



COLORADO STATE UNIVERSITY SYSTEM

Financial Statements

Years ended June 30, 2006 and 2005

COLORADO STATE UNIVERSITY SYSTEM

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KPMG LLP
Suite 2700
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Denver, CO 80202

Independent Auditors' Report

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the Colorado State University System (the System), a component unit of the State of Colorado, as of and for the years ended June 30, 2006 and 2005, 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 audits. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the reports of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based upon our audits and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of June 30, 2006 and 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2-10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 13, 2006

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

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, 2006 and 2005. 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, 2006 by approximately \$590.8 million (net assets). Of this amount \$74.4 million was restricted for purposes which the donor or grantor or other external party intended. \$129.5 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 \$15.8 million during fiscal year 2006. \$10.4 million of this increase consisted of an increase in capital assets, net of related debt.
- In fiscal year 2006 the College Opportunity Fund legislation was implemented and the state provided support directly to students in the form of student tuition stipends paid by the state College Opportunity Fund (\$45.4 million). In addition, the System received payment from the state for the delivery of graduate, high cost/demand programs and special programs (\$68.2 million). This level of funding is consistent with the prior year level of funding.
- Fiscal year 2006 state capital contributions for the System decreased \$.9 million over prior year levels.

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 for compensated absences, or the receipt of amounts due from students and others for services rendered).

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

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

COLORADO STATE UNIVERSITY SYSTEM
Management's Discussion and Analysis (unaudited)
June 30, 2006 and 2005

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

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, 2006 and 2005 of \$590.8 million and \$575.0 million, respectively. The majority (65% and 65%, respectively) of the System's net assets are invested in capital assets (e.g., land, buildings, and equipment), net of related debt. These assets are used to provide services to students, faculty, and administration. Consequently, these assets are not available to fund future spending.

Summary of Net Assets
(amounts expressed in thousands)

	June 30		
	2006	2005	2004
Current assets	\$ 283,649	269,665	270,274
Noncurrent assets, including capital assets (net), of \$470,994, \$455,325, and \$433,951, respectively	596,591	583,479	503,755
Total assets	<u>880,240</u>	<u>853,144</u>	<u>774,029</u>
Current liabilities	108,652	96,488	100,123
Noncurrent liabilities	180,755	181,627	123,874
Total liabilities	<u>289,407</u>	<u>278,115</u>	<u>223,997</u>
Net assets:			
Invested in capital assets, net of related debt	386,933	376,580	359,520
Restricted	74,378	76,769	75,312
Unrestricted	129,522	121,680	115,200
Total net assets	<u>\$ 590,833</u>	<u>575,029</u>	<u>550,032</u>

- The \$27.1 million increase in System assets from fiscal year 2005 to fiscal year 2006 is primarily attributable to a \$14.0 million increase in current assets, which is due to a \$7.9 million increase in cash and a \$5.7 million increase in other accounts receivable, in conjunction with a \$13.1 million increase in noncurrent assets. The increases in noncurrent assets, including a \$2.1 million increase in equipment and a \$8.4 million increase in System buildings and improvements, are due to capital projects being completed and capitalized during fiscal year 2006. The CSU University Center for the Arts Concert Hall, CSU Hughes Stadium improvements, and CSU heating plant improvements were all capitalized during fiscal year 2006. Construction in progress for the System also increased \$7.8 million as projects were completed and capitalized during the fiscal year and new and ongoing projects incurred construction projects costs.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

The \$79.1 million increase in assets from fiscal year 2004 to fiscal year 2005 is attributable to a \$79.7 million increase in noncurrent assets. The increase in noncurrent assets is primarily attributable to an increase in cash and cash equivalents from two Colorado State University (CSU) bond financings issued during the year. In addition, buildings and improvements increased by \$25.3 million due to capital projects being completed and being capitalized during fiscal year 2005. The CSU Summit Residence Hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005. Construction in progress for the System decreased \$3.5 million as projects were completed and capitalized during the fiscal year. This decrease was offset by costs associated with new and ongoing construction projects.

- The \$11.3 million fiscal year 2006 increase in the liabilities of the System is primarily attributable to a \$7 million accrual for emergency firefighting activities of the Colorado State Forest Service. The \$54.1 million fiscal year 2005 increase in the liabilities of the System is primarily attributable to the two CSU bond financings with a par value totaling \$55.3 million that occurred during fiscal year 2005.

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

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

Summary of Revenues, Expenses, and Changes in Net Assets

(Amounts expressed in thousands)

	June 30		
	2006	2005	2004
Operating revenues:			
Tuition and fees, net	\$ 203,967	143,637	143,951
Grants and contracts	251,941	237,444	239,008
State fee for service revenue	68,214	—	—
Auxiliary enterprises	100,033	96,043	100,669
Other	23,046	21,792	20,296
Total operating revenues	647,201	498,916	503,924
Operating expenses:			
Instruction	173,671	159,163	164,832
Research	151,756	143,648	136,181
Public service	70,490	64,255	71,010
Academic support	41,315	39,383	36,726
Student services	25,500	24,884	23,805
Institutional support	25,647	22,521	20,995
Operation and maintenance of plant	47,209	38,634	42,190
Scholarships and fellowships	8,155	9,169	9,201
Auxiliary enterprises	92,512	89,067	98,126
Depreciation	36,690	36,402	35,429
Other operating expenses	79	312	228
Total operating expenses	673,024	627,438	638,723
Operating loss	(25,823)	(128,522)	(134,799)
Nonoperating revenues:			
State appropriations	—	109,424	109,184
Other net nonoperating revenues	25,738	22,382	18,422
Net nonoperating revenues	25,738	131,806	127,606
Income (loss) before other revenues, expenses, gains or losses	(85)	3,284	(7,193)
State capital contributions	1,387	2,285	486
Capital grants	5,744	2,005	2,131
Capital gifts	7,971	17,215	8,566
Payments (to)/from governing boards or other institutions	82	(131)	(420)
Additions to permanent endowments	705	339	944
Increase in net assets	15,804	24,997	4,514
Net assets, beginning of year	575,029	550,032	545,518
Net assets, end of year	\$ 590,833	575,029	550,032

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

Prior to fiscal year 2006, it was the nature of public higher education institutions to report a loss from operations because the loss was reported before the state appropriation was taken into consideration. Legislative changes in the structure and delivery of state funding to higher education institutions eliminated state general fund appropriations that were previously reported as nonoperating revenues. In fiscal year 2006, the System received operating revenue earned from fee for service contracts with the state for delivery of graduate, high cost/demand, and special programs. The System also received operating revenue from tuition which was partially funded from student tuition stipends provided to the students by the state College Opportunity Fund. These changes resulted in a significant increase in operating revenue and a decline in the operating loss. In addition, since state appropriations were not received in fiscal year 2006, nonoperating revenue reported for the system also declined as described below.

The System experienced a \$25.8 million loss from operations in fiscal year 2006 and a \$128.5 million loss from operations in fiscal year 2005. In fiscal year 2006, this operating loss was offset by net nonoperating and other revenues of \$41.6 million, including \$29.4 million of gifts and capital gifts, \$5.5 million of investment income, and \$5.7 million of capital grants. In fiscal year 2005, this operating loss was offset by state appropriations of \$109.4 million and other nonoperating net revenues of \$44.1 million, including \$35.8 million of gifts and capital gifts and \$4.6 million of investment income.

- Fiscal year 2006 System operating revenues increased \$148.3 million in relation to prior year levels. This is primarily attributable to a \$60.3 million increase in tuition and fee revenue in conjunction with a \$68.2 million increase in state fee for service contract revenue and a \$14.5 million increase in grants and contracts revenue. In fiscal year 2005 System operating revenues decreased \$5.0 million in relation to prior year levels.
- Fiscal year 2006 System operating expenses increased \$45.6 million in relation to prior year levels. This increase is in part attributable to a \$14.5 million increase in instruction expense due primarily to salary increases, an \$8.1 million increase in research expense attributable to increased levels of sponsored research activity, and a \$6.3 million public service expense increase which is primarily due to increased emergency firefighting activity by the Colorado State Forest Service. In addition, expenses for the operation and maintenance of plant increased \$8.6 million in fiscal year 2006 partly because of a \$4.2 million increase in utility costs. Institutional Support expenditures also increased \$3.1 million primarily because of salary increases and a \$1.9 million expense increase in CSU University relations, development, and marketing activities. Fiscal year 2005 System operating expenses decreased \$11.3 million in relation to prior year levels. Most of this decrease is attributable to a \$5.7 million reduction in Instruction expense which occurred because of a CSU one-time non-base Faculty merit increase that occurred in fiscal year 2004 but not in fiscal year 2005.
- Fiscal year 2006 System net nonoperating revenues decreased \$106.1 million primarily because the funding mechanism for higher education changed during the fiscal year and the System no longer received a nonoperating appropriation from the state. This elimination of state appropriations accounted for a \$109.4 million decrease to other net nonoperating revenues. Capital gift revenue also decreased \$9.2 million in relation to prior year levels. Fiscal year 2005 System net nonoperating revenues increased \$4.2 million which is attributable to a variety of factors including a \$2.8 million increase in gift revenue, a \$4.4 million increase in investment income in conjunction with a \$3.7 million decrease in other nonoperating revenues. This decrease in other operating revenues is primarily attributable to a \$2.9 million decline in insurance recoveries in fiscal year 2005 in comparison to fiscal year 2004.

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

- Other revenues decreased \$5.8 million in fiscal year 2006. This decrease was primarily due to a \$9.2 million decrease in capital gifts coupled with a \$3.7 million increase in capital grants. The decrease in capital gifts is attributable to the fact that CSU recognized capital gifts in fiscal year 2005 that were received for CSU Athletics capital construction projects and comparable amounts were not received for these projects in fiscal year 2006. The increase in capital grants is due to increased activity on the CSU Regional Bio-Containment Laboratory and the CSU Bio-Environmental Hazards Research Building capital construction projects in fiscal year 2006. The fiscal year 2005 increase in other revenues of \$10.0 million is primarily attributable to an \$8.6 million increase in capital gifts from the prior year. This capital gift increase is primarily attributable to the recognition of capital gifts utilized for CSU Athletics facilities projects.

Capital Assets and Debt Administration

At June 30, 2006, the System had approximately \$471.0 million invested in capital assets, net of accumulated depreciation of \$432.4 million. At June 30, 2005, the System had approximately \$455.3 million invested in capital assets, net of accumulated depreciation of \$404.3 million.

Depreciation charges were approximately \$36.7 million and \$36.4 million for the years ended June 30, 2006 and 2005, respectively.

During the fiscal year ended June 30, 2006, the System received \$1.4 million of state capital contributions for capital construction projects. During the fiscal year ended June 30, 2005, the System received no state contributions for new capital construction projects. \$2.3 million of state capital contributions related to 2004 appropriations were utilized in 2005 to complete ongoing capital projects, which primarily consisted of the CSU Pueblo Energy Performance Project.

For the fiscal year ending June 30, 2007, the System will receive state capital appropriation funding for \$16.7 million of capital construction projects including \$7.1 million for the Health, Physical Education and Recreation Building Renovation and Life Safety Phase II Upgrade at CSU Pueblo, \$3.5 million for the CSU Vet Diagnostic Medicine Center, and \$3.2 million for CSU upgrades to the Vet Teaching Hospital mechanical and fire suppression systems. The remainder of the funding is for controlled maintenance projects. \$0.4 million of these controlled maintenance projects pertain to a structural analysis project at CSU Pueblo and the remainder of the projects pertain to CSU.

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Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

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		
	2006	2005	2004
Land	\$ 9,670	9,671	9,050
Land improvements	28,975	30,195	31,244
Building and improvements	322,972	314,589	289,281
Leasehold improvements	414	461	169
Equipment	47,613	45,509	43,910
Collections	2,317	2,205	2,159
Library materials	27,947	29,451	31,331
Construction in progress	31,086	23,244	26,807
Total capital assets, net	\$ 470,994	455,325	433,951

The fiscal year 2006 \$15.7 million increase in net capital assets is primarily attributable to an \$8.4 million net increase to buildings and improvements, a \$7.8 million net increase to construction in progress, and a \$2.1 million net increase to equipment. The CSU University Center for the Arts Concert Hall, CSU Hughes Stadium improvements, and CSU heating plant improvements were all capitalized during fiscal year 2006.

The fiscal year 2005 \$21.4 million increase in net capital assets is primarily attributable to buildings and improvements capitalized during fiscal year 2005. The CSU Summit Resident Hall and capital assets relating to the CSU Pueblo Energy Performance Project were capitalized during fiscal year 2005.

The System had capital construction commitments outstanding of approximately \$20.0 million at June 30, 2006. Approximately \$1.6 million of this amount was for the new CSU Academic Village, \$.7 million for the expansion of the CSU Bioenvironmental Research Building, \$12.0 million for the CSU Regional Biocontainment Laboratory and \$2.4 million for the CSU Pueblo Health, Physical Education and Recreation building project. The remaining commitments were for various small construction projects at CSU and CSU Pueblo.

The System had approximately \$125.3 million and \$131.5 million of debt outstanding at June 30, 2006 and 2005, respectively.

Summary of Debt
(amounts expressed in thousands)

	June 30		
	2006	2005	2004
Debt outstanding:			
Revenue bonds, certificates of participation	\$ 118,071	123,211	71,487
Capital lease obligations	7,232	8,313	5,146
	\$ 125,303	131,524	76,633

COLORADO STATE UNIVERSITY SYSTEM

Management's Discussion and Analysis (unaudited)

June 30, 2006 and 2005

The System had no new bond financings during fiscal year 2006. The System completed two bond financings during fiscal year 2005.

In 2005, the CSU Research Building Revolving Fund Enterprise Bonds, Series 2005A were issued in the total par amount of approximately \$10.1 million. Proceeds of the bonds were used to finance construction of three separate research facilities on the University's Foothills Campus. The bonds mature in December 2020 and carry yields ranging from 3.25% to 5.00%.

The CSU Enterprise System Revenue Bonds, Series 2005B were issued in 2005 in the total par amount of \$45.2 million. Proceeds from this issue are being used to finance the construction, acquisition, and equipping of student housing and dining facilities and renovation of certain related parking surfaces as part of the University's New Academic Village project. The bonds mature in March 2035 and carry yields ranging from 3.50% to 5.00%.

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 2006) from these entities estimate that the State General Fund revenue is projected to increase in fiscal year 2007 between 4.0% and 6.0%. For fiscal year 2008, 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 the 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 2007, the Board of Governors of the Colorado State University System will recommend a single enterprise status designation for Colorado State University - Ft. Collins and Colorado State University – Pueblo for fiscal year 2007 and future years based on the provisions of S.B. 04-189. The Legislative Audit Committee has yet to review or approve this recommendation. 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.

With this new financing arrangement, the Colorado State University System is authorized to receive \$73.7 million in a fee for service contract revenue and \$49.5 million in student stipends in fiscal year 2007. The \$123.2 million of anticipated fiscal year 2007 fee for service contract revenue and the student stipends represents an 8.45 percent increase in state support above that provided in 2006.

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The state implemented the Taxpayer Bill of Rights in fiscal year 1994. The state's voters modified TABOR at the November 2005 election. The modification allowed the state to retain all collected revenues for the next five years, and reset the state's TABOR base from that point forward.

Overall enrollment at both System institutions declined 1.0 percent as measured in the fall 2006 census. This decline appears to be consistent with information received from other Colorado institutions, though final statewide enrollment data will not be available until later in the year. Based on early enrollment indicators from the Department of Higher Education, there has been slight enrollment increases at some institutions and it is anticipated that enrollment will rebound in calendar year 2007. Overall, the projected enrollment increase for the CSU system in the next three years should be in the three to five percent 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

Statements of Net Assets

June 30, 2006 and 2005

(Amounts expressed in thousands)

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 216,602	208,714
Student accounts receivable, net	7,083	6,413
Other accounts receivable, net	48,634	42,913
Student loans receivable, net	3,584	4,021
Inventories	6,580	6,641
Prepaid expenses	1,166	963
Total current assets	283,649	269,665
Noncurrent assets:		
Restricted cash and cash equivalents	87,486	91,650
Restricted investments	17,485	16,538
Student loans receivable, net	20,017	19,354
Other noncurrent assets	609	612
Nondepreciable capital assets:		
Land	9,670	9,671
Construction in progress	31,086	23,244
Collections	2,317	2,205
Total nondepreciable capital assets	43,073	35,120
Depreciable capital assets, net:		
Land improvements	28,975	30,195
Buildings and improvements	322,972	314,589
Leasehold improvements	414	461
Equipment	47,613	45,509
Library materials	27,947	29,451
Total depreciable capital assets (net of accumulated depreciation)	427,921	420,205
Total noncurrent assets	596,591	583,479
Total assets	\$ 880,240	853,144

COLORADO STATE UNIVERSITY SYSTEM

Statements of Net Assets

June 30, 2006 and 2005

(Amounts expressed in thousands)

Liabilities	2006	2005
Current liabilities:		
Accounts payable	\$ 20,754	21,825
Accrued liabilities	53,306	43,341
Deferred revenue	18,898	17,081
Deposits held for others	3,453	3,412
Bonds payable and certificates of participation, current portion	5,765	5,182
Capital leases payable, current portion	1,288	1,163
Other long-term liabilities, current portion	3,055	2,417
Compensated absence liabilities, current portion	2,133	2,067
Total current liabilities	108,652	96,488
Noncurrent liabilities:		
Bonds payable and certificates of participation	112,306	118,029
Capital leases payable	5,944	7,150
Deposits held for others	25,506	23,383
Other long-term liabilities	7,597	6,471
Compensated absence liabilities	29,402	26,594
Total noncurrent liabilities	180,755	181,627
Total liabilities	\$ 289,407	278,115
Net Assets		
Net assets:		
Invested in capital assets, net of related debt	\$ 386,933	376,580
Restricted for nonexpendable purposes	17,882	16,678
Restricted for expendable purposes	56,496	60,091
Unrestricted	129,522	121,680
Total net assets	\$ 590,833	575,029

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION
(Discretely presented component unit)

Statements of Financial Position – Discretely Presented Component Unit

June 30, 2006 and 2005

(Amounts expressed in thousands)

Assets	2006			2005			
	Unrestricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 42	305	185	15	255	20	290
Investments	22,340	96,667	81,284	19,351	86,412	75,603	181,366
Receivables:							
Pledges, net of allowance	—	23,111	5,193	—	6,802	6,016	12,818
Life income trusts	—	—	182	—	—	176	176
Investment in equity affiliate	—	(240)	2,208	—	(111)	2,149	2,038
Property and equipment, net of accumulated depreciation	20	250	—	26	250	—	276
Cash surrender value of life insurance policies	62	—	111	60	—	102	162
Prepays and other assets	14	136	280	27	147	299	473
Total assets	\$ 22,478	120,229	89,443	19,479	93,755	84,365	197,599
Liabilities and Net Assets							
Accounts payable (primarily to CSU)	\$ 3	663	—	7	354	—	361
Other accrued liabilities	49	—	—	79	—	—	79
Life income agreements	600	119	302	612	133	309	1,054
Deposit held in custody for CSU	—	3,644	9,371	—	3,702	8,819	12,521
Total liabilities	652	4,426	9,673	698	4,189	9,128	14,015
Net assets:							
Unrestricted:							
Undesignated	3,146	—	—	2,348	—	—	2,348
Board designated	18,680	—	—	16,433	—	—	16,433
Total unrestricted	21,826	—	—	18,781	—	—	18,781
Temporarily restricted	—	115,803	—	—	89,566	—	89,566
Permanently restricted	—	—	79,770	—	—	75,237	75,237
Total net assets	21,826	115,803	79,770	18,781	89,566	75,237	183,584
Total liabilities and net assets	\$ 22,478	120,229	89,443	19,479	93,755	84,365	197,599

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Student tuition and fees (including \$12,057 and \$11,404 of revenues pledged for bonds in 2006 and 2005, respectively, and net of scholarship allowances of \$43,266 and \$35,144 for 2006 and 2005, respectively)	\$ 203,967	143,637
State fee for service revenue	68,214	—
Grants and contracts (including \$35,299 and \$34,242 of revenues pledged for bonds in 2006 and 2005, respectively)	251,941	237,444
Sales and services of educational activities	18,022	16,906
Auxiliary enterprises (including \$77,202 and \$75,258 of revenues pledged for bonds in 2006 and 2005, respectively, and net of scholarship allowances of \$2,744 and \$4,049 for 2006 and 2005, respectively)	100,033	96,043
Other operating revenue	5,024	4,886
Total operating revenues	<u>647,201</u>	<u>498,916</u>
Operating expenses:		
Instruction	173,671	159,163
Research	151,756	143,648
Public service	70,490	64,255
Academic support	41,315	39,383
Student services	25,500	24,884
Institutional support	25,647	22,521
Operation and maintenance of plant	47,209	38,634
Scholarships and fellowships	8,155	9,169
Auxiliary enterprises	92,512	89,067
Depreciation	36,690	36,402
Other operating expenses	79	312
Total operating expenses	<u>673,024</u>	<u>627,438</u>
Operating loss	<u>(25,823)</u>	<u>(128,522)</u>
Nonoperating revenues (expenses):		
State appropriations	—	109,424
Gifts	21,388	18,558
Investment income (including \$1,060 and \$840 of revenues pledged for bonds in 2006 and 2005, respectively)	5,478	4,639
Interest expense on capital debt	(3,439)	(3,496)
Other nonoperating revenues	2,311	2,681
Net nonoperating revenues	<u>25,738</u>	<u>131,806</u>
Income (loss) before other revenues (expenses)	<u>(85)</u>	<u>3,284</u>
Other revenues (expenses):		
State capital contributions	1,387	2,285
Capital grants	5,744	2,005
Capital gifts	7,971	17,215
Payments (to)/from governing boards or other institutions	82	(131)
Additions to permanent endowments	705	339
Increase in net assets	<u>15,804</u>	<u>24,997</u>
Net assets:		
Net assets, beginning of year	<u>575,029</u>	<u>550,032</u>
Net assets, end of year	<u>\$ 590,833</u>	<u>575,029</u>

See accompanying notes to basic financial statements.

**COLORADO STATE UNIVERSITY SYSTEM
COLORADO STATE UNIVERSITY FOUNDATION**
(Discretely presented component unit)

Statements of Activities – Discretely Presented Component Unit

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	2006			2005				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2006	Unrestricted	Temporarily restricted	Permanently restricted	Total 2005
Support and revenue:								
Contributions	\$ 173	37,144	4,309	41,626	109	15,369	8,159	23,637
In-kind contributions	1	2,155	—	2,156	8	3,419	—	3,427
Allowance for uncollectible pledges	—	42	11	53	—	(19)	(39)	(58)
Total contributions	174	39,341	4,320	43,835	117	18,769	8,120	27,006
Net investment income	5,993	11,591	70	17,654	4,890	7,651	64	12,605
Actuarial change in value of life income agreements	(28)	(8)	(34)	(70)	(28)	—	(26)	(54)
Other changes in net assets	(142)	(29)	171	—	(663)	1,039	(376)	—
Other revenue	148	(21)	6	133	300	210	4	514
Net assets released from restrictions:								
Satisfaction of program restrictions	24,637	(24,637)	—	—	32,660	(32,660)	—	—
Total support and revenue	30,782	26,237	4,533	61,552	37,276	(4,991)	7,786	40,071
Expenses:								
Program services:								
CSU College of:								
Agricultural Sciences	1,945	—	—	1,945	1,664	—	—	1,664
Applied Human Sciences	921	—	—	921	904	—	—	904
Business	951	—	—	951	632	—	—	632
Engineering	2,188	—	—	2,188	3,465	—	—	3,465
Liberal Arts	1,878	—	—	1,878	4,814	—	—	4,814
Natural Resources	921	—	—	921	1,167	—	—	1,167
Natural Sciences	1,560	—	—	1,560	1,282	—	—	1,282
Veterinary Medicine and Biomedical Sciences	4,997	—	—	4,997	4,214	—	—	4,214
Athletics	6,893	—	—	6,893	12,254	—	—	12,254
Other CSU programs	3,879	—	—	3,879	3,124	—	—	3,124
Total program services	26,133	—	—	26,133	33,520	—	—	33,520
Support services:								
Development	—	—	—	—	—	—	—	—
Management and general	1,604	—	—	1,604	1,635	—	—	1,635
Total support services	1,604	—	—	1,604	1,635	—	—	1,635
Total expenses	27,737	—	—	27,737	35,155	—	—	35,155
Change in net assets	3,045	26,237	4,533	33,815	2,121	(4,991)	7,786	4,916
Net assets, beginning of year	18,781	89,566	75,237	183,584	16,660	94,557	67,451	178,668
Net assets, end of year	21,826	115,803	79,770	217,399	18,781	89,566	75,237	183,584

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 204,739	142,478
Student loans collected	6,473	6,420
Sales of products	16,737	16,688
Sales of services	102,898	104,378
Grants and contracts	246,336	236,665
State fee for service contract	68,214	—
Other operating receipts	3,875	3,784
Cash payments:		
Scholarships disbursed	(6,032)	(10,410)
Student loans disbursed	(6,304)	(4,930)
Payments to employees	(425,148)	(413,870)
Payments to suppliers	(193,268)	(175,415)
Other operating payments	—	(25)
Net cash provided by (used in) operating activities	<u>18,520</u>	<u>(94,237)</u>
Cash flows from noncapital financing activities:		
State appropriations – noncapital	—	109,424
Gifts other than capital purposes	19,598	18,889
Agency (direct lending inflows)	89,559	88,877
Agency (direct lending outflows)	(89,559)	(88,877)
Other agency (inflows)	45,899	40,675
Other agency (outflows)	(43,177)	(38,686)
Payments from (to) governing boards or other institutions	82	(131)
Other nonoperating revenues	2,157	1,056
Net cash provided by noncapital financing activities	<u>24,559</u>	<u>131,227</u>
Cash flows from capital and related financing activities:		
Proceeds from capital debt	—	60,109
State appropriations – capital	1,387	2,285
Capital grants, contracts, and gifts	11,821	15,292
Acquisition and construction of capital assets	(48,338)	(50,819)
Principal paid on capital debt	(6,327)	(5,677)
Interest on capital debt	(3,037)	(3,364)
Net cash provided by (used in) capital and related financing activities	<u>(44,494)</u>	<u>17,826</u>
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	8,325	1,350
Purchase of investments	(8,664)	(305)
Investment earnings	5,478	4,639
Net cash provided by investing activities	<u>5,139</u>	<u>5,684</u>
Net increase in cash and cash equivalents	3,724	60,500
Cash and cash equivalents	208,714	206,265
Restricted cash	91,650	33,599
Cash and cash equivalents, beginning of the year	300,364	239,864
Cash and cash equivalents	216,602	208,714
Restricted cash	87,486	91,650
Cash and cash equivalents, end of the year	<u>\$ 304,088</u>	<u>300,364</u>

COLORADO STATE UNIVERSITY SYSTEM

Statements of Cash Flows

Years ended June 30, 2006 and 2005

(Amounts expressed in thousands)

	<u>2006</u>	<u>2005</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (25,823)	(128,522)
Adjustments:		
Depreciation expense	36,690	36,402
Noncash operating transactions	1,001	(1,239)
Decrease (increase) in assets:		
Receivables, net	(5,468)	3,525
Inventories and prepaids	(141)	1,221
Increase (decrease) in liabilities:		
Accounts payable	(3,288)	(575)
Accrued liabilities	9,795	(4,679)
Deferred revenue	1,811	(1,171)
Deposits held for others	12	(74)
Compensated absence liabilities	2,874	418
Other liabilities	1,057	457
Net cash provided by (used in) operating activities	\$ <u>18,520</u>	<u>(94,237)</u>
Noncash activities:		
Noncash gifts	\$ 3,335	3,928
Noncash capital leases	1,444	359
Payment of bond issuance costs	—	612

See accompanying notes to basic financial statements.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(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 Colorado State University System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. The annual funding for construction of capital facilities of the institutions are evidence of a financial burden of the state. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

(b) Reporting Entity

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

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

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

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code. However, income unrelated to the exempt purpose of the System would be subject to tax under Section 511(a)(2)(B) of the Internal Revenue Code. The System had no material unrelated business income for the years ended June 30, 2006 and 2005.

(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, *The Financial Reporting Entity*. This Statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. The Colorado State University Foundation (the Foundation) has been determined to be a component unit of the Colorado State University 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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

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 CSU System 2006 and 2005 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 and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board 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 Administrative Services. 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 \$61,552,000 in revenue for the 2005-2006 fiscal year, gifts accounted for \$43,781,000. Of the \$40,072,000 in revenue for the 2005 fiscal year, gifts accounted for \$27,064,000. The remaining revenue was primarily due to earnings on investments.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately \$26,133,000 and \$33,520,000 was transferred to CSU for the years ended June 30, 2006 and 2005, 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 \$13,015,000 and \$12,521,000 as of June 30, 2006 and 2005, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

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

(2) Basis of Presentation

The System has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, with regard to the application of FASB pronouncements applicable to its proprietary operations. In accordance with the provisions of GASB Statement No. 20, the

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

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.

During the fiscal year ended June 30, 2006, the System implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

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

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

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

(a) *Cash and Cash Equivalents*

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

(b) *Investments*

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net 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 lower of cost or market using unit livestock costing methods and estimated animal weights.

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

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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(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 two institutions ranging from \$5,000 to \$50,000. At CSU, library materials are valued at average acquisition cost. At CSUP, library materials are valued at actual cost.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 10 to 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 tax-exempt borrowing is capitalized and added to the acquisition cost of the asset.

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

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

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 both a decline in service utility occurs and is large in magnitude 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.

(f) *Compensated Absence Liabilities*

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

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(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 Colorado State University 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*

In fiscal year 2006, the College Opportunity Fund legislation was implemented and state support was delivered to the System as operating revenue in the form of payment for fee for service contracts with the state. In addition, the state provided stipends to students which were then used to pay tuition which is also recorded as operating revenue. In fiscal year 2005, state support was provided in the form of a state appropriation which was reported as nonoperating revenue.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

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

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

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

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. In fiscal year 2005, nonoperating revenues included subsidies in the form of state appropriations.

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.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) *Reclassifications*

Certain 2005 amounts have been reclassified to conform with the 2006 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, 2006, the System had cash on deposit with the State Treasurer of \$298,341,000, which represented approximately 6.3% of the total \$4,758,800,000 of deposits in the State Treasurer's Pool (Pool). As of June 30, 2005, the System had cash on deposit with the State Treasurer of \$300,927,000, which represented approximately 7.4% of the value of all deposits in the State Treasurer's Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of the System's participation in the Pool, the System reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

As of June 30, 2006 and 2005, respectively, the System had \$298,341,000 and \$300,927,000 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, 2006 and 2005 was approximately \$10,527,000 and \$6,754,000, 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 unrealized losses on deposits with the State Treasurer for the fiscal years ended June 30, 2006 and 2005, respectively, were \$3,941,000 and \$783,000 for cash and cash equivalents and \$3,158,000 and \$2,228,000 for investment income. Custodial credit risk classifications for amounts held by the State Treasurer are not available at the System level. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

At June 30, 2006 and 2005, the System's cash not on deposit with the State Treasurer was \$5,747,000 and \$(563,000), respectively. Cash included petty cash/change funds and bank account balances of \$118,000 and \$5,629,000 as of June 30, 2006 and \$126,000 and \$(690,000) as of June 30, 2005.

Investments in the Treasurer's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the state's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the state's name. As of June 30, 2006, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

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, 2006, approximately 85.5% of investments of the Treasurer's Pool are subject to credit quality risk reporting. Except for \$2,964,000 of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality which indicates that the issuer has strong capacity to pay principal and interest when due. As of June 30, 2005, approximately 83% of investments of the Treasurer's 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, 2006, the weighted average maturity of investments in the Treasurer's Pool is 0.10 years for commercial paper and money market funds (32 percent of the pool), 1.30 years for U.S. government securities (41 percent of the Pool), 2.20 years for asset backed securities (17 percent of the pool), and 2.40 years for corporate bonds (10 percent of the Pool). As of June 30, 2005, the weighted average maturity of investments in the Treasurer's Pool was 0.10 years for 26% of the Pool, 2.10 years for 47% of the Pool, 2.30 years for 12% of the Pool, and 2.60 years for 15% of the Pool.

The Treasurer's Pool was not subject to foreign currency risk or concentration of credit risk in fiscal year 2006 or in fiscal year 2005.

Additional information on investments of the State Treasurer's Pool may be obtained in the state's Comprehensive Annual Financial Report for the year ended June 30, 2006.

(5) Restricted Investments

As of June 30, 2006 and 2005, System's restricted investments had a fair value of \$17,485,000 and \$16,538,000, respectively. Investment earnings for the fiscal years 2006 and 2005 were \$123,000 and \$81,000, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2006 and 2005. The System only invests in U.S. Treasury securities, which are federal guaranteed investments, as required by state law. The System also has investments held by CSUF that are invested in their Long Term Endowment Pool, which are not evidenced by securities that exist in physical or book form.

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

June 30, 2006 and 2005

The following details each major category of the System's investments at fair value as of June 30, 2006 and 2005:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
U.S. Treasury obligations	\$ 4,470,000	4,017,000
Investments held by CSUF in long term endowment pool:		
Corporate equities	1,268,000	1,314,000
Mutual funds	6,219,000	7,498,000
Hedge funds	3,564,000	3,585,000
Other investments	1,964,000	124,000
	<u>13,015,000</u>	<u>12,521,000</u>
Total investments	\$ <u>17,485,000</u>	<u>16,538,000</u>

(a) Credit Quality Risk

At June 30, 2006 and June 30, 2005, the System had debt securities in the following credit risk categories:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Money market mutual funds:		
Aaa	\$ <u>72,000</u>	<u>147,000</u>
Bond mutual funds		
Aaa	\$ 526,000	531,000
Aa	66,000	0
A	28,000	24,000
Baa	28,000	41,000
Ba	10,000	204,000
B	0	833,000
Caa	0	277,000
P1	254,000	543,000
Below P1	28,000	35,000
Not rated	0	13,000
	<u>\$ 940,000</u>	<u>2,501,000</u>

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

COLORADO STATE UNIVERSITY SYSTEM

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(b) Interest Rate Risk

At June 30, 2006, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 4,470,000	0.202	
Investments held by CSUF in long term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	<u>940,000</u>	1.000	2.540
Total investments subject to interest rate risk	\$ <u><u>5,410,000</u></u>		

At June 30, 2005, the following System investments were subject to interest rate risk:

<u>Type of investment</u>	<u>Fair value</u>	<u>Weighted average maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 4,017,000	0.202	
Investments held by CSUF in long term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	1,181,000	1.800	
Primus - High Yield Fund	<u>1,320,000</u>		2.970
Total investments subject to interest rate risk	\$ <u><u>6,518,000</u></u>		

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June 30, 2006 and 2005

The Colorado State University Foundation investment policy is utilized to manage interest rate risk relating to the System amounts invested in the Foundation 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 20% of the total portfolio with an acceptable range being between 15-25%.

The System's U.S. Treasury obligations are invested in accordance with Colorado Revised Statute 23-32-104. This statute requires these investments relating to the Colorado State University 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, 2006, 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 are comprised of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long term with less volatility.

The following details each major category of the Foundation's investments at fair market value as of June 30, 2006 and 2005:

	June 30	
	2006	2005
Cash and cash equivalents subject to investment management direction	\$ 1,105,000	2,129,000
Small cap equities	9,335,000	9,429,000
Large cap equities	—	61,000
Mutual funds:		
Alternative investments	53,827,000	51,861,000
Large cap equities	49,015,000	47,354,000
Fixed income	38,957,000	36,233,000
International equities	31,123,000	22,888,000
Micro cap equities	10,050,000	9,608,000
Other investments	6,709,000	1,803,000
Student-managed investments	170,000	—
	\$ 200,291,000	181,366,000

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Net investment income of the Foundation consisted of the following for the years ended June 30, 2006 and 2005:

	2006	2005
Interest, dividends, and other income	\$ 3,002,000	3,394,000
Net unrealized and realized gains on investments	16,809,000	10,731,000
Less investment management fees	(1,007,000)	(735,000)
	18,804,000	13,390,000
Less income on deposits held in custody for CSU	(1,150,000)	(785,000)
	\$ 17,654,000	12,605,000

(6) Accounts Receivable

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

	June 30	
	2006	2005
Student accounts receivable	\$ 10,826,000	9,685,000
Less allowance for doubtful accounts	(3,743,000)	(3,272,000)
Student accounts receivable, net	7,083,000	6,413,000
Student loans receivable	25,645,000	25,528,000
Less allowance for doubtful accounts	(2,044,000)	(2,153,000)
Student loans receivable, net	23,601,000	23,375,000
Other accounts receivable:		
Sponsored programs	42,537,000	38,230,000
Commercial receivables	2,669,000	2,049,000
Emergency firefighting receivables	1,169,000	1,173,000
Conferences and summer programs	599,000	984,000
Insurance trust fund	222,000	368,000
Receivables from Foundation	804,000	353,000
Athletics	410,000	340,000
Vendor credits	37,000	89,000
Other	2,467,000	1,440,000
Total other accounts receivable	50,914,000	45,026,000
Less allowance for doubtful accounts	(2,280,000)	(2,113,000)
Other accounts receivable, net	48,634,000	42,913,000
Total accounts receivable, net	\$ 79,318,000	72,701,000

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Notes to Basic Financial Statements

June 30, 2006 and 2005

Discretely presented component unit – As of June 30, 2006 and 2005, the Foundation’s pledges receivable consisted of the following:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Receivables due in less than one year	\$ 4,841,000	3,329,000
Receivables due in one to five years	10,760,000	11,215,000
Receivables due in more than five years	19,453,000	—
	<u>35,054,000</u>	<u>14,544,000</u>
Less allowance for uncollectible pledges	(220,000)	(291,000)
Less present value discounting	<u>(6,530,000)</u>	<u>(1,435,000)</u>
	<u>\$ 28,304,000</u>	<u>12,818,000</u>

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.

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(7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2006</u>
Nondepreciable capital assets:					
Land	\$ 9,671,000	—	(1,000)	—	9,670,000
Construction in progress	23,244,000	33,750,000	—	(25,908,000)	31,086,000
Collections	2,205,000	112,000	—	—	2,317,000
Total nondepreciable capital assets	<u>35,120,000</u>	<u>33,862,000</u>	<u>(1,000)</u>	<u>(25,908,000)</u>	<u>43,073,000</u>
Depreciable capital assets:					
Land improvements	49,076,000	696,000	—	368,000	50,140,000
Buildings and improvements	520,077,000	626,000	(1,800,000)	25,079,000	543,982,000
Leasehold improvements	838,000	—	—	—	838,000
Equipment	173,863,000	15,227,000	(8,388,000)	461,000	181,163,000
Library materials	80,694,000	3,797,000	(276,000)	—	84,215,000
Total depreciable capital assets	<u>824,548,000</u>	<u>20,346,000</u>	<u>(10,464,000)</u>	<u>25,908,000</u>	<u>860,338,000</u>
Less accumulated depreciation:					
Land improvements	18,881,000	2,284,000	—	—	21,165,000
Buildings and improvements	205,488,000	15,803,000	(281,000)	—	221,010,000
Leasehold improvements	377,000	47,000	—	—	424,000
Equipment	128,354,000	13,255,000	(8,059,000)	—	133,550,000
Library materials	51,243,000	5,301,000	(276,000)	—	56,268,000
Total accumulated depreciation	<u>404,343,000</u>	<u>36,690,000</u>	<u>(8,616,000)</u>	<u>—</u>	<u>432,417,000</u>
Net depreciable capital assets	<u>420,205,000</u>	<u>(16,344,000)</u>	<u>(1,848,000)</u>	<u>25,908,000</u>	<u>427,921,000</u>
Total capital assets, net	<u>\$ 455,325,000</u>	<u>17,518,000</u>	<u>(1,849,000)</u>	<u>—</u>	<u>470,994,000</u>

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Notes to Basic Financial Statements

June 30, 2006 and 2005

Following are the changes in capital assets for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2005</u>
Nondepreciable capital assets:					
Land	\$ 9,050,000	615,000	(75,000)	81,000	9,671,000
Construction in progress	26,807,000	33,354,000	—	(36,917,000)	23,244,000
Collections	2,159,000	46,000	—	—	2,205,000
	<u>38,016,000</u>	<u>34,015,000</u>	<u>(75,000)</u>	<u>(36,836,000)</u>	<u>35,120,000</u>
Depreciable capital assets:					
Land improvements	47,953,000	46,000	—	1,077,000	49,076,000
Buildings and improvements	481,153,000	6,644,000	(1,563,000)	33,843,000	520,077,000
Leasehold improvements	512,000	326,000	—	—	838,000
Equipment	166,135,000	14,032,000	(8,220,000)	1,916,000	173,863,000
Library materials	77,786,000	3,385,000	(477,000)	—	80,694,000
	<u>773,539,000</u>	<u>24,433,000</u>	<u>(10,260,000)</u>	<u>36,836,000</u>	<u>824,548,000</u>
Less accumulated depreciation:					
Land improvements	16,709,000	2,218,000	(46,000)	—	18,881,000
Buildings and improvements	191,872,000	15,074,000	(1,458,000)	—	205,488,000
Leasehold improvements	343,000	34,000	—	—	377,000
Equipment	122,225,000	13,811,000	(7,682,000)	—	128,354,000
Library materials	46,455,000	5,265,000	(477,000)	—	51,243,000
	<u>377,604,000</u>	<u>36,402,000</u>	<u>(9,663,000)</u>	<u>—</u>	<u>404,343,000</u>
Net depreciable capital assets	<u>395,935,000</u>	<u>(11,969,000)</u>	<u>(597,000)</u>	<u>36,836,000</u>	<u>420,205,000</u>
Total capital assets, net	\$ <u>433,951,000</u>	<u>22,046,000</u>	<u>(672,000)</u>	<u>—</u>	<u>455,325,000</u>

Interest expense capitalized, net of related interest income for the System, was \$373,000 and \$150,000 for the years ended June 30, 2006 and 2005, respectively.

In September of 1997, CSU purchased the old Fort Collins High School building to renovate and house the Department of Music, Theatre, and Dance and to provide display space for artwork, historic costumes, textiles, and natural history collections. In fiscal year 2002, the System received notification from the state that due to budget constraints, state funding was rescinded for the CSU University Center for the Arts building renovation of the Old Fort Collins High School. As a result of this loss in funding CSU halted further construction on the project. At that time the interior of the building had been demolished and the project was approximately 3 % complete. CSU considered this construction stoppage to be temporary and expected to resume construction once the state funding situation improved. The University Center for the Arts project has remained a high priority on the University's Physical Development Plan. In fiscal year 2006 funding was identified to resume the project, state spending authority was obtained and construction

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will commence on the project in fiscal year 2007. At June 30, 2006 the carrying value for the University Center for the Arts Building was \$4,700,000.

(8) Accrued Liabilities

The current accrued liabilities balances as of June 30, 2006 and 2005 were comprised of:

	June 30	
	2006	2005
Accrued payroll and benefits	\$ 44,429,000	40,176,000
Emergency firefighting accrual	7,090,000	—
Accrued interest payable	1,653,000	1,136,000
Other liabilities	134,000	2,029,000
	<u>\$ 53,306,000</u>	<u>43,341,000</u>

(9) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts due within one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 123,211,000	—	(5,140,000)	118,071,000	5,765,000
Capital leases payable	8,313,000	1,444,000	(2,525,000)	7,232,000	1,288,000
Total bonds and capital leases	131,524,000	1,444,000	(7,665,000)	125,303,000	7,053,000
Other liabilities:					
Compensated absences	28,661,000	2,909,000	(35,000)	31,535,000	2,133,000
Other	8,888,000	18,612,000	(16,848,000)	10,652,000	3,055,000
Total long-term liabilities	<u>\$ 169,073,000</u>	<u>22,965,000</u>	<u>(24,548,000)</u>	<u>167,490,000</u>	<u>12,241,000</u>

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Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2005</u>	<u>Amounts due within one year</u>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 71,487,000	56,296,000	(4,572,000)	123,211,000	5,182,000
Capital leases payable	5,146,000	4,646,000	(1,479,000)	8,313,000	1,163,000
Total bonds and capital leases	76,633,000	60,942,000	(6,051,000)	131,524,000	6,345,000
Other liabilities:					
Compensated absences	28,243,000	552,000	(134,000)	28,661,000	2,067,000
Other	8,093,000	2,808,000	(2,013,000)	8,888,000	2,417,000
Total long-term liabilities	\$ 112,969,000	64,302,000	(8,198,000)	169,073,000	10,829,000

(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.

The 2005A Projects and 2005B Improvement Project Bonds were issued during the 2005 fiscal year. The bonds are for the following projects:

2005A Projects: Research Building Revolving Fund issued bonds in the amount of \$10,045,000. Proceeds will be used to defray all or a portion of the costs of (i) constructing, acquiring, and equipping an addition to the existing Atmospheric Science Complex on the University's Foothills Campus, (ii) constructing, acquiring, and equipping a regional biocontainment laboratory on the University's Foothills Campus and (iii) renovating and converting an existing Antropod-Borne and Infections Disease Lab (AIDL) Annex to an Animal Biosafety Level 3 Facility and constructing an adjacent small animal support facility, all located on the University's Foothills Campus.

2005B Improvement Project: Auxiliary Enterprises issued bonds in the amount of \$45,200,000. Proceeds from the sale will be used to finance the construction, acquisition, and equipping of student housing and dining facilities and the renovation of certain related surface parking. This facility constitutes one of the phases of the 2001 Long Range Student Housing Plan. The project involves the demolition of the existing Ellis Hall and related dining facilities and construction of new housing and dining facilities.

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A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2006 and 2005 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2006 and 2005:

	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
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	3.80% – 5.13%	\$ 1,890,000	2,020,000
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	3.80% – 5.60%	2,435,000	4,250,000
Colorado State University Auxiliary Facilities Bonds of 1997, issued in the original amount of \$13,420,000 and mature in varying annual amounts to March 2017	3.85% – 5.13%	11,650,000	11,925,000
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	4.00% – 4.60%	1,530,000	1,995,000
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	3.85% – 4.30%	3,855,000	4,535,000
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of \$15,615,000 and mature in varying annual amounts to March 2017	2.50% – 5.25%	13,650,000	14,330,000

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	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of \$20,535,000 and mature in varying annual amounts to March 2035	2.50% – 5.00%	\$ 20,160,000	20,535,000
Colorado State University Research Building and Revolving Fund Bonds of 2005 A, issued in the original amount of \$10,045,000 and mature in varying annual amounts to December 2020	3.25% – 5.00%	10,045,000	10,045,000
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of \$45,200,000 and mature in varying annual amounts to March 2035	3.50% – 5.00%	45,200,000	45,200,000
Bond premium		<u>1,466,000</u>	<u>1,551,000</u>
Total CSU revenue bonds		<u>111,881,000</u>	<u>116,386,000</u>
Series 1997 Certificates of Participation: Colorado State University has a lease purchase agreement funded by issuance of certificates of participation (COPS) for finance or refinancing 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 semi-annually with a final maturity in 2018.	4.25% – 5.35%	<u>3,420,000</u>	<u>3,625,000</u>
Total CSU certificates of participation		<u>3,420,000</u>	<u>3,625,000</u>
Total CSU revenue bonds and certificates of participation		<u>\$ 115,301,000</u>	<u>120,011,000</u>

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	<u>Interest range</u>	<u>2006</u>	<u>2005</u>
Colorado State University – Pueblo Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of \$3,625,000 and mature in varying annual amounts to August 2011.	2.00% – 3.25%	\$ 2,770,000	3,200,000
Total CSUP revenue bonds		<u>2,770,000</u>	<u>3,200,000</u>
System total revenue bonds and certificates of participation		\$ <u>118,071,000</u>	<u>123,211,000</u>

The scheduled maturities of the revenue bonds and certificates of participation (COPs) are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total payments</u>
2007	\$ 5,765,000	5,172,000	10,937,000
2008	5,910,000	4,933,000	10,843,000
2009	6,405,000	4,691,000	11,096,000
2010	5,900,000	4,436,000	10,336,000
2011	6,105,000	4,197,000	10,302,000
2012-2016	25,835,000	17,649,000	43,484,000
2017-2021	17,545,000	11,994,000	29,539,000
2022-2026	12,400,000	8,812,000	21,212,000
2027-2031	15,535,000	5,713,000	21,248,000
2032-2036	<u>15,205,000</u>	<u>1,808,000</u>	<u>17,013,000</u>
Total debt service maturities	116,605,000	\$ <u>69,405,000</u>	<u>186,010,000</u>
Unamortized premium	<u>1,466,000</u>		
Total	\$ <u>118,071,000</u>		

The CSU Research Building Revolving Fund (RBRF) revenue bonds are secured by a pledge of net revenues of the RBRF Enterprise. These revenues include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. See the Pledged Revenues and Related Expenses note 12 for more information regarding these pledged revenues.

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. See the Pledged Revenues and Related Expense note 12 for more information regarding these pledged revenues.

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The CSUP Series 2003 revenue bonds are secured by the net pledged revenues derived from student fees and net revenues from the operation of CSUP auxiliary facilities, including CSU Pueblo's student housing facilities, and student center facilities. See the Pledged Revenues and Related Expense 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.

(11) Defeased Obligations

The System had no defeased obligations outstanding for the years ended June 30, 2006 and 2005.

(12) Pledged Revenues and Related Expenses

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:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 3,603,000	3,202,000
Operating expenses	<u>1,959,000</u>	<u>2,049,000</u>
Pledged revenues over operating expenses	1,644,000	1,153,000
Net nonoperating expenses	(232,000)	(150,000)
Other expenses and transfers	<u>(8,616,000)</u>	<u>(691,000)</u>
Net increase (decrease)	<u>\$ (7,204,000)</u>	<u>312,000</u>

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes only \$2,270,000 and \$1,806,000 in such indirect cost recoveries for fiscal years ending June 30, 2006 and 2005, respectively, 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 \$35,299,000 and \$34,242,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

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

	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 76,713,000	74,466,000
Operating expenses	<u>73,957,000</u>	<u>71,077,000</u>
Pledged revenues over operating expenses	2,756,000	3,389,000
Net nonoperating expenses	(1,440,000)	(1,689,000)
Other revenues and transfers	<u>166,000</u>	<u>154,000</u>
Net increase	<u>\$ 1,482,000</u>	<u>1,854,000</u>

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

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues – pledged auxiliary revenues	\$ 8,822,000	8,805,000
Operating expenses	<u>6,954,000</u>	<u>5,642,000</u>
Pledged revenue over operating expenses	1,868,000	3,163,000
Net nonoperating revenues	—	—
Transfers	<u>(942,000)</u>	<u>(1,499,000)</u>
Net increase	<u>\$ 926,000</u>	<u>1,664,000</u>

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.

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(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.

	<u>Total</u>
Fiscal year ending June 30:	
2007	\$ 1,601,000
2008	1,438,000
2009	1,066,000
2010	810,000
2011	697,000
2012-2016	2,520,000
2017-2021	<u>510,000</u>
Minimum future lease payments	8,642,000
Less amount representing interest	<u>1,410,000</u>
Present value of minimum lease payments	\$ <u><u>7,232,000</u></u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2006 and 2005, respectively, the System had capital lease obligations in effect with capitalized asset costs of \$12,679,000 and \$13,840,000; accumulated depreciation of \$2,579,000 and \$2,687,000; and related outstanding liabilities of \$7,232,000 and \$8,313,000.

(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.

	<u>Future minimum obligations for operating leases</u>
Fiscal year ending June 30:	
2007	\$ 743,000
2008	570,000
2009	476,000
2010	361,000
2011	<u>—</u>
Total	\$ <u><u>2,150,000</u></u>

Rent expense was \$1,016,000 and \$1,065,000 for fiscal years 2006 and 2005, respectively.

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(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 \$25,958,000 and \$26,475,000 and are reported as restricted net assets – expendable on the financial statements as of June 30, 2006 and 2005, 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 \$17,323,000 and \$16,049,000 are reported as restricted net assets expendable on the financial statements as of June 30, 2006 and 2005, 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, 2006 and 2005, this reserve had net assets of \$1,479,000 and \$1,432,000, respectively. These amounts were reported as restricted expendable net assets on the statements of net assets.

Total restricted net assets were as follows:

	<u>2006</u>	<u>2005</u>
Restricted for nonexpendable purposes:		
Scholarships, research, and other	\$ 13,250,000	12,546,000
Federal Land Grant Act Account – nonexpendable	4,632,000	4,132,000
Total	<u>\$ 17,882,000</u>	<u>16,678,000</u>
Restricted for expendable purposes:		
Federal Land Grant Act Income Account – expendable	\$ 4,224,000	5,579,000
Student loans	25,958,000	26,475,000
Gifts	1,989,000	2,915,000
Bond reserves	1,300,000	1,300,000
Auxiliary pledged net assets	17,323,000	16,049,000
Research Building Revolving Fund	3,789,000	5,819,000
Equipment reserve for Vet Med	1,479,000	1,432,000
Other	434,000	522,000
Total	<u>\$ 56,496,000</u>	<u>60,091,000</u>

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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 indefinitely, 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, 2006 and 2005, the Foundation's board has designated \$18,680,000 and \$16,433,000, 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, 2006 were \$47,689,000 for the System. These outstanding purchase order commitments included System capital construction commitments of approximately \$19,964,000. Approximately \$11,960,000 of the capital construction commitments were for the CSU Regional Biocontainment Laboratory, \$2,386,000 for the CSUP HPER Building renovation, \$1,617,000 for the new CSU Academic Village, \$679,000 for the expansion of the CSU Bioenvironmental Research Building, and the remaining commitments are for other small construction projects at CSU. Of the remaining outstanding purchase order commitments, \$20,530,000 were related to CSU-sponsored contracts and grants.

In addition to purchase order commitments, the System had contracted obligations of \$24,154,000 at June 30, 2006 related to employment hiring incentives and shared costs on long-term federal revenue contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the System commits to pay for various laboratory remodeling, equipment, and other costs that are important to the person in accepting the position offer. This obligation is binding on the System upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the System agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the System can exercise cancellation clauses to avoid these shared cost obligations, the System has not used that option to avoid such obligations, and such costs are considered highly probable in the future. In both cases, settlement of the obligation involves payment to third parties, generally within three years.

Outstanding commitments at June 30, 2006 were:

Purchase order commitments	\$ 47,689,000
Shared cost obligations on long-term revenue contracts	16,628,000
Obligations under accepted employment offers	<u>7,526,000</u>
Total	<u>\$ 71,843,000</u>

(17) Employment Benefits

Employees of the System, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a student 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

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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, 2006 and 2005 was \$389,547,000 and \$377,627,000, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was \$144,050,000, \$187,986,000, and \$6,315,000 respectively, for the fiscal year ended June 30, 2006 and \$128,942,000, \$177,675,000, and \$5,001,000 respectively, for the fiscal year ended June 30, 2005. 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 303-832-9550 or 1-800-729-PERA (7372), or by visiting www.copera.org.

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

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

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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 2005-06 and 2004-05, 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 percent of salary beginning January 1, 2006, another 0.5 percent of salary in 2007, and subsequent year increases of 0.4 percent of salary until the additional payment reaches 3.0 percent in 2012.

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

The System's contributions to PERA for the fiscal years ended June 30, 2006, 2005, and 2004 were \$14,978,000, \$13,088,000, and \$12,090,000, 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 403b or 401(a) plan. Members who contribute to any of these plans also receive the state match.

(c) Defined Contribution Pension Plan

Under the optional defined contribution plan, eligible faculty, administrative professionals, post doctoral fellows and veterinary interns of the System have the option of selecting a defined

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contribution plan as an alternative to PERA. Three vendor choices are offered at Colorado State University 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 Colorado State University Pueblo do not have the Fidelity Investments/MetLife option available. The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 C.R.S.). The Colorado State University plan was adopted by the Board in December 1992 and the Colorado State University Pueblo plan was adopted in April 1993. The defined contribution retirement plan is a qualified plan under Section 401(A) of the IRC. Colorado State University and Colorado State University Pueblo are the administrators of the plan. All participants contribute the required 8% of eligible salary. As required, CSU provides a matching contribution of 9% of eligible salary for all "permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSUP 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 \$16,363,000 for the fiscal year ended June 30, 2006 and 8.7% of covered payroll or \$15,522,000 for the fiscal year ended June 30, 2005. The employee aggregate contribution to the above three vendors was equal to 8.0% of covered payroll or \$15,039,000 for the fiscal year ended June 30, 2006 and 8.0% of covered payroll or \$14,214,000 for the fiscal year ended June 30, 2005.

A federal retirement program covers some employees employed by the Cooperative Extension Service at Colorado State University. The System's contribution to this plan for the fiscal years ended June 30, 2006 and 2005 was \$214,000 and \$228,000, 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, 2006 and 2005 was \$474,000 and \$375,000, 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 \$6,899,000 and \$5,787,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

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(18) Risk Financing and Insurance-Related Activities

During the year ended June 30, 2004, CSU began the process of withdrawing from the State Risk Pool in order to become self-insured for workers' compensation claims. On July 1, 2004, CSU purchased workers' compensation insurance for one month's coverage, and on August 1, 2004, became self-insured. CSU carries excess insurance for claims over \$500,000 per occurrence.

As of September 1, 2004, CSU withdrew from the State Risk Pool for property insurance. For property claims, CSU has excess policy coverage for claims exceeding more than \$100,000 per occurrence. CSU self-insures for claims less than \$100,000 per occurrence and a \$1,000 deductible per occurrence is paid by the University department incurring the claim.

Effective July 1, 2005, CSU became self-insured for liability insurance. CSU carries excess public liability insurance for claims exceeding \$500,000 per occurrence, except for claims arising out of employment practices. In this case, CSU is liable for the first \$1,000,000 and purchases insurance to cover up to \$5,000,000 per occurrence.

In addition to the above, CSU is self-insured for various other risks of loss. At CSU, seven additional separate accounts currently make up the Insurance Trust self-insured program: healthcare, dental, long-term disability, short-term disability, post-retirement healthcare subsidy, the umbrella plan for retirees, and an unallocated reserve fund. CSU contracts claims processing and other day-to-day operations of the self-funded benefit plans to various third-party administrators. Most of the program funding is derived from premiums paid by benefit plan participants. Post-retirement healthcare subsidy is funded by CSU contributions. 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 six accounts.

The amount of settlements did not exceed insurance coverage for fiscal years 2005 and 2006.

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

The above Insurance Trust self-insurance programs had estimated claim liabilities of \$6,328,000 and \$5,821,000 at June 30, 2006 and 2005, 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 \$3,891,000 and \$4,415,000, at June 30, 2006 and 2005, respectively. Liability self-insurance had estimated claim liabilities of \$1,523,000 and \$6,000, at June 30, 2006 and 2005, respectively. Property self-insurance had no estimated claim liabilities at June 30, 2006 and 2005. These estimates are based on current data, historical trends, and industry guidelines.

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

	<u>2006</u>	<u>2005</u>
Claim liabilities, beginning of year	\$ 10,242,000	9,322,000
Incurred claims (including IBNR)	18,951,000	16,166,000
Claim payments	<u>(17,451,000)</u>	<u>(15,246,000)</u>
Claim liabilities, end of year	\$ <u>11,742,000</u>	<u>10,242,000</u>

(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. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal year 2006, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under the age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

The Health Care Trust Fund was maintained by an employer's contribution of 1.02% of covered salary. The System paid \$1,469,000 into this fund during fiscal year 2006 and \$1,315,000 during fiscal year 2005. 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, 2005, there were 41,080 enrollees in the plan.

(b) University PERA Retiree Medical Plan Cost Subsidy

In accordance with University policy, 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 from the University to cover all or a part of their out-of-pocket premium expenses for coverage under any one of the medical plans sponsored by PERA. 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 the lowest cost plan available to active faculty and nonclassified staff, whichever is lesser.

This plan is pay-as-you-go funded. The average number of beneficiaries of this subsidy was 468 and 465 for fiscal years 2006 and 2005, respectively. The total cost to the University was \$966,000 and \$892,000, for fiscal years 2006 and 2005, respectively.

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(c) *Postretirement Healthcare Premium Refund*

CSU's post retirement healthcare premium refund was established by the authority of the Board for retirees covered under the Defined Contribution Plan for Retirement (DCP). For eligible retirees, 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. DCP participants include employees who were hired after March 1, 1993 who had 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. Retirees become eligible for this benefit at age 55 with 20 years of service or age 60 with five years of service. Benefits are prorated for lesser years of service.

For fiscal years 2006 and 2005, funding for the health care premium refund was provided wholly by CSU through actuarially required contributions of 1% of covered participant's payroll. CSU's program is advance funded and contributions into the program totaled \$1,665,000 and \$1,578,000 for the years ended June 30, 2006 and 2005, respectively. The amount of restricted cash and cash equivalents available for these benefits was \$17,101,000 and \$15,221,000 for the years ended June 30, 2006 and 2005, respectively. Actuarial assumptions used to determine funding requirements include an annual investment return of 4.0%, for fiscal years 2006 and 2005, annual salary increases of 4%, and annual inflation of 3% for increase in starting salary. Noneconomic assumptions include rates of retirement, nonretirement termination, and mortality. Retirement and nonretirement rates were based on plan experience. Actuarial accrued liability was \$15,708,000 and \$14,295,000 for the years ended June 30, 2006 and 2005, respectively, and the unfunded actuarial accrued liability for the benefit according to the actuarial-cost method as stated above was \$0 for the years ended June 30, 2006 and 2005.

Total amounts paid by CSU to retirees for these healthcare subsidies were \$383,000 and \$304,000 for 2006 and 2005, respectively. As of June 30, 2006 and 2005, 196 and 175 former employees, respectively, were qualified to receive such benefits.

(d) *Life Insurance Program*

During fiscal year 2006, PERA provided access to a group decreasing term life insurance plan offered by Unum Provident in which 41,180 members participated. Active members may join the Unum Provident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for 13,375 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, 2006 and 2005 was \$31,535,000 and \$28,661,000, respectively.

Overall, expenses increased for the fiscal years ended June 30, 2006 and 2005 by \$2,874,000 and \$418,000, respectively, for the estimated compensated absence liabilities.

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(21) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2006 and 2005, 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, 2006 and 2005 were \$89,559,000 and \$88,877,000, respectively.

(22) Scholarship Allowance

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2006 were as follows:

	2006		
	Tuition and fees	Auxiliary revenues	Total
Gross revenue	\$ 247,233,000	102,777,000	350,010,000
Scholarship allowances:			
Federal	12,612,000	1,008,000	13,620,000
State	6,854,000	473,000	7,327,000
Private	189,000	66,000	255,000
Institutional	23,611,000	1,197,000	24,808,000
Total allowances	43,266,000	2,744,000	46,010,000
Net revenue	\$ 203,967,000	100,033,000	304,000,000

Tuition, fees and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2005 were as follows:

	2005		
	Tuition and fees	Auxiliary revenues	Total
Gross revenue	\$ 178,781,000	100,092,000	278,873,000
Scholarship allowances:			
Federal	11,508,000	1,587,000	13,095,000
State	5,714,000	553,000	6,267,000
Private	154,000	89,000	243,000
Institutional	17,768,000	1,820,000	19,588,000
Total allowances	35,144,000	4,049,000	39,193,000
Net revenue	\$ 143,637,000	96,043,000	239,680,000

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(23) System Foundations and Endowments

As discussed in note 1(c), the Colorado State University 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 (CSUP 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 CSUP is eligible to serve as an officer of CSURF or as a voting member of the Board.

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, 2006 and 2005, royalty revenues equaled \$1,070,000 and \$1,255,000, respectively, and expenses were \$613,000 and \$765,000, respectively.

At June 30, 2006, CSURF debt to provide buildings for use by the universities was \$3,986,000.

At June 30, 2006, the assets of CSURF consisted of:

Cash and current assets	\$	1,456,000
Property and equipment		7,706,000
Other assets		<u>8,018,000</u>
Total assets	\$	<u><u>17,180,000</u></u>

At June 30, 2005, CSURF debt to provide buildings for use by the universities was \$5,539,000.

At June 30, 2005, the assets of CSURF consisted of:

Cash and current assets	\$	1,396,000
Property and equipment		7,666,000
Other assets		<u>10,497,000</u>
Total assets	\$	<u><u>19,559,000</u></u>

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

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

CSUP Foundation recorded \$1,572,000 and \$1,555,000 in transfers of gifts and other assets to CSUP during fiscal year 2006 and 2005, respectively. During the same periods, CSUP provided \$31,000 and \$19,000, respectively, in in-kind support to CSUP Foundation for 2006 and 2005. Further, CSUP did not incur any expenses on behalf of CSUP Foundation during the fiscal years ended June 30, 2006 and 2005.

At June 30, 2006, the assets of CSUP Foundation consisted of:

Cash	\$	331,000
Investments		16,101,000
Property and equipment, net		40,000
Other assets		4,693,000
Total assets	\$	<u>21,165,000</u>

At June 30, 2005, the assets of CSUP Foundation consisted of:

Cash	\$	425,000
Investments		16,179,000
Property and equipment, net		5,000
Other assets		4,459,000
Total assets	\$	<u>21,068,000</u>

CSUP Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSUP Foundation had \$130,000 and \$140,000 in outstanding liabilities as of June 30, 2006 and 2005, respectively.

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

(c) CSUP Board-Designated Funds

CSUP manages two board-designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20% of earnings each year to build the corpus of the fund and transfer 80% of the annual earnings to CSUP as designated by the Board. The first board-designated fund was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the university campus provides

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resources that support the academic mission of CSUP. To date, CSUP has sold four parcels of land with the proceeds from the sales being placed in a board-designated fund.

The Walking Stick Fund assets at June 30, 2006 consisted of:

Cash	\$	1,099,000
Land		124,000
Due from other funds		<u>—</u>
Total assets	\$	<u><u>1,223,000</u></u>

The Walking Stick Fund assets at June 30, 2005 consisted of:

Cash	\$	1,096,000
Land		124,000
Due from other funds		<u>18,000</u>
Total assets	\$	<u><u>1,238,000</u></u>

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

The KTSC Fund assets at June 30, 2006 consisted of:

Cash	\$	2,472,000
Due from other funds		<u>170,000</u>
Total assets	\$	<u><u>2,642,000</u></u>

The KTSC Fund assets at June 30, 2005 consisted of:

Cash	\$	2,370,000
Due from other funds		<u>195,000</u>
Total assets	\$	<u><u>2,565,000</u></u>

COLORADO STATE UNIVERSITY SYSTEM

Notes to Basic Financial Statements

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(24) State Support

In fiscal year 2006 state support for higher education and the Colorado State University System 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 year 2006 the System received \$68,214,000 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 year 2006 \$45,406,000 of stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo.

In fiscal year 2005 the Colorado State Legislature established spending authority to the Board of the System in its annual Long Appropriations Bill and other special bills. Appropriated funds included an amount from the State of Colorado's General Fund of \$109,424,000 as well as certain cash funds. Cash funds included tuition, certain fees, and certain other revenue sources.

For the fiscal year ended June 30, 2005, appropriated expenditures were within the authorized spending authority. The System had total appropriations, actual appropriated revenues, and actual appropriated expenses of \$305,723,000, \$305,225,000, and \$266,189,000, respectively, for the year ended June 30, 2005.

All other revenues and expenses reported by the System in fiscal year 2005 represented nonappropriated funds and were excluded from the annual Long Appropriations Bill and other special bills. Nonappropriated funds included certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues, and other revenue sources.

(25) Contingencies

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

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

