

**Colorado State University - Pueblo**  
**Financial Statements and Independent Auditor's Reports**  
**Financial Audit**  
**Year Ended June 30, 2014**  
**Compliance Audit**  
**Year Ended June 30, 2014**

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Cynthia Hochmiller

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November 26, 2014

Members of the Legislative Audit Committee:

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

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

*BKD, LLP*

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# Colorado State University - Pueblo

## Report Summary

Year Ended June 30, 2014

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### Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of Colorado State University – Pueblo (CSU-Pueblo) for the year ended June 30, 2014. 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*. The audit of the Colorado State University – Pueblo Foundation, the discretely presented component unit, 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 an opinion on the financial statements of CSU-Pueblo as of and for the year ended June 30, 2014, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the year ended June 30, 2014.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal funds for the year ended June 30, 2014.
- Issue a report on CSU-Pueblo'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, 2014.
- Evaluate progress in implementing the prior year audit recommendation.

CSU-Pueblo'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.

**Colorado State University - Pueblo**  
Report Summary  
Year Ended June 30, 2014

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**Audit Opinions and Reports**

The independent auditor's reports included herein expressed unmodified opinions on CSU-Pueblo's financial statements as of and for the year ended June 30, 2014.

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

One material weakness in internal control over compliance was identified.

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

**Significant Audit Adjustment**

There were multiple proposed audit adjustments identified during the audit. See page 9 for a summary of these adjustments.

**Summary of Audit Recommendations**

*Financial Statement Preparation and Review of Financial Records*

We identified one finding related to our testing of internal controls over financial reporting. The finding relates to failure to ensure that a supervisory review of financial records occurs timely such that accurate fiscal year 2014 financial statements could be prepared. (See Recommendation No. 1).

*Enrollment Reporting (Student Financial Aid Cluster)*

We also identified a timely reporting issue related to student status changes. We noted 14 out of the 25 students' status changes were communicated to NSLDS 28 to 43 days after the 60-day notice requirement. (See Recommendation No. 2.)

**Summary of Progress in Implementing Prior Audit Recommendations**

The audit of the Colorado State University System for the year ended June 20, 2013 noted a recommendation pertaining to CSU-Pueblo. This recommendation was relating to supervisory review and reconciliations of all cash and other significant accounts, which were tested by BKD to determine implementation. We found this recommendation was not implemented and was repeated as part of Recommendation No. 1.

# Colorado State University - Pueblo

## Recommendation Locator

Year Ended June 30, 2014

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<b>Recommendation Number</b>	<b>Page Number</b>	<b>Recommendation Summary</b>	<b>Response</b>	<b>Implementation Date</b>
1	8	Colorado State University – Pueblo should improve internal controls over financial activities by (1) ensuring through training and oversight that review of account reconciliations and monitoring of financial information are done timely and accurately; (2) considering the hiring of an experienced CPA within its accounting department; and (3) implementing an improved software system to help improve the overall control environment.	Agree	1. January 2015 2. April 2015 3. June 2015
2	14	Colorado State University – Pueblo should ensure that it complies with federal Student Financial Aid program enrollment reporting requirements by implementing a supervisory review of the enrollment reporting process and requiring that all Student Financial Aid staff attend training regarding the federal submission process.	Agree	May 2015

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**Colorado State University - Pueblo**  
Description of the Colorado State University - Pueblo Campus  
Year Ended June 30, 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 located in Fort Collins), Colorado State University – Pueblo (a regional, comprehensive university), and Colorado State University – Global Campus (an online 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 - 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-Pueblo) is accredited at the bachelor’s and master’s levels. CSU-Pueblo is a regional, comprehensive university, with moderately selective admissions standards displaying excellence in teaching and learning. CSU-Pueblo emphasizes professional, career-oriented, and applied programs at the undergraduate and graduate levels while maintaining strong programs in the liberal arts and sciences. CSU-Pueblo has received the federal government’s designation as a Hispanic Serving Institution granted to universities with at least 25 percent of the student population of Hispanic descent.

**Enrollment and Faculty**

Enrollment, faculty and staff information is presented below and was obtained from institutional analysis and CSU-Pueblo’s Factbooks.

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

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

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	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal Year:			
2013-2014	3,475	499	3,974
2012-2013	3,598	539	4,137
2011-2012	3,886	551	4,437

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

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	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal Year			
2013-2014	222	315	537
2012-2013	222	375	597
2011-2012	233	366	599

**Colorado State University – Pueblo Foundation (the Foundation)**

The CSU-Pueblo reporting entity includes the CSU-Pueblo Foundation as a discretely presented component unit. The Foundation is a legally separate, tax-exempt entity that was established to receive, manage, and invest philanthropic gifts on behalf of CSU-Pueblo. The CSU-Pueblo Foundation is governed by its Board of Directors, which includes twenty-seven trustees. No person who is an employee of CSU-Pueblo is eligible to serve as an officer of the Foundation or as a voting board member.

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

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**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements of Colorado State University – Pueblo (CSU-Pueblo) as of and for the year ended June 30, 2014 in accordance with auditing standards generally accepted in the United States of America, we considered CSU-Pueblo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSU-Pueblo's internal control. Accordingly, we do not express an opinion on the effectiveness of CSU-Pueblo'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 CSU-Pueblo'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 CSU-Pueblo'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.

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

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**Material Weakness-Internal Control Over Financial Reporting**

***Financial statement preparation and Review of Financial Records: Colorado State University – Pueblo (CSU-P)***

Colorado State University – Pueblo (CSU-P) is a university within the Colorado State University System with an enrollment of over 4,000 full time equivalents and \$57 million in operating revenue. Although part of the CSU System, the accounting for the university operates independently from the other universities within the System; thus, it has its own internal controls and accounting processes. Monitoring of account balances contained in the general ledger, as well as reconciliation of the balances to supporting financial records, is integral to ensuring the accuracy of financial information. In addition, these processes are necessary 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 determine whether CSU-P had adequate internal controls and processes in place to prepare materially accurate financial statements in a timely manner.

**What audit work was performed and how were results measured?**

We tested management's ability to timely and accurately prepare financial statements. We specifically performed testing to determine whether material accounts including receivables, accounts payable, accrued interest, deferred revenue and fixed assets were reconciled timely and accurately. In addition, we reviewed journal entries recorded during Fiscal Year 2014 to determine whether those entries were recorded appropriately and in a timely manner, and whether they were reviewed by a supervisor.

We also performed testwork to determine whether CSU-P implemented our Fiscal Year 2013 audit recommendation related to inadequate accounting controls. Our Fiscal Year 2013 audit recommendation was identified as a material weakness. During our Fiscal Year 2013 audit, CSU-P staff made 37 journal entries after fiscal year-end closing, including twenty entries that were individually in excess of \$100,000 and affected at least one account.

CSU-P's policy requires that quarterly financial statements, which would include fiscal year-end financial statements, be reviewed by the controller and director of finance. This review should be done in enough detail to identify any material misstatements in a timely manner. The results of our testing were also measured by the amount of post-closing entries proposed by management and the amount of journal entries we proposed during the audit. If internal controls are working correctly, the entries required after the original close date should be limited to items that require data from third parties and no entries should be identified by the auditors.

**What problem did the audit work identify?**

We noted during our testing that CSU-P did not have adequate internal controls in place over its financial activity during Fiscal Year 2014 to ensure that adequate supporting documentation was maintained and that account activity and reconciliations were accurate and appropriate. Based on further discussions with CSU-P management and performance of further audit procedures, we specifically noted the following:

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

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- CSU-P recorded seventeen entries after fiscal year closing of the financial statements totaling \$20,000,000, including fourteen that individually affected at least one account by over \$100,000. These entries adjusted federal grant revenue, accounts receivable, bad debt expense, allowance for student loans receivable, capital assets, construction in process, depreciation expense, accumulated depreciation, allowance for bad debts, cash, gain/loss on refunding, and tuition to their reconciled amounts as of June 30, 2014. Of the \$20,000,000 in entries recorded after the original closing, \$6,800,000 of the adjustments were proposed as a result of the audit, including the following five adjustments:
  - An entry to expense \$250,000 in bond issuance costs that were not expensed by CSU-P accounting staff as required by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
  - An entry to correct a \$5,000,000 transfer from CSU-Global that was incorrectly recorded in a fee-for-service account.
  - An entry to remove accrued interest of \$890,000 that was incorrectly recorded twice.
  - Net entries to record \$250,000 in accounts receivable that were not previously booked.
  - An entry to record revenue earned for technology fees totaling \$683,000 that was incorrectly recorded as deferred when it had been earned.
  
- 49 journal entries were deleted in the accounting system, instead of being corrected with reversing journal entries when it was determined that information in the original entry needed to be corrected.

In addition, we found that during the year there appeared to be an overall lack of monitoring for collectability of receivables. Specifically, management was unable to provide support of internal controls and processes related to the collection of commercial accounts receivables.

Based on the amount of errors and breakdowns in internal control that we identified, the overall supervisory review was not performed in a manner such that accurate financial statements could be prepared in a timely manner. Further, CSU-P staff did not adhere to existing policies and procedures relating to the review and oversight of account reconciliations, including a lack of effective supervisory review by both direct supervisors and management in the accounting department and failed to complete reconciliations timely.

**Why did the problem occur?**

CSU-P staff indicated that, in part, policies and procedures were not followed during Fiscal Year 2014 due to turnover in the accounting department and a lack of proper training for new staff on required procedures.

The School's accounting resources were also limited during the fiscal year because there was no CPA employed in CSU-P's accounting department. With the lack of a CPA in the accounting department, the department lacks the more technical knowledge over internal controls and accounting issues. A CPA would also be able to provide assistance with technical issues, such as the adoption of new accounting pronouncements.

Additionally, the base accounting system used by CSU-P is a proprietary system called Administrative Information System, or AIS, that lacks controls that are common in most software systems. These controls would include not allowing journal entries to be deleted after they had been recorded and

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

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maintaining detail of general ledger accounts that agree to the trial balance, which identified accounts at the summary level.

**Why does this problem matter?**

Reconciling and monitoring of financial records 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 and reviews will be performed in a timely manner to lower the potential risk of misstatements due to error or fraud on the financial statements.

Timely and accurate financial information is integral to business decision-making. Lack of timely and accurate reconciliations and monitoring can lead to journal entries that may not be recorded into the accounting system and failure to identify incorrect entries. This also leads to material year-end adjustments. This can cause inaccurate financial reporting at the CSU-P and statewide levels.

(Classification of Finding: Material Weakness)

**Recommendation No. 1:**

Colorado State University – Pueblo should improve its internal controls over financial activities by:

- 1) Ensuring through training and oversight that existing policies and procedures related to the review of account reconciliations and monitoring of financial information is done in a timely and accurate manner such that the financial statements are prepared accurately and timely.
- 2) Considering the hiring of an experienced CPA within its accounting department to assist with financial statement preparation and design of internal controls and processes.
- 3) Implementing an improved software system with strong built in information system general controls to help improve the overall control environment.

**Colorado State University – Pueblo Response**

Agree Implementation Date: January 2015

- 1) The controller will oversee an assessment of policies related to account reconciliations and monitoring of financial information to implement necessary procedural changes. The university controller has established a monthly checklist that will be used starting in December 2014 by accountants in Business Financial Services for the remainder of FY 2014-15. Staff in Business Financial Services will be trained by the controller on policies, including the use of this checklist. This training, the checklist and amended procedures, in conjunction with oversight and supervision of staff by the controller will ensure that all entries and all reconciliations are performed on a monthly basis. The controller will oversee the process to ensure that checklists are completed in a timely manner and that proper and sufficient documentation for ledger entries and reconciliations are made. These steps will enable financial statements to be generated in a timely manner.

Agree Implementation Date: April 2015

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- 2) In September 2014, CSU—Pueblo hired an accountant with over 20 years of higher education and GASB experience, including 5 years as a university controller. This individual has experience with CSU — Pueblo's legacy information technology system and the new system being utilized in FY 2014-15. In the spring of 2014, an accountant played a key role in overseeing the university's migration to the KUALI Financial System. In the spring of 2015, the controller has determined that this position will oversee the establishment of additional controls and procedures. Additionally, two new accounting positions have been approved by the President for Business Financial Services. An evaluation of applicants for these positions is underway with hiring expected during the first calendar quarter of 2015. The university will consider hiring a CPA, as recommended.
- 3) Agree. Implementation Date: June 2015

With assistance from Colorado State University – Fort Collins, CSU-Pueblo implemented a new financial system (KUALI) in July 2014. This system will allow for much greater control over entries into the general ledger than our legacy system (AIS). Effective July 1, 2014, all budgets and general ledger transactions have been entered into this system. KUALI prevents journal entries from being deleted. If adjustments are required, new journal entries are necessary to correct errors. Student billing and accounts receivable will still be managed in AIS. During 2015, the CSU-Pueblo controller will identify potential improvements in the AIS system to improve controls over accounting transactions in AIS. The development of internal controls is continuous and an ongoing process.

**Colorado State University - Pueblo**  
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**INTERNAL CONTROL OVER COMPLIANCE**

In planning and performing our audit of compliance, we considered CSU-P's internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 matter that we consider to be a material weakness.

**Material Weakness – Internal Control Over Compliance**  
**Enrollment Reporting (Student Financial Aid Cluster): Colorado State University System – Pueblo Campus**

**Enrollment Reporting (Student Financial Aid Cluster)**

Federal regulations mandate that when a student receives Federal student financial aid and subsequently changes enrollment status, the school must report the enrollment change to the National Student Loan Data System (NSLDS). Specifically, enrollment reporting assists the federal government in management of the Pell and Direct Loan programs, which are programs within the Student Financial Aid Cluster. In addition, the NSLDS assists lenders in the determination of whether a student, whose enrollment status changed subsequent to a Direct Loan disbursement and who received Direct Loan program loans, should be moved into loan repayment status or if they are eligible for an in-school deferment. During Fiscal Year 2014, Colorado State University – Pueblo (CSU-P) issued approximately \$34 million Student Financial Aid during the year, which included approximately \$30 million of Pell and Direct Loan funding.

**What was the purpose of the audit work?**

We performed procedures required by the federal Office of Management and Budget *Circular A-133* and the related 2014 Compliance Supplement for the Student Financial Aid Cluster. Specifically, we

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

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performed testing related to special tests and provisions compliance requirements to determine whether CSU-P complied with enrollment reporting requirements regarding student attendance status changes.

**What audit work was performed and how were results measured?**

We reviewed a sample of 25 out of 351 CSU-P students awarded Pell and Direct Loans during Fiscal year 2014 who were reported to NSLDS for compliance with enrollment reporting requirements. Under the Pell grant and Direct Loan program requirements, 34 CFR 690.83(b)(2) and 34 CFR 685.309, a school must report within 30 days whenever enrollment changes for students, unless a roster will be submitted within 60 days to the National Student Loan Data System (NSLDS), or directly to a guaranty agency. Changes in enrollment status which must be reported to, and received by, NSLDS include (a) withdrawal, (b) graduation, (c) a student who has ceased to be enrolled on at least a half-time basis, and/or (d) a student who has been accepted for enrollment but never attended. Results were measured against the 60-day criteria as CSU-P transmits rosters for its graduating students. Colleges and universities either have an automated or manual process that determines student enrollment changes. Currently, CSU-P manually determines a student's graduate status before officially reporting the status change to NSLDS.

**What problem did the audit work identify?**

We determined that CSU-P did not report status changes timely to NSLDS for 14 of the 25 students (56 percent) tested. The scheduled enrollment reporting roster files were not transmitted to the National Student Clearinghouse, the third-party system, in order to ensure timely receipt, within 60 days of status change, by NSLDS. Additionally, it was discovered during the audit process that once students were determined to have officially graduated, the dates submitted to NSLDS through the third-party system, were back-dated to the term graduation date, which created the delay in reporting for the 14 exceptions noted. The exceptions consisted of students with December and May graduation dates whose enrollment status was submitted 28 to 43 days beyond the 60-day due date.

**Why did the problem occur?**

The CSU-P does not have adequate controls in place to ensure that student enrollment data is reported to NSLDS timely, as required. According to CSU-P staff, the roster submission to NSLDS is sometimes delayed because they use a manual process to determine if a student met the graduate degree requirements, which sometimes takes up to two months after the official graduation date to determine. In addition, CSU-P staff reported that they did not understand the required deadlines for receipt of enrollment status changes by the NSLDS.

**Why does this problem matter?**

Enrollment reporting assists lenders in the determination of whether a borrower should be moved into loan repayment status or if they are eligible for an in-school deferment. Thus, if CSU-P fails to meet the required reporting timelines or submits inaccurate information to NSLDS, the borrowers' repayment responsibilities may be reported incorrectly resulting in either a lack of timely repayments by the borrower or the student being inappropriately moved into loan repayment status.

CSU-P also risks federal disallowances due to its non-compliance with the student enrollment reporting requirements for the federal Student Financial Aid grant requirements. Under OMB *Circular A-133*,

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

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regardless if a school uses a third-party processor, such as the National Student Clearinghouse, responsibility ultimately lies with the school to meet required submission deadlines. (CFDA No. 84.268; Federal Direct Student Loans and CFDA No. 84.063; Federal Pell Grant Program. Classification of Finding: Material Weakness and Material Noncompliance; Total known questioned costs of \$0)

**Recommendation No. 2**

Colorado State University – Pueblo should ensure that it complies with federal Student Financial Aid program enrollment reporting requirements by:

- 1) Implementing a supervisory review over the enrollment reporting process, including roster submission, to help ensure timely filing.
- 2) Requiring that all Student Financial Aid staff attend Student Financial Aid training regarding the submission process in order to ensure reporting requirements, including due dates, are adequately communicated and clarified.

Colorado State University – Pueblo Response: Agree  
Implementation date: May 2015.

- a) The Financial Aid Office will conduct a supervisory review each semester of the National Student Clearinghouse enrollment reporting process (including dates) to ensure compliance with federal reporting standards. Supervisory reviews will begin in December 2014.

Colorado State University-Pueblo will implement a mandatory electronic degree audit system to automate the graduation process. This change will dramatically decrease the amount of time it takes the Registrar's Office to critically review potential graduate files and will ensure compliance with Federal Aid reporting guidelines. Colorado State University-Pueblo will also change our timelines for reporting to the National Student Clearinghouse. At the time this audit was completed, we reported graduates to the National Student Clearinghouse after all potential graduate files had been reviewed. Starting with our December 2014 graduates, we will submit reports to the National Student Clearinghouse every one to two weeks while we are graduating students to ensure timely reporting.

- b) The Financial Aid Office has developed training for its staff regarding the federal reporting requirements and the university's processes to ensure compliance. Training sessions will be conducted annually, at a minimum, but more frequently if necessary. Training sessions will begin in December 2014.

# Colorado State University - Pueblo

## Auditor's Findings and Recommendations

Year Ended June 30, 2014

### CSU – Pueblo Operations

As discussed previously, CSU-Pueblo is one of the three Universities within the CSU System. During Fiscal Year 2013-14, CSU-Pueblo experienced a \$5.8 million funding gap that was created by a decline in revenue and an increase in expenses from Fiscal Year 2012-13 to Fiscal Year 2013-14. Operating revenue during this time declined by \$4,198,695, or a 6.8 percent reduction (\$61,304,779 versus \$57,106,084). Operating expenses during this time increased by \$1,646,921, which is equivalent to a 2.3 percent increase (\$73,077,359 versus \$74,724,280). Operating revenues and operating expenses do not match for a number of reasons (e.g., operating revenues do not include transfers from other institutions, operating expenses include some non-cash payments such as depreciation, and operating expenses include one-time expenses for faculty buyouts that were funded from a transfer that was approved by the Board of Governors). The number of Full-Time Equivalent (FTE) students and faculty/staff for the past three fiscal years is outlined below:

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

	<u>Resident</u>	<u>Nonresident</u>	<u>Total</u>
Fiscal Year:			
2013-2014	3,475	499	3,974
2012-2013	3,598	539	4,137
2011-2012	3,886	551	4,437

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

	<u>Faculty</u>	<u>Staff</u>	<u>Total</u>
Fiscal Year			
2013-2014	222	315	537
2012-2013	222	375	597
2011-2012	233	366	599

As this FTE count shows, the student FTE count has decreased over 10 percent since fiscal year 2011–2012. During the same period, the faculty and staff FTE has decreased approximately 10 percent.

### What was the purpose of the audit work?

At the request of the Legislative Audit Committee, we performed testwork related to the following three questions as part of our Fiscal Year 2014 audit of CSU-P:

1. Does the Fiscal Year 2014-2015 budget for the CSU-Pueblo campus include budget cuts? If so, what are the amounts of the budget cuts and will the Fiscal Year 2014-2015 CSU-Pueblo campus budget cuts affect loss of employment for staff at the Pueblo campus? If budget cuts affect staff employment, how many full-time equivalent staff, level of staff, and description of positions will be lost due to the Fiscal Year 2014-2015 budget cuts?
2. What other areas, including programs lost, will be affected by the Fiscal Year 2014-2015 budget cuts?

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

- Are CSU-Pueblo campus funds going to be transferred to supplement the CSU-South Denver campus? If so, what is the total amount of funds planned to be transferred? What is the time period for the planned transfers and when will these transfers cease?

**What audit work was performed and how were results measured?**

We obtained various budget information from management which outlined the Fiscal Year 2014-2015 budget compared to the Fiscal Year 2013-2014 budget. According to CSU-Pueblo's budget document, a summary of the budget reductions is outlined below.

Level of staff and positions are identified in the table below:

Summary of CSU-Pueblo Budget Reductions (by Job Classification)									
	Filled Position		Reassignment / Reduce Position		Vacant Positions		Total		
	Savings	FTE	Savings	FTE	Savings	FTE	Savings	% of Total Savings	FTE
Faculty*	\$ 782,449	13.00	\$ 27,898	0.50	\$ 103,808	2.00	\$ 914,155	27.5%	15.50
Administrative / Professional	315,793	4.60	90,832	0.75	434,444	6.35	841,069	25.3%	11.70
Classified	213,176	4.00	23,517	0.50	439,454	11.00	676,147	20.3%	15.50
Adjunct*	290,000	0.00	0	0.00	0	0.00	290,000	8.7%	0.00
<b>Subtotal - Faculty / Staff</b>	<b>1,601,418</b>	<b>21.60</b>	<b>142,248</b>	<b>1.75</b>	<b>977,706</b>	<b>19.35</b>	<b>2,721,372</b>	<b>81.9%</b>	<b>42.70</b>
Security Contract							100,000	3.0%	0.00
Institutional Work Study							60,000	1.8%	0.00
<u>Operating Expenses</u>							<u>442,523</u>	<u>13.3%</u>	<u>0.00</u>
<b>Subtotal - Operating / Other</b>							<b>602,523</b>	<b>18.1%</b>	<b>0.00</b>
<b>Total</b>	<b>\$ 1,601,418</b>	<b>21.60</b>	<b>\$142,248</b>	<b>1.75</b>	<b>\$977,706</b>	<b>19.35</b>	<b>\$ 3,323,895</b>	<b>100.0%</b>	<b>42.70</b>

\* The reduction of faculty reflect non-renewals of letters of appointment for visiting assistants, lecturers, and adjunct faculty. It also reflects one retirement. No tenured or tenure track faculty were eliminated.

- The table above includes vacant positions which are currently not filled, but were included in the budget for Fiscal Year 2013-2014 as well as positions that were reduced. With these additional budget cuts, the faculty and staff full-time equivalents would be reduced 23.35 FTE's or 8 percent when compared to Fiscal Year 2013-14 (this calculation excludes the vacant positions included in the table).

This would result in a total reduction of faculty FTE of 24 or 10 percent (233 FTE's to 209 FTE's) and a total reduction of staff FTE of 61 FTE's or 17 percent (366 to 305 from Fiscal Year 2011-12 to Fiscal Year 2014-15. Both based on filled positions.

- Despite the continued reduction in student FTEs and a similar reduction in the Faculty / staff FTE's, there were no programs eliminated.
- During our audit procedures for the Fiscal Year 2013-14 financial statement audit, we did not identify instances where funds were transferred to the "CSU-South Denver Campus," a possible initiative to leverage the resources of the three existing institutions in the CSU system with each offering classes in the south metro Denver area. Additionally, no material changes in the

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

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allocation of costs from the CSU-System office to the three separate universities. The amount of System costs allocated to CSU-P in Fiscal Year 2013-14 was \$531,913 compared to \$605,316 in Fiscal Year 2012-13, or a 12 percent decrease.

As disclosed in the Fiscal Year 2013-14 financial statements, CSU-Pueblo received a transfer of \$5,000,000 from CSU-Global. The funds were a one-time transfer to offset a structural budget deficit due to larger than anticipated declines in enrollment. In addition, CSU-Pueblo received a loan of \$500,000 to support the buyout of faculty positions and \$820,713 to fund the Fiscal 2013-14 budget deficit. The total of \$1,320,713 is an interest free loan, repayable no later than June 30, 2018. CSU-Pueblo, along with the CSU System, has worked diligently to reduce personnel and operating cost to reflect the current size of the university.

**CSU System Comments**

In addition, the Colorado State University System is working with CSU-Pueblo to identify and pursue new revenues streams, boost enrollment and gain operational efficiencies.

Looking forward into the future the CSU System will work to begin to differentiate CSU-Pueblo from other institutions in the state and create 5 to 7 high-quality academic programs, or improve current programs that help attract students. The purpose will be to highlight the significant qualities of CSU-Pueblo and begin to attract a more diverse student body while providing the student greater educational pathways. In addition, signature programs can provide a pipeline to our other institutions or other research institutions in Colorado, thereby, providing greater educational opportunities for students.

The CSU-South Metro project is part of a strategic effort to showcase a new model for higher education that caters to both students and the business community, demonstrating how graduate and undergraduate programs can be delivered in a scalable, innovative and collaborative format. Leveraging the resources, world-class faculty and high-quality curriculum of all three system institutions – CSU in Fort Collins, CSU-Pueblo and the CSU-Global Campus – the CSU Denver South initiative uses in-person and online instruction to provide students in the South Metro area with the opportunity to receive a CSU education.

No recommendation is made in this area.

**Colorado State University - Pueblo**  
Disposition of Prior Audit Recommendations  
Year Ended June 30, 2014

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**Summary of Progress in Implementing Prior Audit Recommendations**

The audit of the CSU System for the year ended June 30, 2013 noted one recommendation related to CSU-Pueblo. The disposition of this audit recommendation as of June 30, 2014 is as follows:

<b>No.</b>	<b>Recommendation</b>	<b>Disposition</b>
1	CSU-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.	Not implemented. See Recommendation No. 1.

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## Independent Auditor's Report

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 – Pueblo (CSU-Pueblo), a university within the Colorado State University System, State of Colorado (the CSU System), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise CSU – Pueblo’s basic financial statements as listed in the table of contents.

### ***Management’s Responsibility for the Financial Statements***

Management of CSU-Pueblo 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Colorado State University – Pueblo Foundation, the discretely presented component unit, 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 CSU – Pueblo’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 CSU – Pueblo’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.

Members of the Legislative Audit Committee

### **Opinions**

In our opinion, based on our audit, 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 CSU-Pueblo as of June 30, 2014, 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 CSU-Pueblo 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 CSU-Pueblo. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2014, and the changes in its financial position or, where applicable, its cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2014, CSU-Pueblo adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are 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 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 November 26, 2014, on our consideration of CSU-Pueblo's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CSU-Pueblo's internal control over financial reporting and compliance.

**BKD, LLP**

Denver, Colorado  
November 26, 2014

**Colorado State University - Pueblo**  
Management's Discussion and Analysis  
(Unaudited)  
Year Ended June 30, 2014

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**Management's Discussion and Analysis**

We are pleased to present this financial discussion and analysis of Colorado State University – Pueblo (CSU-Pueblo). It is intended to make CSU-Pueblo's financial statements easier to understand and to 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 CSU-Pueblo for the fiscal year ended June 30, 2014. This discussion provides an analysis of CSU-Pueblo'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 Basic Financial Statements**

Financial highlights are presented in this discussion and analysis to help with the assessment of CSU-Pueblo's financial activities. This analysis should be read in conjunction with CSU-Pueblo'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 CSU-Pueblo's finances and are comprised of three basic statements.

The statement of net position present information on all of CSU-Pueblo's assets, deferred outflows, liabilities, and deferred inflows; 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 CSU-Pueblo is improving or deteriorating.

The statements of revenues, expenses, and changes in net position present information showing how CSU-Pueblo'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.

CSU-Pueblo reports its activity as a business-type activity using the economic resources measurement focus and the accrual basis of accounting. CSU-Pueblo is part of the CSU System. The CSU 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 CSU-Pueblo has adopted as well as additional detail of certain amounts contained in the basic financial statements. The notes to basic financial statements follow the basic financial statements.

Management's discussion and analysis focuses on the primary government, which is CSU-Pueblo.

**Colorado State University - Pueblo**  
Management's Discussion and Analysis  
(Unaudited)  
Year Ended June 30, 2014

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**Financial Highlights**

Selected financial highlights for fiscal year 2014 include:

- For fiscal year 2014, appropriated expenses at CSU-Pueblo were within the authorized spending authority. For fiscal year 2014, CSU-Pueblo had a total appropriation of \$12.81 million. For fiscal year 2014, CSU-Pueblo's appropriated funds consisted of \$6.21 million, received from students that qualified for stipends from the College Opportunity Fund and \$6.60 million, as fee for service contract revenue. All other revenues and expenses reported by CSU-Pueblo 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.
- On September 10, 2013, CSU-Pueblo issued Series 2013 C Enterprise Bonds & Series 2013 D, Taxable Enterprise Bonds for \$26.3 million that will mature in varying annual amounts to March 2044 with interest rates varying from 1.0 to 5.0 percent. The proceeds from the sale of the Series 2013 C Bonds will be used to (a) renovate, remodel, improve and construct an addition to the Occhiato University Center for Colorado State University Pueblo; (b) pay capitalized interest; and (c) pay the costs of issuing the Series 2013 C Bonds.
- The assets of CSU-Pueblo exceeded its liabilities at June 30, 2014 by approximately \$80.9 million (net position). Of this amount, approximately \$3.05 million is restricted for purposes which the donor or grantor or other external party intended and approximately \$63.7 million is related to the net investment in capital assets. The remaining approximately \$14.2 million is unrestricted and may be used to meet CSU-Pueblo's ongoing obligations. Although unrestricted net position is not externally restricted, it may be internally designated by CSU-Pueblo's administration for various purposes.
- CSU-Pueblo's net position decreased by approximately \$1.8 million during fiscal year 2014. Of this amount, approximately \$3.5 million relates to a decrease in the net investment in capital assets, approximately \$0.7 million relates to decreases in restricted net position, and approximately \$2.4 million relates to an increase in the unrestricted net position. The increase in unrestricted net position is primarily the result of a one-time \$5.0 million transfer of funds from CSU-Global.

**Financial Analysis**

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of CSU-Pueblo. CSU-Pueblo's assets exceeded liabilities resulting in a net position at June 30, 2014 of approximately \$80.9 million. The majority of CSU-Pueblo'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. Surplus reserves or net positions are primarily designated to fund strategic initiatives such as enrollment growth and exceptional customer service, to maintain financial stability as required by the Board and Higher Learning Accrediting Authorities and for the development of new and maintenance of existing courses and degree programs.

**Colorado State University - Pueblo**  
Management's Discussion and Analysis  
(Unaudited)  
Year Ended June 30, 2014

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**Summary of Net Position**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>
Current assets	\$ 27,115,465	\$ 24,691,019
Noncurrent assets	159,393,586	137,459,568
Total assets	186,509,051	162,150,587
Deferred outflows of resources	14,256,964	-
Current liabilities	11,201,487	10,231,972
Noncurrent liabilities	108,604,721	69,178,747
Total liabilities	119,806,208	79,410,719
Net position		
Net investment in capital assets	63,681,945	67,202,771
Restricted for expendable purposes	3,054,705	3,774,964
Unrestricted	14,223,157	11,762,133
Total net position	\$ 80,959,807	\$ 82,739,868

Decreased tuition and fee revenue caused by decreased enrollment along with increased operating expenses has caused a decrease in cash and cash equivalents of 15 percent or approximately \$2.4 million in 2014 over that of 2013. For this same period, net student accounts receivable increased approximately \$0.1 million or 3 percent.

In 2014, total liabilities increased approximately \$40.4 million. Current liabilities increased by approximately \$1.0 million due to higher payroll accruals, the recognition of deferred revenue and timing of accounts payable. Noncurrent liabilities increased by approximately \$39.4 million due to bond issuances to remodel the Occhiato University Center.

**Statement of Revenues, Expenses and Changes in Net Position**

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

**Colorado State University - Pueblo**  
Management's Discussion and Analysis  
(Unaudited)  
Year Ended June 30, 2014

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**Summary of Revenues, Expenses and Changes in Net Position**

	<b>Year Ended June 30, 2014</b>	<b>Year Ended June 30, 2013</b>
Operating revenues		
Student tuition and fees	\$ 28,787,507	\$ 30,320,764
Grants and contracts	9,735,588	10,843,407
Other operating revenue	18,582,991	20,140,608
Total operating revenues	57,106,086	61,304,779
Operating expenses		
Instruction	22,603,811	22,596,665
Academic support	8,468,091	7,075,287
Student services	6,776,334	6,879,979
Institutional support	3,882,002	2,859,754
Operation and maintenance of plant	5,915,807	5,884,295
Scholarships and fellowships	8,190,667	8,613,118
Research	123,966	181,976
Public service	999,796	1,286,418
Auxiliary enterprises	11,093,110	10,897,432
Depreciation	6,670,696	6,802,435
Total operating expenses	74,724,280	73,077,359
Operating loss	(17,618,194)	(11,772,580)
Net non-operating revenues (expenses)	9,081,053	8,493,935
Total other revenues (expenses)	6,757,080	201,860
Decrease in net position	(1,780,061)	(3,076,785)
Net position, beginning of year	82,739,868	85,816,653
Net position, end of year	\$ 80,959,807	\$ 82,739,868

From June 30, 2013 through June 30, 2014, total student enrollment decreased by 4.1 percent. During this same period, tuition revenue decreased from approximately \$30.3 million to approximately \$28.8 million, a decrease of approximately \$1.5 million or 5 percent. Grants and contracts revenue also decreased by 11.0 percent or approximately \$1.1 million. CSU-Pueblo's share of the fee for service revenues also decreased by 11.9 percent or approximately \$0.9 million. Tuition rates were unchanged between the period of June 30, 2013 and June 30, 2014. Total operating revenue decreased 6.9 percent or approximately \$4.2 million.

**Colorado State University - Pueblo**  
Management's Discussion and Analysis  
(Unaudited)  
Year Ended June 30, 2014

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From June 30, 2013 through June 30, 2014, CSU-Pueblo's operating costs increased by approximately \$1.6 million or 2.4 percent. The number of instructors (full-time equivalent) did not increase. The number of non-teaching or support staff employees (full-time equivalent) decreased by 25 FTE's during this same period. Between fiscal years 2013 and 2014, approximately \$0.5 million of CSU-Pueblo's operating costs were spent on student enrollment and retention initiatives.

Non-operating revenues increased by approximately \$0.6 million dollars or 6.9 percent. This increase is attributable to the increased number of undergraduate students eligible for federal grants. Non-operating revenues for CSU-Pueblo primarily consist of federal Pell Grant awards received on behalf of students. Reporting standards require the receipt of these resources to be recognized as non-operating revenue while the actual disbursement to students is reported as an operating expense.

**Statement of Cash Flows**

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

**Economic Outlook for Colorado State University-Pueblo Campus**

Management believes CSU-Pueblo will be in a much stronger financial position in the following years. CSU-Pueblo has implemented some strategic enrollment initiatives to help increase enrollment over the next few years and thus tuition revenue. CSU-Pueblo has also increased the tuition rate which will also aid in increasing tuition revenue. CSU-Pueblo has also entered into some partnerships with CSU Global to offer CSU-Pueblo select courses and programs on-line and is currently working on a partnership with the CSU System to be able to offer select CSU-Pueblo courses and programs at a proposed new CSU Denver South Metro campus. It is anticipated that such ventures will lead to increased enrollment for CSU-Pueblo and thus additional tuition revenue. In addition, new freshman enrollment for the Fall 2014 semester has increased 15 percent over the Fall 2013 semester.

The University has also taken steps to reduce its operating costs. In fiscal year 2015, the University reduced its operating costs by \$3.3 million dollars through the elimination of 43 full-time equivalent positions. This was accomplished through a combination of staff/faculty reductions and an operating expense reduction.

**Requests for Information**

The financial report is designed to provide a general overview of CSU-Pueblo's finances for all those with an interest in CSU-Pueblo's finances and to demonstrate CSU-Pueblo's accountability for 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-Pueblo, 2200 Bonforte Avenue, Pueblo, Colorado 81001.

# Colorado State University - Pueblo

## Statement of Net Position

June 30, 2014

	<u>2014</u>
<b>Assets</b>	
<i>Current assets</i>	
Cash and cash equivalents	\$ 13,626,128
Student accounts receivable, net	3,748,543
Grants and other accounts receivable, net	8,042,541
Student loans receivable, net	265,894
Inventories	1,331,467
Prepaid expenses	100,892
Total current assets	<u>27,115,465</u>
<i>Noncurrent assets</i>	
Restricted cash and cash equivalents	25,410,497
Student loans receivable, net	2,605,351
Other noncurrent assets	1,976
	<u>28,017,824</u>
Nondepreciable capital assets:	
Land	509,937
Construction in process	1,992,082
Collections	524,723
Total nondepreciable capital assets	<u>3,026,742</u>
Depreciable capital assets, net:	
Land improvements	6,544,765
Building and improvements	117,781,542
Equipment	1,420,888
Library materials	2,601,825
Total depreciable capital assets, (net of accumulated depreciation)	<u>128,349,020</u>
Total noncurrent assets	159,393,586
Total assets	186,509,051
<b>Deferred outflows of resources</b>	
Loss on bond refundings	14,256,964
Total assets and deferred outflows of resources	<u>\$ 200,766,015</u>
Total deferred outflows of resources	<u>14,256,964</u>

## Colorado State University - Pueblo

### Statement of Net Position (Continued)

June 30, 2014

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#### **Liabilities**

##### *Current liabilities*

Accounts payable	\$	140,912
Accrued liabilities		7,335,743
Unearned revenue		1,776,756
Bonds payable and certificates of participation, current		937,695
Capital leases payable, current		450,731
Other current liabilities		432,604
Compensated absences liabilities, current		127,046
Total current liabilities		<u>11,201,487</u>

##### *Noncurrent liabilities:*

Bonds payable and certificates of participation, net of current portion		106,245,329
Capital leases payable, net of current portion		980,549
Compensated absences liabilities, net of current portion		1,378,843
Total noncurrent liabilities		<u>108,604,721</u>
Total liabilities		<u>119,806,208</u>

#### **Net position**

Net investment in capital assets	\$	63,681,945
Restricted – expendable		3,054,705
Unrestricted		14,223,157
Total net position	\$	<u><u>80,959,807</u></u>

**Colorado State University - Pueblo**  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2014

	<b>2014</b>
Operating revenues	
Student tuition and fees (net of scholarship allowances of \$12,773,082)	\$ 28,787,507
State fee for service revenue	6,604,718
Grants and contracts	9,735,588
Sales and services of educational activities	307,295
Auxiliary enterprises (net of scholarship allowances of \$2,063,038)	11,070,957
Other operating revenue	600,021
Total operating revenues	57,106,086
Operating expenses	
Instruction	22,603,811
Research	123,966
Public service	999,796
Academic support	8,468,091
Student services	6,776,334
Institutional support	3,882,002
Operation and maintenance of plant	5,915,807
Scholarships and fellowships	8,190,667
Auxiliary enterprises	11,093,110
Depreciation	6,670,696
Total operating expenses	74,724,280
Operating loss	(17,618,194)
Nonoperating revenues (expenses)	
Gifts	1,976,136
Investment income	286,733
Interest expense on capital debt	(4,395,507)
Federal nonoperating grants and contracts	8,977,030
Other nonoperating revenues	2,236,661
Total net nonoperating revenues (expenses)	9,081,053
Loss before other revenues (expenses)	(8,537,141)
Other revenues (expenses)	
State capital contributions	1,797,898
Capital gifts	21,498
Net payments from governing boards or other institutions	4,937,684
Total other revenues (expenses)	6,757,080
Decrease in net position	\$ (1,780,061)
Net position, beginning of year as restated	82,739,868
Net position, end of year	\$ 80,959,807

**Colorado State University - Pueblo**  
Statement of Cash Flows  
Year Ended June 30, 2014

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	<b>2014</b>
Cash flows from operating activities	
Cash received	
Tuition and fees	\$ 28,901,400
Student loans collected	217,153
Sales of products	5,581,388
Sales of services	4,125,406
State fee for service contracts	6,604,718
Grants and contracts	10,032,440
Other operating receipts	699,983
Cash payments	
Scholarships disbursed	(8,190,667)
Student loans disbursed	(246,281)
Payments to employees	(40,812,522)
Payments to suppliers	(16,245,446)
Net cash used in operating activities	(9,332,428)
 Cash flows from noncapital financing activities	
Gifts and grants for other than capital purposes	1,852,821
Agency (direct lending inflows)	21,439,701
Agency (direct lending outflows)	(21,439,701)
Other agency (inflows)	1,537,363
Other agency (outflows)	(1,537,363)
Payments to governing boards or other institutions	(462,316)
Other nonoperating revenues	11,213,691
Net cash provided by noncapital financing activities	12,604,196
 Cash flows from capital and related financing activities	
Proceeds from capital debt	26,212,977
State appropriations - capital	1,797,898
Capital grants, contract and gifts	21,500
Acquisition and construction of capital assets	(3,698,386)
Principal paid on capital debt	(1,058,289)
Interest on capital debt	(4,170,649)
Net cash provided by capital and related financing activities	19,105,051

## Colorado State University – Pueblo

### Statement of Cash Flows (Continued)

Year Ended June 30, 2014

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Cash flows from investing activities:	
Investments earnings	286,733
Net cash provided by investing activities	<u>286,733</u>
Net increase in cash and cash equivalents	22,663,503
Cash and cash equivalents, beginning of the year	<u>16,373,122</u>
Cash and cash equivalents, end of the year	<u><u>\$ 39,036,625</u></u>
Reconciliation of cash and cash equivalents to the Statement of Net Position	
Cash and cash equivalents	\$ 13,626,128
Restricted cash and cash equivalents	<u>25,410,497</u>
Cash and cash equivalents, end of the year	<u><u>\$ 39,036,625</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (17,618,194)
Adjustments	
Depreciation expense	6,670,696
Changes in operating assets and liabilities	
Receivables, net	848,171
Inventories and prepaids	8,289
Accounts payable	40,283
Accrued liabilities	607,834
Unearned revenue	(29,683)
Compensated absences liabilities	<u>140,176</u>
Net cash used in operating activities	<u><u>\$ (9,332,428)</u></u>
Noncash activities	
Unrealized gains on investments	139,412
Capitalized interest	78,820
Amortization of bond refunding	(612,791)
Amortization of bond premium	492,103
Retainage payable	(4,034)

**Colorado State University – Pueblo**  
**Colorado State University – Pueblo Foundation**  
Statement of Financial Position – Discretely Presented Component Unit  
June 30, 2014

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**Assets**

Cash and cash equivalents	\$	2,638,598
Accounts receivable		3,255
Other prepaid expenses		-
Unconditional promises to give, net		2,035,184
Marketable securities		27,516,843
Miscellaneous assets		602
Beneficial interest in remainder trusts		1,649,250
Investment in real estate		165,000
Investment in limited partnership		297,000
Leasehold improvements and office equipment		<u>75,962</u>
Less accumulated depreciation		(65,668)
Total assets	\$	<u><u>34,316,796</u></u>

**Liabilities and net assets**

*Liabilities*

Accounts payable	\$	1,568,483
Other liabilities		25,989
Income taxes payable		<u>4,039</u>
Total liabilities		1,598,511

*Net assets*

Unrestricted	4,794,979
Temporarily restricted	15,123,152
Permanently restricted	<u>12,800,154</u>

Total net assets	<u>32,718,285</u>
Total liabilities and net assets	<u><u>\$ 34,316,796</u></u>

**Colorado State University – Pueblo**  
**Colorado State University – Pueblo Foundation**  
Statement of Activities – Discretely Presented Component Unit  
Year Ended June 30, 2014

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total 2014</b>
<b>Revenue and support</b>				
Contributions	\$ 87,584	3,613,691	36,850	3,738,125
In-kind contributions	18,887	326,353	-	345,240
Fundraising revenue	-	347,260	-	347,260
Dividends	277,355	1,154,161	-	1,431,516
Interest	890	3,701	-	4,591
Realized gain on sale of marketable securities	41,126	171,140	-	212,266
Unrealized gain on marketable securities	374,265	1,557,439	-	1,931,704
Net rental income	29,243	121,687	-	150,930
Realized gain on sale of real estate investments	1,317,604	1,321,652	-	2,639,256
Miscellaneous income	11,429	25,047	-	36,476
Changes in the value of split-interest agreements	-	18,712	212,276	230,988
Reclassification of net assets	37,920	(172,579)	134,659	-
<b>Net assets released from restrictions</b>	<u>5,926,641</u>	<u>(5,926,641)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>8,122,944</u>	<u>2,561,623</u>	<u>383,785</u>	<u>11,068,352</u>
<b>Expenses</b>				
Program expenses	5,096,971	-	-	5,096,971
Management and general	390,201	-	-	390,201
Fundraising	378,351	-	-	378,351
Total expenses	<u>5,865,523</u>	<u>-</u>	<u>-</u>	<u>5,865,523</u>
Change in net assets	2,257,421	2,561,623	383,785	5,202,829
<b>Net assets, beginning of year</b>	<u>2,537,558</u>	<u>12,561,529</u>	<u>12,416,369</u>	<u>27,515,456</u>
<b>Net assets, end of year</b>	<u>\$ 4,794,979</u>	<u>15,123,152</u>	<u>12,800,154</u>	<u>32,718,285</u>

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# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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### **(1) Governance and Reporting Entity**

#### ***(a) Governance***

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

#### ***(b) Reporting Entity***

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

#### ***(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 CSU-Pueblo 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 – Pueblo Foundation (CSU-Pueblo Foundation or CSUPF) has been determined to be a component unit of CSU-Pueblo and has therefore been included as a discretely presented component unit in the CSU-Pueblo financial reporting entity and presented in CSU-Pueblo's 2014 financial statements.

CSU-Pueblo Foundation was established in 1954 as an independent 501(c)(3) nonprofit corporation. CSU-Pueblo Foundation was formed to advance and assist in the development, growth, and operation of CSU-Pueblo. Twenty-five trustees of CSU-Pueblo Foundation are elected by trustees of 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's sources of revenue are interest earned on bank accounts and investments, donations, rental property, fundraising activities, and sales on investments. CSU-Pueblo Foundation had \$6.9 million in related revenue as of June 30, 2014. The Total Revenue and Support at June 30, 2014 was \$11.1 million.

CSU-Pueblo Foundation recorded \$5.1 million in transfers of gifts and other assets to CSU-Pueblo during fiscal years ended June 30, 2014. During the same period, CSU-Pueblo provided \$345 thousand, in in-kind support to CSU-Pueblo Foundation. Further, CSU-Pueblo did not incur any expenses on behalf of CSU-Pueblo Foundation during the fiscal year ended June 30, 2014.

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

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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### (2) Basis of Presentation

Effective July 1, 2013, CSU-Pueblo adopted GASB Statement No. 65 of the Governmental Accounting Standards Board (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term “deferred” in financial statement presentations. The adoption of GASB 65 reduced the beginning of the year net position by \$185,665.

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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

For financial reporting purposes, CSU-Pueblo is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the basic financial statements of CSU-Pueblo 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.

#### (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) Student Receivables

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

#### (c) Capital Assets

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

Asset Class	Useful Life
Furniture and other equipment	5–7 years
Computer hardware and software	3–5 years
Leasehold improvements	Shorter of term of lease or useful life

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

#### (d) Compensated Absence Liabilities

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

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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#### **(e) Net Position**

Net positions of CSU-Pueblo are classified as follows:

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

**Restricted net position – expendable** – Restricted expendable net positions include resources in which CSU-Pueblo is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or debt agreements.

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

#### **(f) Deferred Outflows of Resources**

A deferred outflow of resources is a consumption of net position by a government that is applicable to a future period. It is recorded in the statement of net position but is not recognized on the financial statements as an expense until the period(s) for which it relates. Deferred outflows of resources for CSU-Pueblo as of June 30, 2014 consist of deferred losses on debt refundings.

#### **(g) Classification of Revenues**

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

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

#### **(h) Unearned Revenue**

CSU-Pueblo defers a portion of the tuition revenue for courses whose duration spans two fiscal years.

The amount recognized or unearned is based on the number of teaching days that occur after June 30.

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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#### *(i) 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.

#### *(j) 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.

#### **(4) Cash and Cash Equivalents**

CSU-Pueblo deposits its cash with the Colorado State Treasurer as required by Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The state treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the treasury are invested until the cash is needed. As of June 30, 2014, CSU-Pueblo had cash on deposit with the State Treasurer of \$37,195,842, which represented approximately 0.5 percent of the total \$7,455.0 million fair value of deposits in the State Treasurer's Pool (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 CSU-Pueblo's participation in the Pool, CSU-Pueblo reports as an increase or decrease in cash for 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/losses included in income reflect only the change in fair value for the fiscal year.

The difference between CSU-Pueblo's cash carrying value, deposits with the State Treasurer and balances at other banks is due to outstanding checks and deposits in transit. CSU-Pueblo earned interest of \$139,412 for the fiscal year ended June 30, 2014. However, CSU-Pueblo recognized the occurrence of increases in cash and cash equivalents and increases in investment income as a result of unrealized gains on deposits with the State Treasurer. CSU-Pueblo reflected a cumulative unrealized gain of \$23,104 on cash and cash equivalents on deposits with the State Treasurer for fiscal year ended June 30, 2014. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

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

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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At June 30, 2014, CSU-Pueblo's balance of cash not on deposit with the State Treasurer is approximately \$2.0 million. Cash includes petty cash or cash on hand and cash in bank accounts. Bank account balance per the bank at June 30, 2014 is \$1.9 million. Of the June 30, 2014 deposits, \$250,000 were covered by depository insurance and were not exposed to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2014 approximately 87.0 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$15,235,458 of corporate bonds rated lower medium and \$25,428,000 of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the 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 State Treasurer is investing for a specific fund rather than the Pool. The State 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 State Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2014, the weighted average maturity of investments in the Pool is 0.043 years for commercial paper (1.0 percent of the Pool), 1.424 years for U.S. government securities (55.8 percent of the Pool), 3.033 years for asset backed securities (19.9 percent of the Pool), and 2.766 years for corporate bonds (23.3 percent of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2013-14.

Additional information on investments of the Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2014.

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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### (5) Accounts Receivable

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

	<b>June 30, 2014</b>
Student accounts receivable	\$ 6,287,914
Less allowance for doubtful accounts	<u>(2,539,371)</u>
Student accounts receivable, net	<u>3,748,543</u>
Student loans receivable	4,497,157
Less allowance for doubtful accounts	<u>(1,625,912)</u>
Student loans receivable, net	2,871,245
Less current portion	<u>(265,894)</u>
Student loans receivable	<u>2,605,351</u>
Grants and other accounts receivable	
Sponsored programs	785,475
Commercial receivables	66,014
Receivables from Foundation	1,652,427
Capital construction - due from state	324
Other	<u>5,561,050</u>
Total grants and other accounts receivable	8,065,290
Less allowance for doubtful accounts	<u>(22,749)</u>
Other accounts receivable, net	<u>8,042,541</u>
	<u>\$ 14,662,329</u>

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

### (6) Capital Assets

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

	July 1, 2013	Additions	Transfers	Deletions	June 30, 2014
Nondepreciable capital assets:					
Land	\$ 208,057	\$ -	\$ -	\$ -	\$ 208,057
Land improvements	-	301,880	-	-	301,880
Construction in progress	251,010	2,845,625	(990,592)	(113,961)	1,992,082
Collections	524,723	-	-	-	524,723
Total nondepreciable capital assets	<u>983,790</u>	<u>3,147,505</u>	<u>(990,592)</u>	<u>(113,961)</u>	<u>3,026,742</u>
Depreciable capital assets:					
Land and leasehold improvement	20,859,912	-	170,199	(301,880)	20,728,231
Buildings and improvements	173,407,832	-	820,393	-	174,228,225
Equipment	6,527,786	640,771	-	(56,316)	7,112,241
Library materials	7,070,178	329,818	-	(15,659)	7,384,337
Total depreciable capital assets	<u>207,865,708</u>	<u>970,589</u>	<u>990,592</u>	<u>(373,855)</u>	<u>209,453,034</u>
Less accumulated depreciation:					
Land and leasehold improvement	13,513,975	669,491	-	-	14,183,466
Buildings and improvements	51,078,823	5,367,860	-	-	56,446,683
Equipment	5,421,715	322,086	-	(52,448)	5,691,353
Library materials	4,486,913	311,259	-	(15,660)	4,782,512
Total accumulated depreciation	<u>74,501,426</u>	<u>6,670,696</u>	<u>-</u>	<u>(68,108)</u>	<u>81,104,014</u>
Net depreciable capital assets	<u>133,364,282</u>	<u>(5,700,107)</u>	<u>990,592</u>	<u>(305,747)</u>	<u>128,349,020</u>
Total capital assets, net	<u>\$ 134,348,072</u>	<u>\$ (2,552,602)</u>	<u>\$ -</u>	<u>\$ (419,708)</u>	<u>\$ 131,375,762</u>

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

#### (7) Accrued Liabilities

The current accrued liabilities balances as of June 30 were composed of:

	<b>June 30, 2014</b>
Accrued payroll and benefits	\$ 5,918,744
Accrued interest payable	1,416,998
Total	\$ 7,335,743

#### (8) Long-term Liabilities

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

	<b>June 30, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>June 30, 2014</b>	<b>Amounts Due Within One Year</b>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 67,126,015	\$ 40,695,165	\$ (638,156)	\$ 107,183,024	\$ 937,695
Capital leases payable	1,851,413	-	(420,133)	1,431,280	450,731
Total bonds and capital leases	68,977,428	40,695,165	(1,058,289)	108,614,304	1,388,426
Other liabilities:					
Other	343,174	89,430	-	432,604	432,604
Accrued compensated absences	1,365,712	140,177	-	1,505,889	127,046
Total noncurrent liabilities	\$ 70,686,314	\$ 40,924,772	\$ (1,058,289)	\$ 110,552,797	\$ 1,948,076

#### (9) 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 CSU-Pueblo. 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 CSU-Pueblo 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.

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2014 is detailed below.

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

Revenue bonds and COPs payable consisted of the following at June 30, 2014:

	<b>Interest Range</b>	<b>2014</b>
<p>Colorado State University System Enterprise Revenue Bonds of 2007 A; a portion of which has been allocated to CSU-Pueblo to defray cost of constructing certain recreation facilities at CSU-Pueblo. The bonds mature in varying annual amounts to March 2037.</p>	4.625–5.250%	\$ 1,206,230
<p>Portion of the State of Colorado Certificate of Participation to remodel the CSU-Pueblo Academic Resource Center (Library). Annual installments due ranging from \$89,069 to \$221,036. Final maturity: 2029.</p>	5.100%	2,231,457
<p>Colorado State University System Enterprise Revenue Bonds of 2012 A; a portion of which has been allocated to CSU-Pueblo to purchase University Village at Walking Stick. The bonds mature in varying annual amounts to March 2044.</p>	2.000–5.000%	3,025,000
<p>Colorado State University System Enterprise Revenue Bonds of 2012 B; a portion of which has been allocated to CSU-Pueblo to partially refund 2007 A bonds. The bonds mature in varying annual amounts to March 2035.</p>	2.000–5.000%	1,708,420
<p>Colorado State University System Enterprise Revenue and Revenue Refunding Bonds of 2013 A; a portion of which has been allocated to CSU-Pueblo to partially refund the 2007 A bonds and fully refund the 2009 A bonds. The bonds mature in varying annual amounts to March 2043.</p>	1.000–5.000%	58,990,444
<p>Colorado State University System Enterprise Revenue Refunding Bonds of 2013 B; a portion of which has been allocated to CSU-Pueblo to partially refund the 2007 A bonds. The bonds mature in varying annual amounts to March 2020.</p>	0.427–2.073%	21,613

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

	<b>Interest Range</b>	<b>2014</b>
Colorado State University System Enterprise Revenue Bonds of 2013 C; wholly allocated to CSU-Pueblo to defray cost of constructing certain recreation facilities at CSU-Pueblo. The bonds mature in varying annual amounts to March 2044.	5.000–5.250%	18,610,000
Colorado State University System Taxable System Enterprise Revenue Bonds of 2013 D; wholly allocated to CSU-Pueblo to defray cost of constructing certain recreation facilities at CSU-Pueblo. The bonds mature in varying annual amounts to March 2028.	0.963–5.251%	7,855,000
Unamortized bond premium		13,534,860
		\$ 107,183,024

The scheduled maturities of the bonds and COPs as of June 30, 2014 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2015	\$ 937,695	\$ 4,579,270	\$ 5,516,965
2016	964,603	4,558,952	5,523,555
2017	1,147,817	4,532,752	5,680,569
2018	1,399,142	4,492,216	5,891,358
2019	1,655,729	4,439,054	6,094,783
2020–2024	11,881,033	20,800,888	32,681,921
2025–2029	14,867,638	17,544,544	32,412,182
2030–2034	17,950,488	13,506,412	31,456,900
2035–2039	21,619,019	8,553,039	30,172,058
2040–2044	21,225,000	2,898,450	24,123,450
Total debt service maturities	93,648,164	\$ 85,905,577	\$ 179,553,741
Unamortized bond premium	13,534,860		
	\$ 107,183,024		

#### (10) Pledged Revenues and Related Expenses

CSU-Pueblo is 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.

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

a) CSU-Pueblo Auxiliary Facilities Refunding and Improvement Revenue Bonds

Pledged by auxiliary revenues

	<b>June 30, 2014</b>
Operating revenues – pledged auxiliary revenues	\$ 11,555,247
Operating expenses	(8,535,324)
Pledged revenues over operating expenses	3,019,923
Other revenues and transfers	(1,623,523)
Pledged revenues in excess of expenses	\$ 1,396,400

b) System Enterprise Revenue Bonds (including Tuition and University Facilities Fees Revenue Bonds): Pledged by 100 percent CSU-Pueblo facilities fees and remaining auxiliary revenue.

	<b>June 30, 2014</b>
Operating revenues – pledged	\$ 5,428,561
Operating expenses	-
Pledged revenues in excess of expenses	\$ 5,428,561

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. CSU-Pueblo is also required to comply with various other covenants while the bonds are outstanding. Management believes CSU-Pueblo has met all debt service coverage ratios and has complied with all bond covenants.

### (11) Capital Lease Obligations

The following is a schedule of CSU-Pueblo's future minimum lease payments for obligations under capital leases for subsequent fiscal years.

	<b>Total</b>
Fiscal year ending June 30	
2015	\$ 504,363
2016	516,975
2017	510,592
Minimum future lease payments	\$ 1,531,930
Less amount representing interest	100,650
Present value of minimum lease payments	\$ 1,431,280

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2014, CSU-Pueblo had capital lease obligations in effect with capitalized asset costs of approximately \$7 million; accumulated depreciation of approximately \$1.8 million; and related outstanding liabilities of \$1.4 million.

### (12) Net Position

CSU-Pueblo is subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions and state of Colorado statutes.

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

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

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

### *CSU-Pueblo Board-Designated Funds*

CSU-Pueblo manages two board-designated funds. 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, 2014 consisted of:

Cash	\$	5,341,591
Land		<u>40,907</u>
Total assets	\$	<u>5,382,498</u>

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.

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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The KTSC Fund assets at June 30, 2014 consisted of:

Cash	\$ 2,590,809
Total assets	<u>\$ 2,590,809</u>

### (13) Employment

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

CSU-Pueblo's total payroll for the fiscal year ended June 30, 2014 was approximately \$34.5 million. Payroll for employees covered by the PERA plan and the optional defined contribution plan was approximately \$9.5 million for the fiscal years ended June 30, 2014.

#### (a) *PERA Defined Benefit Pension Plan*

##### **Plan Description**

Virtually all of CSU-Pueblo's employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan administered by PERA. PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the 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 Post Office Box 5800, Denver, Colorado 80217, by calling PERA at 1.800.759.PERA (7372) or by visiting <http://www.copera.org>.

Non-higher education employees hired by the state after January 1, 2006 are allowed 60 days to elect to participate in a defined contribution retirement plan administered by the State Deferred Compensation Committee rather than becoming a member of PERA. If that election is not made, the employee becomes a member of PERA, and the member is allowed 60 days from commencing employment to elect to participate in a defined contribution plan administered by PERA rather than the defined benefit plan.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan or the institution's optional retirement plan. Currently, higher education employees, except for community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010 are required to become members of PERA and must elect either PERA's defined benefit or defined contribution plan within 60 days, unless they had been a PERA member within the prior twelve months. In that case, they are required to remain in the PERA plan in which they participated previously.

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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

Defined benefit plan members (except state troopers) vest after five years of service and are eligible for full retirement based on their original hire date as follows:

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

State troopers and judges comprise a small percentage of plan members but have higher contribution rates, and state troopers are eligible for retirement benefits at different ages and years of service.

Members automatically receive the higher of the defined retirement benefit or 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

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

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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 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 has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their eligible children under the age of 18 (23 if a full time student) or their spouse may be 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. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0 percent (10.0 percent for state troopers) 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 and judicial divisions to replace the 2.5 percent reduction in employer contributions effective for fiscal years 2010-11 and 2011-12 expired.

From July 1, 2013, to December 31, 2013, the State contributed 16.55 percent (19.25 percent for state troopers and 17.36 percent for the Judicial Branch) of the employee's salary. From January 1, 2014, through June 30, 2014, the state contributed 17.45 percent (20.15 percent for state troopers and 17.36 percent for the Judicial Branch). During all of fiscal year 2013-14, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2013, the division of PERA in which the state participates has a funded ratio of 57.5 percent and a 60 year amortization period based on current contribution rates. The funded ratio on the market value of assets is slightly higher at 61.0 percent.

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

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

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

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

CSU-Pueblo's contributions to PERA and/or the state defined contribution plan for the fiscal year ending June 30, 2014, was \$1.76 million. This contribution met the contribution requirement for the year.

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

GASB Statement No. 68 requires cost-sharing employers participating in the PERA program, such as CSU-Pueblo, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. CSU-Pueblo has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact CSU-Pueblo'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.

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

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The state offers a 457 deferred compensation plan and certain agencies and institutions of the state offer 403(b) or 401(a) plans.

### ***(c) Optional Retirement Plan - The Defined Contribution Plan for Retirement (DCP)***

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

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

The DCP is established pursuant to State Statute (24-54.5-101 to 24-54.5-107 CRS). The DCP is a qualified plan under Section 401(a) of the IRC. CSU-Pueblo participants contribute the required 8 percent of eligible salary. CSU-Pueblo provides a matching contribution of 10.7 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. CSU-Pueblo's aggregate contribution to the above two vendors was equal to 10.7 percent of covered payroll or approximately \$2.1 million for the fiscal year ended June 30, 2014. The employee aggregate contribution to the above two vendors was equal to 8.0 percent of covered payroll or approximately \$1.6 million for the fiscal year ended June 30, 2014.

### ***Health and Life Insurance Programs***

CSU-Pueblo's contribution to the various health insurance programs was approximately \$3.4 million for the fiscal year ended June 30, 2014.

### **(14) Commitments**

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2014 were approximately \$2.9 million, of which approximately \$2.5 million related to capital construction.

### **(15) Compensated Absences Liability**

CSU-Pueblo employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2014 is \$1.5 million.

### **(16) Direct Student Financial Aid Reporting**

During the fiscal year ended June 30, 2014, 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-Pueblo helps students obtain

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

these loans, CSU-Pueblo 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 year ended June 30, 2014 is \$21.5 million.

#### (17) Scholarship Allowance

Tuition and fees revenues and the related scholarship allowance for the year ended June 30 is as follows:

	2014		
	Tuition and Fees	Auxiliary Revenue	Total
Gross revenue	\$ 41,560,589	\$ 13,133,995	\$ 54,694,584
Scholarship allowances:			
Federal	8,603,123	101,066	8,704,189
State	2,676,889	1,156,807	3,833,696
Private	290,781	249,034	539,815
Institutional	1,202,289	556,131	1,758,420
Total allowances	12,773,082	2,063,038	14,836,120
Net revenue	\$ 28,787,507	\$ 11,070,957	\$ 39,858,464

#### (18) Related-party Transactions

##### *Transfers from the System and Colorado State University-Global (CSU-Global)*

CSU-Pueblo is one of three universities of the Colorado State University system. For the period ending June 30, 2014, CSU-Pueblo signed a financial Memorandum of Understanding with the Colorado State University System for the System to support the buyout of faculty positions at CSU-Pueblo in the amount of \$500,000 in addition to funding the fiscal 2014 budget deficit of \$820,713 for a total amount of \$1,320,713. These resources were transferred to CSU-Pueblo in fiscal year 2015.

Additionally, CSU-Pueblo received a transfer of resources from CSU-Global in the amount of \$5.0 million during fiscal year 2014.

#### (19) Risk Management

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

# Colorado State University - Pueblo

## Notes to Basic Financial Statements

June 30, 2014

### (20) Notes to Discretely Presented Component Unit Financial Statements

*(a) Investments*

As of June 30, 2014, the Foundation's 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 are comprised of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long-term with less volatility.

The following details each major category of the CSU-Pueblo Foundation's investments at fair market value as of June 30, 2014:

Marketable equity securities			
Domestic	\$	14,485,157	
International		3,360,233	
Marketable debt securities			
Domestic		7,336,724	
International		1,284,190	
Real estate investment trust		521,632	
Master limited partnership		528,907	
		\$	27,516,843

Net investment income of the CSU-Pueblo Foundation consisted of the following for the fiscal years ended June 30, 2014:

	<b>2014</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Dividend income	\$ 277,355	\$ 1,154,161	\$ 1,431,516
Interest income	890	3,701	4,591
Net rental income	29,243	121,687	150,930
Realized gains - securities	41,126	171,140	212,266
Realized gains - real estate	1,317,604	1,321,652	2,639,236
Unrealized gains	374,265	1,557,439	1,931,704
Total investment income	\$ 2,040,783	\$ 4,331,000	\$ 6,370,263

## Colorado State University - Pueblo

### Notes to Basic Financial Statements

June 30, 2014

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#### **(b) Accounts Receivable**

As of June 30, 2014, CSU-Pueblo Foundation's net unconditional promises to give balance was \$2,035,184.

The allowance for uncollectible unconditional promises to give was arrived at by identifying specific donors that have failed to keep their promises and by applying a historical percentage of 1.5 percent to the remaining amount.

Unamortized discount was arrived at by discounting amounts to be received in the future by the average market rate earned on investments of two percent.

#### **(c) Net Position**

In regard to the net assets of the CSU-Pueblo 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-Pueblo by providing funds for athletics, scholarships, repairs of facilities, etc. Also, as of June 30, 2014, CSU-Pueblo Foundation's Board has designated \$4,794,979 of the unrestricted net assets to be used for operating reserve for subsequent years' expense, soccer/lacrosse complex deficit, special project awards, and University personnel discretionary funds.

**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 aggregate discretely presented component unit of Colorado State University – Pueblo (CSU-Pueblo), a university within the Colorado State University System, State of Colorado (the CSU System), which comprise the statement of net position, as of June 30, 2014, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise CSU-Pueblo’s basic financial statements, and have issued our report thereon dated November 26, 2014, which contained emphasis of matter paragraphs for a change in accounting principle and a definition of the reporting entity. The financial statements of the Colorado State University – Pueblo Foundation (the CSU-Pueblo Foundation) were not audited in accordance with *Government Auditing Standards*.

***Internal Control over Financial Reporting***

Management of CSU – Pueblo is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered CSU-Pueblo’s 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 CSU-Pueblo’s internal control. Accordingly, we do not express an opinion on the effectiveness of CSU-Pueblo’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 and, therefore, there can be no assurance that all material weaknesses have been identified. However, as described in the accompanying Auditor’s Findings and Recommendations, we identified a certain deficiency 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 CSU-Pueblo’s financial statements will not be prevented, or detected and corrected on a

Members of the Legislative Audit Committee

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 CSU-Pueblo'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*.

### ***CSU-Pueblo's Response to Finding***

CSU-Pueblo's response to the finding identified in our audit is described in the accompanying Auditor's Findings and Recommendations. CSU-Pueblo'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.

We also noted certain matters that we reported to CSU – Pueblo's management in a separate letter dated November 26, 2014.

### ***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 CSU – Pueblo's internal control or on compliance. This report is an internal part of an audit performed in accordance with *Government Auditing Standards* in considering CSU-Pueblo's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Denver, Colorado  
November 26, 2014

## Independent Auditor's Audit Committee Communication

Members of the Legislative Audit Committee:

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

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

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

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

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

### **Qualitative Aspects of Significant Accounting Policies and Practices**

#### ***Significant Accounting Policies***

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

Members of the Legislative Audit Committee

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 Not Recorded:

- Bonds payable
- Accrued interest
- Unearned revenue
- Accounts receivable
- Allowance for bad debts

Proposed Audit Adjustments Recorded:

- Attached is a summary of audit adjustments passed

Proposed Audit Adjustments Not Recorded:

- The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets by

Members of the Legislative Audit Committee

\$477,069, increase current liabilities by \$694,168, increase non-current liabilities by \$516,758, and increase beginning of the year net position by \$190,661 as of June 30, 2013, and increase the current year decrease in net position by \$291,603 for the year ended June 30, 2013,

**Auditor's Judgments About the Quality of the System's Accounting Principles**

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

- No matters are reportable.

**Other Material Written Communications**

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

- Management representation letter
- Management letter

\* \* \* \* \*

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

November 26, 2014