,629,000	-681,000	-55,310,000
Loss before other revenues (expenses)		-8,497,000	-681,000	-9,178,000
Increase in net assets		27,524,000	-681,000	26,843,000
Statement of Cash Flows				
Operating loss		-54,629,000	-681,000	-55,310,000
Increase (decrease) in liabilities - other liabilities		1,381,000	681,000	2,062,000

(27) Subsequent Event

CSU is currently engaged in an employment tax audit by the Internal Revenue Service (IRS). Results of the audit have not been finalized, however, it is probable that the audit will result in a liability, the amount of which has not yet been determined. No provision has been made in the audited financial statements relating to this potential liability. In the opinion of management, the ultimate outcome of this matter will not have a material adverse effect on the System's financial position.

Colorado State University System

(A Component Unit of the State of Colorado)

Required Supplementary Information

Colorado State University Retiree Medical Premium Refund Plan (DCP Subsidy), PERA Subsidy, Umbrella Rx (Rx Subsidy) and Long Term Disability Insurance Subsidy (LTD Subsidy)

Schedule of Funding Progress

June 30, 2009

DCP Subsidy

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	$ -	$ 25,188,000	$ 25,188,000	0%	$ 238,827,000	10.5%
1/1/2008	-	22,080,000	22,080,000	0%	199,794,000	11.1%

PERA Subsidy

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	$ -	$ 54,271,000	$ 54,271,000	0%	$ -	0%
1/1/2008	-	54,012,000	54,012,000	0%	-	0%

Rx Subsidy

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	$ -	$ 2,899,000	$ 2,899,000	0%	$ -	0%
1/1/2008	-	4,267,000	4,267,000	0%	-	0%

LTD Subsidy

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2009	$ -	$ 12,219,000	$ 12,219,000	0%	$ -	0%
1/1/2008	-	10,210,000	10,210,000	0%	-	0%

THIS PAGE LEFT BLANK INTENTIONALLY

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the year ended June 30, 2009, which collectively comprise its basic financial statements and have issued our report thereon dated December 4, 2009, which contained a reference to the report of other accountants and an explanatory paragraph stating that the 2008 financial statements have been restated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Colorado State University Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed in the Auditors' Findings and Recommendation section of this document, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the System's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the System's financial statements that is more than inconsequential will not be prevented or detected by the System's internal control. We consider the deficiency described under Finding No. 1 in the Auditors' Findings and Recommendations section of this document to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above is considered to be a material weakness.

Compliance and Other Matters

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

We also noted certain additional matters that we reported in the Auditors' Findings and Recommendations section in this report.

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

BKD, LLP

December 4, 2009

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountants' Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Colorado State University System (the System) as of and for the year ended June 30, 2009, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

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

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

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The System's significant accounting policies are described in Note 3 of the audited financial statements.

Alternative Accounting Treatments

The Governmental Accounting Standards Board's Implementation guide issued in 2008 clarified that Pell Grants should be recorded as nonoperating revenues since they are nonexchange revenues and entities generally have administrative requirements for these funds. Historically, the System has recorded this Pell Grant activity as operating revenue. The Colorado State Controller's Office also recommends that public institutions in the State continue to reflect Pell Grant activity as operating revenue. Consequently, since implementation guidance and industry practice are both level D GAAP and there are differences in practice, Colorado State University has decided to continue reporting Pell grant activity as operating revenue in its 2009 financial statements.

Management Judgments and Accounting Estimates

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

- Allowance for uncollectible student loans
- Allowance for doubtful accounts
- Compensated absences
- Useful lives of capital assets and related depreciation expense
- Claim liabilities for self-insurance

Financial Statement Disclosures

No matters are reportable.

Audit Adjustments

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

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

Colorado State University

- Restatement of CSU's 2008 financial statements that increased net assets as of July 1, 2007 by approximately $4,700,000, decreased liabilities as of June 30, 2008 by approximately $4,000,000, increased net assets as of June 30, 2008 by approximately $4,000,000 and decreased the change in net assets for the year ended June 30, 2008 by approximately $700,000

Colorado State University - Pueblo

- Increase retainage payable and capital assets on construction project (approximately $215,000)
- Reduce capitalized interest recorded in capital assets and increase interest expense relating to System Enterprise Revenue Bonds, Series 2009A (approximately $298,000) and increase capitalized interest and decrease interest expense on Certificates of Participation (approximately $416,000)

Members of the Legislative Audit Committee

- Record bond issuance costs relating to System Enterprise Revenue Bonds, Series 2009A, as an asset which were originally expensed (approximately $209,000)
- Reclassify accrued interest on System Enterprise Revenue Bonds, Series 2009A from a prepaid expense account to an accrued liability account (approximately $811,000)
- Record asbestos remediation outlays as expenses rather than construction in progress in accordance with GASB 49 (approximately $780,000)
- Reconcile Administrative Information System (AIS) trial balance to COFRS trial balance and remove fund 461 accounts duplicated on AIS (decrease assets by approximately $256,000, decrease liabilities by approximately $121,000, decrease revenue by approximately $135,000, decrease interfund transfers by approximately $135,000 and decrease expenses by approximately $135,000)

Proposed Audit Adjustments Not Recorded

Colorado State University

- Increase construction in progress and related accounts payable (approximately $641,000)

Colorado State University -- Pueblo

- Increase depreciation expense and increase accumulated depreciation on capital assets due to net errors in depreciation spreadsheet of approximately $474,000
- Reconcile differences between the AIS trial balance and COFRS financial statements (increase total assets by approximately $269,000, increase total liabilities by approximately $22,000, decrease revenues by approximately $364,000, decrease expenses by approximately $629,000 and decrease beginning net assets by approximately $18,000)

The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease beginning net assets as of July 1, 2008 by approximately $18,000, to decrease the change in net assets by approximately $209,000 for the year ended June 30, 2009, increase current assets by approximately $269,000, increase noncurrent assets by approximately $167,000, and increase current liabilities by approximately $663,000 as of June 30, 2009.

Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

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

- During fiscal year 2009 the System implemented GASB 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49)

Members of the Legislative Audit Committee

Significant Issues Discussed with Management

During the audit process, the following issue was discussed and was the subject of correspondence with management:

- Colorado State University has a self-funded Long Term Disability Plan (the Plan) for academic faculty and administrative professional staff. We had discussions with management on whether the Plan is considered an other postemployment benefits plan (OPEB) subject to GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). We advised Colorado State University to obtain an actuarial valuation for the Plan which it did. As previously discussed, CSU's 2008 financial statements have been restated to recognize the Plan as an OPEB plan under GASB 45

Other Material Written Communications

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

- Management representation letter

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

BKD, LLP

December 4, 2009

Colorado State University
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	356,784,000	269,027	357,053,027	0.08%
Non-Current Assets	998,078,000	167,278	998,245,278	0.02%
Current Liabilities	(162,168,000)	(662,642)	(162,830,642)	0.41%
Non-Current Liabilities	(481,379,000)		(481,379,000)	
Current Ratio	2.200		2.193	-0.32%

Total Assets	1,354,862,000	436,305	1,355,298,305	0.03%
Net Assets	(711,315,000)	226,337	(711,088,663)	-0.03%

Revenues	(892,767,000)	363,864	(892,403,136)	-0.04%
Expenses	855,393,000	(154,861)	855,238,139	-0.02%
Net Increase	(37,374,000)	209,003	(37,164,997)	-0.56%

Client: Colorado State University

Period Ending: June 30, 2009

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Type of Adjustment (Known or Likely)	Assets – Current DR (CR)	Assets – Non-Current DR (CR)	Liabilities – Current DR (CR)	Liabilities – Non-Current DR (CR)	(X) Non Tax	Revenues DR (CR)	Expenses DR (CR)	Net Assets (Beg. of year) DR (CR)	Net Effect on Following Year – Net Increase DR (CR)	Net Effect on Following Year – Net Assets DR (CR)
CSU-Pueblo											
To correct depreciation for errors within fixed asset spreadsheets	Known		(400,250)					400,250			
	Known		(73,065)					73,065			
To agree AIS trial balance to financial statements	Likely	269,027		(22,049)			363,864	(628,176)	17,334		
CSU											
To record unrecorded liabilities for construction projects and remove an encumbrance	Known		640,593	(640,593)							
Taxable passed adjustments							363,864	(154,861)	17,334		
Times (1 - estimated tax rate of 00%)							100%	100%	100%		
Taxable passed adjustments net of tax impact							363,864	(154,861)	17,334		
Nontaxable passed adjustments		269,027	167,278	(662,642)							
Total passed adjustments, net of tax impact (if any)		269,027	167,278	(662,642)			363,864	(154,861)	17,334		

Impact on Net Increase	209,003
Impact on Net Assets	226,337

BKD
AWP335
9-2007

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountant's Report on Bond Compliance

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the year ended June 30, 2009, which collectively comprise its basic financial statements and have issued our report thereon dated December 4, 2009, which contained a reference to the report of other accountants and an explanatory paragraph stating that the 2008 financial statements have been restated. 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. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit, as described in our report on the System's financial statements. The financial statements of the Colorado State University Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

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 compliance.

In accordance with the respective bond resolutions discussed above, revenue bonds' earnings requirement schedules (Schedules) are shown on pages 115-117. We have not audited the Schedules and express no opinion on them.

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

BKD, LLP

December 4, 2009

THIS PAGE LEFT BLANK INTENTIONALLY

Colorado State University System

(A Component Unit of the State of Colorado)

Revenue Bonds' Earnings Requirement Schedules

(Unaudited)

Year Ended June 30, 2009

Colorado State University (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. Below are calculations of the earnings requirement for meeting the following bond resolutions: a) CSU Enterprise System Refunding and Revenue Bonds, Series 2003A, 2003B, and 2005B, which report the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities; b) CSU-P Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2003; and c) System Enterprise Revenue Bonds, Series 2007A,B, & C, 2008A, and 2009A, which include the earnings of 10% tuition, CSU 80% facilities fees, CSU-P 100% facilities fees, CSU Research Building Revolving Fund, and the remaining Auxiliary pledged revenues after debt service requirements on the 2003A, 2003B, and 2005B bonds.

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

Auxiliary revenues	$	82,100,919
Add:		
Auxiliary fee revenue		15,249,705
Investment income		1,158,424
		98,509,048
Auxiliary expenses		
Unrestricted expenses		82,847,864
Less:		
Excluded equipment expenditures		(322,774)
Compensated absences adjustment		(173,012)
		82,352,078
Student sports recreational facilities		
Unrestricted expenses		3,789,692
Less:		
Excluded equipment expenditures		(15,900)
Compensated absences adjustment		(23,211)
		3,750,581
Net income to meet requirement under the bond resolution	$	12,406,389
Net income required under the bond resolution:		
Current year principal and interest payments	$	5,291,771
Minimum earnings ratio required by bond resolution		100%
Net income requried under the bond resolution	$	5,291,771

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

Colorado State University System

(A Component Unit of the State of Colorado)

Revenue Bonds' Earnings Requirement Schedules

(Unaudited)

Year Ended June 30, 2009

b) For the purposes of determining compliance with the bond resolution, earnings for the 2003 CSU-P Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds:

Auxiliary revenues	$	8,379,837
Add:		
Auxiliary fee revenue		1,000,157
Investment income		678,408
		10,058,402
Unrestricted expenses		9,274,885
Less:		
Excluded equipment expenditures		(66,579)
Compensated absences adjustment		(17,727)
		9,190,579
Net income to meet requirement under the bond resolution	$	867,823
Net income required under the bond resolution:		
Current year principal and interest payments	$	502,463
Minimum earnings ratio required by bond resolution		125%
Net income requried under the bond resolution	$	628,079

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

Colorado State University System

(A Component Unit of the State of Colorado)

Revenue Bonds' Earnings Requirement Schedules

(Unaudited)

Year Ended June 30, 2009

c) For the purposes of determining compliance with the bond resolution, earnings for the System Enterprise Revenue earnings are computed as follows:

	Tuition and Facilities Fee	Research Building Revolving Fund	Total
Total pledged revenue	$ 30,644,240	$ 45,417,395	$ 76,061,635
Operating expenses	11,514	1,042,064	1,053,579
Total tuition, facilities fee, and Research Building Revolving Fund, net of operating expenses	$ 30,632,726	44,375,331	75,008,057
Auxiliary revenues			
Net available revenues			13,274,212
FY 2008 debt service requirements for 2003A, 2003B, and 2005B bonds			(5,794,234)
Total available for enterprise system			7,479,978
Total net enterprise system revenue			$ 82,488,035
Net income required under the bond resolution:			
Current year principal and interest payments			$ 17,325,916
Minimum earnings ratio required by bond resolution			100%
Net income required under the bond resolution			$ 17,325,916

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

THIS PAGE LEFT BLANK INTENTIONALLY

State-Funded Student Financial Assistance Programs Financial Audit Report Section

THIS PAGE LEFT BLANK INTENTIONALLY

Colorado State University System

State-Funded Student Financial Assistance Programs

Introduction

Year Ended June 30, 2009

Introduction

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

- Colorado State University (CSU) located in Fort Collins
- Colorado State University – Pueblo (CSU-P) located in Pueblo
- Colorado State University – Global Campus (CSU-GC).

The financial assistance and compliance audit of the state-funded student financial assistance programs at the System for the fiscal year ended June 30, 2009 was directed toward objectives and criteria set forth in the Colorado Commission on Higher Education (CCHE) Financial Aid Policy, adopted in April 2002. The state-funded student financial assistance programs were examined simultaneously with the federal aid programs for the year ended June 30, 2009.

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	CSU-P	CSU-GC
Colorado Leveraging Educational Assistance Program (CLEAP and SLEAP)	X	X	
Colorado Student Grant Program	X	X	
Colorado Work-Study Program	X	X	
Merit Award Program	X	X	
Pre-Collegiate Academic Competitiveness Grant Match (PACG)	X	X	
Perkins and Health Professionals Student Loans Matching Program			
Governor's Opportunity Scholarship	X	X	

The state-funded student financial assistance awards made by the institutions during fiscal years 2009 and 2008 were as follows:

	2009	2008
State Funded Student Financial Assistance Awards:		
Colorado State University	$9,597,195	8,540,601
Colorado State University - Pueblo	3,639,356	3,214,905
Colorado State University Global Campus	-	-

(Continued)

Colorado State University System

State-Funded Student Financial Assistance Programs

Introduction

Year Ended June 30, 2009

The Director of Financial Aid of each institution is responsible for administration of these programs. This responsibility includes application processing, eligibility determination, and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the institution in federal and state financial aid programs. The responsibilities of each institution's controller for general ledger accounting, payments, and collections are also of assistance to financial aid directors in the financial management of the programs.

During the fiscal year ended June 30, 2009, the System obtained authorizations to award federal student financial aid funds of approximately $986,000 in the Supplemental Educational Opportunity Grant program and $1,389,000 in the College Work-Study 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 to these programs given the Pell Grant and Direct Loans are available to any eligible student.

During the year ended June 30, 2009, the System obtained authorizations to award Colorado student financial aid funds of approximately $9,125,000 in the Colorado Student Grant program, $237,000 in the Colorado Merit Scholarship program, $2,366,000 in the Colorado Work-Study program, $811,000 in the Governor's Opportunity Scholarship, $274,000 in the Colorado Leveraging Educational Assistance program, $132,000 in Colorado Supplemental Leveraging Educational Assistance program, and $292,000 in the Pre-Collegiate Academic Competitiveness Grant program.

The related statement of appropriations, expenditures, transfers and reversions of state-funded student financial assistance programs is presented on page 125 of this report as well as the individual universities' schedules of appropriations, expenditures, transfers and reversions of state-funded student financial assistance programs on pages 127 and 128.

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountant's 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 component unit of the State of Colorado, for the year ended June 30, 2009. The Statement is the responsibility of the 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 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 the format as set forth in the *2008-09 Audit Guide, Colorado Funded Student Aid*, issued by the Department of Higher Education (DHE), and in conformity with the provisions of the DHE Financial Aid Policy (2008-09). The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Perkins Loan and Colorado Work-Study Programs and does not present certain transactions that would be included in the Statement of the state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America. Accordingly, the accompanying Statement is not intended to present the financial position, changes in financial position or cash flows of the System in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers and reversions of the state-funded student financial assistance programs of Colorado State University System for the year ended June 30, 2009, pursuant to the *2008-09 DHE Audit Guide, Colorado Funded Student Aid* and in conformity with the provisions of the DHE Financial Aid Policy, as described in Note 1 to the Statement.

Members of the Legislative Audit Committee

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2009 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

BKD, LLP

December 4, 2009

Colorado State University System

(A Component Unit of the State of Colorado)

Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Year Ended June 30, 2009

	Colorado Student Grant	Colorado Merit Scholarship	Coloardo Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	PACG	Total State-Funded Student Assistance
Appropriations								
Original	$ 9,011,537	236,849	2,311,121	789,000	273,884	131,946	282,214	13,036,551
Adjustments/Transfers	113,254	-	55,000	21,746	-	-	10,000	200,000
Total	9,124,791	236,849	2,366,121	810,746	273,884	131,946	292,214	13,236,551
Expenditures	9,124,791	236,849	2,366,121	810,746	273,884	131,946	292,214	13,236,551
Reversions to State General Fund	$ -	-	-	-	-	-	-	-

See accompanying notes to the Statement of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University System

(A Component Unit of the State of Colorado)

Notes to Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Year Ended June 30, 2009

Note 1: Summary of Significant Accounting Policies

The Colorado State University System's (the System) accounting system is structured and administered in accordance with the accounting principles promulgated by the Governmental Accounting Standards Board. The accompanying statement of appropriations, expenditures, transfers and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as set forth in the *DHE Audit Guide, Colorado Funded Student Aid* and in conformity with the provisions of the DHE Financial Aid Policy. The purpose of the Statement is to present, in summary form, the state-funded student financial assistance activities of the System's two campuses for the fiscal year ended June 30, 2009.

All student aid is expended on a cash basis except for the College Work-Study Program (CWS). The CWS is on the accrual basis in that the expense is recognized when the services are performed. This basis differs from accounting principles generally accepted in the United States of America primarily because appropriations are presented instead of revenue and because assets, liabilities and net assets are not included in the financial statement.

Note 2: Student Incentive Grants

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

Note 3: Contingencies

The student financial assistance program is subject to periodic reviews by the Colorado Commission on Higher Education. If disallowances should occur as a result of the program reviews, the System would be required to repay the disallowed amounts.

Colorado State University System

(A Component Unit of the State of Colorado)

Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded
Student Financial Assistance Programs

Colorado State University

Year Ended June 30, 2009

	Colorado Student Grant	Colorado Merit Scholarship	Coloardo Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	PACG	Total State-Funded Student Assistance
Appropriations								
Original	$ 6,680,697	201,911	1,612,728	488,000	191,806	94,304	187,749	9,457,195
Adjustments/Transfers	83,254	-	25,000	21,746	-	-	10,000	140,000
Total	6,763,951	201,911	1,637,728	509,746	191,806	94,304	197,749	9,597,195
Expenditures	6,763,951	201,911	1,637,728	509,746	191,806	94,304	197,749	9,597,195
Reversions to State General Fund	$ -	-	-	-	-	-	-	-

See accompanying notes to the Statement of Appropriations, Expenditures, Transfers, and Reversions

Colorado State University System

(A Component Unit of the State of Colorado)

Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs

Colorado State University – Pueblo

Year Ended June 30, 2009

	Colorado Student Grant	Colorado Merit Scholarship	Coloardo Work-Study	Governor's Opportunity Scholarship	CLEAP	SLEAP	PACG	Total State-Funded Student Assistance
Appropriations								
Original	$ 2,330,840	34,938	698,393	301,000	82,078	37,642	94,465	3,579,356
Adjustments/Transfers	30,000	-	30,000	-	-	-	-	60,000
Total	2,360,840	34,938	728,393	301,000	82,078	37,642	94,465	3,639,356
Expenditures	2,360,840	34,938	728,393	301,000	82,078	37,642	94,465	3,639,356
Reversions to State General Fund	$ -	-	-	-	-	-	-	-

See accompanying notes to the Statement of Appropriations, Expenditures, Transfers, and Reversions

BKD LLP
CPAs & Advisors

Wells Fargo Center
1700 Lincoln Street, Suite 1400
Denver, CO 80203-4514
303.861.4545 Fax 303.832.5705 www.bkd.com

Independent Accountant's Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Each State-Funded Student Assistance Program

Members of the Legislative Audit Committee:

Compliance

We have audited the compliance of Colorado State University System (the System), a blended component unit of the State of Colorado with the types of compliance requirements described in *2008-09 Audit Guide, Colorado Funded Student Aid*, issued by the Department of Higher Education (DHE) that are applicable to each of its state-funded student assistance programs for the year ended June 30, 2009. The System's state-funded student assistance programs are identified in the accompanying statement of appropriations, expenditures, transfers and reversions. Compliance with the requirements of laws, regulations, terms of agreements and Colorado Commission on Higher Education (CCHE) directives applicable to each of its state-funded student assistance programs is the responsibility of the System's management. Our responsibility is to express an opinion on the System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States; and the *2008-09 Audit Guide, Colorado Funded Student Aid*, issued by the DHE. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state-funded student assistance program occurred. An audit includes examining on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the System's compliance with those requirements.

In our opinion, Colorado State University System complied, in all material respects, with the requirements referred to above that are applicable to each of its state-funded student assistance programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is described in the Auditor's Findings and Recommendations section of this document.

Internal Control Over Compliance

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, terms of agreements and CCHE directives applicable to state-funded student assistance programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements of laws, regulations, terms of agreements and CCHE directives applicable to state-funded student assistance programs. In planning and performing our audit, we considered the System's internal control over compliance with requirements which could have a direct and material effect on a state-funded student assistance program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the audit requirements of DHE.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state-funded student assistance program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the System's ability to administer a state-funded student assistance program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state-funded student assistance program that is more than inconsequential will not be prevented or detected by the System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a state-funded assistance program will not be prevented or detected by the System's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Members of the Legislative Audit Committee and management of the Colorado State University System, the Department of Higher Education and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other that these specified parties.

BKD, LLP

December 4, 2009

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 1998

THIS PAGE LEFT BLANK INTENTIONALLY