Colorado State University System

Financial Statements and Independent Auditor's Reports
Financial Audit
Years Ended June 30, 2013 and 2012
Compliance Audit
Year Ended June 30, 2013

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December 5, 2013

Members of the Legislative Audit Committee:

We have completed the financial statement audits of the Colorado State University System as of and for the years ended June 30, 2013 and 2012. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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Colorado State University System
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Colorado State University System

Report Summary

Year Ended June 30, 2013

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, 2013. 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 Auditor's 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 years ended June 30, 2013 and 2012, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2013.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal funds for the year ended June 30, 2013.
- Issue a report on the System's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2013.
- Report on the System's compliance with applicable bond covenants.
- Evaluate progress in implementing prior year audit recommendations.

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

(Continued)

Colorado State University System

Report Summary

Year Ended June 30, 2013

Audit Opinions and Reports

The independent auditor's reports included herein expressed unmodified opinions on the System's financial statements as of and for the years ended June 30, 2013 and 2012.

One material weakness in internal control over financial reporting was identified.

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

We did note two areas we consider to be significant deficiencies in internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. These areas are discussed in the Auditor's Findings and Recommendations section of this report.

Significant Audit Adjustment

There was one proposed audit adjustment identified during the audit. This adjustment was not made to the financial statements. The proposed audit adjustment not recorded was determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatement, had it been recorded, would have been to decrease beginning of the year net position by $482,375, revenues by $80,234, and operating expenses by $562,609 as of and for the year ended June 30, 2013.

Summary of Audit Recommendations

Account Reconciliations and Review of Financial Records

There was one finding related to our testing of internal controls over financial reporting. The finding related to CSU-Pueblo assuring that supervisory review and timely and accurate reconciliation of third-party documentation to CSU-Pueblo's financial records occur. (See Recommendation No. 1).

Expenditures of Federal Awards

There were two findings related to our testing of Federal expenditures under OMB *Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* (Single Audit) relating to the Student Financial Aid Cluster and the Research and Development Cluster. The findings related to (a) CSU-Global assuring that the applicable Title IV student financial assistance funds are returned within the required time frame and documenting review of Title IV refund calculations; and (b) CSU assuring that all required weekly payroll certifications are received and implementation of a tracking mechanism to ensure that all contractors and subcontractors submit proper documentation as required under the Davis-Bacon Act (See Recommendations No. 2 and 3).

Summary of Progress in Implementing Prior Audit Recommendations

The audit for the year ended June 20, 2012 noted one recommendation from the audit for the year ended 2009 that had been partially implemented as of June 30, 2012 and two audit recommendations for the year ended June 30, 2012. The audit recommendation from 2009 related to a need to develop and implement a user management system policy over information system security, which was partially implemented as of June 30, 2013. The first recommendation from 2012 related to CSU-Global's internal controls over the return of Title IV funds, which was implemented in October 2013. The second recommendation from 2013 related to the need to implement a thorough review of the Federal Subawards Reporting System, which was implemented in fiscal year 2013.

Colorado State University System

Recommendation Locator

Year Ended June 30, 2013

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1		Colorado State University – Pueblo should implement an internal control procedure which assures that documentation of a supervisory review of the reconciliations for all cash and other significant accounts is maintained. This will help ensure that reconciliations are performed on a timely basis throughout the year. Additionally, consistent account reconciliation will provide for accurate and timely financial reporting.	Agree	April 2014
2		Colorado State University – Global Campus should implement an internal control procedure which assures that documentation of a supervisory review of the Title IV return of funds calculations by someone other than the preparer of such calculations is maintained. CSU-Global should also implement adequate oversight processes to ensure that all applicable funds are returned to the Federal Department of Education within the required time frames.	Agree	July 2013

Colorado State University System

Recommendation Locator

Year Ended June 30, 2013

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
3		Colorado State University should implement an internal control procedure which tracks and ensures that all payroll certifications are obtained from the contractors and subcontractors for each week in which work is performed.	Agree	April 2014

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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 university).

The 15-member Board consists of:

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

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 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 System's 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:			
2012-2013	18,640	5,294	23,934
2011-2012	18,853	4,965	23,818
2010-2011	18,886	4,679	23,565

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

	Faculty	Staff	Total
Fiscal year:			
2012-2013	1,695	4,966	6,661
2011-2012	1,642	4,785	6,427
2010-2011	1,604	4,783	6,387

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:			
2012-2013	3,769	534	4,303
2011-2012	3,886	551	4,437
2010-2011	3,900	531	4,431

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

	Faculty	Staff	Total
Fiscal year:			
2012-2013	222	375	597
2011-2012	233	366	599
2010-2011	227	338	565

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

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

	Resident	Nonresident	Total
Fiscal year:			
2012-2013	2,300	1,407	3,707
2011-2012	2,046	544	2,590
2010-2011	1,485	262	1,747

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

	Faculty	Staff	Total
Fiscal year:			
2012-2013	160	94	254
2011-2012	144	71	215
2010-2011	98	47	145

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.

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INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 2013 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A *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 and correct misstatements of the System's financial statements on a timely basis. A 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 would not be met. A 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 competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matter that we consider to be a material weakness.

Material Weakness-Internal Control Over Financial Reporting

Account Reconciliations and Review of Financial Records: Colorado State University – Pueblo (CSU-P)

Monthly reconciliation of account balances in the general ledger to supporting financial records is integral to ensuring the accuracy of financial information in order to minimize the risk of material misstatement due to error or fraud.

What was the purpose of the audit work?

The purpose of the audit work was to review the internal controls over account reconciliations performed at CSU-P to provide reasonable assurance of the account balances recorded in CSU-P's financial statements, notably the cash balance.

What audit work was performed and how were results measured?

The audit work consisted of testing account reconciliations including cash, federal grant revenue, capital assets, construction in process, depreciation expense, accumulated depreciation, allowance for bad debts, gain/loss on refunding, and tuition, to supporting evidence and documentation of supervisory review. Account balances in the general ledger should be reconciled on a timely basis during the year as well as at fiscal year-end. If account balances are reconciled on a timely basis the amount of adjustments required at year end should be limited.

Results were measured by identifying the amount and timeliness of journal entries required at fiscal year end.

What problem did the audit work identify?

We noted during our testing that reconciliations selected for review did not have documentation of review by the appropriate level of management. During further discussion with CSU-P management and performance of further audit procedures the following were noted:

- As of September 2013 (the date of audit fieldwork), reconciliations for cash accounts had only been performed from July 2012 to October 2012.
- Prior to significant entries proposed by management in October 2013, accounts within the CSU-Ps financial records, including construction-in-process, accounts receivable, and capital assets, did not agree to the State's accounting system, "COFRS."
- In October 2013, CSU-P recorded thirty-seven entries, including twenty that affected at least one account by over $100,000, to adjust federal grant revenue, capital assets, construction in process, depreciation expense, accumulated depreciation, allowance for bad debts, cash, gain/loss on refunding, and tuition to their reconciled amounts.

Why did the problem occur?

This is primarily due to the lack of following existing policies and procedures relating to the review and oversight of account reconciliations. The policies and procedures were not followed due to turnover in the accounting department during the year and new staff not being properly trained in the required procedures.

Why does this problem matter?

Reconciling financial records, specifically cash, is crucial for detecting and preventing misappropriation of funds, misstatements, errors, or fraud on the financial statements. Establishing and maintaining internal controls such as supervisory review ensures that the reconciliations will be performed in a timely manner to lower the potential risk of misstatements due to error or fraud on the financial statements.

State agencies who maintain a separate financial recording system should perform monthly reconciliations to the COFRS accounting system to ensure accurate measurement of financial records at the statewide level.

Lack of timely and consistent reconciliation leads to continuing and growing backlogs of transactions and journal entries that are not recorded into the accounting system. This can cause inaccurate financial reporting at the CSU-P and statewide levels. Timely and accurate financial information is integral to business decision-making.

Recommendation No. 1:

Colorado State University – Pueblo should ensure, through training and oversight, that existing policies and procedures related to the review of account reconciliations are performed timely and maintained. This will help ensure that reconciliations are performed on a timely basis throughout the year.

Colorado State University – Pueblo Response

Agree. The university will review the internal control procedures and ensure that the procedures are followed so all reconciliations are performed in a timely manner and maintained. The University will also make edits to the current policies and procedures to add the requirement that periodic reports are to be prepared for management to ensure that the reconciliations are being done in a timely manner. In addition, the University has recently added 1.5 staff members to the department to ensure that staffing levels are sufficient to perform said reconciliations.

Implementation Date: April 2014

INTERNAL CONTROL OVER COMPLIANCE

In planning and performing our audit, we considered the System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures and to test internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be significant deficiencies.

Significant Deficiencies-Internal Control Over Compliance

Return of Title IV Funds (Student Financial Aid Cluster): Colorado State University – Global Campus

Federal Title IV – Student Assistance funds are awarded to a student under the assumption that the student will attend school for the entire period for which the assistance is awarded. 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 (Title IV funds) that the student earned (amount earned) as of the student's withdrawal date. CSU-Global distributed approximately $42,600,000 in Title IV funds during fiscal year 2013.

What was the purpose of the audit work?

The purpose of the audit work was to review the System's compliance with the special tests and provisions compliance requirement related to attendance with respect to the federal return of Title IV grant or loan assistance.

What audit work was performed and how were results measured?

The audit work consisted of a review of 60 student files sampled from a population of CSU-Global students who withdrew during the fiscal year. Federal regulations mandate that when a student withdraws, any unearned funds must be returned to the Federal Department of Education no later than 45 days after the date of the institution's determination that the student withdrew.

What problem did the audit work identify?

We did not note any questioned costs; however, in seven of the 60 instances, there was no documentation of supervisory review or approval of the return of Title IV calculations. In addition, we noted eight instances in which CSU-Global did not return funds within the required 45-day time frame. The funds were returned anywhere from 47 to 214 days after the student withdrew. We also noted one instance in which CSU-Global did not perform a post-withdrawal disbursement within the required 30-day time frame.

Why did the problem occur?

In the instances noted above where the funds were not returned or disbursed timely, there was a delay in return due to using the "last date attended" method instead of the midpoint method for determining withdrawal dates. This caused a backlog of calculations at the end of each term making it difficult to complete them in a timely manner to allow for timely return of funds.

Why does this problem matter?

Establishing and maintaining internal controls, such as supervisory review and approval by someone other than the preparer of return of Title IV calculations, is imperative to ensuring compliance with federal laws, regulations and program compliance requirements. Additionally, by not returning funds or disbursing funds within a timely manner, CSU-Global is in violation of Federal Department of Education requirements.

Federal Family Education Loan Program (FFEL) (CFDA No. 84.032); Federal Perkins Loans (FPL) (CFDA No. 84.038); Federal Pell Grant Program (PELL) (CFDA No. 84.063); Federal Direct Student Loans (DIRECT Loan) (CFDA No. 84.268); Academic Competitiveness Grant (CFDA No. 84.375); National Science and Mathematics Access to Retain Talent Grants (National SMART Grant) (CFDA No. 84.376); Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) (CFDA No. 84.379); Federal Supplemental Educational Opportunity Grants (FSEOG) (CFDA No. 84.007)

Recommendation No. 2:

Colorado State University – Global Campus should implement an internal control procedure which ensures that Title IV funds are returned or distributed timely.

Colorado State University – Global Campus Response

CSU-Global addressed the finding of a significant deficiency in internal control over compliance in connection with the timely and accurate return of Title IV funds to its students as follows:

July 2013, we changed the review process to ensure that there is a clear and documented difference between the person doing the calculation and the person reviewing the calculation. The process that was implemented requires that the person who completes the calculation closes out the activity which then triggers the review activity to the reviewer. Since the review activity was and has been triggered off of the individual completing the calculation, we implemented a secondary review process in which we pull weekly reports to determine who the withdrawn students are and follow up to ensure that the calculations are completed on time.

Implementation date: July 2013

Davis-Bacon Act (Research and Development Grant Cluster): Colorado State University

What was the purpose of the audit work?

The purpose of the audit work was to review CSU's compliance with the Davis-Bacon federal compliance requirement.

What audit work was performed and how were results measured?

The audit work consisted of reviewing CSU's files for the two general contractors and six subcontractors for the RIC Image Suite funded by federal funds from the Research and Development Cluster. Recipients (i.e. direct recipients), such as Colorado State University (CSU), of federal grants used to fund construction are required under the Davis-Bacon Act to obtain a copy of the payroll and a statement of compliance (certified payrolls) from all contractors or subcontractors working on construction contracts in excess of $2,000 financed by Federal assistance funds. Weekly certified payrolls are required for any week in which contract work is performed in order to determine that the contractors and subcontractors are paying wages not less than those established for the locality of the project (prevailing wage rates).

What problem did the audit work identify?

We identified one instance of a general contractor and four instances of subcontractors not submitting all required weekly payroll certifications to the University. We noted that the four subcontractors were contracted by the same general contractor who did not submit all required certifications. Management indicated that they relied on the contractors to provide all required payroll certifications rather than implementing a tracking mechanism to ensure all contractors and subcontractors submitted proper documentation.

Why did this problem occur?

This lack of monitoring of contractors and subcontractors occurred due to a lack of adequate controls in place at CSU surrounding Davis-Bacon Act compliance requirements if funded by research and development funds.

Why does this problem matter?

Insufficient monitoring of contractor and subcontractor payroll certifications could result in noncompliance with these requirements and potential federal sanctions.

Recommendation No. 3:

Colorado State University should implement an internal control procedure which tracks and ensures that all payroll certifications required under the federal Davis-Bacon Act and funded through the Research and Development cluster are obtained from CSU's contractors and subcontractors for each week in which work is performed.

Colorado State University Response:

Agree. The University will implement an internal control procedure that tracks and ensures that all payroll certification required under the Davis-Bacon Act are obtained from CSU's contractors and subcontractors for each week in which work is performed. The University will request certificates from contractors and subcontractors prior to making payments. The University will also ensure that staff are trained on the requirements under the Davis-Bacon Act and utilize a check list to ensure that requirements are met. The University will also review Davis-Bacon Act requirements with contractors and provide more direction and expectations in a written documentation to them.

Implementation Date: April 2014

Summary of Progress in Implementing Prior Audit Recommendations

The audit for the year ended June 30, 2012 noted a recommendation from the audit for the year ended June 30, 2009 that had been partially implemented as of June 30, 2012, and two recommendations from the audit for the year ended June 30, 2012. The disposition of these audit recommendations as of June 30, 2013, is as follows:

No.	Recommendation	Disposition
8	CSU and CSU-P should improve information system security as follows:	Partially implemented
	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 accounts to assure they are appropriately secured to prevent unauthorized use.	a) CSU: Implemented in fiscal year 2010. CSU-P: Implemented in fiscal year 2012.
	b) Assure that accounts that do not meet policy guidelines for password rules (expirations-reset, etc.) are locked or disable and that default passwords have been changed to avoid potential security risk.	b) CSU: Implemented in fiscal year 2010. CSU-P: Implemented in fiscal year 2011.
	c) Develop and implement a User Management policy.	c) CSU: Partially implemented in fiscal year 2011. CSU-P drafted a new eAccount Policy which includes a section on "User Account Management Policy." The implementation of the policy is pending the approval by the Chief Information Officer and Provost, both of whom are newly hired and have not started their positions yet. In order to implement this policy CSU-P must obtain the approval of the newly hired Chief Information Officer and Provost. Implementation will begin after final approval by these individuals. Implementation date: October 2014.

Colorado State University System

Disposition of Prior Audit Recommendations

Year Ended June 30, 2013

No.	Recommendation	Disposition
42	CSU-Global should implement an internal control procedure that assures that a supervisory review of the Title IV return of funds calculations is conducted by someone other than the preparer of such calculations. CSU-Global should also implement adequate oversight processes to ensure that all applicable funds are returned to the Federal Department of Education within the required time frames.	CSU-Global implemented a supervisory review by someone other than the preparer of the Title IV return of funds calculation. In fiscal year 2013, there were instances where funds were not returned within the required 45-day window. See Recommendation No. 2 in the Auditor's Findings and Recommendations. --- Implementation Date: October 2013.
43	CSU should implement a thorough review process of reports from the subaward database to identify awards that meet the Transparency Act reporting requirements on a timely basis and ensure that all the required recipient reporting elements are submitted to the Federal Subaward Reporting System within the required time frames.	Implemented in fiscal year 2013.

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Independent Auditor's Report on Financial Statements

Members of the Legislative Audit Committee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Colorado State University System (a higher education institution of the State of Colorado) (the System) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Colorado State University Foundation (the Foundation), the discretely presented component unit of the System. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards.*

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

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

Opinions

In our opinion, based on our audits and the report of the other auditors, 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 the System as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the System, an institution of higher education in the State of Colorado, are intended to present the financial position, the changes in financial position and, where applicable, cash flows of the business-type activities and the discretely presented component unit of the State of Colorado that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2013 and 2012, and the changes in its financial position or, where applicable, its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 5, 2013, 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

Members of the Legislative Audit Committee:

accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
December 5, 2013

Management's Discussion and Analysis

We are pleased to present this financial discussion and analysis of the Colorado State University System (the System). It is intended to make the System's financial statements easier to understand and communicate our financial situation in an open and accountable manner. This section of the financial report provides an objective discussion and analysis of the financial performance of the System for the fiscal years ended June 30, 2013 and 2012. This discussion provides an analysis of the System's financial activities based on currently known facts, decisions, or existing conditions. University management is responsible for the completeness and fairness of this discussion and analysis, the financial statements, and related footnote disclosures.

The System includes Colorado State University (CSU), Colorado State University Pueblo (CSU-Pueblo), and Colorado State University Global Campus (CSU-Global).

The Basic Financial Statements

Financial highlights are presented in this discussion and analysis to help with the assessment of the System's financial activities. This analysis should be read in conjunction with the System's financial statements and notes thereto, which are also presented in this document.

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 position present information on all of the System's assets, liabilities, and if applicable, deferred inflows and deferred outflows; with the difference between the assets plus deferred outflows (if any) less liabilities and deferred inflows (if any) reported as net position. Over time, increases or decreases in net position 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 position present information showing how the System's net position changed during the two most recent fiscal years. All changes in net position 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 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 operating, noncapital financing, capital and related financing, and investing activities.

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

The notes to 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

(Continued)

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.

Financial Highlights

Selected financial highlights for fiscal year 2013 include:

- The Colorado State Legislature established spending authority to the System in its annual Long Appropriations Bill. The Long Bill appropriated funds include an amount from the State of Colorado's College Opportunity Fund.

  For fiscal year 2013 and 2012, appropriated expenses in the System were within the authorized spending authority. For fiscal years 2013 and 2012, the System had a total appropriation of $105.2 million and $106.5 million, respectively. For fiscal years 2013 and 2012, the System's appropriated funds consisted of $37.2 million and $38.6 million, respectively, received from students that qualified for stipends from the College Opportunity Fund and $68.0 million and $67.9 million, respectively, as fee for service contract revenue. All other revenues and expenses reported by the System represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.

- In fiscal year 2013, the System realized a $1.2 million increase 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, 2013 by $908.8 million (net position). Of this amount, $104.5 million is restricted for purposes which the donor or grantor or other external party intended and $622.5 million is related to the net investment in capital assets. The remaining $181.8 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net position is not externally restricted, it may be internally designated by the System's administration for various purposes.

- The System's net position increased $22.6 million during fiscal year 2013. Of this amount, $46.5 million relates to an increase in the net investment in capital assets. $20.2 and $3.7 million relates to decreases in unrestricted net position and donor/grantor restricted net position, respectively.

- On March 28, 2013, the System issued Series 2013 A System Enterprise Revenue and Revenue Refunding Bonds for $182.0 million that will mature in varying annual amounts to March 2043 with interest rates varying from 1.0 to 5.0 percent and issued Series 2013 B System Enterprise Revenue Refunding Bonds for $16.7 million that will mature in varying annual amounts to March 2020 with interest rates varying from 0.4 to 2.1 percent.

- On June 6, 2012, the Governor signed House Bill 12-1283, transferring from CSU to the Department of Public Safety (DPS) effective July 1, 2012 all funds, monies, positions of employment, personnel, any claims and liabilities, and personal property that were principally directed to fire and wildfire preparedness, response, suppression, coordination, or management associated with activities of the Colorado State Forestry Service (CSFS). All other activity of CSFS remains at CSU. As a result of the transfer, CSU recognized a loss of $6.5 million of the disposal of its fire suppression activities as a special item. In fiscal year 2012, revenues and expenses related to activities transferred were approximately $65.9 million and $68.3 million, respectively.

- In 2013, CSU recognized an extraordinary gain in the amount of $2.2 million for the Equine Reproduction Laboratory fire that destroyed the facility in July 2011.

Financial Analysis

The statement of net position presents the assets, liabilities, and net position of the Colorado State University System as of the end of the fiscal year (the System has no deferred outflows or deferred inflows). The System assets exceeded liabilities resulting in a net position at June 30, 2013 and 2012 of $908.8 million and $886.2 million, respectively. The majority (68 percent and 65 percent in 2013 and 2012, respectively) of the System's net position is in the net investment in capital assets (e.g., land, buildings and equipment). 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 Position
(Amounts expressed in thousands)

	June 30		
	2013	**2012**	**2011**
Current assets	$ 457,732	512,436	435,034
Noncurrent assets, including net capital assets of $1,144,374, $1,065,909, and $952,732, respectively	1,339,298	1,320,700	1,130,333
Total assets	$ 1,797,030	1,833,136	1,565,367
Current liabilities	$ 182,746	221,780	164,519
Noncurrent liabilities	705,484	725,117	586,491
Total liabilities	$ 888,230	946,897	751,010
Net position:			
Net investment in capital assets	$ 622,472	575,988	528,366
Restricted	104,505	108,209	110,945
Unrestricted	181,823	202,042	175,046
Total net position	$ 908,800	886,239	814,357

- The $36.1 million decrease in System assets in 2013 over that of 2012 is related to a decrease in current assets of $54.7 million and an increase of $18.6 million in noncurrent assets. Current assets decreased primarily due to a decrease in cash and cash equivalents of $14.7 million and a decrease in grant and other accounts receivable of $42.8 million, which included a $47.8 million decrease in Sponsored Programs. Noncurrent assets increased primarily due to the $102.6 million increase in buildings and improvements and a decrease of $28.1 million in construction in progress. The changes in construction in progress, buildings and improvements, and land improvements are discussed within the Capital Assets portion of this analysis. Noncurrent assets also included a decrease of $61.3 million in restricted cash and cash equivalents which includes a $61.9 million decrease of restricted cash in Capital Projects. The $267.8 million increase in System assets in 2012 over that of 2011 is related to increases in both current and noncurrent assets of $77.4 million and $190.4 million, respectively. Current assets increased primarily due to an increase in cash and cash equivalents of $44.1 million (including increases of $7.7 million in investments, $3.6 million in plant fund cash, $5.9 million in recharge centers, and $4.1 million in other post-employment benefits ("OPEB") accounts), an increase in grant and other accounts receivable of $28.6 million relating to an increase in forest fire activity within the State of Colorado in 2012, and an increase in student accounts receivable of $3.5 million due to an increase in tuition rates. The increase in noncurrent assets is due to $74.2 million in restricted cash and cash equivalents, relating to the unspent proceeds of $126.2 million in bonds issued during 2012 to support construction activities, $2.4 million in restricted investments, $77.2 million in construction in progress, $40.9 million in equipment, which includes the in-kind gift of software for the University's EcoCAR program, and $4.6 million in land and land improvements, which is offset by a decline in buildings and improvements of $8.7 million and library materials of $3.1 million.

- In 2013, total liabilities decreased $58.7 million. Current liabilities decreased $39.0 million due primarily to the transfer of fire suppression activities to DPS. At the end of fiscal year 2012, the University had recorded $45.3 million in liabilities for forest fire activity that occurred prior to June 30, 2012. Noncurrent liabilities decreased $19.6 million primarily due to a reduction of $30.6 million of bonds payable and certificates of participation. The majority of the $30.6 million decrease is due to the $20.1 million in funds that were applied to the 2013 A, B refunding. In 2012, total liabilities increased $195.9 million. Noncurrent liabilities increased $138.6 million due to the issuance of $126.2 million in bonds in 2012.

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

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

	Year Ended June 30 2013	2012	2011
Operating revenues:			
Tuition and fees, net	$ 371,323	339,178	296,884
State fee for service revenue	68,030	67,932	87,610
Grants and contracts	269,247	329,162	293,484
Auxiliary enterprises	137,822	139,094	134,883
Other	38,053	31,463	28,815
Total operating revenues	884,475	906,829	841,676
Operating expenses:			
Instruction	248,234	232,346	222,891
Research	189,785	186,611	182,451
Public service	70,352	133,549	97,868
Academic support	69,756	62,629	58,373
Student services	39,713	36,241	33,109
Institutional support	51,411	46,964	41,915
Operation and maintenance of plant	58,835	59,576	52,837
Scholarships and fellowships	22,755	16,114	16,608
Auxiliary enterprises	131,683	125,430	119,083
Depreciation	72,890	66,414	54,290
Total operating expenses	955,414	965,874	879,425
Operating loss	(70,939)	(59,045)	(37,749)
Nonoperating revenues:			
State appropriations	1,754	2,450	5,700
State Fiscal Stabilization Fund	-	-	6,030
Federal nonoperating grants and contracts	38,597	37,346	36,493
Other nonoperating revenues, net	21,071	24,504	18,237
Net nonoperating revenues	61,422	64,300	66,460
Gain (loss) before other revenues (expenses)	(9,517)	5,255	28,711
Other revenues (expenses):			
State capital contributions	1,880	1,644	14,049
Capital grants	10,460	10,194	7,942
Capital gifts	22,411	51,532	4,931
Payments (to) from governing boards or other institutions	237	(220)	213
Additions (reductions) to permanent endowments	1,434	2,324	2,301
Total other revenues	36,422	65,474	29,436
Special items:			
Transfer of Fire Suppression Activities to Department of Public Safety	(6,536)		
Extraordinary items:			
Gain on insurance recovery	2,192	1,153	-
Increase in net position	22,561	71,882	58,147
Net position:			
Net position, beginning of year	886,239	814,357	756,210
Net position, end of year	$ 908,800	886,239	814,357

(Continued)

- The System experienced a $70.9 million, $59.0 million, and $37.7 million loss from operations in fiscal years 2013, 2012, and 2011, respectively. The operating loss in 2013 was offset by net nonoperating and other revenues of $97.8 million which primarily included $1.8 million in state appropriations, $58.9 million in gifts and capital gifts, $12.3 million in state capital contributions and capital grants, $38.6 million in federal nonoperating grants and contracts, $1.4 million in permanent endowments, and $7.6 million in other nonoperating revenues all of which was offset by $20.0 million in interest expense on capital debt and $3.1 million in investment income. The state appropriations of $1.8 million included $716 thousand for forest restoration and $1.1 million for Healthy Forests-Vibrant Communities. The operating loss in 2012 was offset by net nonoperating and other revenues of $129.8 million which primarily included $2.5 million in state appropriations, $83.5 million in gifts and capital gifts, $6.8 million in investment income, $11.8 million in state capital contributions and capital grants, $37.3 million in federal nonoperating grants and contracts, $2.3 million in permanent endowments, and $4.5 million in other nonoperating revenues all of which was offset by $18.7 million in interest expense on capital debt. The state appropriations of $2.45 million included $1.0 million for forest restoration and $1.45 million for Healthy Forests-Vibrant Communities. The operating loss in 2011 was offset by net nonoperating and other revenues of $95.9 million which primarily included $5.7 million in state appropriations, $6.0 million in State Fiscal Stabilization Funds, $29.9 million in gifts and capital gifts, $6.9 million in investment income, $22.0 million in state capital contributions and capital grants, $36.5 million in federal nonoperating grants and contracts, $2.3 million in permanent endowments, and $4.2 million in other nonoperating revenues all of which was offset by $17.8 million in interest expense on capital debt. The state appropriations of $5.7 million included $3.25 million for wildfire preparedness, $1.0 million for forest restoration, and $1.45 million for Healthy Forests-Vibrant Communities.

- Fiscal year 2013 System operating revenues decreased $22.4 million. This is primarily attributable to a $59.9 million decrease in grants and contracts and $1.3 million decrease in revenues from auxiliary enterprise activities. The decrease is offset by $32.1 million increase in student tuition and fees and $5.2 million in sales and services of educational activities. Fiscal year 2013 System operating expenses decreased $10.5 million. This is primarily due to a $63.2 million decrease in public service expenditures related to fire suppression activities that transferred to DPS at the end of the prior year. This decrease is offset by increases of $15.9 million in instruction, $7.1 million in academic support, $6.6 million in scholarships and fellowships, $6.5 million in depreciation, and $6.3 million in auxiliary enterprises. The remaining increase is due to smaller increases throughout the operating expenses.

- Fiscal year 2013 System net nonoperating revenues decreased $2.9 million. State appropriations decreased $696 thousand due to less funding for forest restoration and Healthy Forests-Vibrant Communities. The increases in gifts, federal nonoperating grants and contracts, and other nonoperating revenues are offset by an increase in interest expense on capital debt and a decrease in investment income.

- The $29.1 million decrease in other revenues is attributed to a reduction in capital gifts in 2013.

- A $2.2 million gain was recognized in fiscal year 2013 relating to insurance proceeds received for the fire that destroyed the Equine Research Laboratory in July 2011.

- Fiscal year 2013 included a loss of $6.5 million as a special item relating to the transfer of assets to DPS for the fire suppression activities previously managed by Colorado State Forest Service.

Capital Assets and Debt Administration

At June 30, 2013, the System had approximately $1.14 billion invested in capital assets, net of accumulated depreciation of $717.1 million. At June 30, 2012, the System had approximately $1.07 billion invested in capital assets, net of accumulated depreciation of $656.5 million.

Depreciation charges were $72.9 million and $66.4 million for the years ended June 30, 2013 and 2012, respectively.

During the fiscal year ended June 30, 2013, the System received $1.9 million of state capital contributions for capital construction projects. Of this amount, $1.0 million related to the installation of security system doors and remodel of the Academic Resource Center/University Library at CSU-Pueblo. The remaining is the CSU portion with $344 thousand used to install fire sprinklers in the Microbiology building, $258 thousand to install fire sprinklers in the Glover Building, $226 thousand to install fire alarms in various buildings, and other smaller projects around the university.

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		
	2013	**2012**	**2011**
Land	$ 24,424	24,448	19,835
Land improvements	35,494	34,430	32,449
Buildings and improvements	873,986	771,395	780,062
Leasehold improvements	979	889	1,108
Equipment	108,560	103,759	62,861
Collections	2,666	2,617	2,195
Library materials	10,707	12,713	15,790
Construction in progress	87,558	115,658	38,432
Total capital assets, net	$ 1,144,374	1,065,909	952,732

In 2013 capital assets, net increased $78.5 million. This increase is primarily attributable to a $102.6 million increase in buildings and improvements, $4.8 million increase in equipment, and a $1.1 million increase in land improvements, offset by a $28.1 million decrease in construction in progress and $2.0 million decrease in library materials. The increase in equipment and software is largely attributed to an in-kind gift of software to be used by the CSU Design and Merchandising department, valued at $9.5 million. These costs are offset by depreciation expense in the amount of $18.3 million. The increase in land improvements is largely attributed to the completion and capitalization of the Library-Hartshorn parking lot project, in the amount of $1.8 million. In 2012, projects totaling $18.8 million were completed and capitalized. In 2013, several major projects, totaling $140.6 million, were completed and capitalized. This resulted in the increase in buildings and improvements, which included the completion and capitalization of the following building projects: Engineering II for $68.1 million, Morgan Library Expansion for $18.7 million, Parmelee 4th Floor Addition for $16.8 million, Durrell Center Revitalization for $10.8 million, RIC Imaging Suite Buildout for $5.5 million, Corbett Exterior Modernization for $4.0 million, Equine Reproduction Lab Replacement for $3.7 million, and Academic Computing Center Renovation for $1.9 million. The decrease in construction in progress was due to the completion and capitalization of these large, high-dollar projects during 2013. The construction in progress balances for these completed projects were transferred to the building and land assets, resulting in a net decrease to construction in progress in 2013. There were also several ongoing projects in 2013, which added to the balance on construction in progress, including Braiden 4th Floor Addition ($13.6 million), Laurel Village ($12.6 million), and Lory Student Center Revitalization ($14.0 million). The decrease in physical library materials is attributed to the continued movement toward virtual library material. Less physical materials are being purchased and more physical volumes are being withdrawn from the collection.

In 2012 capital assets, net increased $113.2 million. This increase is primarily attributable to a $2.0 million increase in land improvements, a $40.9 million increase in equipment and software, and a $77.2 million increase in construction in progress, offset by an $8.7 million decrease in buildings and improvements and a $3.1 million decrease in library materials. The increase in land improvements is largely attributed to the completion and capitalization of the CSU Hughes Stadium Landscaping in the amount of $1.8 million. The increase in equipment and software is attributed to an in-kind gift of software to be used in the CSU EcoCAR program valued at $44.5 million. These costs are offset by depreciation expense in the amount of $17.5 million. In 2011, several projects were completed and capitalized totaling $176.0 million, however only $18.8 million was completed and capitalized in 2012, including the CSU LSC Theatre Renovation for $6.5 million, CSU CDR Renovation for $1.8 million, and CSU VTH Roof Replacement for $1.7 million, as well as several other smaller projects. There were also four buildings directly purchased for a total of $1.1 million. The increase in construction in progress is due to the buildup of several projects that are on-going primarily at CSU including the modernization of Corbett Exterior ($2.5 million), Research Innovation Center Imaging Suite Buildout ($2.8 million), Braiden 4th Floor Addition ($3.6 million), Parmelee 4th Floor Addition ($13.3 million), Engineering II ($39.0 million), and the Morgan Library Expansion ($16.0 million). The decrease in physical library materials is attributed to the movement toward virtual library material. Less physical materials are being purchased and more physical volumes are being withdrawn from the collection.

The System had capital construction commitments of approximately $71.0 million at June 30, 2013 including approximately $27.3 million for the Laurel Village, $21.8 million for the Lory Student Center Revitalization, $4.2 million for the Behavioral Sciences Building addition, $1.9 million for the Advanced Beam Laboratory, $1.9 million for the Animal Sciences Building renovation, and $1.8 million for the Braiden 4th Floor Addition. The remaining commitments are for other small projects at the University. CSU-Pueblo has a commitment of $506 thousand related to the installation of a Campus Security System.

The System had $626.2 million and $650.3 million of debt outstanding at June 30, 2013 and 2012, respectively.

Summary of Debt
(Amounts expressed in thousands)

	June 30		
	2013	**2012**	**2011**
Debt outstanding:			
Revenue bonds, certificates of participation	$ 618,496	643,559	508,697
Capital lease obligations	7,752	6,711	6,737
	$ 626,248	650,270	515,434

On March 28, 2013 the System issued $198.7 million in System Enterprise Revenue and Revenue Refunding Bonds, Series 2013 A, B. The proceeds from the sale of the Series 2013 A, B will be used to renovate the William O. Eddy Hall classroom building (Eddy Building) at CSU, advance refund all of the outstanding 2005 B Bonds, advance refund a portion of the outstanding Series 2007 A Bonds, advance refund all of the outstanding Series 2007 C Bonds, advance refund a portion of the outstanding Series 2009 A Bonds, and pay the costs of issuing the Series 2013 A, B Bonds. The 2013 A Bonds bear interest rates from 1.0 to 5.0 percent with final maturity falling in 2043. The 2013 B Bonds bear interest rates from 0.4 to 2.1 percent with final maturity falling in 2020.

On March 1, 2012, the System issued $126.2 million in System Enterprise Revenue Bonds, Series 2012 A. The proceeds from the sale of the Series 2012 A will be used to pay or reimburse in part the costs of constructing, improving and equipping certain housing, classroom and laboratory and other campus facilities at the CSU main campus in Fort Collins. The improvement projects at CSU include the Lory Student Center Revitalization, Academic Village North, Animal Sciences Building Expansion, and Engineering II Building. Proceeds will also be used to acquire the University Village at Walking Stick student housing facility at CSU-Pueblo. The bonds bear interest rates from 2.0 to 5.0 percent with final maturity falling in 2044.

On May 1, 2012, the System issued $59.5 million in System Enterprise Revenue Refunding Bonds, Series 2012 B, C. The proceeds from the sale of the Series 2012 B, C were used to advance refund all of the System's Series 2003 A and 2003 B Bonds and a portion of the System's 2005 B and 2007 A Bonds.

Net proceeds of the above mentioned Series 2013 A, B; Series 2012 B, C; and previous Series 2007 B were placed in an escrow account to purchase U.S. Treasury Securities. The principal and interest from the U.S. Treasury Securities is being used to repay the refunded bonds which are considered to be defeased. The 2007 B Series current refunded bonds redeemed include Colorado State University Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1996 and Series 1997; Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 1997 and Series 2001; and Colorado State University Certificates of Participation, Series 1997. The Series 2012 B, C and Series 2007 B advanced refunded bonds redeemed include Colorado State University Student Sports Recreational Facilities Revenue Bonds, Series 1998; Colorado State University Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A; and Colorado State University Enterprise System Revenue Bonds, Series 2003 B.

Remaining defeased obligations of $257.1 million related to the Series 2013 A, B; Series 2012 B, C; and Series 2007 B include advance refunded Colorado State University Research Building Revolving Fund

Enterprise Revenue Bonds, Series 2005 A ($6.0 million); Colorado State University Enterprise System Revenue Bonds, Series 2005 B ($40.7 million); Colorado State University System Enterprise Revenue Bonds, Series 2007 A (partial refund, $141.5 million); Colorado State University System Enterprise Revenue Bonds, Series 2007 C ($14.5 million); and Colorado State University System Enterprise Revenue Bonds, Series 2009 A ($54.4 million).

The Escrow Agent will pay the debt service requirements on each of the remaining refunded bonds as detailed for each series below. For the Series 2005 A, payments through December 1, 2015 will be paid and those payments maturing on December 1, 2016 and thereafter will be redeemed at a redemption price equal to 100 percent of par ($4.0 million) on December 1, 2015; for the 2005 B Bonds, payments through March 1, 2015 will be paid and those payments maturing on March 1, 2016 and thereafter will be redeemed at a redemption price equal to 100 percent of par ($38.5 million) on March 1, 2015; for Series 2007 A, payments maturing on March 1, 2020 and thereafter will be redeemed at a redemption price equal to 100 percent of par ($141.5 million) on March 1, 2017; for the Series 2007 C, payments through March 1, 2020 will be paid; and for the Series 2009 A, payments through March 1, 2019 will be paid and those payments maturing on March 1, 2020 and thereafter will be redeemed at a redemption price equal to 100 percent of par ($50.7 million) on March 1, 2019.

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 previously identified.

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

In fiscal year 2014, the System sold bonds Series 2013 C for $18.6 million and Series 2013 D for $7.9 million.

The Colorado State University System is authorized to receive $69.7 million in fee for service contract revenue and $40.2 million in student stipends in fiscal year 2014. The $109.9 million of anticipated fiscal year 2014 fee for service contract revenue and the student stipends represents a $4.7 million increase in state support.

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 2013) estimates that the State General Fund revenue will increase in fiscal year 2014 by 1.0 percent from the previous fiscal year. The General Assembly will have $1.6 billion, or 18.5 percent, more to spend in FY 2014-15 than the amount budgeted for FY 2013-14. This figure includes the $145.0 million surplus from FY 2013-14 and would be lower if it were adjusted to account for expenditure pressures resulting from inflation and caseload growth. 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.

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.

Total enrollment at the System for fiscal year 2013 was 43,613. This includes 30,647 at CSU, 4,868 at CSU-Pueblo, and 8,098 enrolled in CSU-Global. Compared to fiscal year 2012, CSU saw slight growth in resident enrollment and a 4.4 percent increase in nonresident enrollment. CSU-Pueblo experienced a decrease in resident and nonresident enrollment of 7.6 percent and 1.9 percent, respectively. CSU-Global saw total enrollment grow 47.4 percent from fiscal year 2012.

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.

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Colorado State University System

Statements of Net Position

June 30, 2013 and 2012

(Amounts expressed in thousands)

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$ 353,292	367,946
Student accounts receivable, net	28,849	23,511
Grant and other accounts receivable, net	60,684	103,490
Student loans receivable, net	2,381	3,027
Inventories	7,846	9,595
Prepaid expenses	4,680	4,867
Total current assets	457,732	512,436
Noncurrent assets:		
Restricted cash and cash equivalents	146,103	207,355
Restricted investments	23,714	22,483
Student loans receivable, net	20,839	20,384
Other noncurrent assets	4,268	4,569
Nondepreciable capital assets:		
Land and land improvements	24,424	24,448
Construction in progress	87,558	115,658
Collections	2,666	2,617
Total nondepreciable capital assets	114,648	142,723
Depreciable capital assets, net:		
Land improvements	35,494	34,430
Buildings and improvements	873,986	771,395
Leasehold improvements	979	889
Equipment	108,560	103,759
Library materials	10,707	12,713
Total depreciable capital assets (net of accumulated depreciation)	1,029,726	923,186
Total noncurrent assets	1,339,298	1,320,700
Total assets	$ 1,797,030	1,833,136

(Continued)

Colorado State University System

Statements of Net Position

June 30, 2013 and 2012

(Amounts expressed in thousands)

		2013	2012
Liabilities			
Current liabilities:			
Accounts payable	$	41,086	44,941
Accrued liabilities		78,338	125,215
Deferred revenue		33,715	28,283
Deposits held for others, current		6,251	5,950
Bonds payable and certificates of participation, current		16,143	10,633
Capital leases payable, current		2,145	1,798
Other noncurrent liabilities, current		2,579	2,492
Compensated absences liabilities, current		2,489	2,468
Total current liabilities		182,746	221,780
Noncurrent liabilities:			
Bonds payable and certificates of participation		602,353	632,926
Capital leases payable		5,607	4,913
Deposits held for others		26,812	23,480
Other noncurrent liabilities		28,620	23,862
Compensated absences liabilities		42,092	39,936
Total noncurrent liabilities		705,484	725,117
Total liabilities	$	888,230	946,897
Net position			
Net position:			
Net investment in capital assets	$	622,472	575,988
Restricted for nonexpendable purposes		24,079	22,596
Restricted for expendable purposes - other		80,426	85,613
Unrestricted		181,823	202,042
Total net position	$	908,800	886,239

See accompanying notes to basic financial statements.

Colorado State University System

Colorado State University Foundation

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2013 and 2012

(Amounts expressed in thousands)

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
Cash and cash equivalents	$ 94	384	274	752	172	192	96	460
Investments	34,036	136,615	154,763	325,414	28,112	126,612	147,449	302,173
Pledges receivable, net	350	27,467	1,677	29,494	350	19,341	2,299	21,990
Property and equipment, net of accumulated depreciation	6	-	-	6	13	-	-	13
Cash surrender value of life insurance policies	-	3	571	574	-	2	561	563
Prepaids and other assets	37	46	39	122	53	56	44	153
Total assets	$ 34,523	164,515	157,324	356,362	28,700	146,203	150,449	325,352
Liabilities and Net Assets								
Liabilities								
Accounts payable (primarily to CSU)	$ 535	1,619	-	2,154	226	830	-	1,056
Other accrued liabilities	132	-	-	132	117	-	-	117
Life income agreements	478	128	212	818	530	142	180	852
Deposit held in custody for CSU	-	2,182	11,807	13,989	-	2,516	11,064	13,580
Total liabilities	1,145	3,929	12,019	17,093	873	3,488	11,244	15,605
Net assets								
Unrestricted								
Undesignated	6,504	-	-	6,504	4,928	-	-	4,928
Board-designated	28,877	-	-	28,877	26,459	-	-	26,459
Endowment investment losses in excess of gift value	(2,003)	-	-	(2,003)	(3,560)	-	-	(3,560)
Total unrestricted	33,378	-	-	33,378	27,827	-	-	27,827
Temporarily restricted	-	160,586	-	160,586	-	142,715	-	142,715
Permanently restricted	-	-	145,305	145,305	-	-	139,205	139,205
Total net assets	33,378	160,586	145,305	339,269	27,827	142,715	139,205	309,747
Total liabilities and net assets	$ 34,523	164,515	157,324	356,362	28,700	146,203	150,449	325,352

See accompanying notes to basic financial statements.

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Colorado State University System

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

	2013	2012
Operating revenues:		
Student tuition and fees, (including $65,148 and $61,032 of revenues pledged for bonds in 2013 and 2012, respectively, and net of scholarship allowances of $101,733 and $98,381 for 2013 and 2012, respectively)	$ 371,323	339,178
State fee for service revenue	68,030	67,932
Grants and contracts (including $43,675 and $46,123 of revenues pledged for bonds in 2013 and 2012, respectively)	269,247	329,162
Sales and services of educational activities	30,580	25,357
Auxiliary enterprises, (including $106,222 and $103,287 of revenues pledged for bonds in 2013 and 2012, respectively, and net of scholarship allowances of $4,986 and $4,579 for 2013 and 2012, respectively)	137,822	139,094
Other operating revenue	7,473	6,106
Total operating revenues	884,475	906,829
Operating expenses:		
Instruction	248,234	232,346
Research	189,785	186,611
Public service	70,352	133,549
Academic support	69,756	62,629
Student services	39,713	36,241
Institutional support	51,411	46,964
Operation and maintenance of plant	58,835	59,576
Scholarships and fellowships	22,755	16,114
Auxiliary enterprises	131,683	125,430
Depreciation	72,890	66,414
Total operating expenses	955,414	965,874
Operating loss	$ (70,939)	(59,045)

(Continued)

Colorado State University System

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

	2013	2012
Nonoperating revenues (expenses):		
State appropriations	$ 1,754	2,450
Gifts	36,462	31,919
Investment income (including $868 and $1,460 of revenues pledged for bonds in 2013 and 2012, respectively)	(3,076)	6,758
Interest expense on capital debt	(19,961)	(18,697)
Federal nonoperating grants and contracts	38,597	37,346
Other nonoperating revenues	7,646	4,524
Net nonoperating revenues	61,422	64,300
Income (loss) before other revenues	(9,517)	5,255
Other revenues (expenses):		
State capital contributions	1,880	1,644
Capital grants	10,460	10,194
Capital gifts	22,411	51,532
Payments (to)/from governing boards or other institutions	237	(220)
Additions to permanent endowments	1,434	2,324
Total other revenues	36,422	65,474
Special items:		
Transfer of Fire Suppression Activities to Department of Public Safety	(6,536)	-
Total special items	(6,536)	-
Extraordinary items:		
Gain on insurance recovery	2,192	1,153
Total extraordinary items	2,192	1,153
Increase in net position	22,561	71,882
Net position, beginning of year	886,239	814,357
Net position, end of year	$ 908,800	886,239

See accompanying notes to basic financial statements.

Colorado State University System

Colorado State University Foundation

Statements of Activities - Discretely Presented Component Unit

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
Support and revenue								
Contributions	$ 2,002	36,850	6,403	45,255	218	19,083	6,594	25,895
Net investment income	14,149	18,521	91	32,761	3,767	543	65	4,375
Actuarial change in value of life income agreements	18	(18)	(29)	(29)	(27)	(18)	(17)	(62)
Other revenue	-	10	53	63	1	50	50	101
Net assets released from restrictions								
Satisfaction of program restrictions	38,712	(38,696)	(16)	-	26,995	(26,995)	-	-
Total support and revenue	54,881	16,667	6,502	78,050	30,954	(7,337)	6,692	30,309
Expenses								
Program services								
CSU College of								
Agricultural Sciences	3,939	-	-	3,939	2,728	-	-	2,728
Applied Human Sciences	1,673	-	-	1,673	1,419	-	-	1,419
Business	2,340	-	-	2,340	1,966	-	-	1,966
Engineering	11,437	-	-	11,437	5,290	-	-	5,290
Liberal Arts	1,346	-	-	1,346	1,010	-	-	1,010
Warner College of Natural Resources	1,567	-	-	1,567	1,370	-	-	1,370
Natural Sciences	1,051	-	-	1,051	1,072	-	-	1,072
Veterinary Medicine and Biomedical Sciences	5,609	-	-	5,609	4,939	-	-	4,939
Athletics	5,182	-	-	5,182	2,662	-	-	2,662
Central Development	7,335	-	-	7,335	4,361	-	-	4,361
Other CSU programs	4,098	-	-	4,098	4,215	-	-	4,215
Total program services	45,577	-	-	45,577	31,032	-	-	31,032
Support services								
Management and general	2,403	-	-	2,403	2,203	-	-	2,203
Total expenses	47,980	-	-	47,980	33,235	-	-	33,235
(Decrease) increase in allowance for uncollectible pledges	-	266	282	548	-	1	340	341
Change in net assets	6,901	16,401	6,220	29,522	(2,281)	(7,338)	6,352	(3,267)
Interfund transfers	(1,350)	1,470	(120)	-	(1,406)	1,886	(480)	-
Net assets, beginning of year	27,827	142,715	139,205	309,747	31,514	148,167	133,333	313,014
Net assets, end of year	$ 33,378	160,586	145,305	339,269	27,827	142,715	139,205	309,747

See accompanying notes to basic financial statements.

Colorado State University System

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

	2013	2012
Cash flows from operating activities:		
Cash received:		
Tuition and fees	$ 367,790	340,492
Student loans collected	4,034	3,421
Sales of products	21,298	21,921
Sales of services	145,756	140,755
State fee for service revenue	68,030	67,932
Grants and contracts	317,505	307,410
Other operating receipts	8,001	6,666
Cash payments:		
Scholarships disbursed	(14,500)	(12,385)
Student loans disbursed	(2,763)	(3,232)
Payments to employees	(676,507)	(560,851)
Payments to suppliers	(226,790)	(282,877)
Net cash provided by operating activities	11,854	29,252
Cash flows from noncapital financing activities:		
State appropriations - noncapital	1,754	2,450
Gifts and grants for other than capital purposes	34,063	26,773
Agency (direct lending inflows)	214,714	184,939
Agency (direct lending outflows)	(214,880)	(184,939)
Other agency inflows	45,576	65,858
Other agency (outflows)	(43,937)	(63,500)
Payments to governing boards or other institutions	(29,159)	3,625
Other nonoperating revenues	37,553	42,984
Net cash provided by noncapital financing activities	45,684	78,190
Cash flows from capital and related financing activities:		
Proceeds from capital debt	7,367	142,316
State appropriations - capital	1,829	1,650
Capital grants, contracts, and gifts	19,466	13,311
Acquisition and construction of capital assets	(104,241)	(116,955)
Principal paid on capital debt	(30,473)	(9,280)
Interest on capital debt	(23,908)	(25,514)
Net cash provided by (used in) capital and related financing activities	(129,960)	5,528

(Continued)

Colorado State University System

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

		2013	2012
Cash flows from investing activities:			
Proceeds from sale and maturities of investments		14,703	18,859
Purchase of investments		(15,882)	(19,757)
Investment earnings		(2,305)	6,240
Net cash provided by (used in) investing activities		(3,484)	5,342
Net increase (decrease) in cash and cash equivalents		(75,906)	118,312
Cash and cash equivalents		367,946	323,875
Restricted cash and cash equivalents		207,355	133,114
Cash and cash equivalents, beginning of the year		575,301	456,989
Cash and cash equivalents		353,292	367,946
Restricted cash and cash equivalents		146,103	207,355
Cash and cash equivalents, end of the year	$	499,395	575,301
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(70,939)	(59,045)
Adjustments:			
Depreciation expense		72,890	66,414
Noncash operating transactions		12,163	5,608
Decrease (increase) in assets:			
Receivables, net		40,304	(24,882)
Inventories and prepaids		4,075	(5,943)
Increase (decrease) in liabilities:			
Accounts payable		(168)	4,032
Accrued liabilities		(48,052)	35,447
Deferred revenue		5,485	2,084
Deposits held for others		49	496
Compensated absences liabilities		2,175	629
Other liabilities		6,825	4,412
Net cash provided by operating activities	$	24,807	29,252

(Continued)

Colorado State University System

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(Amounts expressed in thousands)

		2013	2012
Noncash activities:			
Noncash gifts	$	14,710	53,289
Noncash capital leases		3,045	2,223
Noncash additions to investments held by Foundation		410	1,335
Unrealized gains (losses) on investments		(6,875)	992
Capitalized interest		7,135	6,815
Capital debt refinanced		(38,105)	7,561
Amortization of bond premium		2,265	888
Amortization of bond issuance costs		240	198
Retainage payable		699	3,826

See accompanying notes to basic financial statements.

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(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 six 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, 2013 and 2012.

(c) Discretely Presented Component Unit

The System follows Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. The Colorado State University Foundation (the Foundation or CSUF) has been determined to be a component unit of the System and has therefore been included as a discretely presented component unit in the System financial reporting entity and presented in the System's 2013 and 2012 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. 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. 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 University Advancement, and the CSU Vice President for University Operations. 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, 2013 and 2012, respectively, gifts were $45.3 million and $25.9 million. Included in total support and revenue is net investment income. The Foundation had net investment income for the years ended June 30, 2013 and 2012 of $32.8 million and $4.4 million, respectively. The total support and revenue at June 30, 2013 and 2012 was $78.0 million and $30.3 million, respectively.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities, and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately $45.6 million and $31.0 million was transferred to CSU for the years ended June 30, 2013 and 2012, respectively, in pursuit of the above stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to $14.0 million and $13.6 million as of June 30, 2013 and 2012, 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

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. The System applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

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

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

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

(a) Cash and Cash Equivalents

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

(b) Investments

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

(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 thousand to $50 thousand. At CSU, library materials are valued at average acquisition cost. At CSU-Pueblo, library materials are valued at actual cost.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or intangible assets, generally 10 to 70 years for buildings, 10 to 21 years for land improvements, 10 to 15 years for library books, 3 to 12 years for equipment and software, and 3 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 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. In 2012, the Equine Research lab was destroyed by fire. CSU wrote off the remaining value of the building and equipment. There were no material impairments of capital assets at June 30, 2013.

(f) Compensated Absences Liabilities

The amount of compensated absences liabilities that are recorded as a current liability on the Statements of Net Position 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 noncurrent liability on the Statements of Net Position.

(g) Net Position

Net position of the System is classified as follows:

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

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

Restricted net position – expendable – Restricted expendable net position includes 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 position – Unrestricted net position represents resources derived from student tuition and fees, state fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of 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 position may be designated by actions of the Board.

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

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

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

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

(h) Classification of Revenues

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

Operating revenues consist of services and sales related to teaching, research, and public service, along with auxiliary activities of student, faculty, and staff support. These revenues include: 1) tuition and fees from students (after reduction for scholarship allowances provided with institutional funds); 2) grants and contracts from federal, state, and local governments, and private sources including businesses, individuals, and foundations; 3) state fee for service revenues; 4) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 5) fees for goods and services of auxiliary operations such as student housing and dining, student center retail stores, health services, and athletics. Revenues from exchange transactions are recognized when they are earned and measurable.

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

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. Also included in nonoperating revenues are Federal Pell Grants. 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) Reclassifications

Certain reclassifications have been made to the 2012 financial statements to be consistent with the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

(4) Cash and Cash Equivalents

The System deposits cash and cash equivalents with the Colorado State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities authorized by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2013, the System had cash on deposit with the State Treasurer of $479.4 million which represented approximately 6.6 percent of the total $7.3 billion fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2012, the System had cash on deposit with the State Treasurer of $564.0 million which represented approximately 8.6 percent of the total $6.5 billion fair value of 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, and there is no assignment of income related to participation in the Pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

The difference between 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, 2013 and 2012 was approximately $5.3 million and $6.2 million, 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 $789 thousand and $7.7 million on cash and cash equivalents on deposit with the State Treasurer for fiscal years ended June 30, 2013 and 2012, respectively. The unrealized loss on investment income for the fiscal year ended June 30, 2013 was $6.9 million and the unrealized gain on investment income for the fiscal year ended June 30, 2012 was $992 thousand. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2013, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Custodial credit risk for deposits is the risk that in the event of a bank failure, 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. Deposits held in money market funds are not PDPA eligible deposits.

At June 30, 2013 and 2012, the System's book value of cash not on deposit with the State Treasurer was \$20.0 million and \$11.3 million, respectively. Cash included petty cash/change funds and bank account balances of \$177 thousand and \$19.9 million as of June 30, 2013 and \$185 thousand and \$11.1 million as of June 30, 2012, respectively. Bank account balances per the bank at June 30, 2013 and 2012 were \$24.0 million and \$16.1 million, respectively. Of the June 30, 2013 deposits \$774 thousand were covered by depository insurance and were not exposed to custodial credit risk, and the remaining \$23.2 million were collateralized with securities held by the pledging institution's trust department or agent in the System's name. Of the June 30, 2012 deposits \$14.8 million were covered by depository insurance and were not exposed to custodial credit risk and the remaining \$1.3 million were collateralized with securities held by the pledging institution's trust department or agent in the System's name.

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, 2013, approximately 88.5 percent of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$41.1 million of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2012, approximately 89.0 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$12.1 million of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality.

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 these 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, 2013, the weighted average maturity of investments in the Treasurer's Pool was 0.037 years for Commercial Paper (1.0 percent of the Pool), 1.321 years for U.S. Government Securities (63.9 percent of the Pool), 3.371 years for Asset Backed Securities (16.0 percent of the Pool), and 3.100 years for Corporate Bonds (19.1 percent of the Pool). As of June 30, 2012, the weighted average maturity of investments in the Pool was 0.090 years for Commercial Paper (2.1 percent of the Pool), 0.803 years for U.S. Government Securities (75.2 percent of the Pool), 2.379 years for Asset Backed Securities (6.6 percent of the Pool), and 3.252 years for Corporate Bonds (16.1 percent of the Pool).

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years ended June 30, 2013 or 2012.

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

(5) Restricted Investments

As of June 30, 2013 and 2012, the System’s restricted investments had a fair value of $23.7 million and $22.5 million, respectively. Investment earnings for the fiscal years ended June 30, 2013 and 2012 were $421 thousand and $1.3 million, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2013 and 2012. 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, 2013 and 2012:

	June 30	
	2013	2012
U.S. Treasury obligations	$ 9,724,000	8,903,000
Investments held by CSUF in long-term endowment pool:		
Corporate equities	650,000	506,000
Mutual funds	4,704,000	4,529,000
Private equities	2,279,000	3,079,000
International equities	2,272,000	1,883,000
Hedge funds	1,005,000	1,013,000
Alternative investments	3,080,000	2,570,000
	13,990,000	13,580,000
Total investments	$ 23,714,000	22,483,000

(a) Credit Quality Risk

At June 30, 2013 and 2012, the System (investments held by CSUF) had debt securities in the following credit risk categories:

	June 30 2013	June 30 2012
Bond mutual funds		
(Standard & Poor's/Moody's)		
AAA / Aaa	$ 304,000	442,000
AA / Aa	226,000	71,000
A / A	56,000	51,000
BBB / Baa	64,000	38,000
BB / Ba	35,000	19,000
B / B	14,000	6,000
Below B	7,000	13,000
	$ 706,000	640,000

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, 2013, 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	$ 9,724,000	0.64	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	706,000	3.50	3.50
Total investments subject to interest rate risk	$ 10,430,000		

At June 30, 2012, 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	$ 8,903,000	0.31	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	640,000	3.70	2.80
Total investments subject to interest rate risk	$ 9,543,000		

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 ten years or less at all times and that the fixed income portion of the portfolio is to be targeted at five percent of the total portfolio with an acceptable range being between two percent and eight percent.

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, 2013, 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 position 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 of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long-term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2013 and 2012:

	June 30	
	2013	2012
Cash and cash equivalents subject to investment management direction	$ 1,398,000	14,877,000
Equities:		
Large-cap	85,705,000	71,611,000
International	52,447,000	41,861,000
Micro-cap	15,015,000	11,251,000
Fixed income	16,304,000	14,229,000
Alternative investments	152,137,000	148,128,000
Other investments	2,408,000	216,000
Total	$ 325,414,000	302,173,000

Net investment income of the Foundation consisted of the following for the fiscal years ended June 30, 2013 and 2012:

	2013	2012
Interest, dividends, and other income	$ 3,873,000	3,363,000
Net unrealized and realized gain on investments	33,788,000	2,468,000
Less investment management fees	(3,679,000)	(1,521,000)
	33,982,000	4,310,000
Less net investment (income) loss on deposits held in custody for CSU	(1,221,000)	65,000
Total	$ 32,761,000	4,375,000

(6) Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying Statements of Net Position.

	June 30 2013	June 30 2012
Student accounts receivable:	$ 34,349,000	28,775,000
Less allowance for doubtful accounts	(5,500,000)	(5,264,000)
Student accounts receivable, net	$ 28,849,000	23,511,000
Student loans receivable:	$ 26,766,000	26,362,000
Less allowance for doubtful accounts	(3,546,000)	(2,951,000)
Student loans receivable, net	23,220,000	23,411,000
Less current portion	(2,381,000)	(3,027,000)
Noncurrent student loans receivable, net	$ 20,839,000	20,384,000
Grant and other accounts receivable:		
Sponsored programs	$ 48,055,000	94,345,000
Commercial receivables	6,133,000	5,472,000
Conferences and summer programs	713,000	795,000
Insurance trust fund	2,337,000	989,000
Receivables from Foundation	3,692,000	2,485,000
Athletics	684,000	569,000
Capital construction - due from state	51,000	-
Self-funded operations	399,000	906,000
Other	2,597,000	2,126,000
Total grant and other accounts receivable	64,661,000	107,687,000
Less allowance for doubtful accounts	(3,977,000)	(4,197,000)
Grant and other accounts receivable, net	$ 60,684,000	103,490,000

Discretely presented component unit – As of June 30, 2013 and 2012, the Foundation's pledges receivable consisted of the following:

	June 30	
	2013	**2012**
Receivables due in less than one year	$ 8,718,000	5,576,000
Receivables due in one to five years	13,254,000	8,350,000
Receivables due in more than five years	11,694,000	11,928,000
	33,666,000	25,854,000
Less allowance for uncollectible pledges	(579,000)	(384,000)
Less present value discounting	(3,593,000)	(3,480,000)
	$ 29,494,000	21,990,000

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

Pledges receivable from two donors at June 30, 2013 represented approximately 78 percent of net pledges receivable. Pledges receivable from two donors at June 30, 2012 represented approximately 70 percent of net pledges receivable.

(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Transfers	Deletions	Balance June 30, 2013
Nondepreciable capital assets:					
Land	$ 22,429,000	-	-	(24,000)	22,405,000
Land improvements	2,019,000	-	-	-	2,019,000
Construction in progress	115,658,000	115,811,000	(143,911,000)	-	87,558,000
Collections	2,617,000	49,000	-	-	2,666,000
Total nondepreciable capital assets	142,723,000	115,860,000	(143,911,000)	(24,000)	114,648,000
Depreciable capital assets:					
Land and leasehold improvements	73,802,000	139,000	4,388,000	-	78,329,000
Buildings and improvements	1,133,285,000	-	139,239,000	(206,000)	1,272,318,000
Software	55,142,000	9,942,000	249,000	(330,000)	65,003,000
Equipment	229,053,000	28,049,000	35,000	(14,828,000)	242,309,000
Library materials	88,393,000	1,180,000	-	(729,000)	88,844,000
Total depreciable capital assets	1,579,675,000	39,310,000	143,911,000	(16,093,000)	1,746,803,000
Less accumulated depreciation:					
Land and leasehold improvements	38,483,000	3,373,000	-	-	41,856,000
Buildings and improvements	361,890,000	37,017,000	-	(575,000)	398,332,000
Software	8,384,000	11,764,000	-	(282,000)	19,866,000
Equipment	172,052,000	17,550,000	-	(10,716,000)	178,886,000
Library materials	75,680,000	3,186,000	-	(729,000)	78,137,000
Total accumulated depreciation	656,489,000	72,890,000	-	(12,302,000)	717,077,000
Net depreciable capital assets	923,186,000	(33,580,000)	143,911,000	(3,791,000)	1,029,726,000
Total capital assets, net	$ 1,065,909,000	82,280,000	-	(3,815,000)	1,144,374,000

Land includes the following conservation easements:	
Catspaw Conservation Easement	$ 3,155,000
Snow Mountain Conservation Easement	5,000,000
Elmgreen Conservation Easement	500,000
Ben Delatour Forest Legacy Conservation Easement	4,000,000
Total	$ 12,655,000

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Transfers	Deletions	Balance June 30, 2012
Nondepreciable capital assets:					
Land	$ 17,816,000	-	4,613,000	-	22,429,000
Land improvements	2,019,000	-	-	-	2,019,000
Construction in progress	38,432,000	109,964,000	(32,721,000)	(17,000)	115,658,000
Collections	2,195,000	422,000	-	-	2,617,000
Total nondepreciable capital assets	60,462,000	110,386,000	(28,108,000)	(17,000)	142,723,000
Depreciable capital assets:					
Land and leasehold improvements	68,891,000	-	4,911,000	-	73,802,000
Buildings and improvements	1,108,021,000	3,494,000	22,938,000	(1,168,000)	1,133,285,000
Software	8,483,000	47,741,000	259,000	(1,341,000)	55,142,000
Equipment	217,378,000	19,860,000	-	(8,185,000)	229,053,000
Library materials	87,881,000	1,106,000	-	(594,000)	88,393,000
Total depreciable capital assets	1,490,654,000	72,201,000	28,108,000	(11,288,000)	1,579,675,000
Less accumulated depreciation:					
Land and leasehold improvements	35,334,000	3,149,000	-	-	38,483,000
Buildings and improvements	327,959,000	34,370,000	-	(439,000)	361,890,000
Software	3,109,000	6,318,000	-	(1,043,000)	8,384,000
Equipment	159,891,000	18,394,000	-	(6,233,000)	172,052,000
Library materials	72,091,000	4,183,000	-	(594,000)	75,680,000
Total accumulated depreciation	598,384,000	66,414,000	-	(8,309,000)	656,489,000
Net depreciable capital assets	892,270,000	5,787,000	28,108,000	(2,979,000)	923,186,000
Total capital assets, net	$ 952,732,000	116,173,000	-	(2,996,000)	1,065,909,000

Land includes the following conservation easements:	
Catspaw Conservation Easement	$ 3,155,000
Snow Mountain Conservation Easement	5,000,000
Elmgreen Conservation Easement	500,000
Ben Delatour Forest Legacy Conservation Easement	4,000,000
Total	$ 12,655,000

Interest expense capitalized, net of related interest income for the System, was $7.1 million and $6.8 million for the fiscal years ended June 30, 2013 and 2012, respectively.

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2013 and 2012 were comprised of:

	June 30 2013	June 30 2012
Accrued payroll and benefits	$ 68,463,000	69,550,000
Emergency firefighting accrual	-	45,255,000
Accrued interest payable	8,865,000	9,754,000
Other liabilities	1,010,000	656,000
Total	$ 78,338,000	125,215,000

(9) Noncurrent Liabilities

Noncurrent liability activity for the fiscal year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	$ 643,559,000	199,374,000	(224,437,000)	618,496,000	16,143,000
Capital leases payable	6,711,000	3,045,000	(2,004,000)	7,752,000	2,145,000
Total bonds and capital leases	650,270,000	202,419,000	(226,441,000)	626,248,000	18,288,000
Other liabilities:					
Deposits held for others	29,430,000	5,024,000	(1,391,000)	33,063,000	6,251,000
Other	26,354,000	5,385,000	(540,000)	31,199,000	2,579,000
Accrued compensated absences	42,404,000	2,177,000	-	44,581,000	2,489,000
Total noncurrent liabilities	$ 748,458,000	215,005,000	(228,372,000)	735,091,000	29,607,000

Noncurrent liability activity for the fiscal year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	$ 508,697,000	203,542,000	(68,680,000)	643,559,000	10,633,000
Capital leases payable	6,737,000	2,224,000	(2,250,000)	6,711,000	1,798,000
Total bonds and capital leases	515,434,000	205,766,000	(70,930,000)	650,270,000	12,431,000
Other liabilities:					
Deposits held for others	26,389,000	31,683,000	(28,642,000)	29,430,000	5,950,000
Other	21,738,000	5,121,000	(505,000)	26,354,000	2,492,000
Accrued compensated absences	41,775,000	629,000	-	42,404,000	2,468,000
Total noncurrent liabilities	$ 605,336,000	243,199,000	(100,077,000)	748,458,000	23,341,000

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

The revenue bonds consist of multiple issues to finance the 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 certain bonds contain optional redemption provisions. The optional redemption provisions allow the System to redeem at various dates, portions of the outstanding revenue bonds at 100 percent of the principal amount of the revenue bonds redeemed. Payment of the principal and interest on certain bonds is either insured by various financial guarantee insurance policies or qualifies for payment under the State Intercept Program, which provides payment by the State Treasurer if payment is not made by the due date.

On March 28, 2013, the System issued $198.7 million in System Enterprise Revenue and Revenue Refunding Bonds, Series 2013 A,B. The proceeds from the sale of the Series 2013 A,B will be used to renovate the William O. Eddy Hall classroom building (Eddy Building) at CSU, advance refund all of the outstanding 2005 B Bonds, advance refund a portion of the outstanding Series 2007 A Bonds, advance refund all of the outstanding Series 2007 C Bonds, advance refund a portion of the outstanding Series 2009 A Bonds, and pay the costs of issuing the Series 2013 A,B Bonds.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2013 and 2012 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2013 and 2012:

	Interest Range	2013	2012
Colorado State University:			
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of $45.2 million and mature in varying annual amounts to March 2035. $12.2 million advance refunded with 2012 B and remaining amount advance refunded in full with 2013 A.	3.500%-5.000%	$ -	29,560,000
Colorado State University System:			
Colorado State University System Enterprise Revenue Bonds of 2007 A, issued in the original amount of $160.7 million and mature in varying annual amounts to March 2037. $26.9 million advance refunded with 2012 B, $110.8 million advance refunded with 2013 A, and $3.8 million advance refunded with 2013 B.	4.625%-5.250%	19,185,000	133,730,000
Colorado State University System Enterprise Revenue Refunding Bonds of 2007 B, issued in the original amount of $34.3 million and mature in varying annual amounts to March 2021.	4.000%-5.000%	14,785,000	17,165,000
Colorado State University System Enterprise Revenue Bonds of 2007 C, issued in the original amount of $15.1 million and mature in varying annual amounts to March 2020. Advance refunded in full with 2013 B bond.	5.883%	-	15,120,000
Colorado State University System Enterprise Revenue Bonds of 2008 A, issued in the original amount of $83.3 million and mature in varying annual amounts to March 2038.	3.000%-5.000%	78,740,000	80,460,000
Colorado State University System Enterprise Revenue Bonds of 2009 A, issued in the original amount of $56.1 million and mature in varying annual amounts to March 2039. $54.4 million advance refunded with 2013 A.	3.000%-5.000%	1,175,000	55,860,000

	Interest Range	2013	2012
Colorado State University System Enterprise Revenue Bonds of 2010 A, issued in the original amount of $25.3 million and mature in varying annual amounts to March 2020.	4.000%-5.000%	22,675,000	25,330,000
Colorado State University System Enterprise Revenue Bonds of 2010 B, issued in the original amount of $40.3 million and mature in varying annual amounts to March 2033.	4.900%-5.957%	40,335,000	40,335,000
Colorado State University System Enterprise Revenue Bonds of 2010 C, issued in the original amount of $33.3 million and mature in varying annual amounts to March 2040.	6.057%	33,250,000	33,250,000
Colorado State University System Enterprise Revenue Bonds of 2012 A, issued in the original amount of $126.2 million and mature in varying annual amounts to March 2044.	2.000%-5.000%	126,245,000	126,245,000
Colorado State University System Enterprise Revenue Bonds of 2012 B, issued in the original amount of $54.1 million and mature in varying annual amounts to March 2035.	2.000%-5.000%	53,395,000	54,115,000
Colorado State University System Enterprise Revenue Bonds of 2012 C, issued in the original amount of $5.3 million and mature in varying annual amounts to March 2017.	0.728%-1.864%	4,285,000	5,340,000
Colorado Statue University System Enterprise Revenue and Revenue Refunding Bonds of 2013 A, issued in the original amount of $182.0 million and mature in varying annual amounts to March 2043.	1.000%-5.000%	181,970,000	-

	Interest Range	2013	2012
Colorado State University System Enterprise Revenue Refunding Bonds of 2013 B, issued in the original amount of $16.7 million and mature in varying annual amounts to March 2020.	0.427%-2.073%	16,690,000	-
Unamortized bond premium/discount		69,093,000	32,169,000
Unamortized gain/loss on refunding		(45,666,000)	(7,562,000)
Total System Bonds		616,157,000	641,117,000
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.	5.100%	2,339,000	2,442,000
Total System Bonds and Certificates of Participation		$ 618,496,000	643,559,000

The scheduled maturities of the revenue bonds and COPs as of June 30, 2013 are as follows:

	Principal	Interest	Total Payments
2014	$ 16,142,000	27,943,000	44,085,000
2015	17,118,000	28,247,000	45,365,000
2016	17,723,000	27,661,000	45,384,000
2017	18,654,000	27,029,000	45,683,000
2018	17,945,000	26,665,000	44,610,000
2019-2023	90,710,000	119,305,000	210,015,000
2024-2028	100,952,000	96,721,000	197,673,000
2029-2033	121,945,000	69,238,000	191,183,000
2034-2038	131,570,000	35,285,000	166,855,000
2039-2043	58,550,000	8,677,000	67,227,000
2044	3,760,000	188,000	3,948,000
Total debt service maturities	595,069,000	466,959,000	1,062,028,000
Unamortized bond premium/discount	69,093,000		
Unamortized bond gain/loss on refunding	(45,666,000)		
Total	$ 618,496,000		

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 percent of all net revenues derived at the System from charges to students for the provision of general instruction by the System, 80 percent of the CSU facilities fee, 100 percent 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 2003 and 2005 B 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 years ended June 30, 2013 and 2012.

(11) Defeased Obligations

On March 28, 2013, the System issued $192.7 million in System Enterprise Revenue Refunding Bonds; Series 2013 A, B with an average interest rate of 4.903900 percent to advance refund $211.9 million of outstanding bonds with an average interest rate of 4.960366 percent. Refunded bonds included the CSU Enterprise System Revenue Bonds, Series 2005 B ($28.5 million), System Enterprise Revenue Bonds, Series 2007 A ($114.5 million), System Enterprise Revenue Bonds Series 2007 C ($14.5 million), and System Enterprise Revenue Bonds, Series 2009 A ($54.4 million). Net proceeds of $250.0 million were deposited with an escrow agent. The System completed the 2013 A, B refunding to reduce its total debt service payments over the next 30 years by $54.6 million and obtain an economic gain (difference between the present value of the debt service payments on the old debt and new debt) of $24.6 million. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $38.7 million. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized through fiscal year 2039.

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

Sources	
Principal amount of new debt	$ 192,705,000
Net original issue premium	38,315,000
Equity contribution	20,098,000
Total sources of funds	$ 251,118,000
Uses	
Refunding escrow deposits	$ 250,004,000
Issuance costs	1,114,000
Total uses of funds	$ 251,118,000

Calculation of difference in cash flow requirements and economic gain:

Cash flow difference		
Old debt service cash flows	$	393,912,000
Less new debt service cash flows		339,327,000
Cash flow difference	$	54,585,000
Economic gain		
Present value of old debt service cash flows	$	215,833,000
Less present value of new debt service cash flows		191,217,000
Economic gain	$	24,616,000

Issuance costs were as follows:		
Cost of issuance	$	337,000
Underwriter's discount		761,000
Other uses of funds		16,000
Total issuance costs	$	1,114,000

Calculation of reacquisition price over carrying value of old debt:		
Reacquisition price	$	250,004,000
Less carrying amount of old debt		211,286,000
Reacquisition price over carrying value of old debt	$	38,718,000

Prior to the Series 2013 A, B detailed above, the System issued System Enterprise Revenue Bonds Series 2012 B, C in fiscal year 2012 and System Enterprise Revenue Bonds Series 2007 B in fiscal year 2008. The escrow deposits from Series 2013 A, B; Series 2012 B, C; and Series 2007 B are being used to purchase certain U.S. governmental obligations. The principal and interest from the U.S. 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 in the Statements of Net Position.

The following bonds and certificates of participation were included in the refundings and have since been redeemed: Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1996; Auxiliary Facilities Enterprise Refunding and Improvement 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; Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A (partially refunded on 2007 B and fully refunded on 2012 C); and Enterprise System Revenue Bonds, Series 2003 B (fully refunded on 2012 B).

Research Building Revolving Fund Enterprise Revenue Bonds 2005 A (fully refunded on 2007 B); Enterprise System Revenue Bonds, Series 2005 B (partially refunded on 2012 B and fully refunded on 2013 A); System Enterprise Revenue Bonds, Series 2007 A (partially refunded on 2012 B and partially refunded on 2013 A, B); System Enterprise Revenue Bonds, Series 2007 C (partially refunded on 2013 B); and System Enterprise Revenue Bonds, Series 2009 A (fully refunded on 2013 A) were also refunded and have remaining defeased obligations at June 30, 2013 as follows:

	Original Amount Refunded	Balance June 30, 2013
CSU Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005 A	$ 9,535,000	6,050,000
CSU Enterprise System Revenue Bonds, Series 2005 B	40,705,000	40,705,000
CSU System Enterprise Revenue Bonds, Series 2007 A	141,480,000	141,480,000
CSU System Enterprise Revenue Bonds, Series 2007 C	14,500,000	14,500,000
CSU System Enterprise Revenue Bonds Series 2009 A	54,360,000	54,360,000
	$ 260,580,000	257,095,000

(12) Pledged Revenues and Related Expenses

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:

a) 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	
	2013	2012
Operating revenues – pledged auxiliary revenues	$ 110,406,000	104,929,000
Operating expenses	(91,175,000)	(87,382,000)
Pledged revenues over operating expenses	19,231,000	17,547,000
Net nonoperating expenses	(12,012,000)	(10,570,000)
Other revenues and transfers	247,000	(170,000)
Net increase	$ 7,466,000	6,807,000

b) CSU-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds:

Pledged by auxiliary revenues:

	June 30 2013	June 30 2012
Operating revenues – pledged auxiliary revenues	$ 11,842,000	13,574,000
Operating expenses	(8,932,000)	(9,956,000)
Pledged revenue over operating expenses	2,910,000	3,618,000
Other revenues and transfers	(1,747,000)	(2,104,000)
Net increase	$ 1,163,000	1,514,000

c) System Enterprise Revenue Bonds (including Tuition and University Facilities Fees Revenue Bonds): Pledged by 10 percent System tuition revenues, CSU facilities fees (80 percent of first $10 credit hour fee and 100 percent of additional $5 per credit hour fee), CSU-Pueblo facilities fees (100 percent), CSU research building revolving fund revenues, and remaining auxiliary revenue.

	June 30 2013	June 30 2012
Operating revenues	$ 49,121,000	45,816,000
Operating expenses	(212,000)	(663,000)
Pledged revenues over operating expenses	48,909,000	45,153,000
Net nonoperating expenses	(10,846,000)	(9,620,000)
Other revenues and transfers	4,286,000	2,911,000
Net increase	$ 42,349,000	38,444,000

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes $3.0 million and $2.9 million in indirect cost recoveries for the fiscal years ended June 30, 2013 and 2012, 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 $43.7 million and $46.1 million for the fiscal years ended June 30, 2013 and 2012, 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:	
2014	$ 2,327,000
2015	1,880,000
2016	1,759,000
2017	1,486,000
2018	660,000
2019-2023	87,000
Minimum future lease payments	8,199,000
Less amount representing interest	447,000
Present value of minimum lease payments	$ 7,752,000

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2013 and 2012, respectively, the System had capital lease obligations in effect with capitalized asset costs of $17.8 million and $16.4 million; accumulated depreciation of $6.3 million and $5.5 million; and related outstanding liabilities of $7.8 million and $6.7 million.

(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 Lease
Fiscal year ending June 30:	
2014	$ 2,428,000
2015	2,436,000
2016	1,513,000
2017	1,303,000
2018	873,000
2019-2023	1,094,000
Total	$ 9,647,000

Rent expense was $2.2 million and $1.7 million for fiscal years ended June 30, 2013 and 2012, respectively.

CSU-Pueblo leases a football stadium from a non-profit organization. The lease expires June 12, 2028 and is renewable subject to CSU-Pueblo meeting certain requirements as specified in the lease terms. The annual rent of the lease is $100; however, CSU-Pueblo pays the annual costs of maintenance and upkeep for the lease premises.

(15) Net Position

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 $26.5 million and $25.8 million and are reported as restricted net position - expendable on the financial statements as of June 30, 2013 and 2012, 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 restricted of $30.0 million and $30.1 million are reported as restricted net position - expendable on the financial statements as of June 30, 2013 and 2012, 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, 2013 and 2012, this reserve had net position of $783 thousand and $1.5 million, respectively. These amounts were reported as restricted net position - expendable on the financial statements.

Total restricted net positions were as follows:

	June 30	
	2013	**2012**
Restricted for nonexpendable purposes:		
Scholarships, research and other	$ 14,133,000	13,520,000
Federal Land Grant Act Account - nonexpendable	9,946,000	9,076,000
Total	$ 24,079,000	22,596,000
Restricted for expendable purposes:		
Federal Land Grant Act Income Account - expendable	$ 3,106,000	3,563,000
Student loans	26,494,000	25,839,000
Colorado Water Institute	356,000	348,000
Gifts	1,122,000	1,235,000
Plant fund gifts not capitalized	1,837,000	3,033,000
Auxiliary pledged net assets	29,982,000	30,127,000
Tuition and fee pledged assets	7,325,000	8,268,000
Research Building Revolving Fund	3,566,000	2,988,000
Equipment reserve for Vet Med	783,000	1,528,000
Colorado State Forest Service legislative funds	5,818,000	8,684,000
Other	37,000	-
Total	$ 80,426,000	85,613,000

Although other amounts reflected in unrestricted net position 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. As of June 30, 2013 and 2012, the Foundation’s Board has designated $28.9 million and $26.5 million, 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, 2013 were $119.3 million. These outstanding purchase order commitments included $71.0 million of System capital construction commitments. CSU capital construction commitments included approximately $27.3 million for the Laurel Village, $21.8 million for the Lory Student Center Revitalization, $4.2 million for the Behavioral Sciences Building addition, $1.9 million for the Advanced Beam Laboratory, $1.9 million for the Animal Sciences Building renovation, and $1.8 million for the Braiden Fourth Floor Addition. The remaining capital construction commitments were for other smaller projects at CSU and CSU-Pueblo. Of the remaining noncapital purchase order commitments, $29.2 million were related to CSU sponsored contracts and grants.

In addition to purchase order commitments, CSU has contracted obligations of $21.2 million at June 30, 2013 related to employment hiring incentives and shared costs on long-term federal contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the University 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 University upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the University agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the University can exercise cancellation clauses to avoid these shared cost obligations, the University 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, 2013 were:

Purchase order commitments	$ 119,321,000
Shared cost obligations on long-term revenue contracts	9,715,000
Obligations under accepted employment offers	11,480,000
Total	$ 140,516,000

(17) Employment Benefits

Employees of the System, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a Student Employee Retirement Plan (SERP), which is funded solely by student contributions. The SERP is a defined contribution plan administered by a consortium of institutions of higher education in the state. All other eligible employees of the System participate in one of two additional plans, the Public Employees' Retirement Association Defined Benefit Plan (PERA) or an Optional Retirement Plan (ORP), subject to eligibility criteria defined by PERA and the University for each separate governing entity.

The System's total payroll for the fiscal years ended June 30, 2013 and 2012 was approximately $512.7 million and $482.8 million, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was approximately $143.3 million, $303.2 million, and $14.5 million, respectively, for the fiscal year ended June 30, 2013 and $144.3 million, $273.8 million, and $16.8 million respectively, for the fiscal year ended June 30, 2012. The remaining employees were not eligible for participation in any of the System's plans.

(a) PERA Defined Benefit Pension Plan

Plan Description

Employees of the System deemed eligible under PERA's membership rules for institutions of higher education may participate in the Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide lifetime retirement income to PERA annuitants and/or their families in the case of death or disability. The plan is a cost sharing multiple-employer plan administered by PERA.

PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

Prior to legislation passed in 2006, all classes of employees, except classified staff, may have participated in social security, PERA's Defined Benefit Plan, or the institution's Optional Retirement Plan (ORP) at institutions of higher education (excluding community colleges and School of Mines). Currently, higher education employees, except for classified staff, are required to participate in their institution's ORP, if available, unless they have been an active PERA participant with at least 12 months of service credit, an inactive member with that amount of service credit or a current PERA retiree. In that case, they may elect either PERA or their institution's ORP. However, unless the employee is a PERA retiree, the employee may not elect PERA as their retirement plan if they have previously been employed by a public college or university in Colorado offering an ORP if during that employment the employee made an election to participate in that institution's ORP. Eligible employees are allowed to enroll in PERA if such election is made within 30 days of their beginning date of eligibility. Effective January 1, 2011, present PERA retirees may elect either PERA or the ORP as their retirement plan each time they are reappointed.

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

- Hired before July 1, 2005 – at age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.

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

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

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.

- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.

- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more. Age plus years of service requirements increase to 85 for members with less than five years of service credit as of January 1, 2011.

- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.

- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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

For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

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

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index (CPI) increases.

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

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

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

Funding Policy

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

Prior to July 1, 2010, employees contributed 8 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2012, the temporary contribution rate increase of 2.5 percent for members in the State to replace the 2.5 percent reduction in employer contributions effective for fiscal years 2011 and 2012 expired.

From July 1, 2012, to December 31, 2012, the System contributed 15.65 percent of the employee's salary. From January 1, 2013, through June 30, 2013, the System contributed 16.55 percent. During all of fiscal year 2013, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes CRS 24-51-211(1), an amortization period of 30 years is deemed actuarially sound. At December 31, 2012, the division of PERA in which the State participates had a funded ratio of 59.2 percent and a 53 year amortization period based on current contribution rates. The funded ratio on the market value of assets was slightly higher at 60.2 percent.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED required PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent.

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent. The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

Both the AED and SAED will be reduced by one-half percentage point when funding levels reach 103 percent, and both will be increased by one-half percent point when the funding level subsequently falls below 90 percent.

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

The System's payroll contributions to PERA for the fiscal years ended June 30, 2013, 2012, and 2011 were approximately $23.2 million, $18.5 million, and $17.8 million, respectively. These contributions met the contribution requirement for each year.

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

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

(b) Voluntary Tax-Deferred Retirement Plans

PERA offers a voluntary 401(k) plan entirely separate from the Defined Benefit Pension Plan. Certain agencies and institutions of the State offer 403(b) or 401(a) plans. The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the State's administrative functions for the 457 plan were transferred to PERA, where all cost of administration and funding are borne by the plan participants.

(c) University Optional Retirement Plan – The Defined Contribution Plan for Retirement (DCP)

Under the University's optional retirement plan, all Academic Faculty, Administrative Professionals, Post-Doctoral Fellows, Veterinary Interns and Clinical Psychology Interns appointed on or after April 1, 1993, are required as a condition of employment under Colorado law to participate in either the University's Defined Contribution Plan (DCP) for Retirement or, in very limited cases, in the PERA Defined Benefit plan (as eligibility permits). DCP participants may select from three investment companies as follows:

1. Fidelity Investments / MetLife (eligible Faculty/Staff at CSU-Pueblo do not have access to this investment company)
2. Teachers Insurance and Annuity Association (TIAA)
3. Variable Annuity Life Insurance Corporation (VALIC)

The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 CRS). The CSU plan was adopted by the Board of Governors 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 Plan Sponsors. All participants contribute the required 8 percent of eligible salary. As required, CSU provides a matching contribution of 9 percent 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 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. The System's aggregate contribution to the above three vendors was equal to 8.8 percent of covered payroll or approximately $26.6 million for the fiscal year ended June 30, 2013 and 8.8 percent of covered payroll or approximately $24.0 million for the fiscal year ended June 30, 2012. The employee aggregate contribution to the above three vendors was equal to 8.0 percent of covered payroll or approximately $24.3 million for the fiscal year ended June 30, 2013 and $21.9 million for the fiscal year ended June 30, 2012.

The Federal retirement system covers a very limited number of employees at CSU Extension. The System's contribution to this plan was approximately $165 thousand for fiscal year ended June 30, 2013 and $177 thousand for fiscal year ended June 30, 2012.

(d) Student Employee Retirement Program

Eligible student employees contribute 7.5 percent 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 CRS) as a mandatory nonqualified plan under 403(b) of the IRC in lieu of mandatory old age, survivors, and disability insurance (OASDI) coverage. The student retirement plan is a defined contribution plan administered by the individual agencies that make up the System, as applicable. All contributions are vested immediately and are participant-directed within the funds available through the sole investment company, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2013 and 2012 was approximately $1.1 million and $1.3 million, respectively.

(e) Health Insurance Programs

The System's contribution to the various health insurance programs was approximately $16.6 million and $15.7 million for the fiscal years ended June 30, 2013 and 2012, 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. At CSU, separate accounts currently make up the self-insured program: workers' compensation, liability, auto comprehensive/collision and property. CSU contracts various day-to-day operations of the self-funded benefit plan, including claims processing, to third-party administrators. CSU carries excess insurance for liability and workers' compensation claims over $500 thousand per occurrence, including claims arising from employment practices. In March 2013, after a review of CSU's excess liability limits, CSU purchased additional coverage by raising the limits for this insurance from $15.0 million to $25.0 million per occurrence. CSU self-insures for property insurance claims less than $100 thousand per occurrence with a $1 thousand deductible per occurrence paid by the university department incurring the loss. CSU purchases property insurance with limits of $1.0 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, Canadian Liability, Cyber Liability, Aviation Liability, Unmanned Aerial Vehicles Liability, 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, 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 a combination of premiums paid by benefit plan participants and various institutional match amounts. The self-funded benefit plans are fully self-insured except for healthcare coverage, which is reinsured for claims expenses above $200 thousand per covered employee per year. The Unallocated Reserve Account is a general contingency reserve fund for miscellaneous and unanticipated expenses of the other health related accounts.

The amount of claims and administrative costs for the self-funded plans for fiscal years ended June 30, 2013 and 2012 did not exceed plan revenues and reserves. Eligible faculty and nonclassified staff employees may select from various benefit plans and may elect to make premium contributions in the form of a pre-tax salary reduction.

The above health related programs had estimated claim liabilities of $26.5 million and $23.3 million at June 30, 2013 and 2012, 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, industry guidelines, and underwriting advice from our third-party administrator and benefits consultant.

In addition to these claims, workers' compensation had estimated claim liabilities of $5.8 million and $5.4 million at June 30, 2013 and 2012, respectively. Liability self-insurance had estimated claim liabilities of $314 thousand and $258 thousand at June 30, 2013 and 2012, respectively. These estimates are based on current data and actuarial reports. Property self-insurance had no estimated claim liabilities at June 30, 2013 and 2012.

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

	2013	2012*
Claim liabilities, beginning of year	$ 28,948,000	30,282,000
Incurred claims (including IBNR)	36,300,000	28,817,000
Claim payments	(32,708,000)	(30,151,000)
Claim liabilities, end of year	$ 32,540,000	28,948,000

*as restated

Claims liabilities are recorded in accrued liabilities and other noncurrent liabilities on the Statements of Net Position.

(19) Post-Employment Healthcare and Life Insurance Benefits

(a) PERA Post-Employment 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 P.O. 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 percent for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution of 1.02 percent of covered salary. The System paid $1.5 million into this fund during both fiscal years ended June 30, 2013 and 2012. 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, 2012, there were 51,666 enrollees in the plan. At December 31, 2012, the plan had an unfunded actuarial liability of $1.4 billion, a funded ratio of 16.5 percent, and a 66 year amortization period.

(b) Other Post-Employment Benefits (OPEB) – CSU

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 premium support or medical benefits to eligible retired CSU faculty and nonclassified employees with the Rx Subsidy 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 no previous participation in PERA or have less than one year of participation in PERA or employees with at least one year of 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 HealthSmart.

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 the annual OPEB cost provided by the actuarial valuation. The funds available to cover the plan benefits were $33.8 million and $31.4 million for the years ended June 30, 2013 and 2012, respectively. Funds provided for the benefit of the program include an amount equal to the annual OPEB cost of $2.6 million and $2.5 million for the years ended June 30, 2013 and 2012, respectively, plus the corresponding interest income less plan costs. Total amounts paid by CSU to retirees for this healthcare subsidy were $626 thousand and $576 thousand for fiscal years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, 304 and 291 former employees, respectively, were qualified to receive such benefits.

PERA Subsidy

University faculty and nonclassified staff participating in the PERA retirement plan who meet CSU's age and years of service requirements and retire from the University with at least 10 years of University service, are eligible to receive a subsidy. Future enrollments are further restricted to those academic faculty and administrative professional staff participating in the PERA retirement plan and holding benefit eligible appointments on June 30, 2009. 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 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 $17.0 million and $14.3 million for the fiscal years ended June 30, 2013 and 2012, respectively. The annual OPEB costs for fiscal years ended June 30, 2013 and 2012 were $3.8 million and $4.0 million, respectively. The average number of beneficiaries of this subsidy was 516 and 512 for fiscal years ended June 30, 2013 and 2012, respectively. The benefits paid by the University were $1.3 million for both fiscal years ended June 30, 2013 and 2012.

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. Future enrollments are further restricted to those academic faculty and administrative professional staff participating in the PERA retirement plan and holding benefit eligible appointments on June 30, 2009. 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 $505 thousand and $410 thousand at fiscal years ended June 30, 2013 and 2012, respectively. These funds, which include those previously set aside, along with the amounts paid in by participants of $36 thousand in fiscal year 2013 and the related interest income, have resulted in total funds available of $420 thousand and $375 thousand as of fiscal years ended June 30, 2013 and 2012, respectively, for this plan. Plan members were reimbursed $94 thousand and $111 thousand for prescription claims for the fiscal years ended June 30, 2013 and 2012, 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 six thousand dollars per month, or up to 69 percent of covered monthly salary, not to exceed seven thousand dollars 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 be received from other sources such as PERA, Federal Retirement, 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 68 ¾. This plan is administered by Assurant Insurance Company.

CSU set aside funds in an internal service fund equal to the OPEB obligations of $997 thousand and $631 thousand at fiscal years ended June 30, 2013 and 2012, respectively. These funds, which include those previously set aside and the related interest income, have resulted in total funds available of $5.1 million and $4.9 million as of fiscal years ended June 30, 2013 and 2012, respectively. Plan members received $991 thousand and $1.1 million in benefits for the fiscal years ended June 30, 2013 and 2012, respectively.

Funding Policy, Status, Progress, and Annual OPEB Cost

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 30 years. Fiscal year 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 fiscal year 2013 and the related information for each plan are as follows:

	DCP Subsidy	PERA Subsidy	Rx Subsidy	LTD Subsidy
Actuarial accrued liability (a)	$ 31,063,000	45,849,000	2,556,000	15,466,000
Actuarial value of plan assets (b)	-	-	-	-
Unfunded actuarial accrued liability (a) - (b)	$ 31,063,000	45,849,000	2,556,000	15,466,000
Funded ratio (a)/(b)	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	$ 259,317,000	N/A	N/A	N/A
Unfunded actuarial accrued liability as a percentage of covered payroll [(a) - (b)]/(c)	12.0%	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 / month based on eligibility	N/A
Annual required contributions (ARC)	$ 2,532,000	4,142,000	198,000	1,353,000
Interest on net OPEB obligation	364,000	549,000	17,000	25,000
Adjustment to ARC	(303,000)	(854,000)	(26,000)	(21,000)
Annual OPEB cost	2,593,000	3,837,000	189,000	1,357,000
Plan benefits paid to participants	(626,000)	(1,295,000)	(94,000)	(991,000)
Increase in net OPEB obligation	1,967,000	2,542,000	95,000	366,000
Net OPEB obligation - beginning of year	9,097,000	13,727,000	410,000	631,000
Net OPEB obligation - end of year	$ 11,064,000	16,269,000	505,000	997,000
Percentage of OPEB cost contributed	24.1%	33.8%	49.7%	73.0%
Assets held within internal service funds - revocable trusts for future plan benefits	$ 33,775,000	16,993,000	420,000	5,065,000

CSU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2013 and the preceding years for each of the plans were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
DCP	6/30/2013	$ 2,593,000	24.1%	$ 11,064,000
Subsidy	6/30/2012	2,466,000	23.4%	9,097,000
	6/30/2011	2,482,000	20.4%	7,207,000
PERA	6/30/2013	3,837,000	33.8%	16,269,000
Subsidy	6/30/2012	3,969,000	31.7%	13,727,000
	6/30/2011	3,980,000	31.3%	11,016,000
Rx	6/30/2013	189,000	49.7%	505,000
Subsidy	6/30/2012	181,000	61.3%	410,000
	6/30/2011	189,000	43.4%	341,000
LTD	6/30/2013	1,357,000	73.0%	997,000
Subsidy	6/30/2012	1,135,000	100.2%	631,000
	6/30/2011	1,176,000	87.6%	634,000

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 as of June 30, 2013, are recorded in accrued liabilities and other noncurrent liabilities as follows:

	DCP	PERA	Rx	LTD	Total
OPEB, current portion	$ 964,000	1,880,000	505,000	997,000	4,346,000
OPEB, noncurrent portion	10,100,000	14,389,000	-	-	24,489,000
Total	$ 11,064,000	16,269,000	505,000	997,000	28,835,000

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	7/1/2012	7/1/2012	7/1/2012	7/1/2012
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	25 Years, closed	25 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%	N/A	3.00%
Salary increase rate	4.00%	N/A	N/A	4.00%
Healthcare cost Trend rate	N/A	8% initial, 5% ultimate	N/A	N/A

(c) Other Post-Employment 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 percent of the health insurance cost. As of June 30, 2013, there were 17 participants in the plan, of which two 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 2013 and 2012, 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, 2013 and 2012 was $44.6 million and $42.4 million, respectively.

Overall, expenses increased for the fiscal year ended June 30, 2013 by $2.2 million and increased for the fiscal year ended June 30, 2012 by $629 thousand, for the estimated compensated absences liabilities.

(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2013 and 2012, CSU and CSU-Pueblo 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 and CSU-Pueblo help 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, 2013 and 2012 were $214.9 million and $184.9 million, respectively.

(22) Scholarship Allowance

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

	2013		
	Tuition and Fees	Auxiliary Revenues	Total
Gross revenue	$ 473,056,000	142,808,000	615,864,000
Scholarship allowances:			
Federal	30,098,000	732,000	30,830,000
State	8,748,000	1,528,000	10,276,000
Private	371,000	384,000	755,000
Institutional	62,516,000	2,342,000	64,858,000
Total allowances	101,733,000	4,986,000	106,719,000
Net revenue	$ 371,323,000	137,822,000	509,145,000

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2012 were as follows:

	2012*		
	Tuition and Fees	**Auxiliary Revenues**	**Total**
Gross revenue	$ 437,559,000	143,673,000	581,232,000
Scholarship allowances:			
Federal	31,332,000	775,000	32,107,000
State	6,520,000	849,000	7,369,000
Private	383,000	371,000	754,000
Institutional	60,146,000	2,584,000	62,730,000
Total allowances	98,381,000	4,579,000	102,960,000
Net revenue	$ 339,178,000	139,094,000	478,272,000

*as reclassed

(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, as amended by GASB Statement No. 61. 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 to be incorporated into the System's financial reporting entity.

(a) Colorado State University Research Foundation

CSURF is a private, nonprofit 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 (System). The sole voting member of this 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 fiscal years ended June 30, 2013 and 2012, royalty revenues equaled $1.2 million and $1.1 million, respectively, and expenses were $777 thousand and $744 thousand, respectively.

At June 30, 2013, CSURF's debt to provide buildings for use by the universities was $8.6 million.

At June 30, 2013, the assets of CSURF consisted of:

Cash and current assets	$ 6,309,000
Property and equipment	21,711,000
Other assets	10,511,000
Total assets	$ 38,531,000

At June 30, 2012, CSURF's debt to provide buildings for use by the universities was $7.2 million.

At June 30, 2012, the assets of CSURF consisted of:

Cash and current assets	$ 3,266,000
Property and equipment	14,113,000
Other assets	10,595,000
Total assets	$ 27,974,000

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 $2.1 million and $2.2 million in transfers of gifts and other assets to CSU-Pueblo during fiscal years ended June 30, 2013 and 2012, respectively. During the same periods, CSU-Pueblo provided $79 thousand and $49 thousand, respectively, in in-kind support to CSU-Pueblo Foundation for fiscal years ended June 30, 2013 and 2012. Further, CSU-Pueblo did not incur any expenses on behalf of CSU-Pueblo Foundation during the fiscal years ended June 30, 2013 and 2012.

At June 30, 2013, the assets of CSU-Pueblo Foundation consisted of:

Cash	$ 2,473,000
Investments	24,257,000
Property and equipment	8,000
Other assets	2,335,000
Total assets	$ 29,073,000

At June 30, 2012, the assets of CSU-Pueblo Foundation consisted of:

Cash	$ 2,557,000
Investments	21,891,000
Property and equipment	13,000
Other assets	1,777,000
Total assets	$ 26,238,000

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 $1.6 million and $1.6 million in outstanding liabilities and $27.5 million and $24.7 million in net assets as of June 30, 2013 and 2012, respectively.

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

(c) CSU-Pueblo 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 percent of earnings each year to build the corpus of the fund and transfer 80 percent 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, 2013 consisted of:

Cash	$ 5,291,000
Land	41,000
Total assets	$ 5,332,000

The Walking Stick Fund assets at June 30, 2012 consisted of:

Cash	$ 5,352,000
Land	41,000
Total assets	$ 5,393,000

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, 2013 consisted of:

Cash	$	2,556,000
Due from other funds		-
Total assets	$	2,556,000

The KTSC Fund assets at June 30, 2012 consisted of:

Cash	$	2,536,000
Due from other funds		27,000
Total assets	$	2,563,000

(d) INTO CSU, LLC

INTO CSU, LLC is a limited liability company jointly owned by CSURF and INTO USA, LLC. CSURF and INTO USA, LLC each own 50 percent of the common units. INTO CSU, LLC has entered into a service agreement with Colorado State University and INTO University Partnerships Limited (IUP) whereby INTO CSU, LLC will manage an international student center, located on campus and, in connection with the services of IUP, be the exclusive provider of marketing and student recruitment services for the INTO CSU programs.

As part of the Services Agreement, CSURF agreed to loan the joint venture up to $1.5 million. The promissory note matures February 2027 with monthly interest payments of five percent due beginning March 2017. In connection with the agreement for CSURF to loan funds to INTO CSU, LLC, the University has agreed to reimburse CSURF for net funds loaned to the joint venture. At the end of the year, the University has booked a receivable for $253 thousand due from CSURF relating to amounts that have been loaned to the joint venture.

(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 ended June 30, 2013 and 2012 the System received $68.0 million and $67.9 million, 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 ended June 30, 2013 and 2012, stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo in the amount of $37.1 million and $38.5 million, 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.

Equine Reproduction Laboratory

On July 26, 2011, there was a fire of undetermined origin at CSU’s Equine Reproduction Laboratory building located on the foothills campus. The fire destroyed the building and most of its contents, including among other things, horse semen and embryo straws being stored for approximately 175 third-party clients. To date, CSU has received a total of forty (40) notices of claim under the Colorado Governmental Immunity Act (“CGIA”) in connection with the damaged straws. In addition, three lawsuits have been filed and served, and another lawsuit has apparently been filed with the court, but has not been served. In the first case, CSU filed a motion to dismiss, asserting Plaintiff’s claim lies in tort and is barred by the CGIA. The judge denied our motion and held that the storage of Plaintiff’s straws by CSU created a common law bailment that is not barred by the CGIA. CSU has appealed that decision to the Colorado Court of Appeals.

The amount of damages is unclear with some of the claims being duplicative, frivolous and inflated; however, in total they exceed $13.5 million, plus two catch-all claims of $44 million and $35 million. Given the unique circumstances of each case and the various legal issues, the actual potential exposure that could arise from litigation of these claims is uncertain. If there is a determination that CSU is liable for a plaintiff’s damages arising from the fire, some or all of those damages may be covered by insurance. However, in consideration of the statutory limit on damages under the CGIA and the many variables, CSU and the System estimate that such exposure could range from $650 thousand to $30 million. Nevertheless, in light of the possible defenses to liability and CSU’s insurance coverage, we do not believe that any of those claims or lawsuits, or any combination thereof, will result in a materially adverse effect.

It is CSU’s position that the Insurance Policy in place at the time of the fire provides coverage to the extent of CSU’s legal liability for physical loss or damage, and that if CSU is held to be legally liable for such loss or damage to client’s inventory, the insurance carrier is responsible for paying the amount of such judgment. The insurance carrier has asserted that it has the obligation to pay only the value of the clients’ interest in the inventory, which may be less than the amount of any such judgment.

CSU has denied any liability and will continue to defend any such claims. CSU’s potential liability is difficult to estimate and no liability has been recorded in the financial statements.

Financial Awards from Federal and State Agencies

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) Subsequent Event

On September 24, 2013, the System sold $18.6 million Series 2013 C and $7.9 million Series 2013 D System Enterprise Revenue Bonds. The proceeds of the sale of the Series 2013 Bonds will be used to renovate, remodel, improve, and construct an addition to the Occhiato University Center for Colorado State University-Pueblo, pay capitalized interest, and pay the costs of issuing the Series 2013 Bonds.

As discussed in Footnote (19) *Post-Employment Healthcare and Life Insurance Benefits*, CSU currently contributes to four separate benefit plans that qualify as Other Post Retirement Benefit Plans (OPEB). The contributions made each year have been deposited into accounts that are internally restricted for the sole benefit of the plan participants. Given the restricted nature of these resources, management is currently contemplating the transfer of these resources to irrevocable trust accounts that will qualify as plan assets under GASB Statements No. 43 and No. 45. As of June 30, 2013, the total assets held within the internally restricted accounts relating to these OPEB plans were approximately $56.3 million, the accrued liabilities were approximately $28.8 million and the unrestricted fund balance was approximately $27.5 million.

(27) Special Item

On June 6, 2012, the Governor signed House Bill 12-1283, transferring from CSU to the Department of Public Safety effective July 1, 2012 all funds, monies, positions of employment, personnel, any claims and liabilities, and personal property that were principally directed to fire and wildfire preparedness, response, suppression, coordination, or management associated with activities of the Colorado State Forestry Service (CSFS). All other activity of CSFS remains at CSU. As a result of this transfer, CSU recognized a loss of $6.5 million on the disposal of its fire suppression activities as a special item. There was no revenue or expenditures recognized in this fiscal year related to these activities. As of June 30, 2012 revenues and expenses related to activities transferred were approximately $65.9 million and $68.3 million, respectively.

Required Supplemental Information

Colorado State University System

Required Supplemental 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, 2013

	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)
DCP Subsidy							
	7/1/2012	$ -	$ 31,063,000	$ 31,063,000	0%	$ 259,317,000	12.0%
	1/1/2011	-	28,917,000	28,917,000	0%	248,228,000	11.6%
	1/1/2009	-	25,188,000	25,188,000	0%	238,827,000	10.5%
PERA Subsidy							
	7/1/2012	-	45,849,000	45,849,000	0%	-	0.0%
	1/1/2011	-	53,177,000	53,177,000	0%	-	0.0%
	1/1/2009	-	54,271,000	54,271,000	0%	-	0.0%
Rx Subsidy							
	7/1/2012	-	2,556,000	2,556,000	0%	-	0.0%
	1/1/2011	-	2,832,000	2,832,000	0%	-	0.0%
	1/1/2009	-	2,899,000	2,899,000	0%	-	0.0%
LTD Subsidy							
	7/1/2012	-	15,466,000	15,466,000	0%	-	0.0%
	1/1/2011	-	13,017,000	13,017,000	0%	-	0.0%
	1/1/2009	-	12,219,000	12,219,000	0%	-	0.0%

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

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (a higher education institution of the State of Colorado) (the System) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 5, 2013, which contained a paragraph emphasizing a matter regarding the financial statements. Our report includes a reference to other auditors who audited the financial statements of the Colorado State University Foundation, as described in our report on the School's financial statements. The financial statements of the Colorado State University Foundation were not audited in accordance with *Government Auditing Standards.*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Auditor's Findings and Recommendations, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency that we reported in the Auditor's Findings and Recommendations section to be a material weakness. Recommendation No. 1.

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*.

System's Response to Findings

The System's responses to the findings identified in our audit are described in the accompanying Auditor's Findings and Recommendations. The System's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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 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

Denver, Colorado
December 5, 2013

BKD LLP
CPAs & Advisors

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Independent Auditor's Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audits of the financial statements and compliance of the Colorado State University System (the System) as of and for the year ended June 30, 2013, we wish to communicate the following to you.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. 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 and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements and compliance 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

- No matters are reportable.

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
- Other postemployment benefit liabilities
- Scholarship allowance
- Compensated absences
- Useful lives of capital assets and related depreciation expense
- Claim liabilities for self-insurance

Financial Statement Disclosures

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

- Contingencies
- Subsequent events

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.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded:

Colorado State University
- No matters are reportable.

Colorado State University-Pueblo
- No matters are reportable.

Colorado State University-Global
- No matters are reportable.

Proposed Audit Adjustments Not Recorded:

- The proposed audit adjustment not recorded, which pertained to CSU – Global was determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatement, had it been recorded, would have been to decrease beginning of the year net position by $482,375, decrease revenues by $80,234, and decrease operating expenses by $562,609 as of and for the year ended June 30, 2013.

<u>Auditor's Judgments About the Quality of the System's Accounting Principles</u>

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

- No matters are reportable.

<u>Other Material Written Communications</u>

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

- Management representation letter
- Management letter

* * * * *

This letter is intended solely for the information and use of the Legislative Audit Committee, the Office of the State Auditor, the Colorado State University Board of Governors, the Colorado State University Board of Governors' Audit Committee and 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 5, 2013

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Independent Auditor'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, State of Colorado (the System), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise its basic financial statements and have issued our report thereon dated December 5, 2013, which contained a paragraph emphasizing a matter regarding the financial statements. 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 107–109. 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

Denver, Colorado
December 5, 2013

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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 2005 B, which report the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities; b) CSU-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2003; and c) System Enterprise Revenue Bonds, Series 2007 A, B and C, 2008 A, 2009 A, 2010 A, B and C, 2012 A, 2012 B and C, and 2013 A and B, which include the earnings of 10 percent tuition, CSU facilities fees (80 percent of first $10 credit hour fee and 100 percent of additional $5 per credit hour fee), CSU-Pueblo facilities fees (100 percent), CSU Research Building Revolving Fund, and the remaining Auxiliary pledged revenues after debt service requirements on the 2003 and 2005 B 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 for the fiscal year ended June 30, 2013, are computed as follows:

Auxiliary revenues	$	91,538,778
Add:		
Auxiliary fee revenue		18,867,539
Investment income		604,009
		111,010,326
Auxiliary expenses		
Unrestricted expenses		86,839,851
Less:		
Excluded equipment expenditures		(3,165,122)
Compensated absences adjustment		(27,265)
		83,647,464
Student sports recreational facilities		
Unrestricted expenses		4,335,783
Less:		
Excluded equipment expenditures		(30,404)
Compensated absences adjustment		5,156
		4,310,535
Net income to meet the earnings requirement under the bond resolution	$	23,052,327
Net income required under the bond resolution:		
Current year principal and interest payments	$	2,368,094
Minimum earnings ratio required by bond resolution		100%
Net income required under the bond resolution	$	2,368,094

The net income to meet the earnings requirement under the bond resolution shown above exceeds the required amount.

(Continued)

Colorado State University System

Revenue Bonds' Earnings Requirement Schedules

(Unaudited)

Year Ended June 30, 2013

b) For the purposes of determining compliance with the bond resolution, 2003 CSU-Pueblo Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds earnings for the fiscal year ended June 30, 2013, are computed as follows:

Auxiliary revenues	$	11,620,067
Add:		
Auxiliary fee revenue		222,528
Investment income		172,609
		12,015,204
Unrestricted expenses		8,932,259
Less:		
Excluded equipment expenditures		(51,196)
Compensated absences adjustment		2,160
		8,883,223
Net income to meet the earnings requirement under the bond resolution	$	3,131,981
Net income required under the bond resolution:		
Current year principal and interest payments	$	-
Minimum earnings ratio required by bond resolution		125%
Net income required under the bond resolution	$	-

The CSU-Pueblo Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds were paid in full during fiscal year 2012. This net income is now fully included in the System Enterprise revenue.

Colorado State University System

Revenue Bonds' Earnings Requirement Schedules

(Unaudited)

Year Ended June 30, 2013

c) For the purposes of determining compliance with the bond resolution, System Enterprise Revenue earnings for the fiscal year ended June 30, 2013, are computed as follows:

	Tuition and Facilities Fee	Research Building Revolving Fund	Total
Pledged revenues	$ 46,057,580	46,739,067	92,796,647
Pledged investment income	51,033	40,231	91,264
	46,108,613	46,779,298	92,887,911
Operating expenses	12,529	199,280	211,809
Total tuition, facilities fee and Research Building Revolving Fund, net of operating expenses	46,096,084	46,580,018	92,676,102
Auxiliary revenues			
Net available revenues			26,184,309
Current year debt service requirements for 2003 and 2005 B bonds			(2,368,094)
Total available for enterprise system			23,816,215
Total net enterprise system revenue			$ 116,492,317
Net income required under the bond resolution:			
Current year principal and interest payments			$ 38,277,947
Minimum earnings ratio required by bond resolution			100%
Net income required under the bond resolution			$ 38,277,947

The net income to meet the earnings requirement under the bond resolution shown above exceeds the required amount.

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