BKD LLP

## Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the year ended June 30, 2008, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other accountants. The financial statements of the System as of and for the year ended June 30, 2007, were audited by other accountants whose report dated November 14, 2007, expressed unqualified opinions 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. The financial statements of the Colorado State University Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other accountants provide a reasonable basis for our opinions.

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

As discussed in Note 19 (b), in 2008 the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Wells Fargo Center 1700 Lincoln Street, Suite 1400 Denver, CO 80203-4514
303 861-4545 Fax 303 832-5705

Members of the Legislative Audit Committee

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

December 18, 2008

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, 2008 and 2007. 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, 2008 by approximately $670 million (net assets). Of this amount, $97.6 million was restricted for purposes which the donor or grantor or other external party intended and $439.5 million related to investments in capital assets, net of related debt. The remaining $132.9 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.

- The System's net assets increased $27.5 million during fiscal year 2008. $29.6 million of this increase consisted of an increase in capital assets, net of related debt. $14.0 million of the increase consisted of an increase in restricted net assets. Unrestricted net assets decreased $16.1 million.

- In fiscal year 2008 the state provided support directly to students in the form of student tuition stipends paid by the state College Opportunity Fund ($51.1 million). In addition, the System received payment from the state for the delivery of graduate, high cost/demand programs and special programs ($82.7 million).

- Fiscal year 2008 state capital contributions of $28.4 million for the System increased $20.2 million from 2007 state capital contributions of $8.2 million.

- Two separate System Enterprise Revenue Bond issues totaling $293.3 million were sold in fiscal 2008. These bonds were issued to construct academic, recreation, research, athletic and education facilities and CSU and CSU-P.

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



(Continued)

**The Basic Financial Statements**

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

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

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

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

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

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

The System follows the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and as a result, the financial statements for the Colorado State University Foundation, a legally separate organization whose operations benefit the System, are discretely presented within the System's financial statements.

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

During the fiscal year ended June 30, 2008, the System implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition and display of other postemployment benefit (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governments. Three CSU postretirement healthcare premium refund plans, the Retiree Medical Premium Refund Plan, the Retiree Medical Subsidy for PERA

Participants and the Umbrella Rx Plan fall within the requirements of this Statement and as a result the System has accrued additional liabilities and expenditures in the amount of $4.3 million.

**Financial Analysis**

The statements of net assets present the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2008 and 2007 of $670.0 million and $642.4 million, respectively. The majority (66% and 64%, respectively) of the System's net assets are invested in capital assets (*e.g.*, land, buildings and equipment), net of related debt. These assets are used to provide services to students, faculty and administration. Consequently, these assets are not available to fund future spending.

Summary of Net Assets

(Amounts expressed in thousands)

| | June 30 | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| Current assets | $ 339,002 | 309,855 | 300,750 |
| Noncurrent assets, including capital assets of $615,797, $523,365, and $470,994 respectively | 903,783 | 607,669 | 579,490 |
| Total assets | 1,242,785 | 917,524 | 880,240 |
| Current liabilities | 150,857 | 116,467 | 108,085 |
| Noncurrent liabilities | 421,955 | 158,608 | 164,055 |
| Total liabilities | 572,812 | 275,075 | 272,140 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 439,525 | 409,943 | 386,933 |
| Restricted | 97,526 | 83,522 | 74,378 |
| Unrestricted | 132,922 | 148,984 | 146,789 |
| Total net assets | $ 669,973 | 642,449 | 608,100 |



(Continued)

- The $325.3 million increase in System assets from fiscal year 2007 to fiscal year 2008 is primarily attributable to a $296.1 million increase in noncurrent assets. The increase in noncurrent assets is primarily due to a $200.0 million increase in restricted cash and cash equivalents attributable to remaining cash proceeds from two separate System bond issues discussed above. In addition, depreciable capital assets, net of accumulated depreciation increased by $112.9 million. These two large increases are offset by a $20.5 million decrease in nondepreciable capital assets which is attributable to construction in progress. The remaining increase in assets of $29.2 is primarily attributable to increases in current assets in the areas of cash and cash equivalents of $26.4 million and student accounts receivable, net, of $2.7 million. The $37.3 million increase in System assets from fiscal year 2006 to fiscal year 2007 is attributable to increases in both current and noncurrent assets of $9.1 million and 28.2 million, respectively.

- Total liabilities of the System increased $297.7 million from fiscal year 2007 to fiscal year 2008. The majority of this increase, $258.0 is attributable to bonds payable and certificates of participation, with accounts payable increasing $17.3 million and accrued liabilities increasing $12.7 million. Total liabilities increased $2.9 million in fiscal year 2007 over that of 2006.

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

# Colorado State University System

(A Component Unit of the State of Colorado)

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

(Unaudited)

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

(Amounts expressed in thousands)

| | Years ended June 30 | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Operating revenues: | | | |
| Tuition and fees, net | $ 234,380 | 211,010 | 203,967 |
| Grants and contracts | 281,642 | 260,602 | 251,941 |
| State fee for service revenue | 82,669 | 74,182 | 68,214 |
| Auxiliary enterprises | 115,873 | 107,439 | 100,033 |
| Other | 25,734 | 24,513 | 23,046 |
| Total operating revenues | 740,298 | 677,746 | 647,201 |
| Operating expenses: | | | |
| Instruction | 203,322 | 182,871 | 173,671 |
| Research | 168,071 | 166,479 | 151,756 |
| Public service | 86,891 | 72,498 | 70,490 |
| Academic support | 50,630 | 43,802 | 41,315 |
| Student services | 26,264 | 25,355 | 25,500 |
| Institutional support | 41,046 | 27,988 | 24,476 |
| Operation and maintenance of plant | 57,605 | 50,305 | 47,209 |
| Scholarships and fellowships | 8,533 | 7,719 | 8,155 |
| Auxiliary enterprises | 109,526 | 97,572 | 92,512 |
| Depreciation | 41,151 | 37,540 | 36,690 |
| Total operating expenses | 793,039 | 712,129 | 671,774 |
| Operating loss | (52,741) | (34,383) | (24,573) |
| Nonoperating revenues: | | | |
| State appropriations | 3,250 | 3,250 | - |
| Other net nonoperating revenues | 40,994 | 32,804 | 26,380 |
| Net nonoperating revenues | 44,244 | 36,054 | 26,380 |
| Income (loss) before other revenues, (expenses) | (8,497) | 1,671 | 1,807 |
| State capital contributions | 28,418 | 8,246 | 1,387 |
| Capital grants | 5,482 | 16,922 | 5,744 |
| Capital gifts | 1,474 | 4,734 | 7,971 |
| Payments to governing boards or other institutions | 1,193 | 754 | 82 |
| Additions (reductions) to permanent endowments | (546) | 2,022 | 705 |
| Increase in net assets | 27,524 | 34,349 | 17,696 |
| Net assets: | | | |
| Net assets, beginning of year | 642,449 | 608,100 | 590,404 |
| Net assets, end of year | $ 669,973 | 642,449 | 608,100 |



(Continued)

The System experienced a $52.7 million operating loss in fiscal year 2008 and a $34.4 million operating loss in fiscal year 2007. In fiscal year 2008, this operating loss was offset by net nonoperating and other revenues of $80.3 million, including $3.25 million of state appropriations for wildfire preparedness, $28.4 million of state capital contributions, $28.4 million of gifts and capital gifts, $14.4 million of investment income, and $5.5 million of capital grants. In fiscal year 2007, this operating loss was offset by net nonoperating and other revenues of $68.7 million, including $3.25 million of state appropriations for wildfire preparedness, $8.2 million of state capital contributions, $25.6 million of gifts and capital gifts, $13.5 million of investment income, and $16.9 million of capital grants.

- Fiscal year 2008 System operating revenues increased $62.6 million in relation to prior year levels. This is primarily attributable to a $23.4 million increase in tuition and fee revenue in conjunction with an $8.5 million increase in state fee for service contract revenue, an $8.4 million increase in revenue from auxiliary enterprises, and a $21.0 million increase in grants and contracts revenue. Fiscal year 2007 System operating revenues increased $30.5 million in relation to prior year levels. This is primarily attributable to a $7.0 million increase in tuition and fee revenue in conjunction with a $6.0 million increase in state fee for service contract revenue, a $7.4 million increase in revenue from auxiliary enterprises, and an $8.7 million increase in grants and contracts revenue.

- Fiscal year 2008 System operating expenses increased $80.9 million in relation to prior year levels. This increase is in part attributable to a $20.5 million increase in instruction expenses which is primarily the result of strategic investments by CSU in this area. In addition, public service expenses at CSU increased $14.4 million as a result of increased levels of firefighting, wildfire preparedness and wildfire prevention activity by the Colorado State Forest Service. Expenses for academic support also increased by $6.8 million during the fiscal year. This was partially attributable to a $2.7 million increase in expenses for library services and materials by CSU. Institutional support expenses for the System increased $13.1 million which is in part attributable to $3.4 million of investments in the new Colorado State University Global Campus administrative infrastructure. CSU also increased institutional support expenditures by $2.2 million in support of advancement fundraising initiatives. Auxiliary enterprises expenses also increased $12.0 million which was primarily the result of increased auxiliary activity at CSU. Fiscal year 2007 System operating expenses increased $40.4 million in relation to prior year levels. This increase is in part attributable to a $9.2 million increase in instruction expense due primarily to salary increases, a $14.7 million increase in research expense attributable to increased levels of sponsored research activity, and a $5.1 million auxiliary enterprises expense increase, which is primarily due to increased auxiliary enterprise activity. In addition, institutional support expenses increased $3.5 million, which was primarily attributable to salary increases.

- Fiscal year 2008 System net nonoperating revenues increased $8.2 million, which was primarily attributable to a $6.1 million increase in gift revenue and an increase of $2.8 million in other nonoperating revenue offset by an increase of $1.6 million in interest expense on capital debt. Fiscal year 2007 System net nonoperating revenues increased $9.7 million, which was primarily attributable to a $3.25 million increase in state appropriations to support wildfire preparedness and a $7.4 million increase in investment income which was due to increased investment returns in conjunction with an increase in unrealized gain on investments on deposits held by the State Treasury. These increases were offset by a $564,000 decline in gifts and a $689,000 decline in other nonoperating revenue.

- Other revenues increased $3.3 million in fiscal year 2008. This increase was primarily due to a $20.2 million increase in state capital contributions offset by decreases in capital grants of $11.4 million, capital gifts of $3.3 million and a reduction to the permanent endowment of $2.6 million. The increase in state capital contributions is primarily related to the $13.4 million received for the CSU Diagnostic Medicine Center. Other revenues increased $16.8 million in fiscal year 2007. This increase was primarily due to a $6.9 million increase in state capital contributions coupled with an $11.2 million increase in capital grants, a $3.2 million decrease in capital gifts, and a $1.3 million increase in additions to permanent endowments.

## Capital Assets and Debt Administration

At June 30, 2008, the System had approximately $615.8 million invested in capital assets, net of accumulated depreciation of $487.5 million. At June 30, 2007, the System had approximately $523.4 million invested in capital assets, net of accumulated depreciation of $456.8 million.

Depreciation charges were approximately $41.2 million and $37.5 million for the years ended June 30, 2008 and 2007, respectively.

During the fiscal year ended June 30, 2008, the System received $28.4 million of state capital contributions for capital construction projects. $13.4 million of these state capital contributions were attributable to the CSU Diagnostic Medicine Center, $2.6 million relates to the CSU VTH Mechanical and Fire Suppression Project, $1.0 million for the CSU Regulated Materials Handling Facility and $8.1 million for the CSU-Pueblo Health, Education and Physical Recreation building.

For the fiscal year ending June 30, 2009, the System will receive state capital appropriation funding of $24.4 million for capital construction and controlled maintenance projects. This includes $24.0 million for capital construction projects including $19.2 million for the CSU Diagnostic Medicine Center and $2.0 million for the completion of the CSU Clark Building Revitalization and $2.8 CSU- Pueblo Academic Resource Center Remodel project. The remainder of this funding is for a $ 0.4 million controlled maintenance project to replace deteriorated fire alarms at CSU.

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 | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Land | $ 10,953 | 10,898 | 9,670 |
| Land improvements | 30,155 | 30,709 | 28,975 |
| Buildings and improvements | 434,380 | 323,241 | 322,972 |
| Leasehold improvements | 325 | 366 | 414 |
| Equipment | 52,043 | 47,331 | 47,613 |
| Collections | 1,337 | 1,318 | 2,317 |
| Library materials | 23,332 | 25,658 | 27,947 |
| Construction in progress | 63,272 | 83,844 | 31,086 |
| Total capital assets, net | $ 615,797 | 523,365 | 470,994 |

The fiscal year 2008 $92.4 million increase in net capital assets is primarily attributable to a $111.1 million net increase in buildings and improvements offset by a $20.6 million decrease in construction in progress. The decrease in construction in progress is primarily the net of incurring $107.1 million in additional construction costs on on-going and completed projects and transferring $122.2 million out into the other asset categories. The $111.1 million net increase in buildings and improvements is primarily related to the completed projects transferred in from construction in progress. The completed projects primarily relate to CSU-Pueblo's Health, Education and Physical Recreation center at $13.4 million, CSU's Academic Village at $44.7 million, University Center for the Arts at 28.8 million, and the Regional Biocontainment Laboratory at $26.0 million. The $63.3 million remaining balance in construction in progress at year end primarily relates to CSU-Pueblo's Student Recreation Center at $7.1 million and CSU's BSL-3 Facility at $6.5 million, Computer Science building at $10.3 million, Cooling Plant upgrades at $5.0 million, the Veterinary Teaching Hospital Diagnostic Laboratory at $14.9 million and the Research Innovation Center at $1.9 million. The fiscal year 2007 $52.4 million increase in net capital assets is primarily attributable to a $52.8 million increase to construction in progress. $26.0 million of this construction in progress increase related to the CSU Academic Village project and $18.0 million related to the CSU Regional Biocontainment Laboratory project. The CSU Bioenvironmental Research Building Discovery Suite, the CSU Infectious Disease Laboratory annex renovation, and the CSU Howes Street Business Center Building were all capitalized during fiscal year 2007.

The System had capital construction commitments outstanding of approximately $45.3 million at June 30, 2008. Approximately $6.3 million of these capital commitments related to the Veterinary Teaching Hospital Diagnostic Medical Center, $6.2 million to the Research Innovation Center, $5.5 million to the Academic Instruction Building, $2.6 million to the Atmospheric Science Facility, $2.5 million to the Computer Science Building, $2.4 million for the Athletics Indoor Practice Facility, $2.1 million for the CSU Academic Village, and $3.3 million to the CSU-Pueblo Student Recreation Center. The remaining commitments were for various small construction projects at CSU and CSU-Pueblo.



(Continued)

The System had approximately $376.3 million and $118.3 million of debt outstanding at June 30, 2008 and 2007, respectively.

**Summary of Debt**
(Amounts expressed in thousands)

| | June 30 | | |
|---|---|---|---|
| | **2008** | **2007** | **2006** |
| Debt outstanding: | | | |
| Revenue bonds and certificates of participation | $369,103 | 112,220 | 118,071 |
| Capital lease obligations | 7,183 | 6,032 | 7,232 |
| | $376,286 | 118,252 | 125,303 |

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

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

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



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Advance refunded bonds include Colorado State University Student Sports Recreational Facilities Revenue Bonds, Series 1998 ($1,755,000), Colorado State University Enterprise System Refunding and Improvement Revenue Bonds, Series 2003A (partial refund of $3,610,000), and Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005A ($9,535,000). A portion of the proceeds of the Series 2007B Bonds will be used to purchase U.S. Treasury Securities and to provide cash which will be placed into an escrow account to refund the Refunded Bonds. The Escrow Agent will pay the debt service requirements of these Refunded Bonds on each of their scheduled payment dates through and including; for the 1998 Bonds, April 1, 2008 and redeemed those maturing on April 1, 2009 and thereafter, at a redemption price equal to 100% of par ($1,615,000) on April 1, 2008; for the 2003A Bonds, March 1, 2013 and will redeem those maturing on March 1, 2014 and thereafter, at a redemption price equal to 100% of par ($1,600,000) on March 1, 2013; and for the 2005A Bonds, December 1, 2015 and will redeem those maturing on December 1, 2016 and thereafter, at a redemption price equal to 100% of par ($4,010,000) on December 1, 2015.

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

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

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

The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projections (September 2008) from these entities estimate that the State General Fund revenue is projected to increase in Fiscal Year 2009 by 4.7%. For Fiscal Year 2010, the General Fund revenue used for the state's budgeting process is projected to increase 6.0%. The state's overall budgetary situation remains governed by the three constitutional budgetary provisions: The Taxpayer Bill of Rights (TABOR), the Gallagher Amendment on property taxes, and Amendment 23 requiring specified increases in state support of K-12 Education. The budgetary situation for higher education has changed with the implementation of the College Opportunity Fund in fiscal year 2006. As a result of legislation adopted in the 2004 session (S.B. 04-189), the State no longer provides direct State General Fund appropriation to the governing boards. Instead, the State provides stipends to qualified, resident undergraduate students, and institutions receive fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, S.B. 04-189 also allows institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the state's TABOR limitation. In 2006, Colorado State University and Colorado State University-Pueblo had separate enterprise status designation. In Fiscal Year 2007, the System was designated a Single Enterprise providing it greater flexibility and expanded financial capabilities in a host of areas. This designation allows the System to raise revenues and finance projects outside of the revenue limits set for most governmental entities.

With this TABOR status, the cash funds collected by the System's institutions no longer count toward the State's overall revenue limit. In addition, as enterprises, the institutions can consider issuing revenue bonds backed by student fees for academic buildings.

The Colorado State University System is authorized to receive $93.0 million in a fee for service contract revenue and $53.8 million in student stipends in fiscal year 2009. The $146.8 million of anticipated Fiscal Year 2009 fee for service contract revenue and the student stipends represents a 9.7% increase in state support above that provided in 2008.

The State implemented the TABOR in fiscal year 1994. The state's voters modified TABOR at the November 2005 election. The modification allowed the State to retain all revenues in excess of TABOR spending limitations for fiscal years 2006 through 2010.

Overall enrollment at both System institutions increased 2.5% as measured in the fall 2008 census. CSU-Pueblo experienced an 11.3% increase in student enrollment in Fall 2008. This increase is a result of specific initiatives began in 2007 to support the goal of increased enrollment including an expansion of academic programs, increased marketing and recruitment efforts, and approval of a new masters program in teacher education, a graduate incentive program and construction of a new student recreation facility. Based on early enrollment indicators from the Department of Higher Education, there has been strong enrollment increases at some institutions and it is anticipated that enrollment will increase into fiscal years 2010 and 2011. Overall, the projected enrollment increase for the CSU System in the next three years should be in the 2% - 3% range.

## Requests for Information

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

# Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Net Assets

June 30, 2008 and 2007

(Amounts expressed in thousands)

| Assets | | 2008 | 2007 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $ | 249,440 | 223,066 |
| Student accounts receivable, net | | 11,494 | 8,796 |
| Grant and other accounts receivable, net | | 63,696 | 63,713 |
| Student loans receivable, net | | 2,861 | 3,553 |
| Inventories | | 8,031 | 7,087 |
| Prepaid expenses | | 3,480 | 3,640 |
| Total current assets | | 339,002 | 309,855 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | | 243,730 | 43,751 |
| Restricted investments | | 19,114 | 19,638 |
| Student loans receivable, net | | 21,842 | 20,335 |
| Other noncurrent assets | | 3,300 | 580 |
| Nondepreciable capital assets: | | | |
| Land | | 10,953 | 10,898 |
| Construction in process | | 63,272 | 83,844 |
| Collections | | 1,337 | 1,318 |
| Total nondepreciable capital assets | | 75,562 | 96,060 |
| Depreciable capital assets, net: | | | |
| Land improvements | | 30,155 | 30,709 |
| Building and improvements | | 434,380 | 323,241 |
| Leasehold improvements | | 325 | 366 |
| Equipment | | 52,043 | 47,331 |
| Library materials | | 23,332 | 25,658 |
| Total depreciable capital assets, (net of accumulated depreciation) | | 540,235 | 427,305 |
| Total noncurrent assets | | 903,783 | 607,669 |
| Total assets | $ | 1,242,785 | 917,524 |



(Continued)

## Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Net Assets

June 30, 2008 and 2007

(Amounts expressed in thousands)

| | | 2008 | 2007 |
|---|---|---|---|
| **Liabilities** | | | |
| Current liabilities: | | | |
| Accounts payable | $ | 45,184 | 27,866 |
| Accrued liabilities | | 66,508 | 53,843 |
| Deferred revenue | | 20,763 | 20,181 |
| Deposits held for others | | 4,653 | 2,801 |
| Bonds payable, current portion | | 6,735 | 5,910 |
| Capital leases payable, current portion | | 1,251 | 1,096 |
| Other long-term liabilities, current portion | | 3,556 | 2,614 |
| Compensated absence liabilities, current portion | | 2,207 | 2,156 |
| Total current liabilities | | 150,857 | 116,467 |
| Noncurrent liabilities: | | | |
| Bonds payable | | 362,368 | 106,310 |
| Capital leases payable | | 5,932 | 4,936 |
| Deposits held for others | | 8,854 | 7,394 |
| Other long-term liabilities | | 9,223 | 7,875 |
| Compensated absence liabilities | | 35,578 | 32,093 |
| Total noncurrent liabilities | | 421,955 | 158,608 |
| Total liabilities | $ | 572,812 | 275,075 |
| **Net assets** | | | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | $ | 439,525 | 409,943 |
| Restricted for nonexpendable purposes | | 19,359 | 19,904 |
| Restricted for expendable purposes - other | | 78,167 | 63,618 |
| Unrestricted | | 132,922 | 148,984 |
| Total net assets | $ | 669,973 | 642,449 |

See accompanying notes to basic financial statements.

# Colorado State University System

(A Component Unit of the State of Colorado)

## Colorado State University Foundation

## Statements of Financial Position – Discretely Presented Component Unit

June 30, 2008 and 2007

(Amounts expressed in thousands)

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **Assets** | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| Cash and cash equivalents | $ 187 | 784 | 497 | 1,468 | 91 | 179 | 1,517 | 1,787 |
| Investments | 25,923 | 105,167 | 108,687 | 239,777 | 30,047 | 116,957 | 94,780 | 241,784 |
| Receivables: | | | | | | | | |
| Pledges, net of allowance | 380 | 22,221 | 5,728 | 28,329 | - | 18,149 | 4,886 | 23,035 |
| Life income trusts | - | - | 206 | 206 | - | - | 201 | 201 |
| Property and equipment, net of accumulated depreciation | 33 | 250 | - | 283 | 15 | 250 | - | 265 |
| Cash surrender value of life insurance policies | 46 | 2 | 384 | 432 | 69 | - | 279 | 348 |
| Prepaids and other assets | 57 | 107 | 68 | 232 | 47 | 120 | 264 | 431 |
| Total assets | $ 26,626 | 128,531 | 115,570 | 270,727 | 30,269 | 135,655 | 101,927 | 267,851 |
| **Liabilities and Net Assets** | | | | | | | | |
| Accounts payable (primarily to CSU) | $ 51 | 807 | - | 858 | 12 | 600 | - | 612 |
| Other accrued liabilities | 76 | - | - | 76 | 71 | - | - | 71 |
| Life income agreements | 575 | 92 | 225 | 892 | 587 | 96 | 283 | 966 |
| Deposit held in custody for CSU | - | 3,591 | 9,534 | 13,125 | - | 3,918 | 10,554 | 14,472 |
| Total liabilities | 702 | 4,490 | 9,759 | 14,951 | 670 | 4,614 | 10,837 | 16,121 |
| Net Assets | | | | | | | | |
| Unrestricted: | | | | | | | | |
| Undesignated | 4,471 | - | - | 4,471 | 3,904 | - | - | 3,904 |
| Board designated | 21,453 | - | - | 21,453 | 25,695 | - | - | 25,695 |
| Total unrestricted | 25,924 | - | - | 25,924 | 29,599 | - | - | 29,599 |
| Temporarily restricted | - | 124,041 | - | 124,041 | - | 131,041 | - | 131,041 |
| Permanently restricted | - | - | 105,811 | 105,811 | - | - | 91,090 | 91,090 |
| Total net assets | 25,924 | 124,041 | 105,811 | 255,776 | 29,599 | 131,041 | 91,090 | 251,730 |
| Total liabilities and net assets | $ 26,626 | 128,531 | 115,570 | 270,727 | 30,269 | 135,655 | 101,927 | 267,851 |

See accompanying notes to basic financial statements.

# Colorado State University System

(A Component Unit of the State of Colorado)

## Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | | 2008 | 2007 |
|---|---|---|---|
| Operating revenues: | | | |
| Student tuition and fees, (including $46,282 and $12,575 of revenues pledged for bonds in 2008 and 2007, respectively, and net of scholarship allowances of $54,647 and $46,593 for 2008 and 2007, respectively) | $ | 234,380 | 211,010 |
| State fee for service revenue | | 82,669 | 74,182 |
| Grants and contracts (including $39,706 and $36,454 of revenues pledged for bonds in 2008 and 2007, respectively) | | 281,642 | 260,602 |
| Sales and services of educational activities | | 19,656 | 18,952 |
| Auxiliary enterprises, (including $86,378 and $82,205 of revenues pledged for bonds in 2008 and 2007, respectively, and net of scholarship allowances of $2,908 and $2,158 for 2008 and 2007, respectively) | | 115,873 | 107,439 |
| Other operating revenue | | 6,078 | 5,561 |
| Total operating revenues | | 740,298 | 677,746 |
| Operating expenses: | | | |
| Instruction | | 203,322 | 182,871 |
| Research | | 168,071 | 166,479 |
| Public service | | 86,891 | 72,498 |
| Academic support | | 50,630 | 43,802 |
| Student services | | 26,264 | 25,355 |
| Institutional support | | 41,046 | 27,988 |
| Operation and maintenance of plant | | 57,605 | 50,305 |
| Scholarships and fellowships | | 8,533 | 7,719 |
| Auxiliary enterprises | | 109,526 | 97,572 |
| Depreciation | | 41,151 | 37,540 |
| Total operating expenses | | 793,039 | 712,129 |
| Operating loss | | (52,741) | (34,383) |
| Nonoperating revenues (expenses): | | | |
| State appropriations | | 3,250 | 3,250 |
| Gifts | | 26,907 | 20,824 |
| Investment income (including $6,491 and $1,305 of revenues pledged for bonds in 2008 and 2007, respectively) | | 14,352 | 13,488 |
| Interest expense on capital debt | | (4,717) | (3,130) |
| Other nonoperating revenues | | 4,452 | 1,622 |
| Net nonoperating revenues | | 44,244 | 36,054 |
| Income (loss) before other revenues (expenses) | | (8,497) | 1,671 |

# Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | 2008 | 2007 |
|---|---|---|
| Other revenues (expenses) | | |
| State capital contributions | 28,418 | 8,246 |
| Capital grants | 5,482 | 16,922 |
| Capital gifts | 1,474 | 4,734 |
| Payments to governing boards or other institutions | 1,193 | 754 |
| Additions (reductions) to permanent endowments | (546) | 2,022 |
| Total other revenues, net | 36,021 | 32,678 |
| Increase in net assets | 27,524 | 34,349 |
| Net assets, beginning of year | 642,449 | 608,100 |
| Net assets, end of year | $ 669,973 | 642,449 |

See accompanying notes to basic financial statements.

# Colorado State University System

(A Component Unit of the State of Colorado)

Colorado State University Foundation

Statements of Activities-Discretely Presented Component Unit

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Support and revenue:** | | | | | | | | |
| Contributions | $ 698 | 23,120 | 15,160 | 38,978 | 299 | 15,831 | 9,461 | 25,591 |
| In-kind contributions | - | 2,141 | - | 2,141 | - | 3,171 | - | 3,171 |
| Allowance for uncollectible pledges | (11) | (484) | (567) | (1,062) | - | (811) | (457) | (1,268) |
| Total contributions | 687 | 24,777 | 14,593 | 40,057 | 299 | 18,191 | 9,004 | 27,494 |
| Net investment income | 1,286 | (10,044) | 77 | (8,681) | 10,513 | 22,340 | 69 | 32,922 |
| Actuarial change in value of life income agreements | (27) | (11) | 28 | (10) | (28) | 9 | (15) | (34) |
| Other changes in net assets | (911) | 964 | (53) | - | (18) | (2,075) | 2,093 | - |
| Other revenue | 2 | 30 | 76 | 108 | 41 | (783) | 169 | (573) |
| **Net assets released from restrictions:** | | | | | | | | |
| Satisfaction of program restrictions | 22,716 | (22,716) | - | - | 22,444 | (22,444) | - | - |
| Total support and revenue | 23,753 | (7,000) | 14,721 | 31,474 | 33,251 | 15,238 | 11,320 | 59,809 |
| **Expenses:** | | | | | | | | |
| Program services: | | | | | | | | |
| CSU College of: | | | | | | | | |
| Agricultural Sciences | 2,685 | - | - | 2,685 | 1,934 | - | - | 1,934 |
| Applied Human Sciences | 1,803 | - | - | 1,803 | 2,283 | - | - | 2,283 |
| Business | 1,679 | - | - | 1,679 | 1,303 | - | - | 1,303 |
| Engineering | 1,970 | - | - | 1,970 | 2,188 | - | - | 2,188 |
| Liberal Arts | 1,240 | - | - | 1,240 | 805 | - | - | 805 |
| Warner College of Natural Resources | 1,372 | - | - | 1,372 | 895 | - | - | 895 |
| Natural Sciences | 1,610 | - | - | 1,610 | 1,615 | - | - | 1,615 |
| Veterinary Medicine and Biomedical Sciences | 4,822 | - | - | 4,822 | 5,406 | - | - | 5,406 |
| Athletics | 2,676 | - | - | 2,676 | 3,309 | - | - | 3,309 |
| Central Development | 2,711 | - | - | 2,711 | - | - | - | - |
| Other CSU programs | 2,763 | - | - | 2,763 | 3,904 | - | - | 3,904 |
| Total program services | 25,331 | - | - | 25,331 | 23,642 | - | - | 23,642 |
| Support services: | | | | | | | | |
| Development | - | - | - | - | - | - | - | - |
| Management and general | 2,097 | - | - | 2,097 | 1,836 | - | - | 1,836 |
| Total support services | 2,097 | - | - | 2,097 | 1,836 | - | - | 1,836 |
| Total expenses | 27,428 | - | - | 27,428 | 25,478 | - | - | 25,478 |
| Change in net assets | (3,675) | (7,000) | 14,721 | 4,046 | 7,773 | 15,238 | 11,320 | 34,331 |
| **Net assets, beginning of year** | 29,599 | 131,041 | 91,090 | 251,730 | 21,826 | 115,803 | 79,770 | 217,399 |
| **Net assets, end of year** | $ 25,924 | 124,041 | 105,811 | 255,776 | 29,599 | 131,041 | 91,090 | 251,730 |

See accompanying notes to basic financial statements.

# Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Cash received: | | | |
| Tuition and fees | $ | 232,951 | 208,947 |
| Student loans collected | | 3,679 | 6,221 |
| Sales of products | | 18,426 | 16,703 |
| Sales of services | | 117,426 | 112,069 |
| Grants and contracts | | 286,148 | 247,248 |
| State fee for service contract | | 82,669 | 74,182 |
| Other operating receipts | | 3,656 | 3,109 |
| Cash payments: | | | |
| Scholarships disbursed | | (5,638) | (5,209) |
| Student loans disbursed | | (4,317) | (5,995) |
| Payments to employees | | (498,993) | (458,898) |
| Payments to suppliers | | (220,431) | (206,016) |
| Net cash provided by (used in) operating activities | | 15,576 | (7,639) |
| Cash flows from noncapital financing activities: | | | |
| State appropriations - noncapital | | 3,250 | 3,250 |
| Gifts and grants for other than capital purposes | | 24,611 | 19,147 |
| Agency (direct lending inflows) | | 95,863 | 88,592 |
| Agency (direct lending outflows) | | (95,863) | (88,592) |
| Other agency (inflows) | | 48,126 | 27,924 |
| Other agency (outflows) | | (46,172) | (28,125) |
| Payments from governing boards or other institutions | | 3,618 | 754 |
| Other nonoperating revenues | | 3,035 | 2,836 |
| Net cash provided by noncapital financing activities | | 36,468 | 25,786 |
| Cash flows from capital and related financing activities: | | | |
| Proceeds from capital debt | | 260,327 | - |
| State appropriations - capital | | 28,417 | 8,246 |
| Capital grants, contracts and gifts | | 6,317 | 19,281 |
| Proceeds from sale of capital assets | | 3,970 | |
| Acquisition and construction of capital assets | | (129,530) | (84,616) |
| Principal paid on capital debt | | (7,027) | (6,957) |
| Interest on capital debt | | (9,127) | (3,273) |
| Net cash provided by (used in) capital and related financing activities | | 153,347 | (67,319) |



(Continued)

# Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | | 2008 | 2007 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| Proceeds from sale and maturities of investments | $ | 10,551 | 9,573 |
| Purchase of investments | | (11,165) | (9,965) |
| Investment earnings | | 21,576 | 12,293 |
| Net cash provided by investing activities | | 20,962 | 11,901 |
| Net increase (decrease) in cash and cash equivalents | | 226,353 | (37,271) |
| Cash and cash equivalents, beginning of the year | | 223,066 | 233,703 |
| Restricted cash, beginning of the year | | 43,751 | 70,385 |
| Total cash and cash equivalents, beginning of the year | | 266,817 | 304,088 |
| Cash and cash equivalents, end of the year | | 249,440 | 223,066 |
| Restricted cash, end of the year | | 243,730 | 43,751 |
| Total cash and cash equivalents, end of the year | $ | 493,170 | 266,817 |
| Reconciliation of operating loss to net cash provided by (used in) operating activities: | | | |
| Operating loss | $ | (52,741) | (34,383) |
| Adjustments: | | | |
| Depreciation expense | | 41,151 | 37,540 |
| Noncash operating transactions | | (109) | 1,374 |
| (Increase) decrease in assets: | | | |
| Receivables, net | | 480 | (14,382) |
| Inventories and prepaids | | (2,766) | (2,980) |
| Increase (decrease) in liabilities: | | | |
| Accounts payable | | 12,649 | 2,702 |
| Accrued liabilities | | 9,638 | (1,600) |
| Deferred revenue | | 595 | 1,278 |
| Deposits held for others | | 1,763 | (6) |
| Compensated absence liabilities | | 3,535 | 2,714 |
| Other liabilities | | 1,381 | 104 |
| Net cash provided by (used in) operating activities | $ | 15,576 | (7,639) |



(Continued)

# Colorado State University System

(A Component Unit of the State of Colorado)

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(Amounts expressed in thousands)

| | | 2008 | 2007 |
|---|---|---|---|
| Noncash activities: | | | |
| Noncash gifts | $ | 2,683 | 4,138 |
| Noncash capital leases | | 2,570 | 317 |
| Noncash additions (reductions) to investments held by Foundation | | (1,347) | 1,457 |
| Unrealized gains on investments | | 3,770 | 2,441 |
| Capitalized interest | | 2,430 | 738 |
| Capital debt refinanced | | 34,458 | - |
| Noncash bond issuance costs | | 2,427 | - |
| Amortization of bond premium | | 451 | 86 |
| Amortization of bond issuance costs | | 262 | 30 |
| Retainage payable | | 1,443 | 2,196 |

See accompanying notes to basic financial statements.

## (1) Governance and Reporting Entity

### *(a) Governance*

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

### *(b) Reporting Entity*

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

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

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

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of the System would be subject to tax under IRC Section 511(a)(2)(B). The System had no material unrelated business income for the years ended June 30, 2008 and 2007.

### *(c) Discretely Presented Component Unit*

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

The Foundation is a legally separate, tax-exempt entity that was established to receive, manage and invest philanthropic gifts on behalf of CSU. The majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, CSU, the Foundation is considered a component unit of the System and is discretely presented in the System's 2008 and 2007 financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences, as permitted by GASB Statement No. 39.

The Foundation was established in 1970 as an independent 501(c)(3) organization. The primary purpose of the Foundation is to receive, manage, and invest philanthropic gifts to CSU. The officers of the Foundation are appointed by the Board of Directors. The Board of Directors consists of five voting members. Four voting members are community members elected by the Board of Directors and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board of Directors serve by virtue of title: President of Colorado State University, the CSU Vice President for Advancement and Strategic Initiatives, and the CSU Vice President for Finance. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a voting Board Member.

The major source for the Foundation's revenue is gifts. Of the $31,474,000 in revenue for the 2007 - 2008 fiscal year, gifts accounted for $41,119,000. Of the $59,809,000 in revenue for the 2006 - 2007 fiscal year, gifts accounted for $28,762,000. The change in revenue was primarily due to the change in contributions and the change in net investment income.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately $25,331,000 and $23,642,000 was transferred to CSU for the years ended June 30, 2008 and 2007, respectively, in pursuit of the above stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to $13,125,000 and $14,472,000 as of June 30, 2008 and 2007, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

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



(Continued)

## (2) Basis of Presentation

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

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

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

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

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

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

### *(b) Investments*

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

### *(c) Inventories*

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



(Continued)

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

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

### *(e) Capital Assets*

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

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

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

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

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

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

The System evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Capital assets are generally considered impaired if a decline in service utility occurs, the impairment is material, and the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System are measured using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that impairment will be temporary, the capital asset is not written down. There were no impairments of capital assets at June 30, 2008 or June 30, 2007.


(Continued)

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

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

*(g)* ***Net Assets***

Net assets of the System are classified as follows:

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

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

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

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

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

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

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

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

### *(h) Classification of Revenues*

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

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

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

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. Nonoperating expenses include interest expense on capital debt.

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

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

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

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

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

### *(k) Use of Estimates*

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



(Continued)

*(l)* ***Changes in Accounting Principles***

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

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

As discussed in Note 19(b), the System adopted GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Adoption of GASB 45 had no effect on beginning net assets of the System as of July 1, 2007. Adoption of GASB 45 decreased the System's increase in net assets by $4,318,000 for the year ended June 30, 2008.

*(m)* ***Reclassifications***

Certain 2007 amounts have been reclassified to conform to the 2008 basic financial statement presentation.

**(4) Cash and Cash Equivalents**

The System deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2008, the System had cash on deposit with the State Treasurer of $485,630,000, which represented approximately 7.7% of the total $6,304,905,000 of deposits in the State Treasurer's Pool (Pool). As of June 30, 2007, the System had cash on deposit with the State Treasurer of $264,382,000, which represented approximately 4.9% of the value of all deposits in the Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the System's participation in the Pool, the System reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

As of June 30, 2008 and 2007, respectively, the System had $485,630,000 and $264,382,000 on deposit with the State Treasurer. The difference between the System's cash carrying value and on deposit with the State Treasurer and balances at other banks was due to outstanding checks and deposits in transit. Interest earned on deposits with the state for the fiscal years ended June 30, 2008 and 2007 was approximately $16,349,000 and $11,940,000, respectively. These amounts reflect increases in cash and cash equivalents and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. The System reflected an unrealized gain of $2,270,000 on cash and cash equivalents on deposits with the State Treasurer for fiscal year ended June 30, 2008 and an unrealized loss of $1,500,000 for the fiscal year ended June 30, 2007. The unrealized gain on investments for the fiscal years ended June 30, 2008 and 2007, respectively, were $3,770,000 and $2,441,000. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2008 and 2007, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

At June 30, 2008 and 2007, the System's cash not on deposit with the State Treasurer was $7,541,000 and $2,434,000, respectively. Cash included petty cash/change funds and bank account balances of $87,000 and $7,454,000 as of June 30, 2008 and $86,000 and $2,348,000 as of June 30, 2007.

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

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2008, approximately 91.5% of investments of the Pool are subject to credit quality risk reporting. Except for $14,782,000 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality which indicates that the issuer has strong capability to pay principal and interest when due. As of June 30, 2007, approximately 89.0% of investments of the Pool were subject to credit quality risk reporting. These investments are rated from upper medium to the highest quality, which indicates the issuer has strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2008, the weighted average maturity of investments in the Pool is 0.10 years for commercial paper (16.6% of the Pool), .01 years for money market funds (6.2% of the Pool), .97 years for U.S. government securities (50.8% of the

Pool), 1.90 years for asset backed securities (18.6% of the Pool), and 2.10 years for corporate bonds (7.8% of the Pool). As of June 30, 2007, the weighted average maturity of investments in the Treasurer's Pool was 0.08 years for 25.6% of the Pool, .01 years for 4.9% of the Pool, 1.10 years for 40.4% of the Pool, 2.13 years for 19.3% of the Pool, and 2.68 years for 9.8% of the Pool.

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2008 or in fiscal year 2007.

Additional information on investments of the Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2008.

## (5) Restricted Investments

As of June 30, 2008 and 2007, the System's restricted investments had a fair value of $19,114,000 and $19,638,000, respectively. Investment earnings for the fiscal years 2008 and 2007 were $207,000 and $304,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2008 and 2007. The System only invests in U.S. Treasury securities, which are federal guaranteed investments, as required by state law. The System's restricted investments include investments held by CSUF that are invested in the Foundation's long-term endowment pool, which are not evidenced by securities that exist in physical or book form.

The following details each major category of the System's investments at fair value as of June 30, 2008 and 2007:

| | June 30 | |
|---|---|---|
| | 2008 | 2007 |
| U.S. Treasury obligations | $ 5,989,000 | 5,166,000 |
| Investments held by CSUF in long-term endowment pool: | | |
| Corporate equities | $ 1,044,000 | $ 1,383,000 |
| Mutual funds | 5,631,000 | 6,455,000 |
| Hedge funds | 4,645,000 | 5,340,000 |
| Other investments | 1,805,000 | 1,294,000 |
| | 13,125,000 | 14,472,000 |
| Total investments | $ 19,114,000 | 19,638,000 |

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

At June 30, 2008 and June 30, 2007, the System (investments held by CSUF) had debt securities in the following credit risk categories:

| | June 30 | |
|---|---|---|
| | **2008** | **2007** |
| Money market mutual funds: | | |
| Aaa | $ 108,000 | 54,000 |
| Bond mutual funds | | |
| Aaa | 583,000 | 371,000 |
| Aa | 251,000 | 77,000 |
| A | 110,000 | 38,000 |
| Baa | 20,000 | 19,000 |
| Ba | 20,000 | 19,000 |
| B | 20,000 | - |
| P1 | - | 96,000 |
| Below P1 | - | 19,000 |
| | $ 1,004,000 | 639,000 |

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

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

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

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

At June 30, 2007, the following System investments were subject to interest rate risk:

| Type of investment | Fair value | Weighted average maturity (in years) | Duration (in years) |
|---|---|---|---|
| U.S. Treasury obligations | $ 5,166,000 | 0.209 | |
| Investments held by CSUF in long-term endowment pool: | | | |
| Bond mutual funds: | | | |
| PIMCO - Low Duration Fund | 639,000 | 1.590 | 2.990 |
| Total investments subject to interest rate risk | $ 5,805,000 | | |

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

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

***Discretely presented component unit*** – As of June 30, 2008, investments for the Foundation consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments comprise two investment types: absolute return and long-term or short-term investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long-term or short-term investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2008 and 2007:

| | June 30 | |
|---|---|---|
| | **2008** | **2007** |
| Cash and cash equivalents subject to investment management direction | $ 1,970,000 | 909,000 |
| Equities: | | |
| Large cap equities | 51,460,000 | 57,670,000 |
| International equities | 31,092,000 | 38,769,000 |
| Micro cap equities | 9,489,000 | 12,261,000 |
| Small cap equities | 9,423,000 | 10,672,000 |
| Fixed income | 18,348,000 | 10,674,000 |
| Alternative investments | 84,863,000 | 89,218,000 |
| Other investments | 33,132,000 | 21,611,000 |
| | $ 239,777,000 | 241,784,000 |

Net investment income (loss) of the Foundation consisted of the following for the years ended June 30, 2008 and 2007:

| | **2008** | **2007** |
|---|---|---|
| Interest, dividends, and other income | $ 3,069,000 | 2,381,000 |
| Net unrealized and realized gains (losses) on investments | (8,427,000) | 34,055,000 |
| Less investment management fees | (4,136,000) | (1,489,000) |
| | (9,494,000) | 34,947,000 |
| Less income (loss) on deposits held in custody for CSU | 813,000 | (2,025,000) |
| | $ (8,681,000) | 32,922,000 |

## (6) Accounts Receivable

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

| | | June 30 | |
|---|---|---|---|
| | | **2008** | **2007** |
| Student accounts receivable | $ | 14,554,000 | 12,054,000 |
| Less allowance for doubtful accounts | | (3,060,000) | (3,258,000) |
| Student accounts receivable, net | $ | 11,494,000 | 8,796,000 |
| Student loans receivable | $ | 26,774,000 | 25,982,000 |
| Less allowance for doubtful accounts | | (2,071,000) | (2,094,000) |
| Student loans receivable, net | | 24,703,000 | 23,888,000 |
| Less current portion | | (2,861,000) | (3,553,000) |
| Student loans receivable | $ | 21,842,000 | 20,335,000 |
| Grant and other accounts receivable: | | | |
| Sponsored programs | $ | 51,161,000 | 56,523,000 |
| Commercial receivables | | 3,136,000 | 2,576,000 |
| Conferences and summer programs | | 968,000 | 601,000 |
| Insurance trust fund | | 96,000 | 237,000 |
| Receivables from Foundation | | 895,000 | 644,000 |
| Athletics | | 950,000 | 794,000 |
| Capital construction-due from state | | 3,454,000 | 949,000 |
| Due from other employees - pay date shift | | 902,000 | 546,000 |
| Vendor credits | | 4,000 | 45,000 |
| Other | | 3,136,000 | 1,795,000 |
| Total grant and other accounts receivable | | 64,702,000 | 64,710,000 |
| Less allowance for doubtful accounts | | (1,006,000) | (997,000) |
| Grant and other accounts receivable, net | $ | 63,696,000 | 63,713,000 |

***Discretely presented component unit*** – As of June 30, 2008 and 2007, the Foundation's pledges receivable consisted of the following:

| | June 30 | |
|---|---|---|
| | **2008** | **2007** |
| Receivables due in less than one year | $ 5,274,000 | 2,362,000 |
| Receivables due in one to five years | 12,439,000 | 8,315,000 |
| Receivables due in more than five years | 17,361,000 | 18,487,000 |
| | 35,074,000 | 29,164,000 |
| Less allowance for uncollectible pledges | (614,000) | (188,000) |
| Less present value discounting | (6,131,000) | (5,941,000) |
| | $ 28,329,000 | 23,035,000 |

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

## (7) Capital Assets

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

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

Following are the changes in capital assets for the year ended June 30, 2007:

| | Balance July 1, 2006 | Additions | Deletions | Transfers | Balance June 30, 2007 |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | $ 9,670,000 | 301,000 | (21,000) | 948,000 | 10,898,000 |
| Construction in progress | 31,086,000 | 72,175,000 | — | (19,417,000) | 83,844,000 |
| Collections | 2,317,000 | 46,000 | (1,045,000) | — | 1,318,000 |
| Total nondepreciable capital assets | 43,073,000 | 72,522,000 | (1,066,000) | (18,469,000) | 96,060,000 |
| Depreciable capital assets: | | | | | |
| Land improvements | 50,140,000 | 2,236,000 | — | 1,974,000 | 54,350,000 |
| Buildings and improvements | 543,982,000 | 630,000 | (464,000) | 15,703,000 | 559,851,000 |
| Leasehold improvements | 838,000 | — | — | — | 838,000 |
| Equipment | 181,163,000 | 13,255,000 | (13,194,000) | 792,000 | 182,016,000 |
| Library materials | 84,215,000 | 3,035,000 | (239,000) | — | 87,011,000 |
| Total depreciable capital assets | 860,338,000 | 19,156,000 | (13,897,000) | 18,469,000 | 884,066,000 |
| Less accumulated depreciation: | | | | | |
| Land improvements | 21,165,000 | 2,476,000 | — | — | 23,641,000 |
| Buildings and improvements | 221,010,000 | 15,845,000 | (245,000) | — | 236,610,000 |
| Leasehold improvements | 424,000 | 48,000 | — | — | 472,000 |
| Equipment | 133,550,000 | 13,847,000 | (12,712,000) | — | 134,685,000 |
| Library materials | 56,268,000 | 5,324,000 | (239,000) | — | 61,353,000 |
| Total accumulated depreciation | 432,417,000 | 37,540,000 | (13,196,000) | — | 456,761,000 |
| Net depreciable capital assets | 427,921,000 | (18,384,000) | (701,000) | 18,469,000 | 427,305,000 |
| Total capital assets, net | $ 470,994,000 | 54,138,000 | (1,767,000) | — | 523,365,000 |

Interest expense capitalized, net of related interest income for the System, was $2,430,000 and $738,000 for the years ended June 30, 2008 and 2007, respectively.

## (8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2008 and 2007 were comprised of:

| | June 30 2008 | June 30 2007 |
|---|---|---|
| Accrued payroll and benefits | $ 53,888,000 | 45,925,000 |
| Emergency firefighting accrual | 6,728,000 | 6,154,000 |
| Accrued interest payable | 4,498,000 | 1,592,000 |
| Other liabilities | 1,394,000 | 172,000 |
| | $ 66,508,000 | 53,843,000 |

## (9) Long-term Liabilities

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

| | Balance July 1, 2007 | Additions | Reductions | Balance June 30, 2008 | Amounts due within one year |
|---|---|---|---|---|---|
| Bonds and capital lease obligations: | | | | | |
| Revenue bonds and COPs payable | $ 112,220,000 | 297,129,000 | (40,246,000) | 369,103,000 | 6,735,000 |
| Capital leases payable | 6,032,000 | 2,603,000 | (1,452,000) | 7,183,000 | 1,251,000 |
| Total bonds and capital leases | 118,252,000 | 299,732,000 | (41,698,000) | 376,286,000 | 7,986,000 |
| Other liabilities: | | | | | |
| Compensated absences | 34,249,000 | 3,536,000 | — | 37,785,000 | 2,207,000 |
| Deposits held for others | 10,195,000 | 5,871,000 | (2,559,000) | 13,507,000 | 4,653,000 |
| Other | 10,489,000 | 3,106,000 | (816,000) | 12,779,000 | 3,556,000 |
| Total long-term liabilities | $ 173,185,000 | 312,245,000 | (45,073,000) | 440,357,000 | 18,402,000 |

Long-term liability activity for the year ended June 30, 2007 was as follows:

| | Balance July 1, 2006 | Additions | Reductions | Balance June 30, 2007 | Amounts due within one year |
|---|---|---|---|---|---|
| Bonds and capital lease obligations: | | | | | |
| Revenue bonds and COPs payable | $ 118,071,000 | — | (5,851,000) | 112,220,000 | 5,910,000 |
| Capital leases payable | 7,232,000 | 317,000 | (1,517,000) | 6,032,000 | 1,096,000 |
| Total bonds and capital leases | 125,303,000 | 317,000 | (7,368,000) | 118,252,000 | 7,006,000 |
| Other liabilities: | | | | | |
| Compensated absences | 31,535,000 | 2,714,000 | — | 34,249,000 | 2,156,000 |
| Deposits held for others | 12,259,000 | 19,557,000 | (21,621,000) | 10,195,000 | 2,801,000 |
| Other | 10,086,000 | 20,093,000 | (19,690,000) | 10,489,000 | 2,614,000 |
| Total long-term liabilities | $ 179,183,000 | 42,681,000 | (48,679,000) | 173,185,000 | 14,577,000 |

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

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

On June 12, 2008, the System issued $83,300,000 in System Enterprise Revenue Bonds, Series 2008A. The proceeds from the sale of the Series 2008A will be used to defray the costs of constructing, acquiring, renovating, expanding, and equipping certain facilities at CSU. The improvement projects include the Academic Village Phase 1B, the Lake Street Parking Garage, the Student Recreation Center and the Academic Computing Center.

On September 6, 2007, the System issued $210,000,000 in System Enterprise Revenue Bonds, Series 2007A-C. The proceeds from the sale of the Series 2007A-C Bonds will be used to defray the costs of constructing, acquiring, renovating, expanding, and equipping buildings and facilities at CSU and CSU-Pueblo in addition to refunding all or a portion of certain outstanding bonds. These improvement projects will include the CSU Academic Instruction Building, Computer Science Building, Research Innovation Center, Athletics Facilities, University Center for the Arts, Rockwell Hall Addition, Research Building Revolving Fund Multi-Scale Modeling of Atmospheric Process (RBRF MMAP) Building, Chiller Plant, Greenhouse and Research Space, Animal Research Infrastructure, Research Campus Renovations, and the Student Recreation Center at CSU-Pueblo.



(Continued)

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2008 and 2007 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2008 and 2007:

| | Interest range | 2008 | 2007 |
|---|---|---|---|
| Colorado State University: | | | |
| Colorado State University Student Sports Recreational Facilities Bonds of 1998, issued in the original amount of $2,785,000 and mature in varying annual amounts to April 2017. Advance refunded with 2007B bond. | 3.80% - 5.13% | $ — | 1,755,000 |
| Colorado State University Auxiliary Facilities Bonds of 1996, issued in the original amount of $17,380,000 and mature in varying annual amounts to March 2008. Current refunded with 2007B bond. | 3.80% - 5.60% | — | 525,000 |
| 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. Current refunded with 2007B bond. | 3.85% - 5.13% | — | 11,365,000 |
| Colorado State University Research Building and Revolving Fund Bonds of 1997, issued in the original amount of $4,420,000 and mature in varying annual amounts to December 2008. Current refunded with 2007B bond. | 4.00% - 4.60% | — | 1,045,000 |
| 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. Current refunded with 2007B bond. | 3.85% - 4.30% | — | 3,145,000 |
| Colorado State University Auxiliary Facilities Bonds of 2003A, issued in the original amount of $15,615,000 and mature in varying annual amounts to March 2017. $3,610,000 advance refunded with 2007B bond. | 2.50% - 5.25% | 8,430,000 | 12,955,000 |

| | Interest range | | 2008 | 2007 |
|---|---|---|---|---|
| Colorado State University Auxiliary Facilities Bonds of 2003B, issued in the original amount of $20,535,000 and mature in varying annual amounts to March 2035. | 2.50% - 5.00% | $ | 19,390,000 | 19,780,000 |
| Colorado State University Research Building and Revolving Fund Bonds of 2005A, issued in the original amount of $10,045,000 and mature in varying annual amounts to December 2020. Advance refunded with 2007B bond. | 3.25% - 5.00% | | — | 9,535,000 |
| Colorado State University Auxiliary Facilities Bonds of 2005B, issued in the original amount of $45,200,000 and mature in varying annual amounts to March 2035. | 3.50% - 5.00% | | 45,200,000 | 45,200,000 |
| Colorado State University – Pueblo: | | | | |
| Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of $3,625,000 and mature in varying annual amounts to August 2011. | 2.0 to 3.25% | | 1,885,000 | 2,330,000 |
| Colorado State University System: | | | | |
| Colorado State University System Enterprise Revenue Bonds of 2007A, issued in the original amount of $160,665,000 and mature in varying annual amounts to March 2037. | 4.625% - 5.250% | | 160,665,000 | — |
| Colorado State University System Enterprise Revenue Bonds of 2007B, issued in the original amount of $34,260,000 and mature in varying annual amounts to March 2021. | 4.00% - 5.00% | | 30,400,000 | — |
| Colorado State University System Enterprise Revenue Bonds of 2007C, issued in the original amount of $15,120,000 and mature in varying annual amounts to March 2020. | 5.883% | | 15,120,000 | — |

| | Interest Range | 2008 | 2007 |
|---|---|---|---|
| Colorado State University System Enterprise Revenue Bonds of 2008A, issued in the original amount of $83,285,000 and mature in varying annual amounts to March 2028 | 3.00%-5.00% | $ 83,285,000 | — |
| Unamortized bond premium | | 4,728,000 | 1,380,000 |
| Total System Bonds | | 369,103,000 | 109,015,000 |
| Series 1997 Certificates of Participation: | | | |
| Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPS) for finance or refinance of construction, other acquisition and equipping of buildings with a value of $4,670,000. The COPS bear interest ranging from 4.25% to 5.35%, payable semiannually with a final maturity in 2018. | | | |
| Current refunded with 2007B bond | 4.25% - 5.35% | — | 3,205,000 |
| Total CSU certificates of participation | | — | 3,205,000 |
| Total System revenue bonds and certificates of participation | | $ 369,103,000 | 112,220,000 |

The scheduled maturities of the revenue bonds are as follows:

| | Principal | Interest | Total Payments |
|---|---|---|---|
| 2009 | $ 6,735,000 | 16,385,000 | 23,120,000 |
| 2010 | 6,360,000 | 17,293,000 | 23,653,000 |
| 2011 | 6,555,000 | 17,059,000 | 23,614,000 |
| 2012 | 6,785,000 | 16,815,000 | 23,600,000 |
| 2013 | 7,145,000 | 16,576,000 | 23,721,000 |
| 2014-2018 | 40,725,000 | 77,879,000 | 118,604,000 |
| 2019-2023 | 51,705,000 | 66,881,000 | 118,586,000 |
| 2024-2028 | 66,035,000 | 52,633,000 | 118,668,000 |
| 2029-2033 | 83,865,000 | 34,744,000 | 118,609,000 |
| 2034-2038 | 88,465,000 | 11,923,000 | 100,388,000 |
| Total debt service maturities | 364,375,000 | 328,188,000 | 692,563,000 |
| Unamortized premium | 4,728,000 | | |
| Total | $ 369,103,000 | | |

The CSU Auxiliary Facilities Bonds are secured by a pledge of all net revenues derived at CSU from the operation of the auxiliary pledged facilities, special fees assessed to students or any other persons, and investment earnings on the balances in the applicable revenue fund.

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

See Note 12 for more information regarding these pledged revenues.

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

In connection with the execution and delivery of the above-referenced Bonds, the Board hereby provides notice of rating changes. The 2003A and B bonds are insured by Ambac Financial Group ("Ambac"), Inc. Finch, Inc. has removed its ratings on Ambac, Moody's Investors Service has downgraded the financial strength rating of Ambac from "Aaa" to "Aa3", and Standard & Poor's Ratings Services has lowered its financial strength rating on Ambac from "AAA" to "AA". The 2005B, 2007A, 2007B, and 2007C bonds are insured by Financial Guaranty Insurance Company ("FGIC"). Finch, Inc downgraded the insurer financial strength of FGIC from "BBB" to "CCC" and placed the rating on Rating Watch Evolving, Moody's Investors Service has downgraded the insurance financial strength of FGIC from "Baa3" to "B1", and Standard & Poor's Ratings Services has had several rating actions on FGIC culminating in the current financial strength rating of "BB". The 2008A bonds are insured by Financial Security Assurance ("FSA"). Moody Investors Service has placed its "Aaa" rating of FSA's financial strength on review for possible downgrade and Standard & Poor's Ratings Services has revised its outlook on FSA to negative from stable and affirmed its "AAA" rating.

## (11) Defeased Obligations

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

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

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

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

Calculation of difference in cash flow requirements and economic gain:

| | | |
|---|---|---|
| Cash flow difference | | |
| Old debt service cash flows | $ | 42,921,000 |
| Less: New debt service cash flows | | 42,280,000 |
| | $ | 641,000 |

| | | |
|---|---|---|
| Economic gain | | |
| Present value of old debt service cash flows | $ | 34,413,000 |
| Less: Present value of new debt service cash flows | | 33,940,000 |
| Less: Issuance costs | | 161,000 |
| | $ | 312,000 |

Issuance costs were as follows:

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

## (12) Pledged Revenues and Related Expenses

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

CSU and CSU-P are required to pledge certain revenues and report related expenses in accordance with the various bond resolutions. The pledged revenues and related expenses were as follows:

CSU Research Building Revolving Fund Enterprise Revenue Bonds:

Refunded with the 2007B bond issue which is pledged by the System Enterprise revenue and now encompasses RBRF.

| | | June 30 | |
|---|---|---|---|
| | | **2008** | **2007** |
| Operating revenues – pledged auxiliary revenues | $ | - | 3,747,000 |
| Operating expenses | | - | 1,155,000 |
| Pledged revenues over operating expenses | | - | 2,592,000 |
| Net nonoperating expenses | | - | (311,000) |
| Other revenues and transfers | | - | (4,126,000) |
| Net (decrease) | $ | - | (1,845,000) |

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes $2,447,000 in indirect cost recoveries for the fiscal year ended June 30, 2007, which is the amount of actual indirect cost recoveries used to support the related bond activity. The remaining amount of indirect cost recoveries required to be pledged is $36,454,000 for the fiscal year ended June 30, 2007.

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

Pledged by auxiliary revenues.

| | | June 30 | |
|---|---|---|---|
| | | **2008** | **2007** |
| Operating revenues – pledged auxiliary revenues | $ | 89,850,000 | 80,805,000 |
| Operating expenses | | 79,254,000 | 76,088,000 |
| Pledged revenues over operating expenses | | 10,596,000 | 4,717,000 |
| Net nonoperating expenses | | (6,396,000) | (985,000) |
| Other revenues and transfers | | 12,269,000 | 31,000 |
| Net increase | $ | 16,469,000 | 3,763,000 |

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

Pledged by auxiliary revenues.

| | June 30 2008 | June 30 2007 |
|---|---|---|
| Operating revenues – pledged auxiliary revenues | $ 9,181,000 | 10,098,000 |
| Operating expenses | 5,722,000 | 5,606,000 |
| Pledged revenues over operating expenses | 3,459,000 | 4,492,000 |
| Net nonoperating expenses | — | — |
| Other revenues and transfers | 3,103,000 | (699,000) |
| Net increase | $ 6,562,000 | 3,793,000 |

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

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

| | June 30 2008 | June 30 2007 |
|---|---|---|
| Operating revenues | $ 33,534,000 | N/A |
| Operating expenses | 2,404,000 | N/A |
| Pledged revenues over operating expenses | 31,130,000 | |
| Net nonoperating revenues | 4,215,000 | N/A |
| Other revenues and transfers | 67,569,000 | N/A |
| Net increase | $ 102,914,000 | |

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

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



(Continued)

## (13) Capital Lease Obligations

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

| | | Total |
|---|---|---|
| Fiscal year ending June 30: | | |
| 2009 | $ | 1,547,000 |
| 2010 | | 1,335,000 |
| 2011 | | 1,250,000 |
| 2012 | | 1,044,000 |
| 2013 | | 897,000 |
| 2014-2018 | | 2,275,000 |
| Minimum future lease payments | | 8,348,000 |
| Less amount representing interest | | 1,165,000 |
| Present value of minimum lease payments | $ | 7,183,000 |

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2008 and 2007, respectively, the System had capital lease obligations in effect with capitalized asset costs of $13,745,000 and $11,739,000; accumulated depreciation of $2,813,000 and $2,698,000; and related outstanding liabilities of $7,183,000 and $6,032,000.

## (14) Operating Leases

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

| | | Future minimum obligations for operating leases |
|---|---|---|
| Fiscal year ending June 30: | | |
| 2009 | $ | 793,000 |
| 2010 | | 525,000 |
| 2011 | | 120,000 |
| 2012 | | 109,000 |
| 2013 | | 32,000 |
| 2014-2018 | | — |
| Total | $ | 1,579,000 |

Rent expense was $1,091,000 and $1,482,000 for fiscal years 2008 and 2007, respectively.

## (15) Net Assets

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

Student loan money is expended according to external restrictions imposed by the program funding sources. The federal programs are administered according to Department of Education Blue Book guidelines. The state match money is restricted by the Colorado Commission on Higher Education policy for student loan programs. The amounts restricted are $25,980,000 and $25,439,000 and are reported as restricted net assets - expendable on the financial statements as of June 30, 2008 and 2007, respectively.

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted for use by the auxiliary operations. The amounts so restricted of $25,749,000 and $19,974,000 are reported as restricted net assets - expendable on the financial statements as of June 30, 2008 and 2007, respectively.

Colorado Revised Statute 23-31-135 requires a support fee to be annually assessed to cooperative state or accountable students in the System's professional veterinary medicine program. The statute specifies that this fee must be credited to a reserve account and used for renovation projects and for the acquisition or replacement of equipment. As of June 30, 2008 and 2007, this reserve had net assets of $1,875,000 and $1,676,000, respectively. These amounts were reported as restricted net assets - expendable on the statements of net assets.

Total restricted net assets were as follows:

| | | 2008 | 2007 |
|---|---|---|---|
| Restricted for nonexpendable purposes: | | | |
| Scholarships, research, and other | $ | 13,200,000 | 14,671,000 |
| Federal Land Grant Act Account – nonexpendable | | 6,159,000 | 5,233,000 |
| Total | | 19,359,000 | 19,904,000 |
| Restricted for expendable purposes: | | | |
| Federal Land Grant Act Income Account – expendable | | 5,448,000 | 4,779,000 |
| Student loans | | 25,980,000 | 25,439,000 |
| Sponsored programs | | 1,109,000 | 1,582,000 |
| Gifts | | 1,753,000 | 1,865,000 |
| Bond reserves | | — | 1,300,000 |
| Auxiliary pledged net assets | | 25,749,000 | 19,974,000 |
| Tuition and fee pledged assets | | 7,724,000 | — |
| Research Building Revolving Fund | | 3,401,000 | 3,718,000 |
| Equipment reserve for Vet Med | | 1,875,000 | 1,676,000 |
| Other | | 5,128,000 | 3,285,000 |
| Total | $ | 78,167,000 | 63,618,000 |

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

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held in perpetuity, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2008 and 2007, the Foundation's board has designated $21,453,000 and $25,695,000, respectively, of the unrestricted net assets to be used for board-designated endowments.

## (16) Commitments

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2008 were $76,478,000. These outstanding purchase order commitments included $45,278,000 of System capital construction commitments. Approximately $2,108,000 of the capital construction commitments were for the CSU Academic Village, $891,000 for renovation of the CSU University Center For The Arts, $778,000 for the CSU Bio Environmental Research Building, $2,362,000 for the CSU Athletics Indoor Practice Facility, $6,185,000 for the CSU Research Innovation Center, $2,608,000 for the CSU Atmospheric Science Facility, $6,335,000 for the CSU Diagnostic Medical Center, $2,475,000 for the CSU Computer Science Building, $1,506,000 for the CSU Linear Accelerator, $5,499,000 for the CSU Academic Instruction Building, and $3,332,000 for the CSU-P Recreation Center. The remaining capital construction commitments are for other small projects at CSU and CSU-P. Of the remaining non-capital purchase order commitments in the amount of $31,200,000, $21,455,000 were related to CSU-sponsored contracts and grants. In addition to these purchase order commitments, the System had contracted obligations of $26,521,000 at June 30, 2008 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such obligation is considered highly probable. In both cases, settlement of the obligation involves payments to third parties, generally within three years.

Outstanding commitments at June 30, 2008 were:

| | | |
|---|---|---|
| Purchase order commitments | $ | 76,478,000 |
| Shared cost obligations on long-term revenue contracts | | 9,806,000 |
| Obligations under accepted employment offers | | 16,715,000 |
| Total | $ | 102,999,000 |

## (17) Employment Benefits

In 2008, the System adopted GASB 50, *Pension Disclosures—an Amendment of GASB Statements No. 25 and No. 27*. GASB 50, among other things, provides standards for the required note disclosures for defined benefit pension plans. Adoption of GASB 50 had no effect on the System's beginning net assets as of July 1, 2007 or on its increase in net assets for the year ended June 30, 2008.

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

The System's total payroll for the fiscal years ended June 30, 2008 and 2007 was $444,901,000 and $414,105,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was $155,183,000, $225,825,000, and $6,739,000 respectively, for the fiscal year ended June 30, 2008 and $148,102,000, $203,754,000, and $6,667,000 respectively, for the fiscal year ended June 30, 2007. The remaining employees were not eligible for participation in any of the System's plans.

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

#### Plan Description

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

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

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

**Funding Policy**

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

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

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

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

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

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

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

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

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

Under the optional defined contribution plan, eligible faculty, administrative professionals, post doctoral fellows and veterinary interns of the System enrolled in the defined contribution plan as an alternative to PERA. Three vendor choices are offered at CSU through the defined contribution plan: Teachers Insurance and Annuity Association (TIAA), Variable Annuity Insurance Corporation (VALIC), and Fidelity Investments/MetLife. Eligible faculty and staff at CSU-P do not have the Fidelity Investments/MetLife option available. The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S). The CSU plan was adopted by the Board in December 1992 and the CSU-P plan was adopted in April 1993. The defined contribution retirement plan is a qualified plan under Section 401(a) of the IRC. CSU and CSU-P are the administrators of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all "permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSU-P provides a matching contribution of 11.1%, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized vendors. The System's aggregate contribution to the above three vendors was equal to 8.7% of covered payroll or $19,678,000 for the fiscal year ended June 30, 2008 and 8.7% of covered payroll or $17,649,000 for the fiscal year ended June 30, 2007. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or $18,066,000 for the fiscal year ended June 30, 2008 and 8.0% of covered payroll or $16,300,000 for the fiscal year ended June 30, 2007.

A Federal retirement program covers some employees employed by the CSU Extension. The System's contribution to this plan for the fiscal years ended June 30, 2008 and 2007 was $239,000 and $217,000, respectively.

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

Eligible student employees contribute 7.5% of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 C.R.S.) as a mandatory nonqualified plan under 403(b) of the IRC in lieu of mandatory old age, survivors, and disability insurance (OASDI) coverage. The plan administrator is the "Committee". This Committee is comprised of thirteen individuals representing participating state institutions of higher education and one representative appointed by the Colorado student association. All contributions are vested immediately and are participant-directed within the funds available through the one vendor for the SERP, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2008 and 2007 was $505,000 and $500,000, respectively. The System is not liable for any matching contributions to the student employee retirement program.

### *(e) Health Insurance Programs*

The System's contribution to the various health insurance programs was $10,500,000 and $8,646,000 for the fiscal years ended June 30, 2008 and 2007, respectively.

## (18) Risk Financing and Insurance-Related Activities

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

In addition to the above, CSU is self-insured for various other risks of loss. At CSU, separate accounts currently make up the self-insured program: healthcare, dental, long-term disability, short-term disability, and an unallocated reserve fund. CSU contracts 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 healthcare coverage, which is reinsured for plan expenses above $200,000 in claims per covered employee per year. The Unallocated Reserve Account is a general contingency fund for miscellaneous and unanticipated expenses of the other health-related accounts. CSU also provides post-retirement healthcare premium subsidies to faculty and administrative professional retirees. The post-retirement healthcare premium subsidies and the Umbrella prescription plan are funded by CSU contributions.

The amount of claims and administrative costs for the self-funded plans for FY08 and FY07 did not exceed plan revenues and reserves.

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

The above health-related programs, had estimated claim liabilities of $11,907,000 and $8,561,000 at June 30, 2008 and 2007, respectively, which includes incurred but not reported claims (IBNR) along with known claims at year-end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines.

In addition to these claims, workers' compensation had estimated claim liabilities of $4,564,000 at June 30, 2008 and 2007. Liability self-insurance had estimated claim liabilities of $1,327,000 and $828,000, at June 30, 2008 and 2007, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2008 and 2007. These estimates are based on current data and actuarial reports. The estimate for workers' compensation has not changed since receipt of the actuarial report was delayed due to contract negotiations.

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

| | | 2008 | 2007 |
|---|---|---|---|
| Claim liabilities, beginning of year | $ | 13,953,000 | 11,742,000 |
| Incurred claims (including IBNR) | | 29,104,000 | 22,664,000 |
| Claim payments | | (25,259,000) | (20,453,000) |
| Claim liabilities, end of year | $ | 17,798,000 | 13,953,000 |

## (19) Postemployment Healthcare and Life Insurance Benefits

### (a) *PERA Post Employment Healthcare Plan*

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting http://www.copera.org.

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

The Health Care Trust Fund was maintained by an employer's contribution of 1.02% of covered salary. The System paid $1,452,130 into this fund during fiscal year 2008 and $1,511,000 during fiscal year 2007. In each year the amount contributed was 100 percent of the required contribution. Monthly premium costs for participants depend on the healthcare plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2007, there were 44,214 enrollees in the plan. At December 31, 2007, the plan had an unfunded actuarial liability of $1.045 billion, a funded ratio of 19.9 percent, and a 38-year amortization period.

### (b) *Other Post Retirement Benefits (OPEB) – CSU*

**Change in Accounting Principle**

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

**Plan Descriptions**
CSU contributes to three single-employer defined benefit healthcare plans: CSU Retiree Medical Premium Refund Plan (DCP Subsidy), Retiree Medical Premium Subsidy for PERA Participants (PERA Subsidy), and the Umbrella Rx (Rx Subsidy). Each plan provides medical benefits to eligible retired CSU faculty and nonclassified employees with the Rx Plan extending benefit coverage to spouses and dependents that elect to participate. Benefit provisions for each of the plans are established and amended through the Board of Governors of the Colorado State University System. CSU does not issue separate financial reports for the plans.

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

The DCP Subsidy is a revocable trust whereby the plan funds are restricted to expenditures necessary and appropriate to fulfilling the purpose of the plan. On an annual basis, CSU provides funding equal to 1% of covered participant's payroll. To the extent the funds are not utilized in covering benefits, they are maintained in the revocable trust. The funds available to cover the plan benefits were $21,786,301 and $19,275,000 for the years ended June 30, 2008 and 2007, respectively. Contributions into the program totaled $1,997,936 and $1,799,000 for the years ended June 30, 2008 and 2007, respectively. Total amounts paid by CSU to retirees for this healthcare subsidy were $485,555 and $439,000 for 2008 and 2007, respectively. As of June 30, 2008 and 2007, 237 and 206 former employees, respectively, were qualified to receive such benefits.



(Continued)

**PERA Subsidy** – University faculty and nonclassified staff participating in the PERA retirement plan who retire from the University with at least ten years of University service, are eligible to receive a subsidy. The amount of the subsidy for eligible retirees is their out-of-pocket expenses for retiree only coverage or an amount equal to the premium for single coverage under the lowest cost plan available to active faculty and nonclassified staff, whichever is less. The plan is administered by the Colorado Public Employees' Retirement Association (PERA) which bills CSU on a monthly basis for the applicable premiums. In conjunction with the implementation of GASB 45, funds equal to the OPEB obligation at June 30, 2008 have been set aside in an internal service fund the amount of $2,676,533 to cover future plan benefits. Prior to 2008, this plan was funded on a pay-as-you-go basis. The average number of beneficiaries of this subsidy was 480 and 474 for fiscal years 2008 and 2007, respectively. The benefit paid by the University was $1,091,552 and $1,000,000, for fiscal years 2008 and 2007, respectively.

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

With the implementation of GASB 45, CSU set aside funds in an internal service fund equal to the OPEB obligation of $130,000 at June 30, 2008. These funds added to those previously set aside have resulted in total funds available at June 30, 2008 of $203,600 with $74,890 being available at June 30, 2007 for this plan. Prior to 2008, the University funded the Rx Subsidy plan at the rate of $44.00 per month per retiree enrolled in the plan. Since the program is self-funded and the costs do not usually equal this amount, a small balance was retained in the account each year to cover unexpected overages. Funds provided to the program were $264,000 and $154,000 for the years ended June 30, 2008 and 2007, respectively. Plan members were reimbursed $134,000 and $143,000 for the years ended June 30, 2008 and 2007, respectively.



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### Funding Policy, Status, Progress, and Annual OPEB Cost

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

| | DCP Subsidy | PERA Subsidy | Rx Subsidy |
|---|---|---|---|
| Actuarial accrued liability (a) | $ 22,080,000 | 54,012,000 | 4,267,000 |
| Actuarial value of plan assets (b) | - | - | - |
| Unfunded actuarial accrued liability (a) - (b) | $ 22,080,000 | 54,012,000 | 4,267,000 |
| Funded Ratio (a)/(b) | 0% | 0% | 0% |
| Covered payroll (c) | $ 199,794,000 | N/A | N/A |
| Unfunded actuarial accrued liability as a percentage of covered payroll [(a) - (b)]/(c) | 11.1% | N/A | N/A |
| Contribution rates: | | | |
| CSU | Pay-as-you-go | Pay-as-you-go | Pay-as-you-go |
| Participants | N/A | N/A | $0-$99 depending upon eligibility status |
| Annual required contribution (OPEB Cost) | $ 1,998,000 | 3,768,000 | 264,000 |
| Contributions Made | (486,000) | (1,092,000) | (134,000) |
| Increase in Net OPEB obligation and net OPEB obligation - end of year | $ 1,512,000 | 2,676,000 | 130,000 |
| Percentage of OPEB Cost Contributed | 24.3% | 29.0% | 50.8% |
| Assets held within internal service funds - revocable trusts for future plan benefits | $ 21,786,301 | 2,676,533 | 203,600 |

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

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

| | DCP Subsidy | PERA Subsidy | Rx Subsidy |
|---|---|---|---|
| Valuation Date | 1/1/2007 | 1/1/2007 | 1/1/2008 |
| Actuarial Cost Method | Entry Age Normal | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Pay | Level Dollar | Level Dollar |
| Remaining Amortization Period | 30 Years, open | 30 Years, closed | 30 Years, closed |
| Asset Valuation Method | Unfunded | Unfunded | Unfunded |
| Actuarial Assumptions | | | |
| Investment Rate of Return | 4.00% | 4.00% | 4.00% |
| Inflation Rate | 3.00% | 3.00% | 3.00% |
| Salary Increase Rate | 4.00% | 4.00% | 4.00% |
| Healthcare Cost Trend Rate | 9% initial, 5% ultimate | 9% initial, 5% ultimate | N/A |

***(c) Other Postemployment Benefits (OPEB)***

CSU-P – Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare. The retiree is responsible for paying 100% of the health insurance cost. As of June 30, 2008, there were 34 participants in the plan, of which 3 were CSU-P retirees.

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

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

### *(d) Life Insurance Program*

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

## (20) Compensated Absence Liability

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2008 and 2007 was $37,785,000 and $34,249,000, respectively.

Overall, expenses increased for the fiscal years ended June 30, 2008 and 2007 by $3,536,000 and $2,714,000, respectively, for the estimated compensated absence liabilities.

## (21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2008 and 2007, CSU participated in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While CSU helps students obtain these loans, the university is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amounts of Direct Loans disbursed during the fiscal years ended June 30, 2008 and 2007 were $95,863,000 and $88,592,000, respectively.

## (22) Scholarship Allowance

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

| | | 2008 | |
|---|---|---|---|
| | Tuition and fees | Auxiliary revenues | Total |
| Gross revenue | $ 289,027,000 | 118,781,000 | 407,808,000 |
| Scholarship allowances: | | | |
| Federal | 15,486,000 | 775,000 | 16,261,000 |
| State | 8,593,000 | 675,000 | 9,268,000 |
| Private | 215,000 | 97,000 | 312,000 |
| Institutional | 30,353,000 | 1,361,000 | 31,714,000 |
| Total allowances | 54,647,000 | 2,908,000 | 57,555,000 |
| Net revenue | $ 234,380,000 | 115,873,000 | 350,253,000 |

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2007 were as follows:

| | | 2007 | |
|---|---|---|---|
| | Tuition and fees | Auxiliary revenues | Total |
| Gross revenue | $ 257,603,000 | 109,597,000 | 367,200,000 |
| Scholarship allowances: | | | |
| Federal | 13,461,000 | 638,000 | 14,099,000 |
| State | 7,017,000 | 285,000 | 7,302,000 |
| Private | 191,000 | 26,000 | 217,000 |
| Institutional | 25,924,000 | 1,209,000 | 27,133,000 |
| Total allowances | 46,593,000 | 2,158,000 | 48,751,000 |
| Net revenue | $ 211,010,000 | 107,439,000 | 318,449,000 |

## (23) System Foundations and Endowments

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

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

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

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

The major sources of CSURF revenues are royalties, rents, management fees, licensing fees, and administration fees. The support provided by CSURF to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing through mortgage debt service, and land acquisition, development, and management. During the years ended June 30, 2008 and 2007, royalty revenues equaled $820,000 and $2,102,000, respectively, and expenses were $558,000 and $1,090,000, respectively.

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

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

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

At June 30, 2007, CSURF debt to provide buildings for use by the universities was $3,763,000.

At June 30, 2007, the assets of CSURF consisted of:

| | | |
|---|---|---|
| Cash and current assets | $ | 2,004,000 |
| Property and equipment | | 7,566,000 |
| Other assets | | 7,942,000 |
| Total assets | $ | 17,512,000 |

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



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

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

CSU-P Foundation recorded $2,462,000 and $1,568,000 in transfers of gifts and other assets to CSU-P during fiscal year 2008 and 2007, respectively. During the same periods, CSU-P provided $36,000 and $114,000, respectively, in in-kind support to CSU-P Foundation for 2008 and 2007. Further, CSU-P did not incur any expenses on behalf of CSU-P Foundation during the fiscal years ended June 30, 2008 and 2007.

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

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

At June 30, 2007, the assets of CSU-P Foundation consisted of:

| | | |
|---|---|---|
| Cash | $ | 1,202,000 |
| Investments | | 17,730,000 |
| Property and equipment, net | | 37,000 |
| Other assets | | 4,957,000 |
| Total assets | $ | 23,926,000 |

CSU-P Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSU-P Foundation had $336,000 and $535,000 in outstanding liabilities as of June 30, 2008 and 2007, respectively.

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



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

CSU-P manages two board-designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20% of earnings each year to build the corpus of the fund and transfer 80% of the annual earnings to CSU-P as designated by the Board. The first board-designated fund was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the university campus provides resources that support the academic mission of CSU-P. To date, CSU-P has sold 16 parcels of land with the proceeds from the sales being placed in a board-designated fund.

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

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

The Walking Stick Fund assets at June 30, 2007 consisted of:

| | | |
|---|---|---|
| Cash | $ | 1,330,000 |
| Land | | 103,000 |
| Total assets | $ | 1,433,000 |

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

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

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

The KTSC Fund assets at June 30, 2007 consisted of:

| | | |
|---|---|---|
| Cash | $ | 2,547,000 |
| Due from other funds | | 148,000 |
| Total assets | $ | 2,695,000 |

## (24) State Support

In fiscal year 2006 state support for higher education changed with the implementation of the College Opportunity Fund. As a result of this legislation, which was adopted in S.B. 04-189 passed in the 2004 state legislative session, the state no longer provides a direct state general fund appropriation to the System. Instead, state support is provided to the System in the form of fee for service contracts with the state for the delivery of special programs, graduate programs, and high cost/high demand programs. In fiscal years 2008 and 2007 the System received $82,669,000 and $74,182,000, respectively, in state fee for service contract revenue.

State support was also provided to the System in the form of student tuition stipends provided to students by the state College Opportunity Fund. In fiscal years 2008 and 2007 stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo in the amount of $51,121,000 and $49,182,000 respectively.

## (25) Contingencies

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

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

## (26) Subsequent Event

On November 6, 2008, the State Treasurer entered a lease purchase agreement under which a Trustee issued $230,845,000 of State of Colorado Higher Education Capital Construction Lease Purchase Financing Program Certificates of Participation, Series 2008. The Certificates were issued at a net premium of $180,940 and were a combination of serial and term maturities with the final maturity in November 2027. The Certificates carried coupon rates ranging from 3.00 percent to 5.50 percent with a total interest cost of 5.38 percent. The Certificates proceeds will be used to fund renovations, additions, and new construction at twelve state Institutions of Higher Education and were collateralized with existing properties at eleven of the twelve institutions. Legislation enacted in the 2008 session of the General Assembly authorized the lease purchase and limited the lease payments to average $16.2 million for the first ten years and $16.8 million for the second ten years. The legislation envisions annual appropriations of Federal Mineral Lease Program (FML) revenues to fund the semi-annual lease payments required. Total lease payments anticipated from the FML source are $325.5 million, and three institutions will make $42.8 million of lease payments over the life of the Certificates to fund the portion of their required project match that they elected to finance through the Certificates.



(Continued)

CSU's Clark Building Revitalization Project will have its full cost of $2,000,000 contributed to it from the lease purchase agreement. The Howes Street Business Center is pledged as collateral. CSU-P's Academic Resource Center Building Project will have a state share of $22,005,202 contributed to it from the lease purchase agreement. The institution COP financed match for CSU-P is $2,797,436. The Chemistry Building and Life Science Building are pledged as collateral.