



**Colorado State University System**  
**Financial and Compliance Audit**  
**Year Ended June 30, 2003**



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**COLORADO STATE UNIVERSITY SYSTEM**

**FINANCIAL AND COMPLIANCE AUDIT**

June 30, 2003

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# **COLORADO STATE UNIVERSITY SYSTEM**

## **FINANCIAL AND COMPLIANCE AUDIT**

**June 30, 2003**

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# COLORADO STATE UNIVERSITY SYSTEM

## FINANCIAL AND COMPLIANCE AUDIT

### REPORT SUMMARY

YEAR ENDED JUNE 30, 2003

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#### **Purpose and Scope**

The Office of the State Auditor engaged KPMG LLP (KPMG) to conduct a financial and compliance audit of the Colorado State University System (the System) for the year ended June 30, 2003. KPMG performed this audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the related fieldwork from June 2 to November 7, 2003.

The purpose and scope of our audit was to:

- Express an opinion on the basic financial statements of the Colorado State University System as of and for the year ended June 30, 2003. This includes a review of internal control as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Evaluate compliance with laws, regulations, contracts, and grants governing the expenditure of federal and state funds.
- Report on the Colorado State University System's compliance and internal control over financial reporting based on our audit of the basic financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs of the Colorado State University System for the year ended June 30, 2003.
- Evaluate progress in implementing prior audit findings and recommendations.

In addition, separate independent auditor reports will be issued by KPMG LLP for Colorado State University and by Grant Thornton LLP for Colorado State University – Pueblo to:

- Express an opinion on Colorado State University's Self-Liquidating Facilities financial statements and Colorado State University – Pueblo's Bond Funds financial statements for the fiscal year ended June 30, 2003, including an evaluation of compliance with restrictive covenant provisions of bond indentures.

## Report Summary, continued

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The financial statements and audit opinions on the bond funds financial statements of the two institutions are contained in separate reports.

The System's Schedule of Expenditures of Federal Awards and applicable opinions thereon by the Office of the State Auditor, State of Colorado, are included in the June 30, 2003 Statewide Single Audit Report issued under separate cover.

## Audit Opinions and Reports

We expressed unqualified opinions on the System's basic financial statements and its Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs as of and for the year ended June 30, 2003.

Thirty audit adjustments were proposed and made to the basic financial statements which had a net effect on net assets of (\$4,278,191). Fifteen additional audit adjustments were not made to the basic financial statements which had a net effect on beginning net assets of (\$4,122,634). These passed differences are not considered material to the System's basic financial statements.

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

## Summary of Key Findings

### *Need for Timely Year-end Financial Statement Reporting*

Accurate and timely year-end financial information is critical to the System and its stakeholders. Also, timely financial reporting is necessary to meet state reporting and audit deadlines. For fiscal year 2003, the financial reporting process was significantly delayed. There were several factors that contributed to the delay. The System should reevaluate its financial reporting to improve its timeliness.

### *Accounting for Federal Awards*

CSU currently receives over 400 federal grants and awards. During the current year, numerous accounting mistakes were recorded in the Financial Reporting System (FRS) related to research grants and forest services awards, with the more material items relating to the Colorado State Forest Service contracts and awards. These errors were due to the fact that the closeout process related to these grants did not include a review of the individual grants to determine if excess expenses would actually be recovered in the subsequent year. The closeout process also did not include a review to determine whether excess revenues were earned or whether they should be deferred. This led to the recording of receivables that would never be realized and the deferral of revenues that were actually earned as of year end. These accounting errors impacted initial drafts of the financial statements and the State Exhibit K.

## Report Summary, continued

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### *System and Cash Reconciliations*

CSU performs monthly reconciliations between their Student Aid Management system (SAM) and its general ledger system, FRS. Yet, the documentation of these reconciliations are not retained to verify that the reconciliations were actually performed. Also, there is no evidence of a review of the reconciliations by someone at least one level higher than the preparer.

CSU also performs monthly reconciliations between its Student Accounts Receivable System (SARS) and FRS. Each month, the reconciliation had a large reconciling item. This large reconciling item was explained to be a one-day lag of cash received in SARS, but this was never verified by CSU by obtaining proper documentation to support this explanation. Also, there is no evidence of a review performed by someone at least one level higher than the preparer.

By not retaining a copy of the reconciliations, CSU officials have no audit trail to prove the reconciliations are being performed. Also, by not properly identifying and supporting large reconciling items, errors can go uncorrected. Lastly, by not having someone other than the preparer review the reconciliations, errors and mistakes can go unnoticed.

### *Capital Asset Accounting*

CSU had approximately \$380 million of capital assets at June 30, 2003 (net of accumulated depreciation of approximately \$315 million). Our audit found there is a need to improve capital asset accounting. Areas needing improvement include determining which leases should be reported as capital assets versus being expensed, analyzing construction in progress to determine when projects are substantially complete and should be recorded as capital assets, and ensuring that depreciation expense is properly calculated.

## **Recommendations and the System's Responses**

A summary of the recommendations for the above comments is included in the Recommendation Locator on the next page. The Recommendation Locator also shows the System's responses to the audit recommendations. A discussion of the audit comments and recommendations is contained in the Findings and Recommendation Section of our report.

## **Summary Progress in Implementing Prior Year Audit Recommendations**

The audit report for the year ended June 30, 2002 included two recommendations. The disposition of these audit recommendations as of November 7, 2003 was as follows.

Implemented	1
Partially Implemented	<u>1</u>
<b>Total</b>	<u><u>2</u></u>



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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
1	18	<p>The System should reevaluate its year-end financial reporting preparation process to improve its timeliness and accuracy. The System's evaluation should include, but not be limited to:</p> <ul style="list-style-type: none"> <li>a. Reviewing financial policies and procedures to ensure that internal financial reporting and review procedures are appropriate and timely in order to prevent and/or identify errors in the financial reporting process and to resolve these errors prior to year-end. This review should focus on the specific issues noted in the other recommendations of this report and evaluate current processes in place regarding, but not limited to, capital asset accounting, accounting for federal awards, and determination of year-end payroll accruals and other liabilities.</li> <li>b. Researching and addressing technical accounting issues as they arise during the year.</li> <li>c. Evaluating staff responsibilities required to effectively prepare accurate, complete, and timely financial statements.</li> </ul>	System	<ul style="list-style-type: none"> <li>a. Agree</li> <li>b. Agree</li> <li>c. Agree</li> </ul>	<ul style="list-style-type: none"> <li>a. May 2004</li> <li>b. May 2004</li> <li>c. May 2004</li> </ul>

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
2	20	<p>Colorado State University should improve its financial monitoring controls at the college level by implementing the following:</p> <ul style="list-style-type: none"> <li>a. Clearly defining a formal listing of duties that each business manager should perform on a monthly, quarterly, and year-end basis. Such duties should include, but not be limited to, a budget-to-actual analysis of the individual college and a prior-year versus current-year analysis of revenues and expenses. Guidelines on variances should be established and business managers should maintain written explanations for these variances.</li> <li>b. Continuing to hold monthly meetings between BFS and the business managers. BFS should encourage the business managers to discuss any potential accounting issues so that BFS may provide the appropriate guidance to such issues. These meetings should clarify the expectations of the business managers and should also include formal instruction, as needed, on accounting and business issues.</li> </ul>	CSU	<ul style="list-style-type: none"> <li>a. Agree</li> <li>b. Agree</li> </ul>	<ul style="list-style-type: none"> <li>a. May 2004</li> <li>b. Implemented</li> </ul>

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## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
3	22	<p>Colorado State University should improve its process for accounting for capital assets by:</p> <p>a. Assigning the responsibility of overall capital asset accounting to one individual. All parties involved in capital assets accounting should be accountable, either directly or indirectly, to this person. Additionally, the capitalization entries should be made monthly and reviewed by the designated person.</p> <p>b. Informing the lease accountant of all new leases. Copies of all leases should be maintained by the lease accountant. Next, create a capital lease evaluation form which indicates the criteria to be met for capitalization. All criteria should be tested and documented, and this form should be filed with a copy of the lease. Additionally, the selection of the useful life should be documented and should be consistent with generally accepted accounting principles.</p> <p>c. Reviewing all active leases to ensure proper classification as capital or operating in the first year of implementation of this recommendation.</p>	CSU	<p>a. Agree</p> <p>b. Agree</p> <p>c. Agree</p>	<p>a. Implemented</p> <p>b. June 2004</p> <p>c. June 2004</p>

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
		d. Establishing a formal procedure to determine when a project in CIP is substantially complete. This procedure should include a review of each CIP project's activity at least quarterly. This review should be performed by the designated person described above in part "a." or someone who reports to that person. During this review, if little or no activity has occurred, Facilities Management should be contacted to determine if the project is substantially complete. If the project is then determined to be complete, it should be promptly removed from the CIP category.		d. Agree	d. February 2004
		e. Reviewing, at least quarterly, costs within CIP to evaluate if any costs should be expensed versus capitalized. If so, the costs should be expensed in the year incurred.		e. Agree	e. February 2004
		f. Reconciling capital assets per the depreciation system to the general ledger system, FRS, prior to running the depreciation program to ensure depreciation is calculated accurately.		f. Agree	f. March 2004
4	24	Colorado State University should improve its process of accounting for federal awards by:	CSU		
		a. Reviewing the current assignment of duties for federal award and grant accounting for appropriateness, efficiency, and technical competence. Additionally, OSP should conduct periodic workshops to train the department accountants in the proper accounting of grants and instruct them on the Single Audit requirements to help ensure compliance.		a. Agree	a. June 2004

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
		b. Assigning a designated technical resource to all departments that account for grants, especially the CSFS. Employees of these departments should be informed of this technical resource should programmatic or accounting questions arise.		b. Agree	b. Implemented
		c. Closing grant accounts at year-end on a grant-by-grant basis to identify whether a receivable or a deferred revenue is appropriate for each individual grant.		c. Agree	c. July 2004
		d. Reviewing all reports and billings to be submitted to federal agencies. This review should be performed by someone at least one level above the preparer.		d. Agree	d. Implemented
		e. Reviewing the accuracy of CFDA numbers for all grants on the State Exhibit K prior to submitting the exhibit to the state.		e. Agree	e. June 2004
		f. Recalculating indirect costs charged to each federal grant on an annual basis and when a grant is ending to ensure indirect costs were charged correctly and in accordance with the approved indirect cost rate.		f. Agree	f. March 2004
5	26	Colorado State University should improve its monthly reconciliation processes by:	CSU		
		a. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer.		a. Agree	a. April 2004
		b. Verifying and supporting reconciling items with the appropriate documentation.		b. Agree	b. April 2004

## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
		c. Maintaining all reconciliations to verify the reconciliations were performed. Any supporting documentation associated with the reconciliation that cannot be replicated should also be maintained.		c. Agree	c. April 2004
6	27	Colorado State University should assign one person (or department) the responsibility of ensuring the proper payroll accrual entries are made. This person should approve all proposed entries. If this person is outside the BFS, the entries should also be reviewed and approved by BFS.	CSU	Agree	March 2004
7	27	Colorado State University should strengthen its authorization controls by: <ul style="list-style-type: none"> <li>a. Requiring that transactions not be initiated and approved by the same individual.</li> <li>b. Rejecting transactions approved by an unauthorized persons.</li> <li>c. Requiring approval signatures (Dean, Director or Vice President) for all purchase card approvers prior to their ability to approve transactions.</li> </ul>	CSU	<ul style="list-style-type: none"> <li>a. Agree</li> <li>b. Agree</li> <li>c. Agree</li> </ul>	<ul style="list-style-type: none"> <li>a. Implemented</li> <li>b. Implemented</li> <li>c. Implemented</li> </ul>
8	28	Colorado State University should improve its general access controls by reviewing its password policy and increase the minimum acceptable password length from four characters to six characters for both Top Secret and CA Unicenter Systems.	CSU	Agree	October 2003

## RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
9	29	Colorado State University should implement a policy requiring the Human Resources Department to notify the Information Technology employee within a specific timeframe when an employee is terminated so that employee access is removed on a timely basis.	CSU	Agree	June 2004
10	30	The System should evaluate GASB Statement No. 39 and its impact on the System's financial reporting. The System should at a minimum evaluate the impact and, if other entities are to be included in the System's reporting entity, the System should develop an implementation plan to include these entities, as appropriate, in its fiscal year 2004 basic financial statements.	System	Agree	June 2004
11	32	Colorado State University should ensure cash management requirements are adhered to by: <ul style="list-style-type: none"> <li>a. Ensuring the request-for-funds function is assigned to someone familiar with cash management compliance requirements.</li> <li>b. Implementing a formal secondary review by a person that did not directly prepare the draw. All reports submitted to a federal agency should be formally reviewed by a person at least one level above the preparer.</li> <li>c. Considering a cursory review by the Office of Sponsored Programs, for those programs that are not already drawn or billed by OSP, to ensure cash management compliance.</li> </ul>	CSU	<ul style="list-style-type: none"> <li>a. Agree</li> <li>b. Agree</li> <li>c. Agree</li> </ul>	<ul style="list-style-type: none"> <li>a. September 2004</li> <li>b. September 2004</li> <li>c. September 2004</li> </ul>

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
		d. Designating a knowledgeable person or group to monitor interest earned on the advancement of federal funds to ensure that interest earned is remitted to the appropriate federal agency.		d. Agree	d. September 2004
12	33	Colorado State University should include a standard clause in all cooperator and vendor agreements or obtain a separate certification from the vendors and cooperators stating that the cooperator/vendor is not suspended or debarred from federal procurement and nonprocurement programs.	CSU	Agree	June 2004
13	34	Colorado State University should comply with subrecipient monitoring compliance requirements by:	CSU		
		a. Developing a formal policy requiring subrecipients to take timely and appropriate corrective action on all audit findings.		a. Agree	a. June 2004
		b. Requiring proper follow-up procedures to be performed to ensure the corrective action plan was properly adhered to by the subrecipient reporting significant noncompliance findings.		b. Agree	b. June 2004
		c. Incorporating procedures into the policy regarding the monitoring of subrecipients not subject to OMB Circular A-133 audits.		c. Agree	c. June 2004

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	University Addressed	University Response	Implementation Date
14	36	Colorado State University should establish procedures to ensure that the withdrawal dates of students who withdraw from CSU without providing notification are determined by thirty days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. Also, these procedures should ensure proper return of Title IV funds.	CSU	Agree	May 2004
15	37	Colorado State University should establish procedures to ensure that cost of attendances (COAs) that have been manually changed prior to receiving data corrections from the Central Processing System (CPS) are examined to ensure appropriateness.	CSU	Agree	May 2004
16	38	Colorado State University should implement procedures to ensure that documentation is maintained to substantiate its compliance with exit counseling requirements.	CSU	Agree	May 2004
17	39	Colorado State University should implement procedures to ensure that all elements of the FISAP are accurate. Such procedures should include a formal review that agrees amounts reported to supporting documentation.	CSU	Agree	September 2004

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# Description of the Colorado State University System

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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 two distinct institutions: Colorado State University – a land-grant University and the Colorado State University – Pueblo – a regional, comprehensive university. Effective September 1, 2002, Fort Lewis College is no longer a part of the System. During the 2002 Colorado legislative session, House Bill 02-1419 became law and created a Board of Trustees to be the governing authority for Fort Lewis College beginning September 1, 2002. The legislation transferred all assets and liabilities for Fort Lewis College from the State Board of Agriculture to the new Board of Trustees. While the System’s consolidated financial statements as of June 30, 2002 include financial data for Fort Lewis College, the System’s consolidated financial statements as of June 30, 2003 include the financial data for Colorado State University and Colorado State University – Pueblo only. Fort Lewis College will issue separate financial statements as of June 30, 2003.

Effective July 1, 2003, Colorado State University – Pueblo was renamed from the University of Southern Colorado. The Institution’s role and mission also changed from that of a “general baccalaureate and polytechnic institution” to a “regional, comprehensive university.”

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

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

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

### **COLORADO STATE UNIVERSITY – FORT COLLINS**

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

## **Description, continued**

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

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

## **Resident Instruction**

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

College of Agriculture Sciences

College of Applied Human Sciences

College of Arts, Humanities and Social Sciences

College of Business

College of Engineering

College of Forestry and Natural Resources

College of Natural Sciences

College of Veterinary Medicine and Biomedical Sciences

## **Agricultural Experiment Station**

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

## **Cooperative Extension Service**

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

## **Colorado State Forest Service**

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

**Description, continued**

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**COLORADO STATE UNIVERSITY – PUEBLO**

Colorado State University – Pueblo was incorporated in 1935 as Southern Colorado Junior College. One year later, local citizens decided to support the institution with county taxes. They organized the Pueblo Junior College District, and the school was renamed Pueblo Junior College. In 1951, Pueblo Junior College became the first accredited junior college in Colorado.

In 1963, Colorado’s General Assembly enacted legislation changing Pueblo Junior College to a four-year institution—Southern Colorado State College—to be governed by the Board of Trustees of State Colleges. By then, four new buildings had been erected on the new campus north of Pueblo’s Belmont residential district. On July 1, 1975, the State Legislature granted the institution university status. Three years later, the Colorado State Board of Agriculture assumed governance of the University of Southern Colorado. In July 2003, the University was renamed to Colorado State University – Pueblo.

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

**ENROLLMENT AND FACULTY**

Enrollment, tuition, and faculty and staff information is presented below. Information was obtained from the Format 30 of the Budget Data Book for fiscal year 2002-2003, prepared for the Colorado Commission on Higher Education (CCHE).

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

<b>Colorado State University Full-Time-Equivalent (FTE) Student Enrollment</b>			
<b>Fiscal Year</b>	<b>Resident</b>	<b>Nonresident</b>	<b>Total</b>
2002 – 2003	17,363	4,923	22,286
2001 – 2002	16,593	4,875	21,468
2000 – 2001	16,021	4,691	20,712

**Description, continued**

<b>Colorado State University Full-Time Faculty and Staff</b>			
<b>Fiscal Year</b>	<b>Faculty</b>	<b>Staff</b>	<b>Total</b>
2002 – 2003	1,437	4,137	5,574
2001 – 2002	1,552	4,011	5,563
2000 – 2001	1,539	3,885	5,424

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

<b>Colorado State University – Pueblo Full-Time-Equivalent (FTE) Student Enrollment</b>			
<b>Fiscal Year</b>	<b>Resident</b>	<b>Nonresident</b>	<b>Total</b>
2002 – 2003	3,030	418	3,448
2001 – 2002	3,045	470	3,515
2000 – 2001	3,086	521	3,607

<b>Colorado State University – Pueblo Full-Time Faculty and Staff</b>			
<b>Fiscal Year</b>	<b>Faculty</b>	<b>Staff</b>	<b>Total</b>
2002 – 2003	209	190	399
2001 – 2002	207	197	404
2000 – 2001	225	205	430

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# Findings and Recommendations

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We have audited the basic financial statements of the Colorado State University System (the System) for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. In planning and performing our audit of the basic financial statements, we considered the System's internal control solely to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control. In addition, in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we also have issued our report dated November 7, 2003 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We have not considered internal control since November 7, 2003.

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

During our engagement, we noted certain matters involving internal control and other operational matters that are presented for the System's consideration. These comments and recommendations, all of which have been discussed with the appropriate members of the System's management, are intended to improve internal control or result in other operating efficiencies.

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## Need for Timely Year-end Financial Statement Reporting

Accurate and timely year-end financial statement information is critical to the System and its stakeholders. Also, timely year-end financial statement reporting is necessary to meet the state-required deadlines. As a result of various issues, the year-end financial statement reporting process of the System is untimely. For fiscal year 2003, the year-end financial statement reporting process was significantly delayed.

We began final audit fieldwork in late July 2003. Our original audit plans called for audit fieldwork to be completed by the end of September in order to meet the state's primary deadlines, as follows:

- September 19 – final audit adjustments to be submitted
- October 3 – draft of the audit report to be delivered to the State Auditor's Office for its review
- October 31, 2003 – issuance of the final report

The issuance of the final report occurred three months past the October 31 deadline.

## Findings and Recommendations, continued

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The following are factors that contributed to the financial reporting and audit delays:

- Audit fieldwork had to be extended approximately four to five weeks from the original audit plan. We had originally planned to have audit fieldwork completed in time to meet the October 31 reporting deadline. Yet, during the course of the audit, we found a number of errors in the financial statement balances. We proposed and CSU made 30 audit adjustments to correct the errors and accounting treatment of previous years. Also, there were additional adjustments that were not made because they were not significant. The more significant audit adjustments are listed on pages 89-90. The financial errors, along with the fact that this was the first year KPMG audited CSU, required additional audit time to research and determine needed corrections. Our recommendations to improve accounting and financial reporting are discussed in the other audit recommendations below. We presented the audit adjustments referred to above to CSU on October 16 and October 23.
- The System financial statements were not completed in a timely manner. We did not receive a draft of the Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets until the end of October, a draft of the Statement of Cash Flows and Notes to the Financial Statements until late November, and a draft of Management's Discussion and Analysis until mid-December.
- There were several instances in which we disagreed with management on the accounting treatment of certain financial activities. These are discussed on pages 90-91. These issues, as well as several other accounting changes proposed by CSU during the audit, required additional time to research and audit. As discussed on pages 90-91, all of these instances were ultimately resolved.
- Effective September 1, 2002, Fort Lewis College was no longer a part of the System. The System had to invest time to determine how to account for this change in entity.

There are various actions that should be taken to improve the financial reporting process in the future. These are identified in the recommendation below.

### ***Recommendation No. 1***

The System should reevaluate its year-end financial reporting preparation process to improve its timeliness and accuracy. The System's evaluation should include, but not be limited to:

- a. Reviewing financial policies and procedures to ensure that internal financial reporting and review procedures are appropriate and timely in order to prevent and/or identify errors in the financial reporting process and to resolve these errors prior to year-end. This review should focus on the specific issues noted in the other recommendations of this report and evaluate current processes in place regarding, but not limited to, capital asset accounting, accounting for federal awards, determination of year-end payroll accruals, and other liabilities.
- b. Researching and addressing technical accounting issues as they arise during the year.
- c. Evaluate staff responsibilities required to effectively prepare accurate, complete, and timely financial statements.

## **Findings and Recommendations, continued**

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### ***Colorado State University System Response:***

1a. Agree. We have reviewed the issues noted here and elsewhere in the report and will complete this process as part of the review to meet the May 2004 deadline.

1b. Agree.

1c. Agree. The staff can manage these processes on a timely basis. This will be part of an overall plan and schedule review by May 2004.

We acknowledge that improvements can be made in completing activities related to the annual audit. We will work with KPMG to develop a complete plan for addressing this issue no later than May 2004 in preparation for the fiscal year 2004 audit process. We are fully committed to assuring significant improvements for all future year audits. For fiscal year 2003 we delayed consolidation of CSU-Pueblo, preparation of the cash flow statement, footnotes and MD&A because KPMG was predicting material adjustments and various issues were unresolved. We believe that one of the major errors we made was awaiting resolution to these issues rather than finalizing all our audit documents and then making any adjustments post-resolution. We will assure this is not a problem in the future and will work with KPMG on a more precise schedule and communications plan to help assure a successful fiscal year 2004 audit.

The audit adjustments that were made to the basic financial statements had a net effect on net assets of (\$4,278,191). However, several of the audit adjustments related to accounting treatments that had been consistently applied in prior years. The effect of all of the audit adjustments, less the adjustments that had been consistently applied in prior years, had a total net effect on net assets of \$1,108,363 an amount that constitutes one-fifth of one percent, of the total \$545,518,000 ending net assets of the Colorado State University System.

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### **Improvement of Financial Monitoring Controls Performed by Business Managers**

The Vice President of Administrative Services (VPAS) and the Office of Budget and Institutional Analysis (OBIA) of CSU performs a quarterly budget-to-actual analysis of the General and Education fund. This analysis focuses on account overages, accounts that appear to be too large given the specific point in the year, or other unusual fluctuations noted. Certain variances are identified, properly investigated, and then presented to the Board of Governors. The Department of Business and Financial Services (BFS) also performs a quarterly budget-to-actual review. Management also represents that there are numerous monthly reports and exception reports, at account level, designed to monitor all financial activity of campus programs.

In addition, each college and several larger departments, such as athletics, have business managers that are responsible for the financial oversight of their respective college or department. During the course of the audit, we spoke to four different business managers and noted that some of the business managers perform very little financial monitoring of their individual college or department and there were no established policies that required them to do so. For example, we noted that some business managers performed no formal periodic budget-to-actual review process of their departments within their college. Although the VPAS, OBIA, and BFS perform the quarterly review as described above, there is a possibility that certain errors may go unnoticed being that certain financial monitoring procedures are not required of business managers.



## **Findings and Recommendations, continued**

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Due to the decentralized nature of CSU and the fact that a majority of transactions are initiated and recorded at the college and department levels, business managers are an integral part of the financial management process. The University should ensure all business managers are performing proper financial oversight to prevent miscoding of expenses, potential misuse of funds, and other possible errors or abuses.

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### ***Recommendation No. 2:***

Colorado State University should improve its financial monitoring controls at the college level by implementing the following:

- a. Clearly defining a formal listing of duties that each business manager should perform on a monthly, quarterly, and year-end basis. Such duties should include, but not be limited to, a budget-to-actual analysis of the individual college and a prior-year versus current-year analysis of revenues and expenses. Guidelines on variances should be established and business managers should maintain written explanations for these variances.
- b. Continuing to hold monthly meetings between BFS and the business managers. BFS should encourage the business managers to discuss any potential accounting issues so that BFS may provide the appropriate guidance to such issues. These meetings should clarify the expectations of the business managers and should also include formal instruction, as needed, on accounting and business issues.

### ***Colorado State University Response:***

2a. Agree. The Controller will develop a statement of expectations and code on ethics for business officers that will be issued no later than May 2004.

2b. Agree. We plan to continue these on-going activities.

Colorado State University does have processes and procedures in place so as to provide adequate oversight and control over its financial operations. The University administration is fully aware of varying degrees of strengths and weaknesses within major units of the University and while financial and budget information is reviewed for all units, additional care and focus is given to some of the units, including exception reporting at the account level. However, we also believe improvements could be made including a more specific listing of responsibilities, a code of ethics for such positions that recognizes the ambiguity they may experience in particular situations, and their fundamental responsibility for a free flow of financial information at all levels of the administration.

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## Findings and Recommendations, continued

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### Capital Asset Accounting

At June 30, 2003, CSU had approximately \$380 million in capital assets, which was net of accumulated depreciation of approximately \$315 million. During fiscal year 2003, CSU purchased or acquired approximately \$117 million in new capital assets. The management of these capital assets at CSU has been delegated to several individuals, including Facilities Management, Property Management, a lease technician, and a plant fund accountant. However, there was no one person with the designated responsibility for the overall accounting of capital assets. Additionally, the coordination between the individuals involved was untimely and inconsistent in some cases. During the audit, we identified the following situations:

- No documentation was available of the analysis of leases to determine their proper classification between operating and capital. (An operating lease is similar to a rental agreement and the lease does not transfer ownership rights, risks, or rewards to CSU. Operating lease payments are recorded as an expense of CSU. A capital lease transfers ownership rights, risks, and rewards to CSU. CSU must record an asset and related obligation at the inception of this lease for such capital leases). Additionally, incorrect decisions were made on some classifications between operating and capital leases as well as the useful life used. In one instance, CSU was reporting a lease of a building with a cost of approximately \$1.8 million as an operating lease when it should have been recorded as a capital lease. As a result, an audit adjustment was proposed and made to record the \$1.8 million building and the related obligation. In another instance, the incorrect useful life was used for depreciating a capital lease. Because of this, an audit adjustment was proposed and recorded to recognize approximately \$2.7 million in depreciation expense in the current year.
- There was no formal process in which the lease technician is notified of either new or ending leases. Without such notification, the lease technician may not identify/classify leases correctly.
- Closing of capital projects and the determination of “substantially complete” of such projects within Construction in Progress (CIP) was not applied consistently. This led to the capitalization of projects in the wrong year and the deferment of depreciation expense. During our testwork, we noted asset additions totaling approximately \$8.3 million that should have been capitalized in previous years. As a result, an audit adjustment was proposed and made recognizing \$350,000 in depreciation expense which should have been recognized in previous periods. Also, CSU and KPMG, in conjunction, performed a year-end review of CIP to determine if there were any projects at year end that were substantially complete that should be removed from the CIP category into the correct depreciable asset category. This review noted approximately \$1 million in assets that were complete that needed to be removed from CIP. An audit adjustment was proposed and made to remove these assets from CIP into the proper asset category. The audit adjustment also recorded the depreciation expense related to these assets.
- Projects within the CIP category did not undergo a timely, periodic review of costs to ensure costs were eligible to be capitalized (versus expensed) according to CSU’s capitalization guidelines. As such, costs in CIP incurred in a prior year were expensed in the current year when the project was determined complete and costs were determined not to be capitalizable. During fiscal year 2003, CSU recognized approximately \$5 million in expenses that should have been expensed in previous years.
- CSU’s system for calculating equipment depreciation (depreciation system) was not reconciled to the Financial Reporting System (FRS) leading to inaccurate depreciation expense. KPMG noted that total depreciable net assets reported in the depreciation system differed from the total depreciable net assets in the FRS by approximately \$1.3 million. In order to record depreciation expense for those assets

## Findings and Recommendations, continued

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omitted from the depreciation system, an audit adjustment was proposed and recorded to recognize approximately \$425,000 of additional depreciation expense on FRS (1% of total depreciation expense).

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### ***Recommendation No. 3:***

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

- a. Assigning the responsibility of overall capital asset accounting to one individual. All parties involved in capital assets accounting should be accountable, either directly or indirectly, to this person. Additionally, the capitalization entries should be made monthly and reviewed by the designated person.
- b. Informing the lease accountant of all new leases. Copies of all leases should be maintained by the lease accountant. Next, create a capital lease evaluation form which indicates the criteria to be met for capitalization. All criteria should be tested and documented, and this form should be filed with a copy of the lease. Additionally, the selection of the useful life should be documented and should be consistent with generally accepted accounting principles.
- c. Reviewing all active leases to ensure proper classification as capital or operating in the first year of implementation of this recommendation.
- d. Establishing a formal procedure to determine when a project in CIP is substantially complete. This procedure should include a review of each CIP project's activity at least quarterly. This review should be performed by the designated person described above in part "a." or someone who reports to that person. During this review, if little or no activity has occurred, Facilities Management should be contacted to determine if the project is substantially complete. If the project is then determined to be complete, it should be promptly removed from the CIP category.
- e. Reviewing, at least quarterly, costs within CIP to evaluate if any costs should be expensed versus capitalized. If so, the costs should be expensed in the year incurred.
- f. Reconciling capital assets per the depreciation system to the general ledger system, FRS, prior to running the depreciation program to ensure depreciation is calculated accurately.

### ***Colorado State University Response:***

3a. Agree. The Controller has always been the University officer who is responsible for capital asset accounting. The capitalization entries will be made quarterly and reviewed by BFS management staff with final approval by the Controller.

3b. and 3c. Agree. The leases that were subject to audit adjustments (\$2.7 million and \$1.8 million) had been on our books for a significant length of time (FY 82 and FY 99 respectively) and this accounting treatment had been consistently applied in previous years. We have developed a formalized capital lease analysis process for new leases, with written documentation, and will subject all existing leases to this review. Estimated completion: June 2004.

3d. and 3e. Agree. We engaged an engineering appraisal firm this past year to calculate more accurate useful lives that resulted in a \$13 million increase in depreciation expense (this was done to support the federal facilities and administration cost recovery calculation as FY 2003 was the base year for negotiations) and that project had priority in FY 2003. To assure that the engineering appraisal firm could complete their work and calculate depreciation with revised useful lives, we had to establish a May 31

## Findings and Recommendations, continued

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deadline for moving projects from construction-in-progress to the building account. This was a unique schedule for this specific activity. We will have quarterly meetings between Facilities and the Controller's Office to review projects for capitalization with final approval by the Controller. We believe that this can be met without organizational changes. Estimated completion: First quarter meeting is scheduled for February 2004.

3f. Agree. The reconciliation will be prepared and reviewed to assure that equipment depreciation is accurate. Estimated completion: March, 2004.

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### Accounting for Federal Awards

CSU received over four hundred federal grants and awards totaling over \$200 million for fiscal year 2003. In addition to Student Financial Aid, the two primary types of the federal awards received by CSU are research grants and forest service awards. The Office of Sponsored Programs (OSP) oversees the research grants at CSU; however, the actual accounting transactions are performed at the department levels. OSP is responsible for all of the billings, financial reports submitted to the federal agencies, subrecipient monitoring and year-end closing entries. For forest service awards, the Colorado State Forest Service (CSFS) is responsible for recording transactions and submitting billing and financial reports to federal agencies; yet the Business and Financial Services Department (BFS) is responsible for year-end closing entries.

As part of the systematic close-out process used by both BFS and OSP, the following assumptions were made:

- If an individual grant account had expenses that exceeded revenues, BFS/OSP would assume that requests would eventually be made to reimburse these expenses, and therefore, a receivable was recorded from the federal government. Our audit revealed that, at times, no such reimbursement was to be received. As a result, audit adjustments were proposed and made to remove receivables and related federal revenue from the general ledger. These adjustments totaled approximately \$1.1 million.
- If an individual grant account had revenues that exceeded expenses, it was assumed that these revenues were advanced and not yet earned; therefore, BFS/OSP would defer this revenue. Yet, upon investigation, we noted that often times revenue exceeded expenses by the indirect cost recoveries. CSU had actually 'earned' these revenues and a deferral of revenues should not have been recorded. As a result, audit adjustments were proposed and made to reverse the deferred revenue and recognize the federal revenue during the current year. These adjustments totaled approximately \$2.4 million.

None of these instances resulted in questioned costs in relation to federal program spending by CSU.

We noted that this grant close-out process did not include a review of the individual grants to determine if excess expenses would be recovered in the subsequent year, and whether excess revenues were earned or not earned. This led to the recording of receivables that would actually never be realized and the deferral of revenues that were actually earned as of year end. These accounting errors impacted initial drafts of the financial statements and the State Exhibit K. (The State Exhibit K is an exhibit submitted to the State summarizing total federal awards expended by CSU for the fiscal year. The State uses this exhibit along with other exhibits from other State agencies to compile the statewide schedule of federal expenditures).

## Findings and Recommendations, continued

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Other items we noted involving federal awards were:

- Some forest service grants appropriately billed 25 percent for indirect cost rates; yet the programs were only charging 15 percent of indirect costs to the grant.
- Certain federal funds were reclassified as agency funds. By classifying these funds as agency funds, the federal revenue and related expense were not initially reflected in the financial statements and State Exhibit K. As a result, an audit adjustment was proposed and made to record approximately \$1.7 million in federal revenue and related expense.
- Research and Development cash draws and billings completed by OSP are not reviewed and approved by someone at least one level above the preparer. KPMG found no errors of the cash draws and billings tested; yet cash draws and billings directly affect the amount of funds to be received by a federal agency. Therefore, these should be reviewed and approved to ensure amounts being requested are correct and in compliance with federal cash management requirements.
- CFDA designations on the State Exhibit K are not always reviewed for accuracy. Because this information was not reviewed for accuracy, we noted certain situations where CFDA numbers were incorrect on the initial draft of the State Exhibit K. By not reviewing this information prior to submitting the exhibit to the state, certain errors may go unnoticed. (A CFDA designation is a number assigned by the federal government to track federal monies.)
- Research and Development grants' indirect cost calculations are not recalculated or checked for accuracy on a periodic basis. Although we found no errors in the sample of indirect cost calculations tested, indirect costs being charged to federal agencies should be reviewed for compliance with indirect cost rate agreements to ensure the correct indirect cost amount is being funded.

### ***Recommendation No. 4:***

Colorado State University should improve its process of accounting for federal awards by:

- a. Reviewing the current assignment of duties for federal award and grant accounting for appropriateness, efficiency, and technical competence. Additionally, OSP should conduct periodic workshops to train the department accountants in the proper accounting of grants and instruct them on the Single Audit requirements to help ensure compliance.
- b. Assigning a designated technical resource to all departments that account for grants, especially the CSFS. Employees of these departments should be informed of this technical resource should programmatic or accounting questions arise.
- c. Closing grant accounts at year-end on a grant-by-grant basis to identify whether a receivable or a deferred revenue is appropriate for each individual grant.
- d. Reviewing all reports and billings to be submitted to federal agencies. This review should be performed by someone at least one level above the preparer.
- e. Reviewing the accuracy of CFDA numbers for all grants on the State Exhibit K prior to submitting the exhibit to the state.
- f. Recalculating indirect costs charged to each federal grant on an annual basis and when a grant is ending to ensure indirect costs were charged correctly and in accordance with the approved indirect cost rate.

## Findings and Recommendations, continued

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### *Colorado State University Response:*

4a. Agree. The draft report notes that mistakes were made in accounting for research grants and awards. The majority of these findings relate to the grants and awards administered by the Colorado State Forest Service (CSFS). This is an issue that we have worked on since the FY02 audit exit conference, and at this time responsibility for managing CSFS grants and awards is being transferred to the Office of Sponsored programs and once that process is finalized all CSFS grants and awards will be accounted for and managed in a manner that is consistent with the rest of the grants and awards at Colorado State University. We will review options of providing training as an alternative, or added to, the team approach to colleges departments. Estimated completion: June 2004.

4b. Agree. Sponsored Programs currently identifies a “team” of research administrators and accounting staff to colleges/units, and this has recently included the CSFS. This team serves as a technical resource. Team assignments are communicated to the college/units and are posted on the SP website.

4c. Agree. With respect to preparation of entries needed as part of the fiscal year-end closing (versus end-of-grant closeout) we will develop an accounting model for how to account for expenses incurred in anticipation of a grant/contract renewal. Estimated completion: July 2004.

4d. Agree. A review process, at least one level above the preparer, is in place for all reports and invoices prepared in conjunction with Forms 269 and/or 272. However, due to existence of mitigating controls within Sponsored Programs, a review of all other invoices is not deemed to be a cost effective measure. Mitigating controls include the monthly review of accounts ensuring that amounts billed are collected, projects are within budget, and specific reviews looking for unbilled/over billed amounts.

4e. Agree. A review process is in place for all awards managed by Sponsored Programs. CSU will review the procedures in other such areas to ensure that the accuracy of CFDA numbers. Estimated completion: June 2004.

4f. Agree. The automated system-calculated indirect costs are checked on a regular basis by OSP staff. The first check occurs within one month of establishing the account to ensure that the system attributes were appropriately defined when the account was established. Additional checking occurs in some instances monthly but in all cases when quarterly, annual and close out reports are prepared. OSP will work with all staff to assure that this existing procedure is fully understood. Estimated Completion Date: March 2004.

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## System and Cash Reconciliations

CSU has several computer systems that assist in the day-to-day operations of the University. Two of these systems are the Student Aid Management System (SAM) and Student Accounts Receivable System (SARS). SAM is a system that tracks student financial aid disbursements and collections. SARS is the billing and collection system for tuition, fees, and other charges. CSU performs monthly reconciliations between these systems and the general ledger system (FRS) each month. Such reconciliations are important to ensure activity recorded within the SAM and SARS systems are appropriately reflected in the general ledger system.

## Findings and Recommendations, continued

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During a review of these reconciliations we noted the following:

- Documentation of SAM/FRS reconciliations were not retained to verify that the reconciliation was actually performed. The reconciliations were performed online and there was no audit trail to verify that the reconciliations were performed. Also, there is no evidence of a review performed by someone at least one level higher than the preparer.
- SARS/FRS reconciliations had a large reconciliation item each month. For the two months we tested (August and December), this reconciling item was approximately \$2,000,000 and \$5,600,000, respectively. This reconciling item was explained to be a one-day lag of cash received in SARS, but this was never verified by obtaining proper documentation to support this explanation. We could not confirm that the reconciling item was appropriate (one-day lag) because the supporting documentation could not be replicated at the time of audit fieldwork. Also, there is no evidence of a review of the reconciliation performed by someone at least one level higher than the preparer.
- Evidence of a review of bank reconciliations is not documented by someone at least one level above the preparer.

As mentioned in the points above, these reconciliations are not reviewed, or evidence of a review is not documented, by someone at least one level above the preparer. Such a review will help ensure reconciliations are completed timely, errors do not go unnoticed, and reconciling items are appropriate.

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### ***Recommendation No. 5:***

Colorado State University should improve its monthly reconciliation processes by:

- a. Reviewing all reconciliations. This review should be performed and documented by someone at least one level higher than the preparer.
- b. Verifying and supporting reconciling items with the appropriate documentation.
- c. Maintaining all reconciliations to verify the reconciliations were performed. Any supporting documentation associated with the reconciliation that cannot be replicated should also be maintained.

### ***Colorado State University Response:***

5a.,b.,c. Agree. Business & Financial Services will work with the Accounts Receivable Office on required reconciliation procedures. The bank reconciliations were reviewed and the paperwork will be initialed to verify the review was performed. Estimated completion: April 2004.

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## **Year-End Payroll Accrual**

In 2003, the State Legislature enacted legislation to postpone the payment of the June payroll until July 1. This was the first time that the financial statements required a payroll-related accrual at year end; CSU's process for recording the \$27,000,000 payroll accrual involved numerous entries. During this process, many erroneous entries were posted which then caused numerous correcting entries to be made. Accountants from the Payroll Department and BFS were involved in booking such entries. There was no one responsible individual overseeing and approving all entries that related to the year-end payroll accrual. As such, the different parties did not know the effect of the other individuals' entries.

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## Findings and Recommendations, continued

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### ***Recommendation No. 6:***

Colorado State University should assign one person (or department) the responsibility of ensuring the proper payroll accrual entries are made. This person should approve all proposed entries. If this person is outside the BFS, the entries should also be reviewed and approved by BFS.

### ***Colorado State University Response:***

Agree. Due to the new law this was the first year of this accrual requirement, and complicating matters was the fact that CSU had implemented a new automated payroll/personnel system on January 1, 2003 that did not have this option. We believe the errors experienced in FY2003 will be corrected. Human Resource Services (HRS) will work with the Controller's Office to identify the proper person(s) within the HRS Payroll Unit and Business and Financial Services to review and approve all proposed payroll accrual entries. Estimated completion: March 2004.

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## **Authorization Controls**

CSU requires authorizations for all purchase documents and for employee pay rate changes. Authorization controls are an important piece of the University's control structure over the procurement process to ensure disbursements are warranted, disbursements are for the benefit of CSU, and funds are not being misused. Authorization controls are important for the payroll process in that they ensure no pay rate changes are made without proper authorization. During our testwork of authorization controls, we noted the following:

- If the purchase is less than \$1,000 and a departmental purchase order (DPO) is used, there is an ability for the initiator/requestor and the approver to be the same person. In other words, the person requesting the purchase can approve the purchase as well. During our internal control testwork, we noted one such instance out of thirty items tested.
  - Procurement card approvers are not always obtaining Dean, Director, or Vice President approval, as required. We noted three such instances out of thirty items tested.
  - Pay rate approval forms were, at times, submitted with an improper approver. Although this improper approval was noted by Human Resources Services (HRS), the form was not rejected. Instead, HRS obtained verbal communication from the correct approver. During our internal control testwork, we noted two such instances out of thirty items tested.
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### ***Recommendation No. 7:***

Colorado State University should strengthen its authorization controls by:

- a. Requiring that transactions not be initiated and approved by the same individual.
- b. Rejecting transactions approved by an unauthorized persons.
- c. Requiring approval signatures (Dean, Director or Vice President) for all purchase card approvers prior to their ability to approve transactions.



## Findings and Recommendations, continued

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### *Colorado State University Response:*

7a. Agree. We are in agreement that necessary internal controls are required in order to properly steward public funds. We believe there are several ways to accomplish this requirement. There are four transaction types that have levels of review and approval. (1): DPO's that are either for small dollar purchases or for payments that have other reviews and compensating controls (i.e. utilities, postage, moving expense, some leases, phones, etc.). (2): purchase requisitions for large dollar orders that must go to the purchasing department for creation of a binding purchase order. (3): internal transactions, such as journal vouchers and internal billings. Journal vouchers in excess of certain amounts are reviewed and approved by another person. Internal billings are reviewed by responsible account holders and can be reversed if not appropriate. (4): payments by procurement card that have multiple notifications and reviews. There is some limited risk on small dollar purchases and internal transactions that we believe is mitigated with other compensating controls.

7b. Agree. This has been a practice since the summer of 2003, but there were instances during the roll-out of the new system where Human Resources staff identified that forms did not have the designated approval and they obtained verbal approval from the designated approver but did not ask approvers to follow up with an updated form.

7c. Agree. This is an existing policy that was implemented Summer 2001.

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### **General Access Controls**

A general access control is a control in place that allows only certain users onto a restricted computer system. During a review of general access controls, we noted that "Top Secret" is used on the mainframe system to provide the security structure around the applications. "CA Unicenter" is used on the Delphi UNIX system to provide the security structure around the data warehouse and the SARS application. Both of these programs' minimum acceptable password length required is four characters. Best practices dictate that the minimum acceptable password length is six characters. Passwords provide the first line of defense against unauthorized access to a system, and a minimum acceptable password length of six characters would make system passwords more difficult for unauthorized users to crack.

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### ***Recommendation No. 8:***

Colorado State University should improve its general access controls by reviewing its password policy and increase the minimum acceptable password length from four characters to six characters for both Top Secret and CA Unicenter Systems.

### ***Colorado State University Response:***

Agree. This issue and recommendation was identified by the CSUS Internal Audit report 04-02 dated September 15, 2003 and was implemented on October 3, 2003.

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## Findings and Recommendations, continued

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### User Access to the FRS System

A CSU Information Technology employee (IT Employee) is responsible for granting new users access to the FRS. At June 30, 2003, there were approximately 750 CSU employees who had access to FRS. Written policies require that all new users complete the Financial Reporting System Access Application and these applications are reviewed for completeness and accuracy prior to granting user access.

Yet, for terminated employees, there is no formal process of notification to alert the IT Employee to remove these employees' access to FRS. Rather, the IT Employee must perform periodic human resource system queries to become aware of terminated employees at which time she removes the FRS access from those terminated employees. Sometimes, supervisors may email the IT Employee to notify her of a terminated employee and request removal of FRS access. Not having a formal notification procedure in place for terminated employees could cause untimely removal of user access to FRS and increase the risk of unauthorized access to the system.

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### *Recommendation No. 9:*

Colorado State University should implement a policy requiring the Human Resources Department to notify the Information Technology employee within a specific timeframe when an employee is terminated so that employee access is removed on a timely basis.

### *Colorado State University Response:*

Agree. As noted, a system currently exists (report-writer against HRS system to list those staff who have terminated, which can be run by the IT staff at any time). We will be looking at the cost versus benefit of fully automating this recommendation. We will pursue a more immediate and automated notification, such as by e-mail, versus a monthly report to identify when an employee reaches terminated status. It should be noted that in special/unique termination cases, care is taken to immediately eliminate all access (electronic, keys, etc.) for an employee. Estimated completion of cost/benefit analysis: June 2004.

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### Implementation of GASB Statement No. 39

In May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. A component unit is a legally separate organization for which the officials of the primary government are financially accountable. Generally, the statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented (separately reported) as component units. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

## Findings and Recommendations, continued

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- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The provisions of this statement are effective for the June 30, 2004 financial statements. Under this statement, the System will need to evaluate certain related organizations, such as its foundations, under the criteria noted above to determine whether these organizations should be included in the financial reporting entity of the System. As a result of the significant, potential changes to its financial reporting entity, the System should implement a plan to address the requirements of the new standard and include these entities, as appropriate, in its fiscal year 2004 basic financial statements.

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### ***Recommendation No. 10:***

The System should evaluate GASB Statement No. 39 and its impact on the System's financial reporting. The System should at a minimum evaluate the impact and, if other entities are to be included in the System's reporting entity, the System should develop an implementation plan to include these entities, as appropriate, in its fiscal year 2004 basic financial statements.

### ***Colorado State University System Response:***

Agree. The CSUS first initiated activity for this implementation several years ago. Administration has been undergoing extensive preparation for this implementation which includes discussion with the relevant affiliated organizations such as the Colorado State University Foundation and the Colorado State University Research Foundation. Estimated completion: FY2004 detail implementation plan will be completed June 2004 and we have an ongoing update on application of the new standard until issuance of Financial Statements.

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## **Federal Awards**

We performed procedures required by OMB Circular A-133 and the Compliance Supplement for the following programs:

- Federal Emergency Management Agency (FEMA) awards
- Research and Development Cluster
- Student Financial Assistance

For fiscal year 2003, CSU received approximately \$2 million, \$90 million, and \$110 million of federal financial assistance for the three programs, respectively. The seven findings and recommendations presented below result from this work and are presented in the format required under OMB Circular A-133 and *Government Auditing Standards*.

**Findings and Recommendations, continued**

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

**FEMA – Cash Management**

<i>Criteria:</i>	When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. Also, cash management regulations require that interest earned on advances by government grantees is required to be submitted promptly to the respective federal agency. Up to \$250 of interest earned per year may be kept for administrative expenses.
<i>Condition:</i>	<p>During the year, the Colorado State Forest Service (CSFS) of CSU did not have adequate controls in place to identify and prevent the inappropriate drawing of funds. Because of this, the CSFS inappropriately drew down approximately \$12.8 million in funds prior to costs being paid by CSU.</p> <p>Due to the fact that these funds were requested prematurely, the funds earned interest while being held as part of CSU’s share of the State Treasury pool. CSU does not have adequate procedures in place to ensure proper tracking of interest earned on advanced monies. Therefore, interest earnings on these funds were not submitted promptly, as required.</p> <p>After discovering the error of the premature draw of funds, CSU moved the request-for-funds function to the Office of Sponsored Programs (OSP) from the Colorado State Forest Service due to the fact OSP has more knowledge of cash management requirements.</p>
<i>Questioned Costs:</i>	None as CSU remitted the required interest earnings of approximately \$36,000 prior to June 30, 2003 based on our recommendation.
<i>Context:</i>	<p>In September 2002, the CSFS drew \$12.8 million in advance funding from FEMA prior to program costs being paid by the CSU. Upon realization that the funds were inappropriately drawn down, the CSFS returned the unspent funds of \$8.1 million in January 2003.</p> <p>As a result of these funds being prematurely drawn down, CSU earned interest on these funds for a period of four to five months. CSU did not remit the interest on the advance to FEMA until June 2003 after our audit procedures brought to the attention of management that the interest had not yet been remitted. Prior to our recommendation, CSU identified that interest was owed, but no action was taken. In addition, we noted that the CSFS and other departments believed that grant monies were deposited in non-interest bearing accounts.</p>
<i>Effect:</i>	CSU does not have adequate controls in place over CSFS federal awards to prevent inappropriate drawing of funds nor has the University assigned the responsibility of remitting interest relating to CSFS grants to an individual/group.

## Findings and Recommendations, continued

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### ***Recommendation No. 11:***

Colorado State University should ensure cash management requirements are adhered to by:

- a. Ensuring the request-for-funds function is assigned to someone familiar with cash management compliance requirements.
- b. Implementing a formal secondary review by a person that did not directly prepare the draw. All reports submitted to a federal agency should be formally reviewed by a person at least one level above the preparer.
- c. Considering a cursory review by the Office of Sponsored Programs, for those programs that are not already drawn or billed by OSP, to ensure cash management compliance.
- d. Designating a knowledgeable person or group to monitor interest earned on the advancement of federal funds to ensure that interest earned is remitted to the appropriate federal agency.

### ***Colorado State University Response:***

Agree. As noted earlier, CSFS awards are now being administered by OSP.

11a.,b.,c.,d. With respect to the other departments drawing Federal cash (Agricultural Experiment Station, Coop Extension, Student Financial Aid), Business and Financial Service along with Sponsored Programs will review the existing policies regarding cash management, including the delegation of authority to act on behalf of the University in drawing federal and state funds. Based upon this review, Financial Procedure Instructions will be updated to establish criteria under which an individual may be delegated such authority, determine and implement an appropriate level of review and properly manage and remit interest earned to the respective agency. Estimated completion of policy: September 2004.

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## **FEMA – Suspension and Debarment**

<i>Criteria:</i>	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. Covered transactions include procurement contracts for goods or services equal to or in excess of \$100,000 and all nonprocurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. The non-Federal entities may rely upon the certification unless it knows that the certification is erroneous. Non-Federal entities may, but are not required to, check for suspended and debarred parties that are listed on the <i>List of Parties Excluded From Federal Procurement or Nonprocurement Programs</i> issued by the General Services Administration (GSA).
<i>Condition:</i>	The Colorado State Forest Services (CSFS) of CSU did not inquire about or obtain the suspension or debarment certification for its cooperators and vendors in relation to the FEMA award.

**Findings and Recommendations, continued**

<i>Questioned Costs:</i>	As part of our audit procedures, we reviewed the <i>List of Parties Excluded From Federal Procurement or Nonprocurement Programs</i> to ensure no payments were made to suspended or debarred parties. No such payments were noted; thus, there were no questioned costs related to this finding.
<i>Context:</i>	We noted that the CSFS of CSU has numerous cooperators and vendors who were used to extinguish the forest fires. All of these cooperators and vendors had contracts and agreements in place. However, none of the agreements contained a suspension and debarment certification.
<i>Effect:</i>	By not obtaining the appropriate certifications and not reviewing the <i>List of Parties Excluded From Federal Procurement or Nonprocurement Programs</i> , the CSFS may unknowingly make payments to parties that are suspended or debarred.
<i>Cause:</i>	The CSFS of CSU does not have proper processes in place to ensure that the vendors and cooperators are not suspended and debarred.

**Recommendation No 12:**

Colorado State University should include a standard clause in all cooperator and vendor agreements or obtain a separate certification from the vendors and cooperators stating that the cooperator/vendor is not suspended or debarred from federal procurement and nonprocurement programs.

**Colorado State University Response:**

Agree. As noted earlier, CSFS FEMA awards are now being administered by OSP. This FEMA compliance requirement will be fully implemented upon transfer of CSFS awards to OSP. Estimated completion: June 2004.

**Research and Development Cluster – Subrecipient Monitoring**

<i>Criteria:</i>	Federal regulations require that the pass-through entity ensure required audits are performed for subrecipients, as applicable, to ensure subrecipients are adhering to federal compliance requirements related to the funds. Also, the pass-through entity must ensure that prompt action is taken on any audit findings. Lastly, the pass-through entity must adequately monitor subrecipients using progress reports, site visits, and other communication.
<i>Condition:</i>	CSU is not performing an adequate review of subrecipients’ OMB Circular A-133 reports and there are not consistent procedures applied to subrecipients that are not subject to OMB Circular A-133 requirements.
<i>Questioned Costs:</i>	Unknown

## Findings and Recommendations, continued

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<i>Context:</i>	<p>In our review of a sample 24 subrecipient files, we noted that four subrecipients' OMB Circular A-133 reports had findings. Of those four subrecipients, one reported significant noncompliance findings related to the Research and Development Cluster. For this subrecipient, there was no evidence that CSU required a corrective action plan be developed by the subrecipient nor was there any evidence of adequate follow-up procedures.</p> <p>Additionally, of the sample of 24, four subrecipients were not subject to OMB Circular A-133 requirements as they were either a for-profit entity or a federal entity. Of those four, one obtained a single audit report which was reviewed by CSU. We did not note any additional procedures performed on the other three to ensure that the costs submitted were allowable and the controls in place at the entity are appropriate.</p>
<i>Effect:</i>	<p>For the subrecipients who reported findings in connection with their OMB Circular A-133 audit, CSU did not ensure that prompt corrective action was taken to resolve the findings noted in their report. Also, even though the University does evaluate and establish additional procedures for some subrecipients not subject to OMB Circular A-133 requirements, the University does not have a formal established policy relating to the monitoring activities for entities not subject to OMB Circular A-133. This creates inconsistent treatment of these entities.</p>

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### ***Recommendation No. 13:***

Colorado State University should comply with subrecipient monitoring compliance requirements by:

- a. Developing a formal policy requiring subrecipients to take timely and appropriate corrective action on all audit findings.
- b. Requiring proper follow-up procedures to be performed to ensure the corrective action plan was properly adhered to by the subrecipient reporting significant noncompliance findings.
- c. Incorporating procedures into the policy regarding the monitoring of subrecipients not subject to OMB Circular A-133 audits.

### ***Colorado State University Response***

- a. Agree. Complete procedures, to include for-profit high risk entities, those entities falling under the OMB Circular A-133 threshold, and/or entities reporting noncompliance issues, will be reviewed and formalized into the Subcontracting Manual. Estimated completion: June 2004.
- b. and c. Agree. At the time CSU enters into a subaward, CSU requests the subrecipient to provide an Audit Certification Letter, and any other documents as considered necessary, indicating their compliance status with OMB Circular A-133. Sponsored Programs reviews the information provided by the subrecipient and forwards non-compliant responses to the Associate Controller within Business and Financial Services. The Associate Controller reviews the pertinent information and formulates a specific follow-up plan based upon the nature of the non-compliance issue. As noted within the discussion above, one subrecipient had

## Findings and Recommendations, continued

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reported significant noncompliance findings and no follow-up procedures had been performed. Since the time this issue was raised, follow-up procedures have been formulated and are in the process of being implemented.

The current procedures as set forth in the Subcontracting Manual for monitoring all subrecipients do provide for oversight. All invoices submitted for payment are reviewed by Sponsored Programs to ensure that the charges are within the approved budget, that the time period for the billing is appropriate and that sufficient funds are available to cover the invoice.

Once Sponsored Programs has completed their review, the invoice is sent to the Principal Investigator for authorization of payment and certification of progress. This process is necessary as the Principal Investigator is in regular contact regarding program objectives and status of work completion.

Estimated completion: June 2004.

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### Federal Student Aid Cluster – Withdrawal Dates

<i>Criteria:</i>	A college or university is required to determine the withdrawal date for a student (who withdraws without providing notification) by thirty days after the end of the payment period (i.e., semester) or academic year from which the student withdrew, whichever is earlier (34 CFR 668.22).
<i>Condition:</i>	Adequate procedures are not in place at CSU to ensure that the withdrawal dates of students who withdraw without providing notification are determined within thirty days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. CSU's procedures for determining the withdrawal dates for these students allow extended time to receive last dates of attendance (LDAs) from faculty to use in the Return of Title IV Funds calculations.
<i>Questioned Costs:</i>	\$910
<i>Context:</i>	In a sample of thirty students, CSU determined the withdrawal date late for two students. One student's withdrawal date was determined thirty-four days after the end of the semester (four days late). CSU appropriately used the midpoint of the semester to determine the Return of Title IV Funds amount for this student, since the student did not have a LDA, and returned appropriate funds. The other student's withdrawal date was determined forty-two days after the end of the semester (twelve days late), which was concurrently used as the student's LDA since that is the date they were notified. The actual LDA that should have been used was twelve days earlier. Thus, CSU used the LDA received forty-two days after the end of the semester to determine the Return of Title IV Funds amount. This LDA was beyond the 60% point of the semester, which requires no return to be made. As such, CSU did not return funds for this student. However, had the midpoint of the semester been used by thirty days after the end of the semester, which is the date that should have been used as the LDA, to determine the Return of the Title IV Funds amount, as appropriate since the LDA was not known by thirty days after the end of the semester, CSU would have had to return \$910 to the Federal Direct Loan program. The student would not have had to make a return, but would have to repay his student loans in accordance with the original promissory notes.



**Findings and Recommendations, continued**

<i>Effect:</i>	Some withdrawal dates for students who withdraw from CSU without providing notification are not being determined timely. This has caused CSU to not return funds that it should have returned. This may also cause CSU to return funds beyond the timeframe established by regulations, if such returns are due.
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***Recommendation No. 14:***

Colorado State University should establish procedures to ensure that the withdrawal dates of students who withdraw from CSU without providing notification are determined by thirty days after the end of the payment period or academic year from which the students withdrew, whichever is earlier. Also, these procedures should ensure proper return of Title IV funds.

***Colorado State University Response:***

Agree. We will not permit individual students to have extra time to provide proof of their last day of attendance. If the professor whose signature is required to validate the last day of attendance is unavailable during semester breaks, we will assume the last day of attendance to be the midpoint of the term. Estimated completion: May 2004.

**Federal Student Aid Cluster – COA Updates**

<i>Criteria:</i>	The cost of attendance (COA) is an estimate of a student’s education expenses for the period of enrollment. Each student is assigned a COA according to CSU’s established student budgets. The COA is one component necessary to determine a student’s financial need. A student must have financial need to receive all Federal Student Aid except for unsubsidized Stafford and PLUS loans; however, the total aid package cannot exceed the COA ( <i>HEA Sec. 472; 2002 – 2003 United States Department of Education Federal Student Aid Handbook Volume 1 Student Eligibility Chapter 7 Financial Need and Packaging</i> ).
<i>Condition:</i>	Adequate procedures are not in place at CSU to ensure that the appropriate COA is assigned to students according to CSU’s established student budgets for students whose COAs have been manually adjusted prior to receiving updated data as a result of submitting corrections and updates through Electronic Data Exchange (EDE) to the Central Processing System (CPS).
<i>Questioned Costs:</i>	None
<i>Context:</i>	In a sample of thirty students, there was one student for whom an incorrect COA was assigned due to this condition. This student had originally been assigned a nine-month COA for a married student with two members of the household in college. The student attended only the Spring semester; therefore, his COA was manually adjusted by halving the originally assigned COA, as appropriate. However, verification was then performed and it was discovered that there was only one person in the household in college. As such, corrections were submitted through EDE to the CPS to update the number in college, as required. When

**Findings and Recommendations, continued**

	corrections are received back, they automatically update the system including the COA. However, the COA is not automatically updated if it has already been manually adjusted, as in this case. Therefore, this student’s COA remained at the level with two in the household in college, when it should have been updated to one in the household in college. If the COA had been appropriately updated to CSU’s married student budget with one in college, this student would have been eligible for an additional \$428 in Federal District unsubsidized loan funds.
<i>Effect:</i>	Data corrections received from the CPS do not update COAs that have previously been manually changed. This has caused CSU to assign an incorrect COA to a student, which caused him to not receive an award for which he was eligible.

***Recommendation No. 15:***

Colorado State University should establish procedures to ensure that cost of attendances (COAs) that have been manually changed prior to receiving data corrections from the Central Processing System (CPS) are examined to ensure appropriateness.

***Colorado State University Response:***

Agree. The population for whom this is an issue is extremely small. The living costs are the same for all students, except those who are married and both the student and the spouse are in school. We now have an edit in place to identify these students.

**Federal Student Aid Cluster – Exit Counseling**

<i>Criteria:</i>	A college or university must ensure that exit counseling is conducted with each Federal Direct Loan borrower shortly before the student borrower ceases at least half-time study at the school. If the student fails to complete the exist counseling as required, the school must provide exit counseling either through interactive electronic means or by mailing written counseling materials to the student borrower within thirty days after the college or university learns that the student borrower has withdrawn from school. The college or university must maintain documentation for each student borrower substantiating the school’s compliance with the exit counseling requirements (34 CFR 685.304 (b)).
<i>Condition:</i>	Adequate procedures are not in place at CSU to ensure that the documentation is maintained to substantiate the school’s compliance with exit counseling requirements.
<i>Questioned Costs:</i>	None
<i>Context:</i>	In a sample of thirty students, there were five that required exit counseling. CSU could not provide documentation that it had complied with the exit counseling requirements for these five students. CSU maintains that it did send the students exit counseling materials; however, it failed to maintain documentation to substantiate this.

**Findings and Recommendations, continued**

<i>Effect:</i>	By not maintaining documentation that it complied with exit counseling requirements, CSU could not substantiate its compliance with federal regulations.
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**Recommendation No. 16:**

Colorado State University should implement procedures to ensure that documentation is maintained to substantiate its compliance with exit counseling requirements.

**Colorado State University Response:**

Agree. The exit counseling was conducted. Normally the documentation is retained. However, this year it was inadvertently misplaced. We will review all our procedures and make any necessary adjustments to help assure these errors to not repeat. Estimated Completion Date: May 2004.

**Federal Student Aid Cluster – Reporting**

<i>Criteria:</i>	To apply for and receive funds for the campus based Federal Student Aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant) colleges and universities must complete and submit a Fiscal Operations Report and Application to Participate (FISAP) by October 1 of each year. The FISAP that was due on October 1, 2003 reported on the colleges and universities’ campus-based program participation for 2002 – 2003 and applied for campus-based program funding for 2004 – 2005. The FISAP must contain accurate data and the school must retain accurate and verifiable records for program review and audit purposes. ( <i>Department of Education FISAP Instructions</i> ).
<i>Condition:</i>	Adequate procedures are not in place at CSU to ensure that the accurate data are reported in the FISAP.
<i>Questioned Costs:</i>	None
<i>Context:</i>	CSU reported \$10,308 in other income for the Perkins loan fund on the Institutional Capital Contribution (ICC) line of the FISAP (Line 21 Part III Section A). This other income consisted of collection costs collected from repayment of overdue loans. These collection costs do not constitute an ICC, which is defined as being at least one third of the annual Federal Capital Contribution (FCC) and is the school’s matching share to the FCC.
<i>Effect:</i>	Reporting other income on the Institutional Capital Contribution line does not report accurate data in the FISAP.

## **Findings and Recommendations, continued**

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### ***Recommendation No. 17:***

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

### ***Colorado State University Response:***

Agree. The numbers submitted on the FISAP are reviewed for accuracy according to the documentation on file with each responsible area. The documentation will be reviewed for accuracy each aid year, and each responsible accountant will provide a review signature. Estimated completion: September 2004.

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# Disposition of Prior Audit Findings and Recommendations

Following are the audit recommendations for the year ended June 30, 2002, and their disposition as of November 7, 2003.

Recommendation	Disposition
<p>1. Colorado State University should adjust the allowance for doubtful accounts at least annually based on the analysis and estimate of uncollectible accounts receivable.</p>	<p>Implemented</p>
<p>2. Colorado State University – Pueblo should for the Federal Perkins Loan Program:</p> <p>a. Strengthen procedures to ensure that adequate documentation is obtained from borrowers to support financial hardship for deferment or cancellation of student loans.</p> <p>b. Modify its loan collection program to ensure that the date a student loan enters repayment status is calculated in accordance with federal guidelines.</p> <p>c. Strengthen procedures to ensure that student withdrawal information is reported to the National Student Loan Data System for all students.</p>	<p>a. Implemented</p> <p>b. Not implemented Colorado State University – Pueblo assessed its current software package, determined it could not be modified to provide the required functionality, and evaluated other available software packages. Although none of the packages met all of the requirements, the University indicates a product possibly could be modified to provide the desired functionality. Because of reductions in funding and budget constraints, the University believes it is prevented from proceeding with any solution at this time.</p> <p>c. Implemented</p>



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## Independent Auditors' Report

### Members of the Legislative Audit Committee:

We have audited the accompanying statement of net assets of the Colorado State University System (the System), a blended component unit of the State of Colorado, as of June 30, 2003, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the System. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the System as of June 30, 2002, were audited by other auditors whose report thereon dated September 27, 2002, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2003 financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 (b) to the financial statements, Fort Lewis College is no longer a part of the System's financial reporting entity as of July 1, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2003 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 43 to 49 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 7, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S.



## COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System) for the fiscal years ended June 30, 2003 and 2002. This discussion and analysis provides an analysis of the System's financial activities based on currently known facts, decisions or conditions. This analysis should be read in conjunction with the System's financial statements and notes thereto, which are also presented in this document.

### Financial Highlights

- The assets of the System exceeded its liabilities at June 30, 2003 by \$545.5 million (net assets). Of this amount \$83.9 million was restricted for purposes which the donor or grantor or other external party intended. \$107.1 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.
- The System's net assets decreased \$69.7 million during fiscal year 2003. This was primarily due to the fact that effective September 1, 2002, Fort Lewis College was no longer part of the System due to a change in state statute. As a result, the June 30, 2003 financial statements do not include data for Fort Lewis College. The financial statements presented for fiscal year 2002 do include data for Fort Lewis College. This change in entity caused net assets to decrease by \$87.7 million.
- State appropriations decreased by approximately \$25.1 million. This was due to the state's General Fund reduction and the fact Fort Lewis College was no longer part of the System.
- The System received no funding for new state-funded capital construction projects in fiscal year 2003 and none are budgeted for fiscal year 2004.

### The Basic Financial Statements

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

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

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

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



## COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

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

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes provide information regarding both the accounting policies and procedures the System has adopted as well as additional detail of certain amounts contained in the basic financial statements. The notes to financial statements follow the basic financial statements.

### Financial Analysis

The Statement of Net Assets presents the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. As discussed in the *Financial Highlights* section, Fort Lewis College was no longer part of the System effective September 1, 2002. As a result, the June 30, 2003 financial information does not include data for Fort Lewis College. The financial information presented for fiscal year 2002 does include data for Fort Lewis College.

The assets of the System exceeded liabilities resulting in net assets at June 30, 2003 and 2002 of \$545,518,000 and \$615,215,000, respectively. The majority (65% and 70%, respectively) of the System's net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

#### Summary of Net Assets (amounts expressed in thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Current assets	\$ 280,406	269,845
Noncurrent assets, including capital assets of \$412,406 and \$500,901, respectively	480,826	551,510
Total assets	\$ 761,232	821,355
Current liabilities	\$ 112,278	109,259
Noncurrent liabilities	103,436	96,881
Total liabilities	\$ 215,714	206,140
Net assets:		
Invested in capital assets, net of related debt	\$ 354,525	427,961
Restricted	83,875	83,018
Unrestricted	107,118	104,236
Total net assets	\$ 545,518	615,215

**COLORADO STATE UNIVERSITY SYSTEM**

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

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

**Summary of Net Assets – excluding Fort Lewis College**  
(amounts expressed in thousands)

	<b>June 30</b>	
	<u><b>2003</b></u>	<u><b>2002</b></u>
Current assets	\$ 280,406	256,899
Noncurrent assets, including capital assets of \$412,406 and \$407,882 respectively	<u>480,826</u>	<u>453,084</u>
Total assets	<u>\$ 761,232</u>	<u>709,983</u>
Current liabilities	\$ 112,278	95,528
Noncurrent liabilities	<u>103,436</u>	<u>86,974</u>
Total liabilities	<u>\$ 215,714</u>	<u>182,502</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 354,525	352,015
Restricted	83,875	77,129
Unrestricted	<u>107,118</u>	<u>97,627</u>
Total net assets	<u>\$ 545,518</u>	<u>527,481</u>

- The increase in assets of the System is primarily attributable to an increase in cash resulting from legislation that shifted the state employee paydate for June 2003 pay periods into the 2004 fiscal year. Also contributing to this increase was a \$23.7 million increase in cash from unspent bond proceeds.
- The increase in the liabilities of the System is also primarily attributable to the shift in the state employee paydate from June 2003 to fiscal year 2004. The pay date shift resulted in an additional accrual of approximately \$27.0 million.

The *Statement of Revenues, Expenses, and Changes in Net Assets* reports the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the year.

**COLORADO STATE UNIVERSITY SYSTEM**

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

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

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Operating revenues:	\$	
Tuition and fees, net	131,513	137,298
Grants and contracts	226,585	215,562
Auxiliary enterprises	108,170	122,158
Other	21,242	19,724
Total operating revenues	<u>487,510</u>	<u>494,742</u>
Operating expenses:		
Instruction	159,546	180,986
Research	120,681	119,297
Public service	75,203	79,685
Academic support	38,555	40,105
Student services	22,357	27,413
Institutional support	19,957	22,784
Operation and maintenance of plant	45,903	46,438
Scholarships and fellowships	13,773	12,672
Auxiliary enterprises	110,255	114,840
Depreciation	42,362	32,691
Other operating expenses	165	1,624
Total operating expenses	<u>648,757</u>	<u>678,535</u>
Operating loss	<u>(161,247)</u>	<u>(183,793)</u>
Nonoperating revenues:		
State appropriations	126,011	151,156
Other net nonoperating revenues	30,497	26,389
Net nonoperating revenues	<u>156,508</u>	<u>177,545</u>
Loss before other revenues, expenses, gains or losses	(4,739)	(6,248)
State capital contributions	12,041	39,042
Capital grants	1,761	1,613
Capital gifts	9,414	7,967
Payments to governing boards or other institutions	(440)	(603)
Increase in net assets	<u>18,037</u>	<u>41,771</u>
Net assets:		
Net assets, beginning of year, as previously reported	615,215	573,444
Change in entity	(87,734)	—
Net assets beginning of year, as adjusted	<u>527,481</u>	<u>573,444</u>
Net assets, end of year	<u>\$ 545,518</u>	<u>615,215</u>

**COLORADO STATE UNIVERSITY SYSTEM**

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

It is the nature of public higher education institutions to report a loss from operations because the loss is reported before the state appropriation is taken into consideration. The System experienced a \$161.2 million loss from operations in fiscal year 2003 and a \$183.8 million loss from operations in fiscal year 2002. In fiscal year 2003, this operating loss was offset by state appropriations of \$126.0 million and other nonoperating net revenues of \$53.3 million, including \$23.2 million of capital appropriations, capital gifts, and capital grants. In fiscal year 2002, the operating loss was offset by net state appropriations of \$151.1 million and other nonoperating net revenues of \$74.4 million, including \$48.6 million of capital appropriations, capital gifts, and capital grants.

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

**Summary of Revenues, Expenses, and Changes in Net Assets – excluding Fort Lewis College**  
(amounts expressed in thousands)

	<b>June 30</b>	
	<u>2003</u>	<u>2002</u>
Operating revenues	\$ 487,510	463,160
Operating expenses	<u>648,757</u>	<u>631,405</u>
Operating loss	(161,247)	(168,245)
Nonoperating revenues	<u>156,508</u>	<u>162,249</u>
Loss before other revenue	(4,739)	(5,996)
Other revenues	<u>22,776</u>	<u>43,895</u>
Increase in net assets	<u>\$ 18,037</u>	<u>37,899</u>

- The increase in operating revenues for the System is primarily attributable to an \$18.3 million increase in revenues from grants and contracts and an \$8.5 million increase in tuition and fee revenue.
- The increase in operating expenses for the System is primarily attributable to a \$13.3 million increase in depreciation expense and a \$6.0 million increase in expense for auxiliary enterprises. The increase in depreciation expense resulted from a componentization study that was conducted during the fiscal year. The increase in expenses for auxiliary enterprises resulted from increased auxiliary activity during the fiscal year.
- The decrease in nonoperating revenues is due to a \$10.9 million dollar decrease in state appropriations from the prior year. The total decrease in nonoperating revenues is offset by a \$3.3 million increase in system gift fund revenue for the fiscal year.
- The decrease in other revenues is primarily attributable to an approximate \$23.0 million reduction in state capital contributions from the prior year.

## COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

### Capital Assets and Debt Administration

At June 30, 2003, the System had approximately \$412.4 million invested in capital assets, net of accumulated depreciation of \$357.9 million. At June 30, 2002, the System had approximately \$500.9 million invested in capital assets, net of accumulated depreciation of \$357.6 million.

Depreciation charges were approximately \$42.4 million and \$32.7 million for the years ended June 30, 2003 and 2002, respectively.

During fiscal year ended June 30, 2003, the System received no state contributions for new capital construction projects.

Approximately \$12.0 million of state capital contributions were received for ongoing capital construction projects during fiscal year 2003. Two of the largest amounts received related to the Colorado State University Plant Sciences Building Revitalization Project and the Colorado State University Chemistry/Biology Science Lab Upgrades. The Plant Sciences Building project was a three-year project that first received funding in fiscal year 2001. \$3.4 million was received for this project during this fiscal year and the total amount of state capital contributions received for the project was \$8.9 million. The Chemistry/Biology project was a four-year project that first received funding in fiscal year 2000. \$2.0 million was received for this project during this fiscal year and the total amount of state capital contributions received for the project was \$20.1 million.

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

### Capital Assets, Net of Accumulated Depreciation

(amounts expressed in thousands)

	June 30	
	2003	2002
Land	\$ 9,698	9,958
Land improvements	31,405	32,755
Building and improvements	286,553	316,278
Leasehold improvements	189	141
Equipment	45,251	43,103
Collections	2,145	2,052
Library materials	28,858	26,410
Construction in progress	8,307	70,204
Total capital assets, net	\$ 412,406	500,901

The reduction in capital assets is primarily due to the fact that Fort Lewis College was no longer part of the System at June 30, 2003. At June 30, 2002, the System reported approximately \$93.0 million in capital assets for Fort Lewis College.

## COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

Years ended June 30, 2003 and 2002

The System had approximately \$80.5 million and \$76.3 million of debt outstanding at June 30, 2003 and June 30, 2002 respectively.

### Summary of Debt (amounts expressed in thousands)

	June 30	
	2003	2002
Debt outstanding:		
Revenue bonds, certificates of participation	\$ 75,309	72,630
Capital lease obligations	5,171	3,702
	<u>\$ 80,480</u>	<u>76,332</u>

The System completed two bond financings during fiscal year 2003.

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

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

### Economic Outlook/Future of the Colorado State University System

The State's General Fund revenue is projected to increase in fiscal year 2004 between 2.0% and 4.3%. For fiscal year 2005, the General Fund revenue is projected to increase between 3.7% and 6.8%. (Source: December 2003 quarterly revenue forecasts from Legislative Council and the Office of State Planning and Budgeting.) While the State experienced a General Fund reduction in fiscal year 2003, the System begins fiscal year 2004 with no restriction on the General Fund. The State's overall budgetary situation remains governed by the three constitutional budgetary provisions: The Taxpayers Bill of Rights (TABOR), the Gallagher Amendment on property taxes, and Amendment 23 requiring specified increases in state support for K-12 Education.

**COLORADO STATE UNIVERSITY SYSTEM**

Statements of Net Assets

June 30, 2003 and 2002

(amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 217,898	202,407
Student accounts receivable, net	5,889	5,308
Other accounts receivable, net	42,975	47,639
Student loans receivable, net	3,781	3,635
Inventories	7,856	8,901
Prepaid expenses	2,007	1,955
Total current assets	<u>280,406</u>	<u>269,845</u>
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	33,432	14,897
Investments	14,830	14,555
Student loans receivable, net	20,158	21,022
Prepaid expenses	—	135
Nondepreciable capital assets:		
Land	9,698	9,958
Construction in progress	8,307	70,204
Collections	2,145	2,052
Total nondepreciable capital assets	<u>20,150</u>	<u>82,214</u>
Depreciable capital assets, net:		
Land improvements	31,405	32,755
Buildings and improvements	286,553	316,278
Leasehold improvements	189	141
Equipment	45,251	43,103
Library materials	28,858	26,410
Total depreciable capital assets (net of accumulated depreciation)	<u>392,256</u>	<u>418,687</u>
Total noncurrent assets	<u>480,826</u>	<u>551,510</u>
Total assets	\$ <u><u>761,232</u></u>	<u><u>821,355</u></u>

**COLORADO STATE UNIVERSITY SYSTEM**

Statements of Net Assets (Continued)

June 30, 2003 and 2002

(amounts expressed in thousands)

	<u>2003</u>	<u>2002</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 20,832	18,863
Accrued liabilities	42,317	46,721
Deferred revenue	19,946	23,011
Deposits held for others	21,411	11,830
Bonds payable, current portion	4,170	5,445
Capital leases payable, current portion	1,136	1,567
Other long-term liabilities, current portion	726	66
Compensated absence liabilities, current portion	1,740	1,756
Total current liabilities	<u>112,278</u>	<u>109,259</u>
Noncurrent liabilities:		
Bonds payable	71,139	67,185
Capital leases payable	4,035	2,135
Other long-term liabilities	2,607	2,550
Compensated absence liabilities	25,655	25,011
Total noncurrent liabilities	<u>103,436</u>	<u>96,881</u>
Total liabilities	<u>\$ 215,714</u>	<u>206,140</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 354,525	427,961
Restricted for nonexpendable purposes	14,140	14,067
Restricted for expendable purposes – other	69,735	68,951
Unrestricted	107,118	104,236
Total net assets	<u>\$ 545,518</u>	<u>615,215</u>

See accompanying notes to basic financial statements.



**COLORADO STATE UNIVERSITY SYSTEM**  
**Statements of Revenue, Expenses, and Changes in Net Assets**  
**Years ended June 30, 2003 and 2002**  
(amounts expressed in thousands)

	<b>2003</b>	<b>2002</b>
<b>Operating revenues:</b>		
Student tuition and fees (including \$11,305 and \$14,456 of revenues pledged for bonds in 2003 and 2002, respectively, and net of scholarship allowances of \$31,983 and \$37,925 for 2003 and 2002, respectively)	\$ 131,513	135,742
Grants and contracts (including \$30,503 and \$26,629 of revenues pledged for bonds in 2003 and 2002, respectively)	226,585	215,562
Sales and services of educational activities	14,123	12,920
Auxiliary enterprises (including \$71,023 and \$83,162 of revenues pledged for bonds in 2003 and 2002, respectively, and net of scholarship allowances of \$3,306 and \$3,610 for 2003 and 2002, respectively)	108,170	123,714
Other operating revenue	7,119	6,804
Total operating revenues	487,510	494,742
<b>Operating expenses:</b>		
Instruction	159,546	180,986
Research	120,681	119,297
Public service	75,203	79,685
Academic support	38,555	40,105
Student services	22,357	27,413
Institutional support	19,957	22,784
Operation and maintenance of plant	45,903	46,438
Scholarships and fellowships	13,773	12,672
Auxiliary enterprises	110,255	114,840
Depreciation	42,362	32,691
Other operating expenses	165	1,624
Total operating expenses	648,757	678,535
Operating loss	(161,247)	(183,793)
<b>Nonoperating revenues (expenses):</b>		
State appropriations	126,011	151,156
Gifts	18,952	15,947
Investment income	13,348	14,530
Interest expense on capital debt	(3,341)	(4,285)
Loss on disposal of assets	(418)	(615)
Other nonoperating revenues	1,956	812
Net nonoperating revenues	156,508	177,545
Loss before other revenues (expenses)	(4,739)	(6,248)
<b>Other revenues (expenses):</b>		
State capital contributions	12,041	39,042
Capital grants	1,761	1,613
Capital gifts	9,414	7,967
Payments to governing boards or other institutions	(440)	(603)
Increase in net assets	18,037	41,771
<b>Net assets:</b>		
Net assets, beginning of year, as previously recorded	615,215	573,444
Change in equity	(87,734)	—
Net assets, beginning of year, as adjusted	527,481	573,444
Net assets, end of year	\$ 545,518	615,215

See accompanying notes to basic financial statements.

**COLORADO STATE UNIVERSITY SYSTEM**  
 Statements of Cash Flows  
 Years ended June 30, 2003 and 2002  
 (amounts expressed in thousands)

	<b>2003</b>	<b>2002</b>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 131,561	136,191
Student loans collected	6,393	5,122
Sales of products	16,090	26,305
Sales of services	121,860	108,830
Grants, contracts, and gifts	227,852	199,383
Other operating receipts	3,749	6,070
Cash payments:		
Scholarships disbursed	(8,547)	(10,757)
Student loans disbursed	(6,697)	(4,723)
Payments to employees	(381,430)	(413,286)
Payments to suppliers	(218,840)	(184,698)
Other operating payments	(166)	(64)
Net cash used by operating activities	(108,175)	(131,627)
Cash flows from noncapital financing activities:		
State appropriations – noncapital	126,011	151,156
Gifts and grants for other than capital purposes	16,472	15,967
Agency (direct lending inflows)	78,360	69,934
Agency (direct lending outflows)	(78,365)	(69,922)
Other agency (inflows)	11,564	25,026
Other agency (outflows)	(11,464)	(25,317)
Payment to Fort Lewis College	(14,156)	—
Payments to governing boards or other institutions	(440)	(603)
Other nonoperating revenues	1,641	—
Net cash provided by noncapital financing activities	129,623	166,241
Cash flows from capital and related financing activities:		
Proceeds from capital debt	24,114	—
State appropriations – capital	12,041	34,818
Capital grants, contracts, and gifts	7,455	6,682
Proceeds from sale of capital assets	—	329
Acquisition and construction of capital assets	(36,134)	(62,399)
Principal paid on capital debt	(5,451)	(7,292)
Interest on capital debt	(3,374)	(4,247)
Net cash used by capital and related financing activities	(1,349)	(32,109)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	2,210	2,052
Purchase of investments	(2,399)	(2,198)
Investment earnings (interest, dividends)	14,116	14,884
Net cash provided by investing activities	13,927	14,738
Net increase in cash and cash equivalents	34,026	17,243
Cash and cash equivalents, beginning of the year	217,304	200,061
Cash and cash equivalents, end of the year	\$ 251,330	217,304
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (161,247)	(183,793)
Adjustments:		
Depreciation expense	42,362	32,691
Noncash operating transactions	(2,259)	934
Decrease (increase) in assets:		
Receivables, net	(908)	(16,985)
Inventories and prepaids	362	511
Increase (decrease) in liabilities:		
Accounts payable	3,016	850
Accrued liabilities	(3,865)	28,240
Deferred revenue	97	360
Deposits held for others	12,270	(27)
Compensated absence liabilities	1,997	2,298
Other long-term liabilities	—	3,294
Net cash used by operating activities	\$ (108,175)	(131,627)
Noncash activities:		
Equipment purchased through capital lease	\$ 3,263	785
Noncash gifts	3,721	—

See accompanying notes to basic financial statements.

# COLORADO STATE UNIVERSITY SYSTEM

## Notes to Basic Financial Statements

June 30, 2003 and 2002

### (1) Governance and Reporting Entity

#### (a) Governance

The Colorado State University System (the System) is an institution of higher education of the State of Colorado. For financial reporting purposes, the System is included as part of the State of Colorado's primary government. As of June 30, 2002, the "State Board of Agriculture" was the name of the governing board of the Colorado State University system. Effective July 1, 2002, the name of the governing board was changed to the "Board of Governors of the Colorado State University System". The governing board consists of nine members appointed by the Governor of Colorado and four nonvoting representatives from the institutions. The annual appropriations and the funding for construction of capital facilities of the institutions are evidence of a financial burden of the State. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

#### (b) Reporting Entity

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

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

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

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

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

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

# COLORADO STATE UNIVERSITY SYSTEM

## Notes to Basic Financial Statements

June 30, 2003 and 2002

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of the System would be subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The System had no material unrelated business income for the years ended June 30, 2003 and 2002.

### (2) **Basis of Presentation**

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

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

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

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

#### (a) ***Cash and Cash Equivalents***

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

#### (b) ***Investments***

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

#### (c) ***Inventories***

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

## COLORADO STATE UNIVERSITY SYSTEM

### Notes to Basic Financial Statements

June 30, 2003 and 2002

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

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. Restricted cash and cash equivalents and restricted investments are those that cannot be used to pay current liabilities. Restricted cash and cash equivalents and restricted investments include cash and cash equivalents required as bond reserves and investments held by endowments funds.

**(e) *Capital Assets***

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 40 years for buildings and improvements, 20 to 50 years for land improvements, 10 to 15 years for library materials, and 5 to 12 years for equipment. Depreciation expense was not allocated amongst functional categories.

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

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

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

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

**(f) *Compensated Absence Liabilities***

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

## COLORADO STATE UNIVERSITY SYSTEM

### Notes to Basic Financial Statements

June 30, 2003 and 2002

**(g) Net Assets**

Net assets are classified as follows:

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

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

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

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

**(h) Classification of Revenues and Expenses**

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

*Operating revenues and expenses:* Revenues and expenses that result from providing goods and services for instruction, research, public service or related support services to an individual or entity separate from the System.

*Nonoperating revenues and expenses:* Revenues and expenses that are not included as operating or other revenues. Nonoperating revenues include State appropriations for operations, gifts, and investment income. Nonoperating expenses includes interest expense, loss on disposal of assets, and other nonoperating expenses.

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

**(i) Summer Session Revenue and Related Expenses**

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

## COLORADO STATE UNIVERSITY SYSTEM

### Notes to Basic Financial Statements

June 30, 2003 and 2002

**(j) *Application of Restricted and Unrestricted Resources***

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

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

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

**(l) *Reclassifications***

Certain 2002 amounts have been reclassified to conform with the 2003 basic financial statement presentation.

**(4) Cash and Cash Equivalents**

The System deposits cash with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in security approved by CRS 24-75-601.1. As of June 30, 2003 and 2002, respectively, the System had \$236,533,000 and \$209,752,000 on deposit with the State Treasurer. Interest earned on deposits with the State for the fiscal years ended June 30, 2003 and 2002 was approximately \$10,496,000 and \$12,980,000, respectively. These amounts reflect increases in cash and investment income as a result of recording unrealized gains on deposits with the State Treasurer. These increases for the fiscal years ended June 30, 2003 and 2002, respectively, were \$7,878,000 and \$4,981,000 for cash and \$3,279,000 and \$1,912,000 for investment income. Custodial risk classifications for amounts held by the State Treasurer are not available at the System level. Detailed information on the State Treasurer's pooled cash and investments is available from the State Treasurer's office.

At June 30, 2003 and 2002, the System's cash not on deposit with the State Treasurer was \$14,797,000 and \$7,552,000, respectively. Cash included petty cash/change funds and bank accounts of \$392,000 and \$14,405,000 for the fiscal year ended June 30, 2003 and \$213,000 and \$7,339,000 for the year ended June 30, 2002. Balance per the banks for these accounts as of June 30, 2003 and 2002, was \$22,330,000 and \$15,963,000, respectively. Of the balance per the banks, \$367,000 for fiscal year 2003 and \$687,000 for fiscal year 2002 were insured by the FDIC or were fully collateralized with securities held by the State or its agent in the State's name. The remaining \$21,963,000 and \$15,276,000 amounts for the fiscal years ended June 30, 2003 and 2002, respectively, were uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. At June 30, 2003 and 2002, the difference between the System's cash not on deposit with the State Treasurer and the balance per the banks was due to outstanding checks and deposits in transit.

**(5) Investments**

As of June 30, 2003 and 2002, System investments with a fair value of \$14,830,000 and \$14,555,000, respectively, were categorized to give an indication of the level of risk assumed by the System. Of these totals, \$3,537,000 as of June 30, 2003 and \$3,369,000 as of June 30, 2002 were investments insured or

## COLORADO STATE UNIVERSITY SYSTEM

### Notes to Basic Financial Statements

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registered in the institutions' name or held by the institutions or their custodial agents in the institutions' name. The remaining \$11,293,000 as of June 30, 2003 and \$11,186,000 as of June 30, 2002 were investments held by the institutions' foundations, not evidenced by securities that exist in physical or book form. Of the \$14,830,000 in fiscal year 2003 investments and \$14,555,000 in fiscal year 2002 investments, \$3,537,000 and \$3,369,000, respectively, were invested in U.S. Treasury obligations and \$11,293,000 and \$11,186,000, respectively, were invested as part of the institutions' foundation long term endowment pool. The foundations' endowment pool, recorded at fair value, included money market funds, U.S. Treasury bonds and notes, corporate bonds and notes, and common stock. Investment earnings for the fiscal years 2003 and 2002 were \$201,000 and \$212,000, respectively.

No investments types were purchased and sold during the period that are not owned as of June 30, 2003 and 2002. The System only invests in treasury notes, which are federal guaranteed investments, as required by state law.

#### (6) Accounts Receivable

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

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Student accounts receivable	\$ 8,496,000	7,799,000
Less allowance for doubtful accounts	(2,607,000)	(2,491,000)
Student accounts receivable, net	5,889,000	5,308,000
Student loans receivable	26,142,000	27,975,000
Less allowance for doubtful accounts	(2,203,000)	(3,318,000)
Student loans receivable, net	23,939,000	24,657,000
Other accounts receivable:		
Sponsored contracts and grants	23,018,000	21,247,000
Emergency firefighting receivables	14,226,000	19,763,000
Capital construction contribution – due from state	377,000	2,182,000
Due from employees – pay date shift	3,780,000	—
Conferences and summer programs	2,761,000	2,392,000
Athletics	294,000	346,000
Commercial receivables	553,000	600,000
Vendor credits	48,000	278,000
Other	1,334,000	2,349,000
Total other accounts receivable	46,391,000	49,157,000
Less allowance for doubtful accounts	(3,416,000)	(1,518,000)
Other accounts receivable, net	42,975,000	47,639,000
Total accounts receivable, net	\$ 72,803,000	77,604,000



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**(7) Capital Assets**

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

	<u>Balance July 1, 2002, as previously reported</u>	<u>Change in entity</u>	<u>Balance July 1, 2002, as adjusted</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2003</u>
Nondepreciable capital assets:							
Land	\$ 9,958,000	(260,000)	9,698,000	—	—	—	9,698,000
Construction in progress	70,204,000	(4,556,000)	65,648,000	33,494,000	(10,252,000)	(80,583,000)	8,307,000
Collections	<u>2,052,000</u>	<u>(750,000)</u>	<u>1,302,000</u>	<u>852,000</u>	<u>(9,000)</u>	<u>—</u>	<u>2,145,000</u>
Total nondepreciable capital assets	<u>82,214,000</u>	<u>(5,566,000)</u>	<u>76,648,000</u>	<u>34,346,000</u>	<u>(10,261,000)</u>	<u>(80,583,000)</u>	<u>20,150,000</u>
Depreciable capital assets:							
Land improvements	48,486,000	(11,794,000)	36,692,000	245,000	—	8,895,000	45,832,000
Buildings and improvements	503,482,000	(102,540,000)	400,942,000	1,800,000	(1,594,000)	68,318,000	469,466,000
Leasehold improvements	1,400,000	—	1,400,000	—	(849,000)	87,000	638,000
Equipment	156,949,000	(4,544,000)	152,405,000	15,299,000	(7,497,000)	3,283,000	163,490,000
Library materials	<u>65,964,000</u>	<u>(2,796,000)</u>	<u>63,168,000</u>	<u>7,759,000</u>	<u>(208,000)</u>	<u>—</u>	<u>70,719,000</u>
Total depreciable capital assets	<u>776,281,000</u>	<u>(121,674,000)</u>	<u>654,607,000</u>	<u>25,103,000</u>	<u>(10,148,000)</u>	<u>80,583,000</u>	<u>750,145,000</u>
Less accumulated depreciation:							
Land improvements	15,731,000	(3,149,000)	12,582,000	1,845,000	—	—	14,427,000
Buildings and improvements	187,204,000	(25,831,000)	161,373,000	22,838,000	(1,298,000)	—	182,913,000
Leasehold improvements	1,259,000	—	1,259,000	39,000	(849,000)	—	449,000
Equipment	113,846,000	(3,230,000)	110,616,000	13,112,000	(5,489,000)	—	118,239,000
Library materials	<u>39,554,000</u>	<u>(2,013,000)</u>	<u>37,541,000</u>	<u>4,528,000</u>	<u>(208,000)</u>	<u>—</u>	<u>41,861,000</u>
Total accumulated depreciation	<u>357,594,000</u>	<u>(34,223,000)</u>	<u>323,371,000</u>	<u>42,362,000</u>	<u>(7,844,000)</u>	<u>—</u>	<u>357,889,000</u>
Net depreciable capital assets	<u>418,687,000</u>	<u>(87,451,000)</u>	<u>331,236,000</u>	<u>(17,259,000)</u>	<u>(2,304,000)</u>	<u>80,583,000</u>	<u>392,256,000</u>
Total capital assets, net	\$ <u>500,901,000</u>	<u>(93,017,000)</u>	<u>407,884,000</u>	<u>17,087,000</u>	<u>(12,565,000)</u>	<u>—</u>	<u>412,406,000</u>

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Following are the changes in capital assets for the year ended June 30, 2002:

	<b>Balance July 1, 2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Transfers</b>	<b>Balance June 30, 2002</b>
Nondepreciable capital assets:					
Land	\$ 5,713,000	—	(6,000)	4,251,000	9,958,000
Construction in progress	69,450,000	58,217,000	(5,690,000)	(51,773,000)	70,204,000
Collections	1,938,000	221,000	(107,000)	—	2,052,000
Total nondepreciable capital assets	<u>77,101,000</u>	<u>58,438,000</u>	<u>(5,803,000)</u>	<u>(47,522,000)</u>	<u>82,214,000</u>
Depreciable capital assets:					
Land improvements	40,490,000	794,000	(61,000)	7,263,000	48,486,000
Buildings and improvements	455,573,000	1,709,000	(1,135,000)	47,335,000	503,482,000
Leasehold improvements	1,400,000	—	—	—	1,400,000
Equipment	160,676,000	12,283,000	(8,934,000)	(7,076,000)	156,949,000
Library materials	60,476,000	5,758,000	(270,000)	—	65,964,000
Total depreciable capital assets	<u>718,615,000</u>	<u>20,544,000</u>	<u>(10,400,000)</u>	<u>47,522,000</u>	<u>776,281,000</u>
Less accumulated depreciation:					
Land improvements	13,978,000	1,814,000	(61,000)	—	15,731,000
Buildings and improvements	174,348,000	13,948,000	(1,092,000)	—	187,204,000
Leasehold improvements	1,203,000	56,000	—	—	1,259,000
Equipment	107,763,000	12,675,000	(6,592,000)	—	113,846,000
Library materials	35,625,000	4,198,000	(269,000)	—	39,554,000
Total accumulated depreciation	<u>332,917,000</u>	<u>32,691,000</u>	<u>(8,014,000)</u>	<u>—</u>	<u>357,594,000</u>
Net depreciable capital assets	<u>385,698,000</u>	<u>(12,147,000)</u>	<u>(2,386,000)</u>	<u>47,522,000</u>	<u>418,687,000</u>
Total capital assets, net	<u>\$ 462,799,000</u>	<u>46,291,000</u>	<u>(8,189,000)</u>	<u>—</u>	<u>500,901,000</u>

**(8) Accrued Liabilities**

The current accrued liabilities balances as of June 30, 2003 and 2002 were comprised of:

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
Accrued payroll and benefits	\$ 40,889,000	17,660,000
Accrued interest payable	919,000	1,046,000
Emergency firefighting accrual	—	18,885,000
Other liabilities	509,000	9,130,000
	<u>\$ 42,317,000</u>	<u>46,721,000</u>

The increase in accrued payroll and benefits at June 30, 2003 is due to the State shifting the June pay day for state employees from June 30, 2003 to July 1, 2003 (fiscal year 2004).

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Notes to Basic Financial Statements

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The emergency firefighting accrual of \$18,885,000 at June 30, 2002 was based on estimates developed by the State Forest Service related the wild fires that took place during the year ended June 30, 2002.

**(9) Long-term Liabilities**

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

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

Long-term liability activities for the year ended June 30, 2002 was as follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>	<u>Amounts due within one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COP's payable	\$ 78,208,000	—	(5,578,000)	72,630,000	5,445,000
Capital leases payable	<u>3,852,000</u>	<u>1,574,000</u>	<u>(1,724,000)</u>	<u>3,702,000</u>	<u>1,567,000</u>
Total bonds and capital leases	82,060,000	1,574,000	(7,302,000)	76,332,000	7,012,000
Other liabilities:					
Accrued compensated absences	24,469,000	2,437,000	(139,000)	26,767,000	1,756,000
Other	<u>8,882,000</u>	<u>3,261,000</u>	<u>(9,527,000)</u>	<u>2,616,000</u>	<u>66,000</u>
Total long-term liabilities	\$ <u>115,411,000</u>	<u>7,272,000</u>	<u>(16,968,000)</u>	<u>105,715,000</u>	<u>8,834,000</u>

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

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

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A general description of each bond issue, including original issuance amount and the amount outstanding as of June 30, 2003 and 2002, is detailed below.

Revenue bonds and Certificates of Participation (COPs) payable consisted of the following at June 30, 2003 and 2002:

	<u>Interest range</u>	<u>2003</u>	<u>2002</u>
Colorado State University:			
Colorado State University Auditorium-Gymnasium and Stadium Bonds of 1967, issued in the original amount of \$4,400,000 and mature in varying annual amounts to August 2002	4.50% – 5.00%	\$ —	265,000
Colorado State University Student Sports Recreational Facilities Bonds of 1993, issued in the original amount of \$7,750,000 and paid off with refinancing of 2003 A Bonds	2.75% – 5.40%	—	4,560,000
Colorado State University Student Sports Recreational Facilities Bonds of 1998, issued in the original amount of \$2,785,000 and mature in varying annual amounts to April 2017	3.80% – 5.13%	2,260,000	2,370,000
Colorado State University Auxiliary Facilities Bonds of 1992, issued in the original amount of \$19,830,000 and paid off with the refinancing of 2003 A Bonds	3.00% – 6.40%	—	8,170,000
Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of \$17,380,000 and and mature in varying annual amounts to March 2008	3.80% – 5.60%	7,605,000	9,160,000
Colorado State University Auxiliary Facilities Bonds of 1997, issued in the original amount of \$13,420,000 and mature in varying annual amounts to March 2017	3.85% – 5.13%	12,435,000	12,675,000

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	<u>Interest range</u>	<u>2003</u>	<u>2002</u>
Colorado State University Research Building and Revolving Fund Bonds of 1997, issued in the original amount of \$4,420,000 and mature in varying annual amounts to December 2008	4.00% – 4.60%	\$ 2,865,000	3,275,000
Colorado State University Research Building and Revolving Fund Bonds of 2001, issued in the original amount of \$6,965,000 and mature in varying annual amounts to December 2010.	4.00% – 4.30%	5,820,000	6,425,000
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of \$15,615,000 and mature in varying annual amounts to March 2017.	2.50% – 5.25%	15,615,000	—
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of \$20,535,000 and mature in varying annual amounts to March 2035.	2.50% – 4.63%	<u>20,535,000</u>	<u>—</u>
Total CSU revenue bonds		<u>54,700,000</u>	<u>34,225,000</u>
Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPS) for finance or refinance of construction, other acquisition and equipping of buildings with a value of \$4,709,000. The COPS bear interest ranging from 4.45% to 5.13%, payable semi-annually with a final maturity in 2018.	4.45% – 5.13%	<u>4,005,000</u>	<u>4,180,000</u>
Total CSU certificates of participation		<u>4,005,000</u>	<u>4,180,000</u>
Total CSU revenue bonds and certificates of participation		<u>62,180,000</u>	<u>59,955,000</u>

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	<u>Interest range</u>	<u>2003</u>	<u>2002</u>
Colorado State University – Pueblo (formerly University of Southern Colorado):			
University of Southern Colorado – Student Sports Recreational Facility Bonds of 1988, issued in the original amount of \$1,555,000 and mature in varying annual amounts to May 2003	6.50 to 8.25%	\$ —	310,000
University of Southern Colorado – Recreational Facilities Bonds of 1992, issued in the original amount of \$5,745,000 and mature in varying amounts to August 2011	3.40 to 6.38%	<u>3,475,000</u>	<u>3,760,000</u>
Total CSUP revenue bonds		<u>3,475,000</u>	<u>4,070,000</u>
Fort Lewis College:			
Auxiliary Facilities Refunding and Improvement Revenues Bonds, Series 1992, issued in the original amount of \$5,755,000, due serially on October 1 of each year in various amounts maturing in 2008.	5.40% – 6.50%	—	3,875,000
Auxiliary Facilities Enterprise Refunding Revenues Bonds, Series 1998A, issued in the original amount of \$5,755,000, due serially on October 1 of each year in various amounts maturing in 2008.	3.85% – 4.70%	—	5,115,000
Student Life Center Revenue Bonds, Series 1998B, issued in the original amount of \$5,740,000, due serially on October 1 of each year in various amounts maturing in 2012.	3.85% – 4.70%	—	5,400,000

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	<u>Interest range</u>	<u>2003</u>	<u>2002</u>
Student Life Center Revenue Bonds, Series 1998C, issued in the original amount of \$3,090,000, due serially on October 1 of each year in various amounts maturing in 2019.	4.75% – 5.00%	\$ —	3,090,000
Total Fort Lewis College revenue bonds		—	12,080,000
System total revenue bonds and certificates of participation		\$ 74,615,000	67,230,000

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

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
2004	\$ 4,170,000	3,340,000	7,510,000
2005	4,375,000	3,264,000	7,639,000
2006	4,965,000	3,062,000	8,027,000
2007	5,175,000	2,835,000	8,010,000
2008	5,315,000	2,598,000	7,913,000
2009-2013	20,815,000	9,753,000	30,568,000
2014-2018	15,120,000	5,494,000	20,614,000
2019-2023	3,185,000	3,203,000	6,388,000
2024-2028	4,015,000	2,409,000	6,424,000
2029-2033	5,080,000	1,376,000	6,456,000
2034-2038	2,400,000	181,000	2,581,000
Total debt service maturities	\$ 74,615,000	37,515,000	112,130,000
Unamortized premium	694,000		
Total	\$ 75,309,000		

The CSU Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of net revenues of the RBRF Enterprise. These revenues include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. For the fiscal years ended June 30, 2003 and 2002, approximate net pledged revenues for RBRF were \$31,505,000 and \$26,629,000, respectively.

The CSU Auxiliary Facilities Bonds are secured by a pledge of all net revenues derived at CSU from the operation of the auxiliary pledged facilities, special fees assessed to students or any other persons, and investment earnings on the balances in the applicable Revenue Fund. For the fiscal years ended June 30, 2003 and 2002, approximate net pledged revenues for Auxiliaries were \$72,522,000 and \$83,162,000, respectively.

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The CSUP Series 1998B revenue bonds are secured by the net pledged revenues derived from the operation of the student sports recreational facility. Net pledged revenues, as defined in the agreement, include gross revenues derived from the operation of the new facility, less general operating expenses, payments from the CSUP Foundation to the Colorado State Board of Governors and the University pursuant to an agreement dated October 24, 1988, any investment earnings derived from amounts on deposit in the current fund and any amounts deposited to the current fund in accordance with the 1988B Bond Resolution from any other fund or account established thereunder, including student fees.

The CSUP Series 1992 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of the CSUP's auxiliary facilities, including the CSUP's student housing facilities, student center facilities, parking facilities and facilities comprising the construction project.

The Revenue Bonds are special limited obligations of the Board of Governors and do not constitute a general obligation of the Board or the System. The revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The System is also required to comply with various other covenants while the bonds are outstanding. Management of the System believes the System has met all debt service coverage ratios and has complied with all bond covenants.

**(11) Defeased Obligations**

In 1984, Series 1984A and 1984B CSU Revenue bonds were issued to refund the Student Housing, Student Center, Student Health, Furnishings and 1977 Series Veterinary Hospital Revenue Bonds. Funds sufficient to make all future principal and interest payments were placed in trust with an escrow agent. At June 30, 2003, only Student Housing has issues still outstanding. The 1984A and 1984B series were retired during fiscal year 1995.

On July 1, 1992, CSUP Auxiliary Facilities Refunding and Improvement Revenue Bonds refunded the 1986 Auxiliary Facilities Acquisition and Improvement Bonds. Funds sufficient to make all future principal and interest payments were placed in trust with an escrow agent.

Defeased Bond Obligations are as follows:

	<u>Issue amount</u>	<u>Remaining balance June 30, 2003</u>
Colorado State University 1962 - 1974 Student Housing	\$ 12,135,000	2,135,000
Colorado State University - Pueblo	8,935,000	10,000
	<u>\$ 21,070,000</u>	<u>2,145,000</u>



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**(12) Capital Lease Obligations**

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

	<u><b>Total</b></u>
Fiscal year ending June 30:	
2004	\$ 1,433,000
2005	1,183,000
2006	1,005,000
2007	756,000
2008	601,000
2009-2013	898,000
2014-2018	526,000
2019-2023	<u>72,000</u>
Minimum future lease payments	6,474,000
Less amount representing interest	<u>1,303,000</u>
Present value of minimum lease payments	<u><u>\$ 5,171,000</u></u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2003 and 2002, respectively, the System had capital lease obligations in effect with capitalized asset costs of \$14,761,000 and \$10,830,000; accumulated depreciation of \$6,685,000 and \$5,898,000; and related outstanding liabilities of \$5,171,000 and \$3,703,000.

**(13) Operating Leases**

The following is a schedule of the System's aggregate minimum rental commitment for operating leases of real and personal property for each of the four remaining fiscal years.

	<u><b>Future minimum obligations for operating leases</b></u>
Fiscal year ending:	
2004	\$ 716,000
2005	131,000
2006	80,000
2007	<u>35,000</u>
Total	<u><u>\$ 962,000</u></u>

Rent expense was \$943,000 and \$560,000 for fiscal years 2003 and 2002, respectively.

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**(14) Net Assets**

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

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted to use by the auxiliary operation. The amounts so restricted of \$21,585,000 and \$19,624,000 are reported as restricted net assets expendable on the financial statements as of June 30, 2003 and 2002, respectively.

Colorado Revised Statute 23-31-135 requires a support fee to be annually assessed to cooperative state or accountable students in the System professional veterinary medicine program. The statute specifies that this fee must be credited to a reserve account and used for renovation projects and for the acquisition or replacement of equipment. As of June 30, 2003 and 2002, this reserve had Net Assets of \$1,397,000 and \$1,188,000, respectively. These amounts were reported as restricted expendable net assets on the Statement of Net Assets.

Total restricted net assets were as follows:

	<u>2003</u>	<u>2002</u>
Restricted for nonexpendable purposes:		
Scholarships, research and other	\$ 10,457,000	10,518,000
Federal Land Grant Act Account – nonexpendable	3,683,000	3,549,000
Total	<u>\$ 14,140,000</u>	<u>14,067,000</u>
Restricted for expendable purposes:		
Federal Land Grant Act Income Account – expendable	\$ 6,121,000	6,188,000
Student loans	26,113,000	26,872,000
Gifts	5,107,000	2,480,000
Bond reserves	1,300,000	4,669,000
Auxiliary pledged assets	21,585,000	19,624,000
Research Building Revolving Fund	7,034,000	6,839,000
Equipment reserve for Vet Med	1,397,000	1,188,000
Wildfire Emergency Fund	243,000	—
Other	835,000	1,091,000
Total	<u>\$ 69,735,000</u>	<u>68,951,000</u>

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

The Taxpayer Bill of Rights (TABOR) is an amendment to the Colorado Constitution that was passed in 1992 as a voter referendum. TABOR essentially restrains the growth of government other than for self-supporting activities that are classified as an enterprise. The System has five enterprises: Student and Faculty Services at CSU; Research Building Revolving Fund at CSU; Educational Outreach at CSU;

# COLORADO STATE UNIVERSITY SYSTEM

## Notes to Basic Financial Statements

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Seedling Tree Nursery at CSU; and auxiliary operations at CSUP. The annual overall spending limits imposed by TABOR on the State are then passed on to public institutions of higher education through an appropriation bill that acts as a limit for certain cash revenue sources such as tuition, fees, and services, and use of enterprise resources for unrestricted purposes. For the years ended June 30, 2003 and 2002 the System was limited from using enterprise net assets of approximately \$3,800,000 and \$3,689,000, respectively, for unrestricted purposes as a result of the TABOR Constitutional provision and the actions of the Legislature in setting the annual revenue limit. This TABOR restriction is not presented as restricted in the accompanying financial statements since the Legislature has historically provided supplemental increases to the previously imposed limits on revenue.

### (15) Commitments

Outstanding purchase commitments against future funds not reflected in the financial statements at June 30, 2003 were \$48,365,000 for the System. These outstanding purchase order commitments included approximately \$23,700,000 of CSU capital construction commitments. Approximately \$16,100,000 of the capital construction commitments were for the construction of a new residence hall and \$3,400,000 were for the University Center for the Arts Concert Hall project. Of the remaining outstanding purchase order commitments, \$16,300,000 related to CSU sponsored contracts and grants.

In addition to purchase order commitments, CSU had contracted obligations of \$12,138,000 at June 30, 2003 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position offer. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such obligation is considered highly probable. In both cases, settlement of the obligation involves payment to third parties, generally within three years.

Outstanding commitments at June 30, 2003 were:

Purchase order commitments	\$	48,365,000
Shared cost obligations on long-term revenue contracts		3,801,000
Obligations under accepted employment offers		8,337,000
Total	\$	<u>60,503,000</u>

### (16) Employment Benefits

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

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The System's total payroll for the fiscal years ended June 30, 2003 and 2002 was \$331,119,000 and \$370,827,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was \$141,005,000, \$160,010,000, and \$4,406,000, respectively, for the fiscal year ended June 30, 2003 and \$149,180,000, \$155,999,000, and \$4,479,000, respectively, for the fiscal year ended June 30, 2002. The remaining employees were not eligible for participation in any of the System's plans.

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

**Plan Description**

For eligible System employees participating in The Public Employees' Retirement Association plan (PERA), the plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost-sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State plan, as well as the other divisions' plans, is included in PERA's financial statements which may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA's Infoline at 1-800-759-PERA.

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit. Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under age 18 (23 if full-time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

**Funding Policy**

Most employees contribute 8% of their gross covered wages to an individual account of the plan. During fiscal year 2002-03, the State contributed 10.04% of the employee's gross covered wages. Before January 1, 2003, 1.64% was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1% was allocated to the Health Care Trust Fund. During fiscal year 2001-02, the State contributed 9.9% of the employee's gross covered wages. Before January 1, 2002, 1.42% was allocated to the Health Care Trust Fund, and after January 1, 2002, 1.64% was allocated to the Health Care Trust Fund. Throughout each fiscal year, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (See Voluntary Tax-Deferred Retirement Plans below.) The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

## COLORADO STATE UNIVERSITY SYSTEM

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

The System's contributions to PERA for the fiscal years ended June 30, 2003, 2002, and 2001 were \$11,976,000, \$14,771,000, and \$13,866,000, respectively. These contributions were equal to the contribution requirement.

**(b) *Voluntary Tax-Deferred Retirement Plans***

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

**(c) *Defined Contribution Pension Plan***

Under the defined contribution pension plan, eligible faculty and administrative professionals of the System have the option of selecting a defined contribution plan as an alternative to PERA. Three vendor choices are offered through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC), and Fidelity Investments. The defined contribution pension plan is established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S.) and was adopted by the board at its December 1992 and April 1993 for CSU and CSUP, respectively. The defined contribution pension plan is a qualified plan under Section 401(A) of the IRC. Colorado State University is the administrator of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all "Permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSUP provides a matching contribution of 11.1%, as required, of eligible salary for all non-student employees, including those employees at less than half-time and non-student temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the three authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.9% of covered payroll or \$14,307,000 for the fiscal year ended June 30, 2003 and 9.9% of covered payroll or \$15,410,000 for the fiscal year ended June 30, 2002. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or \$12,795,000 for the fiscal year ended June 30, 2003 and 8.0% of covered payroll or \$12,480,000 for the fiscal year ended June 30, 2002.

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### Notes to Basic Financial Statements

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A Federal Retirement program covers some employees employed by the Cooperative Extension Service at Colorado State University System. The System's contribution to this plan for the fiscal years ended June 30, 2003 and 2002 was \$302,000 and \$336,000, respectively.

**(d) *Student Employee Retirement Program***

Eligible student employees contribute 7.5% of covered payroll to the student employees' retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at the University but are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 C.R.S.) as a mandatory non-qualified plan under 403(B) of the IRC in lieu of mandatory OASDI coverage. The plan administrator is the "Committee". This committee is comprised of thirteen individuals representing participating state institutions of higher education and one representative appointed by the Colorado student association. All contributions are vested immediately and are participant-directed within the funds available through the one vendor for the SERP, TIAA-CREF. The contribution by student employees for the fiscal years ending June 30, 2003 and 2002 was \$330,000 and \$331,000, respectively. The System is not liable for any matching contributions to the student retirement program.

**(e) *Health Insurance Programs***

The System's contribution to the various health insurance programs was \$5,908,000 and \$7,476,000 for the fiscal years ended June 30, 2003 and 2002, respectively.

**(17) *Self-Funded Insurance***

At CSU, five separate accounts currently make up the self-insured program: health care, dental, long-term disability, the umbrella plan for retirees, and an unallocated reserve fund. CSU contracts claims processing and other day-to-day operations of the self-funded benefit plans to various third party administrators. Program funding is derived from premiums paid by benefit plan participants. The self-funded benefit plans are fully self-insured except for health care coverage, which is reinsured for plan expenses above \$200,000 per covered individual per year and 125% of projected annual aggregate claims. The Unallocated Reserve Account is a general contingency fund for miscellaneous and unanticipated expenses of the other four accounts.

Funding Policy – Funding for the healthcare, dental, and long-term disability funds is provided through monthly contributions from participating employees. Participant contributions consist of payroll contributions and COBRA payments, which represent premiums for the associated coverages. Exempt employees may select from various benefit plans and elect to make contributions in the form of a pre-tax salary reduction of a payroll deduction.

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The estimated claim liabilities of \$4,677,000 and \$3,577,000 of CSU at June 30, 2003 and 2002, respectively, include incurred but not reported claims (IBNR) along with known claims at year end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines. The changes in the balance of claims liabilities are as follows:

	<u>2003</u>	<u>2002</u>
Claim liabilities, beginning of year	\$ 3,577,000	3,084,000
Incurred claims (including IBNR)	12,315,000	7,945,000
Claim payments	<u>(11,215,000)</u>	<u>(7,452,000)</u>
Claim liabilities, end of year	<u>\$ 4,677,000</u>	<u>3,577,000</u>

There were no significant changes in insurance coverage in 2003 or 2002.

**(18) Post Employment Health Care and Life Insurance Benefits**

**(a) PERA Post-Employment Health Care Plan**

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2003 the subsidy was \$115 for those with 20 years of service credit (\$230 for members under age 65), and it was reduced by 5% for each year of service fewer than 20. Medicare also affects the premium subsidy.

The Health Care Trust Fund was maintained by a State contribution of 1.64% of covered salary before January 1, 2003. After January 1, 2003, the contribution was decreased to 1.1% of covered salary. The System paid \$1,946,000 into this Fund during fiscal year 2003 and \$2,281,000 during fiscal year 2002. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2002 there were approximately 35,418 participants, including spouses and dependents, from all contributors to the plan.

**(b) Post Retirement Health Care Premium Refund**

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

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For 2003 and 2002, funding for the retirement refund was provided wholly by CSU through a monthly contribution of 1% of covered participant's payroll. CSU's contributions into the program totaled \$1,417,000 and \$1,301,000 for the years ended June 30, 2003 and 2002, respectively.

Total amounts paid by CSU to retirees for these health care subsidies was \$198,000 and \$149,000 for 2003 and 2002, respectively. As of June 30, 2003 and 2002, 116 and 88 former employees, respectively, were qualified to receive such benefits.

**(c) Life Insurance Program**

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

**(19) Compensated Absence Liabilities**

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated cost of compensated absences for which employees are vested as of June 30, 2003 and 2002 were approximately \$27,395,000 and \$26,767,000, respectively.

Expenses for the fiscal years ended June 30, 2003 and 2002 include \$1,997,000 and \$2,298,000, respectively, for the increase in the estimated compensated absence liabilities. A \$1,369,000 decrease in the compensated absence liability occurred due to the change in entity for Fort Lewis College.

**(20) Risk Financing and Insurance-Related Activities**

The System is subject to risks of loss from liability or accidents or acts of nature. Such risks for all agencies and institutions of the State of Colorado (University of Colorado excepted) are managed under statutory authority by the State Division of Risk Management, an agency formed by statute and funded by the Long Bill. The System does not retain risk of loss except for damage incurred to property belonging to the System, limited to a \$1000 deductible per occurrence.

**(21) Direct Student Financial Aid Reporting**

During the fiscal year ended June 30, 1995, CSU began participation in the Federal Government's Direct Loan Program. This program provides loans from the Federal Government to qualifying students and their families for educational purposes. While CSU helps students obtain these loans, the System is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amount of Direct Loans disbursed during the fiscal years ending June 30, 2003 and 2002 were \$78,341,000 and \$69,922,000, respectively.



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**(22) Scholarship Allowances**

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

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

Tuition, fee, and auxiliary revenue and the related scholarship allowances for the year ended June 30, 2002 were as follows:

	<b>2002</b>		
	<b>Tuition and fees</b>	<b>Auxiliary revenue</b>	<b>Total</b>
Gross revenue	\$ 173,667,000	127,324,000	300,991,000
Scholarship allowances:			
Federal	11,281,000	1,508,000	12,789,000
State	13,098,000	741,000	13,839,000
Private	276,000	109,000	385,000
Institutional	13,270,000	1,252,000	14,522,000
Total allowances	<u>37,925,000</u>	<u>3,610,000</u>	<u>41,535,000</u>
Net revenue	<u>\$ 135,742,000</u>	<u>123,714,000</u>	<u>259,456,000</u>

**(23) System Foundations and Endowments**

The System has associated nonprofit foundations independent of the System that support the fund-raising activities at each of the respective institutions. The following foundations provide support.

**(a) Colorado State University System Research Foundation**

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

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The major sources of CSURF revenues are royalties, rents, management fees, licensing fees, and administration fees. The support provided by the CSURF to the institutions includes patent and licensing management, equipment leasing, municipal lease administration, debt financing through mortgage debt service, and land acquisition, development, and management. During the year ended June 30, 2003 and 2002, royalty revenues equaled \$948,000 and \$394,000, respectively, and expenses were \$331,000 and \$256,000, respectively.

During the fiscal year ended June 30, 1993, CSURF, on behalf of the System, entered into a lease agreement for space in the Petroleum Building in downtown Denver. The System subleased space for the System offices, CSU's Continuing Education activities and Cooperative Extension Service programs. This lease agreement was terminated on May 31, 2003. On March 26, 1982, the University Services Center was leased to CSU through June 30, 2003, with a total lease obligation of \$6,620,000. Rental payments are established annually as agreed on by lessor and lessee and were \$737,000 for the year ended June 30, 2003. CSURF also serves as an accommodation party in the Series 1997 Master Lease Purchase Agreement to facilitate the financing for which the Series 1997 Certificates of Participation were issued.

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

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

Cash and current assets	\$	2,031,000
Property and equipment		8,125,000
Other assets		<u>9,623,000</u>
Total assets	\$	<u><u>19,779,000</u></u>

At June 30, 2002, the CSURF debt to provide buildings for use by CSU was \$6,742,000.

At June 30, 2002, the assets of the CSURF consisted of:

Cash and current assets	\$	1,279,000
Property and equipment		8,500,000
Other assets		<u>9,813,000</u>
Total assets	\$	<u><u>19,592,000</u></u>

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

**(b) Colorado State University Foundation**

The Colorado State University Foundation (Foundation) was established in 1970 as an independent 501 (c)(3) organization. The primary purpose of the Foundation is to receive, manage, and invest philanthropic gifts to Colorado State University (CSU). The officers of the Foundation are appointed by the Board of Directors of the Foundation. The Board of Directors consists of five voting members. Three voting members are elected by the Board and two voting members serve on the Board by virtue of the positions they hold: Vice Chancellor for Administrative Affairs of the

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### Notes to Basic Financial Statements

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Colorado State University System and the President of the Foundation. The three ex-officio nonvoting members of the Board serve by virtue of title: President of Colorado State University, Vice President for University Advancement, and Vice President for Administrative Services at the University. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a Board Member.

The major source for the Foundation's revenue is gifts. Of the \$52,912,000 in revenue for the 2002-03 fiscal year, gifts accounted for \$46,682,000 of the \$26,120,000 in revenue for the 2001-02 fiscal year, gifts accounted for \$32,010,000. The differences were primarily due to earnings and losses, respectively, on investments.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation receipts and invests philanthropic gifts.

Approximately \$24,044,000 and \$22,201,000 was transferred to CSU for the years ended June 30, 2003 and 2002, respectively, in pursuit of the above stated objectives. At June 30, 2003 and 2002, the Foundation debt to provide buildings for use by the University was \$0.

At June 30, 2003, the assets of the Foundation consist of:

Cash and cash equivalents	\$	506,000
Receivables		30,676,000
Investments		136,656,000
Life insurance policies		143,000
Property held for sale		1,100,000
Other miscellaneous assets		841,000
		<hr/>
Total assets	\$	<u>169,922,000</u>

**COLORADO STATE UNIVERSITY SYSTEM**

Notes to Basic Financial Statements

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Additionally, summarized financial information extracted from the audited financial statements of the Foundation at June 30, 2003 is presented below.

Net assets at beginning of year – July 1, 2002		\$ 129,622,000
Additions:		
Gifts, pledges, and other additions	46,994,000	
Investment earnings	<u>5,918,000</u>	
Total additions	52,912,000	
Deductions:		
Transfers to CSU	24,044,000	
Support services	<u>1,751,000</u>	
Total deductions	25,795,000	
Net increase for the year		<u>27,117,000</u>
Net assets at end of year – June 30, 2003		\$ <u><u>156,739,000</u></u>

At June 30, 2002, the assets of the Foundation consist of:

Cash and cash equivalents	\$ 1,176,000
Receivables	13,472,000
Investments	126,796,000
Life insurance policies	129,000
Other miscellaneous assets	<u>898,000</u>
Total assets	\$ <u><u>142,471,000</u></u>

Additionally, summarized, financial information extracted from the audited financial statements of the CSU foundation at June 30, 2002 is presented below:

Net assets at beginning of year – July 1, 2001		\$ 127,109,000
Additions:		
Gifts, pledges and other additions	32,127,000	
Investment loss and adj. to market value, net	<u>(6,007,000)</u>	
Total additions	26,120,000	
Deductions:		
Transfers to the university	22,201,000	
Support services	<u>1,406,000</u>	
Total deductions	23,607,000	
Net increase for the year		<u>2,513,000</u>
Net assets at end of year – June 30, 2002		\$ <u><u>129,622,000</u></u>

## COLORADO STATE UNIVERSITY SYSTEM

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

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

Colorado State University – Pueblo (CSUP) Foundation was established in 1966 as an independent 501(c)(3) nonprofit corporation. The Foundation was formed to advance and assist in the development, growth, and operation of CSUP. Twenty-seven directors of the Foundation are elected by members of the Foundation and one officer of CSUP and one member of the Board of Governors serve as ex-officio members.

The Foundation recorded \$1,413,000 and \$1,524,000 in transfers of gifts and other assets to CSUP during the fiscal year 2003 and 2002, respectively. During the same periods CSUP made \$12,000 in in-kind support to the Foundation for 2003 and 2002. Further, CSUP did not incur any expenses on behalf of the Foundation during the fiscal year ended June 30, 2003.

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

Cash	\$	1,154,000
Investments		14,031,000
Property and equipment (net)		1,000
Other assets		<u>2,300,000</u>
Total assets	\$	<u><u>17,486,000</u></u>

At June 30, 2002, the assets of the CSUP Foundation consist of:

Cash	\$	677,000
Investments		14,157,000
Property and equipment (net)		3,000
Other assets		<u>2,750,000</u>
Total assets	\$	<u><u>17,587,000</u></u>

The Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fund raising activities. The Foundation had \$42,000 and \$140,000 in outstanding liabilities as of June 30, 2003 and 2002, respectively.

Audited financial statements may be obtained from CSUP's Foundation office.

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**(d) CSUP Board-Designated Funds**

CSUP manages two board-designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20% of earnings each year to build the corpus of the fund and transfer 80% of the annual earnings to CSUP as designated by the Board. The first board-designated fund was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the University campus provides resources that support the academic mission of CSUP. To date, CSUP has sold three parcels of land with the proceeds from the sales being placed in a board-designated fund.

The Walking Stick Fund assets at June 30, 2003 were as follows:

Cash	\$	659,000
Land		177,000
Due from other funds		<u>88,000</u>
Total assets	\$	<u><u>924,000</u></u>

The Walking Stick Fund assets at June 30, 2002 were as follows:

Cash	\$	596,000
Land		177,000
Due from other funds		<u>119,000</u>
Total assets	\$	<u><u>892,000</u></u>

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

The KTSC Fund assets at June 30, 2003 were as follows:

Cash	\$	2,283,000
Due from other funds		<u>250,000</u>
Total assets	\$	<u><u>2,533,000</u></u>

The KTSC Fund assets at June 30, 2002 were as follows;

Cash	\$	<u>2,541,000</u>
Total assets	\$	<u><u>2,541,000</u></u>

## **COLORADO STATE UNIVERSITY SYSTEM**

### Notes to Basic Financial Statements

June 30, 2003 and 2002

#### **(24) Legislative Appropriations**

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

For the fiscal years ended June 30, 2002 and 2003, appropriated expenditures were within the authorized spending authority. The System had total appropriations, actual appropriated revenues, and actual appropriated expenditures of \$310,179,000, \$275,353,000, and \$275,181,000, respectively, for the year ended June 30, 2003 and \$335,043,000, \$332,786,000, and \$321,857,000, respectively, for the year ended June 30, 2002.

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

#### **(25) Contingencies**

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

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



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

**Members of the Legislative Audit Committee:**

We have audited the basic financial statements of the Colorado State University System (the System), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. 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.

**Compliance**

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to the management of the System in the findings and recommendations section of this report dated November 7, 2003.



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

KPMG LLP

November 7, 2003





KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

November 7, 2003

### **Members of Legislative Audit Committee:**

We have audited the basic financial statements of the Colorado State University System (the System) for the year ended June 30, 2003, and have issued our report thereon dated November 7, 2003. Under auditing standards generally accepted in the United States of America, we are providing you with information related to the conduct of our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

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

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

### **Significant Accounting Policies**

The significant accounting policies used by the System are described in the notes to the basic financial statements.

As described in note 1(b), effective September 1, 2002, Fort Lewis College was no longer a part of the System's reporting entity. This was due to House Bill 02-1419 which created a separate Board of Trustees to govern the College. This legislation transferred all assets and liabilities for Fort Lewis College from the System to the new Board of Trustees. As a result, the System's financial statements as of and for the year ended June 30, 2003 do not include the financial activity for Fort Lewis College. Fort Lewis College will issue separate financial statements as of and for the year ended June 30, 2003. This change in entity resulted in a \$87,734,000 reduction to the System's July 1, 2002 net assets.

The Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, in May 2002. This statement is effective for the year ending June 30, 2004. Under this statement, the System will need to evaluate certain criteria for related organizations, such as its foundations, to determine whether these organizations should be included in the financial reporting entity of the System. Implementation of this statement could result in significant changes to the System's financial reporting entity. The System should implement a plan to address the requirements of the new standard and include these entities, as appropriate, in its fiscal year 2004 basic financial statements.



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## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the basic financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

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

## **Significant Audit Adjustments**

In connection with our audit of the Colorado State University System's basic financial statements, we have discussed with management certain financial statement misstatements that have not been properly accounted for in the basic financial statements as of and for the year ended June 30, 2003. Fifteen adjustments were not made to the basic financial statements, which would have had a net effect on beginning net assets of (\$4,122,634). We reported such misstatements to management on a summary of uncorrected misstatements and have received written representation from management that management believes these misstatements are immaterial.

Thirty audit adjustments were also proposed and made to the basic financial statements which had a net effect on net assets of (\$4,278,191). Some of the significant audit adjustments proposed by KPMG and made to the 2003 basic financial statements included the following:

### ***Adjustments Relating to Grant Accounting of the Colorado State Forest Service:***

- Recognize approximately \$2,400,000 in revenue that was erroneously deferred.
- Reduce federal revenues and receivables by approximately \$1,100,000 due to the fact that federal receivables were accrued for over-expended grants and no such reimbursement was to be received.
- Recognize federal revenue and related expense for approximately \$1,800,000 for transactions that were originally recorded in an agency fund. Therefore, the activity did not originally appear within the financial statements.
- Recognize \$2,700,000 in federal revenues and related receivables for costs to be reimbursed by federal monies not yet billed to federal agencies.
- Record an allowance for a federal receivable for approximately \$1,700,000 due to the fact the federal agency was denying payment for this amount.

### ***Adjustments Relating to the First Year Paydate Shift:***

- Decrease deferred revenue for approximately \$1,000,000 for revenues that had been deferred, but no actual revenue to be deferred had been received. In other words, no actual deferral existed.
- Increase the payroll accrual liability for approximately \$3,800,000 and to record a receivable for deductions remitted before year-end to be paid by employees on July 1.

- Increase cash of approximately \$660,000 for cash that was not remitted by CSU until after year-end.

***Adjustments Relating to Accounting Treatments of Previous Years:***

- Reverse accruals recorded for future costs not yet incurred totaling approximately \$12,000,000.

***Adjustments Relating to Capital Asset Accounting:***

- Record a capital lease for approximately \$1,800,000 that was being reported as an operating lease.
- Increase depreciation for approximately \$2,700,000 on a capital lease that was being depreciated over the incorrect useful life.
- Increase depreciation by approximately \$425,000 for assets inappropriately omitted from the depreciation program.
- Increase operating expenses by approximately \$550,000 and decrease capital assets for costs that were incorrectly capitalized.
- Reclassify approximately \$1,100,000 out of the Construction In Progress category into the proper depreciable capital asset category because the projects were substantially complete at year-end.

***Adjustments Relating to Other Accounting Issues:***

- Decrease the incurred-but-not-reported self-insured medical claim liability for approximately \$600,000 based upon actuarial valuation.
- Accrue liabilities not paid until after year-end for approximately \$550,000.
- Reduce federal receivables and respective revenues for approximately \$550,000 for overexpended grants.
- Increase the compensated absence liability and expense by \$2,200,000.

**Disagreements with Management**

There were two initial disagreements with management on financial accounting and reporting matters which were ultimately resolved. Those disagreements were as follows:

- *Start-up Costs and Cost Share Accruals* – Management initially recorded expenses and related liabilities for future start-up costs and CSU’s portion of future cost share agreement costs. KPMG believed that these accruals should not have been made due to the fact that the amounts being accrued were actually *future* costs and the expense and related liability had not actually been incurred. After much discussion, management subsequently made adjustments to remove the start-up cost and cost share accruals totaling approximately \$8,337,000 and \$3,801,000, respectively. KPMG concurs with the final resolution of this issue and the final correction to the financial statements.
- *Restricting Net Assets for TABOR* - Management recorded restrictions on net assets for the portion of enterprise net assets that were subject to TABOR due to the fact that management believed that the TABOR “cap” acted as a constraint on these funds at year end. KPMG disagreed with this restriction due to the fact that TABOR only applies temporary constraints on these net assets and the characteristics of the TABOR constraints on these net assets do not meet the definition of “restricted” per GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis*

*for State and Local Governments.* After much discussion, management subsequently made an adjustment to move this portion of net assets from the “restricted” designation to the “unrestricted” designation. KPMG concurs with the final resolution of this issue and the final correction to the financial statements.

**Consultation with Other Accountants**

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

**Major Issues Discussed with Management Prior to Appointment**

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

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit other than the disagreements noted previously. Also, see recommendation number 1 at page 18 concerning the need for more timely year-end financial reporting.

\* \* \* \* \*

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

Very truly yours,

**KPMG LLP**



**COLORADO STATE UNIVERSITY SYSTEM**

State-Funded Student Financial Assistance Programs

Year ended June 30, 2003

**Introduction**

Colorado State University comprises two state-supported institutions of higher education:

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

The financial and compliance audit of the state-funded student financial assistance programs at the System for the fiscal year ended June 30, 2003 was directed toward the objectives and criteria set forth in the *Colorado Handbook for State-Funded Student Assistance Programs*, issued by the Colorado Commission on Higher Education (CCHE), 2003 revision.

**State-Funded Student Financial Assistance Programs**

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

<b>State-Funded Student Assistance Program</b>	<b>CSU</b>	<b>CSUP</b>
Colorado Leverage Education Assistance Program	X	X
Colorado Student Grant Program	X	X
Colorado Work-Study Program	X	X
Colorado Graduate Grant Program	X	X
Undergraduate Merit Award Program	X	X
Colorado Graduate Fellowship Program	X	–
Perkins Loan Matching Program	X	X
Colorado Nursing Grant	–	X
Governor’s Opportunity Scholarship	X	X

The State-funded financial assistance awards made by the institutions during fiscal years 2003 and 2002, and total State-funded matching funds transferred to Perkins Student Loan Fund were as follows:

	<b>Fiscal year ended</b>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>State-Funded Student Assistance Awards</b>		
Colorado State University	\$ 8,899,000	8,629,000
Colorado State University – Pueblo	3,458,000	3,170,000
<b>Perkins Loan Matching Program</b>		
Colorado State University	57,879	—
Colorado State University – Pueblo	36,300	36,300

## **COLORADO STATE UNIVERSITY SYSTEM**

### **State-Funded Student Financial Assistance Programs**

Year ended June 30, 2003

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

During the fiscal year ended June 30, 2003, the System obtained authorizations to award federal student financial aid funds of \$1,146,009 in the Supplemental Educational Opportunity Grant program, \$1,733,076 in the College Work-Study program, and \$242,120 of new federal capital contributions in the Perkins Student Loan program. In addition to these programs, the System also received funding through the Pell Grant Program and the Direct Loan Program. Authorizations were not applicable for these programs given the Pell Grant and Direct Loans are available to any eligible student.

During the year ended June 30, 2003, the System obtained authorizations to award Colorado student financial aid funds of \$273,577 in the Student Incentive Grants program, \$5,574,383 in the Colorado Student Grant program, \$2,381,608 in the Colorado Work-Study program, \$2,049,063 in the Undergraduate Merit program, \$1,393,779 in the Governor's Opportunity Scholarship, \$32,338 in the Colorado Nursing Grant program, \$158,124 in Colorado Supplemental Leveraging Education Assistance Program, and \$94,203 in the loan match.

The related Statement of Appropriations, Expenditures, Transfers and Reversions of State Funded Student Financial Assistance Programs is presented on page 99 of this report, as well as individual colleges Schedules of Appropriations, Expenditures, Transfers and Reversions of State Funded Student Financial Assistance Programs on pages 101-102.





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**Independent Auditors' Report on the  
Statement of Appropriations, Expenditures,  
Transfers and Reversions of the State-Funded  
Student Financial Assistance Programs**

**Members of the Legislative Audit Committee:**

We have audited the accompanying statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Financial Assistance Programs (the Statement) of the Colorado State University System, a blended component unit of the State of Colorado, for the year ended June 30, 2003. The Statement is the responsibility of the Colorado State University System's management. Our responsibility is to express an opinion on the Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in accordance with the format set forth in the *Colorado Handbook for State-Funded Student Financial Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 2003 revision. The Statement is a summary of cash activity of the state-funded student financial assistance programs with the exception of the Colorado Work-Study program and Perkins Loan Program, and does not present certain transactions that would be included in the Statement of the state-funded student financial assistance programs if they were presented on the accrual basis of accounting, as prescribed by accounting principles generally accepted in the United States of America.

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

In our opinion, the Statement referred to above presents fairly the appropriations, expenditures, transfers and reversions of the state-funded student financial assistance programs of the Colorado State University System for the year ended June 30, 2003, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Financial Assistance Programs 2003 revision*, as described in note 1 to the Statement.



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In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2003 on our consideration of the Colorado State University System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-Funded Student Financial Assistance Programs. The accompanying individual universities' schedules of appropriations, expenditures, transfers, and reversions of the State-Funded Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic Statement. The accompanying individual universities' schedules have been subjected to the auditing procedures applied in the audit of the basic Statement and, in our opinion, are fairly stated, in all material respects, in relation to the basic Statement taken as a whole.

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

KPMG LLP

November 7, 2003



**COLORADO STATE UNIVERSITY SYSTEM**  
Statement of Appropriations, Expenditures, Transfers, and Reversions  
Year ended June 30, 2003  
Colorado State University – System

	<u>Total Colorado Financial Aid</u>	<u>CLEAP</u>	<u>Student Grant Program</u>	<u>Work-Study Program</u>	<u>Graduate Grant Program</u>	<u>Graduate Fellowship Program</u>	<u>Undergraduate Merit Award Program</u>	<u>Perkins Loan Program State Match</u>	<u>SLEAP</u>	<u>Governor's Opportunity Scholarship</u>	<u>Nursing Scholarship</u>
Appropriations:											
Original	\$ 12,281,020	273,577	5,574,383	2,381,608	100,000	300,000	2,049,063	82,215	158,124	1,329,712	32,338
Supplementals	76,055	—	—	—	—	—	—	11,988	—	64,067	—
Transfers	—	—	—	—	—	—	—	—	—	—	—
Total appropriations	<u>12,357,075</u>	<u>273,577</u>	<u>5,574,383</u>	<u>2,381,608</u>	<u>100,000</u>	<u>300,000</u>	<u>2,049,063</u>	<u>94,203</u>	<u>158,124</u>	<u>1,393,779</u>	<u>32,338</u>
Expenditures	12,357,075	273,577	5,574,383	2,381,608	100,000	300,000	2,049,063	94,203	158,124	1,393,779	32,338
Reversions to State											
General Fund	—	—	—	—	—	—	—	—	—	—	—
	<u>12,357,075</u>	<u>273,577</u>	<u>5,574,383</u>	<u>2,381,608</u>	<u>100,000</u>	<u>300,000</u>	<u>2,049,063</u>	<u>94,203</u>	<u>158,124</u>	<u>1,393,779</u>	<u>32,338</u>
Net increase (decrease) in Fund Balance	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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



## **COLORADO STATE UNIVERSITY SYSTEM**

### **State-Funded Student Financial Assistance Programs**

#### **Notes to Statement of Appropriations, Expenditures, Transfers and Reversions**

**Year ended June 30, 2003**

**(1) Basis of Presentation and Accounting**

The accompanying statement of appropriations, expenditures, transfers, and reversions of state-funded student financial assistance programs (the Statement) has been prepared in accordance with the format as set forth in the CCHE publication, Colorado Handbook for State-Funded Student Assistance Programs. The purpose of the statement is to present, in summary form, the State-Funded student financial assistance activities of the Colorado State University System's (the System) two campuses for the fiscal year ended June 30, 2003.

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

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

**(2) Student Incentive Grants**

Student incentive grants consist of non-federal state funds and federal funds. The state must match fifty percent of the federal funds. The amount shown in the statements is a combined total of nonfederal and federal funds.

**COLORADO STATE UNIVERSITY SYSTEM**  
Schedule of Appropriations, Expenditures, Transfers, and Reversions  
Year ended June 30, 2003  
Colorado State University

	<u>Total Colorado Financial Aid</u>	<u>CLEAP</u>	<u>Student Grant Program</u>	<u>Work-Study Program</u>	<u>Graduate Grant Program</u>	<u>Graduate Fellowship Program</u>	<u>Undergraduate Merit Award Program</u>	<u>Perkins Loan Program State Match</u>	<u>SLEAP</u>	<u>Governor's Opportunity Scholarship</u>
Appropriations:										
Original	\$ 8,844,724	191,614	3,991,986	1,659,883	100,000	300,000	1,702,585	45,891	107,922	744,843
Supplementals	54,595	—	—	—	—	—	—	11,988	—	42,607
Transfers	—	—	—	—	—	—	—	—	—	—
Total appropriations	<u>8,899,319</u>	<u>191,614</u>	<u>3,991,986</u>	<u>1,659,883</u>	<u>100,000</u>	<u>300,000</u>	<u>1,702,585</u>	<u>57,879</u>	<u>107,922</u>	<u>787,450</u>
Expenditures	8,899,319	191,614	3,991,986	1,659,883	100,000	300,000	1,702,585	57,879	107,922	787,450
Reversions to State										
General Fund	—	—	—	—	—	—	—	—	—	—
	<u>8,899,319</u>	<u>191,614</u>	<u>3,991,986</u>	<u>1,659,883</u>	<u>100,000</u>	<u>300,000</u>	<u>1,702,585</u>	<u>57,879</u>	<u>107,922</u>	<u>787,450</u>
Net increase (decrease) in Fund Balance	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

**COLORADO STATE UNIVERSITY SYSTEM**  
Schedule of Appropriations, Expenditures, Transfers, and Reversions  
Year ended June 30, 2002  
Colorado State University – Pueblo

	<b>Total Colorado Financial Aid</b>	<b>CLEAP</b>	<b>Student Grant Program</b>	<b>Work-Study Program</b>	<b>Undergraduate Merit Award Program</b>	<b>Perkins Loan Program State Match</b>	<b>SLEAP</b>	<b>Governor's Opportunity Scholarship</b>	<b>Nursing Scholarship</b>
Appropriations:									
Original	\$ 3,436,296	81,963	1,582,397	721,725	346,478	36,324	50,202	584,869	32,338
Supplementals	21,460	—	—	—	—	—	—	21,460	—
Transfers	—	—	—	—	—	—	—	—	—
Total appropriations	<u>3,457,756</u>	<u>81,963</u>	<u>1,582,397</u>	<u>721,725</u>	<u>346,478</u>	<u>36,324</u>	<u>50,202</u>	<u>606,329</u>	<u>32,338</u>
Expenditures	3,457,756	81,963	1,582,397	721,725	346,478	36,324	50,202	606,329	32,338
Reversions to State									
General Fund	—	—	—	—	—	—	—	—	—
	<u>3,457,756</u>	<u>81,963</u>	<u>1,582,397</u>	<u>721,725</u>	<u>346,478</u>	<u>36,324</u>	<u>50,202</u>	<u>606,329</u>	<u>32,338</u>
Net increase (decrease) in Fund Balance	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

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