

Colorado State University – Global Campus
(A University within the Colorado State University System)
Financial Statements and Independent Auditor’s Reports
Financial Audit
Years Ended June 30, 2012, 2011 and 2010

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Legislative Audit Manager

BKD, LLP
Contract Auditors

April 11, 2013

Members of the Legislative Audit Committee:

We have completed the financial statement audits of Colorado State University – Global Campus as of and for the years ended June 30, 2012, 2011 and 2010. Our audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

BKD, LLP

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Colorado State University-Global Campus
(A University within the Colorado State University System)
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Colorado State University-Global Campus (A University within the Colorado State University System)

Report Summary

Years Ended June 30, 2012, 2011 and 2010

Purposes and Scopes of Audits

The Office of the State Auditor engaged **BKD, LLP** (BKD) to conduct a financial audit of Colorado State University – Global Campus (CSU – Global) for the years ended June 30, 2012, 2011 and 2010. BKD performed the audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The purposes and scopes of the audits were to

- Express opinions on the financial statements of CSU – Global as of and for the years ended June 30, 2012, 2011 and 2010, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards* for the years ended June 30, 2012, 2011 and 2010.
- Issue a report on CSU – Global’s internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audits of the financial statements performed in accordance with *Government Auditing Standards* for the years ended June 30, 2012, 2011 and 2010.

Audit Opinions and Reports

The independent auditor’s reports included herein expressed unqualified opinions on CSU – Global’s financial statements as of and for the years ended June 30, 2012, 2011 and 2010.

One instance of a material weakness in internal control over financial reporting was identified. This instance is discussed in the Auditor’s Findings and Recommendations section of this report.

Significant Audit Adjustments

There were five proposed audit adjustments identified during the audit for the year ended June 30, 2012. Three of these adjustments were made to the financial statements and two were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase current assets and decrease operating expenses by approximately \$19,600 as of and for the year ended June 30, 2012.

There were four proposed audit adjustments identified during the audit for the year ended June 30, 2011. Two of these adjustments were made to the financial statements and two were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase operating revenues and increase operating expenses by approximately \$15,300 for the year ended June 30, 2011.

There were six proposed audit adjustments identified during the audit for the year ended June 30, 2010. Four of these adjustments were made to the financial statements and two were not recorded. The proposed

Colorado State University-Global Campus
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Years Ended June 30, 2012, 2011 and 2010

audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to increase operating expenses and increase beginning net assets by approximately \$24,400 as of and for the year ended June 30, 2010.

Summary of Audit Recommendations

Internal Control Over Financial Reporting

We identified one finding related to the need for CSU – Global to improve its internal controls over the identification of and recording of transactions (See Recommendation No. 1).

Summary of Progress in Implementing Prior Audit Recommendations

There were no prior audit recommendations identified previous to the audits for the years ended June 30, 2012, 2011 and 2010.

Colorado State University – Global Campus

Recommendation Locator

Years Ended June 30, 2012, 2011 and 2010

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	12	CSU – Global should strengthen its accounting review policies and procedures by requiring that reviewers analyze supporting documentation necessary to gain an understanding of the transactions and determine that the resulting accounting entries are appropriate, including those entries made to record activity captured in the CampusVue system into the COFRS system. Training on relevant accounting standards should also be provided to staff to ensure that financial transactions and financial reporting are accurate and complete.	Agree.	Partially implemented (full implementation expected August 2013)

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Colorado State University – Global Campus
Description of the Colorado State University – Global Campus
Years Ended June 30, 2012, 2011 and 2010

Organization and Administration

Colorado State University-Global Campus (CSU – Global) is a Colorado public institution, and one of three universities within the Colorado State University System (the System). CSU – Global was created by the Colorado State University System Board of Governors in 2007, and initiated student instruction in the fall of 2008. It is not only the newest university to the System, but also Colorado’s most recently formed public university. CSU – Global is a 100% online university for bachelor’s and master’s degree completion. On June 30, 2011, CSU – Global was officially granted independent regional accreditation status by the Higher Learning Commission of the North Central Association of Colleges and Schools. The role and mission of CSU – Global is established in Section 23-31.3-101 C.R.S.

The Board of Governors of the Colorado State University System (the Board) has control and supervision of CSU – Global as well as CSU-Pueblo and CSU-Fort Collins, the other two universities within the System. The Board consists of 15 members: nine voting members appointed by the Governor and confirmed by the Senate for four-year terms and six advisory members representing the student bodies and the faculty councils elected for one-year terms.

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

Academic Degree Programs

CSU – Global currently offers 12 online undergraduate programs that lead to bachelor of science degrees in the following disciplines:

- Accounting
- Applied Social Sciences
- Business Management
- Communication
- Criminal Justice and Law Enforcement Administration
- Healthcare Administration and Management
- Information Technology
- Interdisciplinary Professional Studies
- Marketing
- Organizational Leadership
- Project Management
- Public Management

CSU – Global also currently offers eight graduate level degree programs in the following disciplines:

- Master of Science in Management
- Master of Science in Organizational Leadership
- Master of Science in Teaching and Learning
- Master of Criminal Justice and Law Enforcement Administration
- Master of Finance
- Master of Healthcare Administration and Management
- Master of International Management
- Master of Project Management

Colorado State University-Global Campus
 Description of the Colorado State University-Global Campus
 Years Ended June 30, 2012, 2011 and 2010

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

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

	Resident	Nonresident	Total
Fiscal year:			
2011–2012	2,046	544	2,590
2010–2011	1,485	262	1,747
2009–2010	708	124	832

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

	Faculty	Staff	Total
Fiscal year:			
2011–2012	144	71	215
2010–2011	98	47	145
2009–2010	51	39	90

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Colorado State University-Global Campus
Auditor's Findings and Recommendations
Years Ended June 30, 2012, 2011 and 2010

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Colorado State University – Global Campus (CSU – Global) as of and for the years ended June 30, 2012, 2011 and 2010 in accordance with auditing standards generally accepted in the United States of America, we considered CSU – Global's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSU – Global's internal control. Accordingly, we do not express an opinion on the effectiveness of CSU – Global's internal control.

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

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of CSU – Global's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

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

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

Material Weakness – Internal Control Over Financial Reporting

Financial Reporting

CSU – Global management is responsible for financial reporting, including the accurate and timely entry and approval of financial transactions into the accounting system in accordance with applicable accounting standards. In addition, management is responsible for reporting year-end accounting information to the office of the State Controller for inclusion in the statewide financial statements.

Colorado State University-Global Campus
Auditor's Findings and Recommendations
Years Ended June 30, 2012, 2011 and 2010

What was the purpose of the audit work?

The purpose of the audit work was to obtain information to opine on CSU – Global's financial statements and to assess the adequacy of CSU – Global's internal control environment as it relates to financial reporting.

What audit work was performed and how were results measured?

The audit work included conducting a detailed review of significant account balances, transactions, journal entries, and information prepared for external reporting of financial information for the years ended June 30 2012, 2011 and 2010.

What problem did the audit work identify?

Our audit procedures identified instances in which CSU – Global staff's review of financial information failed to identify errors related to the improper application of accounting standards as well as the completeness of proper cut-off procedures. These errors resulted in the following proposed audit adjustments:

Proposed Audit Adjustments Recorded

- Tuition revenue that should not have been deferred as it had been earned during the fiscal year (approximately \$80,000 in 2012)
- Accounts payable for technology services incurred, but not accrued (approximately \$131,000 in 2012)
- Payroll expense incurred, but not accrued (approximately \$200,000 in 2011)
- Deferred tuition revenue not recorded at year-end for cash received prior to June 30, 2010. (fiscal year 2011 classes). Incorrect data had been used to record the original entries (approximately \$669,000 in 2010).
- Deferred tuition revenue and accounts receivable improperly overstated (approximately \$1,639,000 in 2010)
- Reduce liability for tuition deposits for tuition revenue earned (approximately \$253,000 in 2010)
- Operating expenses (advertising expenses) incorrectly recorded as prepaids when they should have been expensed (approximately \$431,000 in 2012, \$323,000 in 2011 and \$991,000 in 2010)

The following table summarizes the net effect to CSU – Global's original net asset amounts as a result of the audit adjustments.

Colorado State University-Global Campus
Auditor's Findings and Recommendations
Years Ended June 30, 2012, 2011 and 2010

	2010	2011	2012
2012 Audit Adjustments Recorded			
Tuition Revenue			(80,000)
Technology Expense			(131,000)
Advertising Expense			(431,000)
2011 Audit Adjustments Recorded			
Payroll Expense		200,000	(200,000)
Advertising Expense		(323,000)	323,000
2010 Audit Adjustments Recorded			
Deferred Revenue	(669,000)	669,000	
Tuition Deposits	253,000	(253,000)	
Advertising Expense	(991,000)	991,000	
Effect on Net Assets	(1,407,000)	1,284,000	(519,000)

Proposed Audit Adjustments Not Recorded

- Prepaid insurance expense that CSU – Global failed to record (approximately \$20,000 in 2012)
- Operating expenses improperly netted with scholarship allowance (approximately \$15,000 in 2011)
- Rent expense improperly recorded in the prior year (approximately \$24,000 in 2010)
- A portion of the Scholarship allowance was netted improperly with tuition and fee revenue (approximately \$30,000 in 2012, \$60,000 in 2011 and \$53,000 in 2010)

Why did the problem occur?

CSU – Global staff did not identify the errors noted above pertaining to tuition revenue recognition, scholarship allowance and tuition deposits as part of their review of the monthly transactions. In addition, CSU – Global uses an accounting system (CampusVue) for tracking and recording tuition revenue that is separate from the Colorado Financial Reporting System (COFRS,) which is used by CSU – Global for all other accounting purposes. CampusVue does not interface with COFRS, which, as a result, requires the accounting department to manually record the activity captured in the CampusVue system into the COFRS system. This presents a risk for error as the information is only summarized and recorded on a monthly basis.

In addition to adjustments related to tuition, other audit adjustments relating to prepaid expenses, accounts payable, and accrued payroll were a result of insufficient training for staff on accounting standards.

Colorado State University-Global Campus

Auditor's Findings and Recommendations

Years Ended June 30, 2012, 2011 and 2010

Why does this problem matter?

Strong internal controls over financial reporting require that an entity implement processes to ensure transactions are properly analyzed and recorded on a timely basis and that there is adequate review over the fiscal year-end closing process. Transactions should be reviewed for accuracy and completeness. Such a review is also necessary for external reporting of financial information.

Failure to implement or adhere to such processes increases the risk that inaccurate financial reporting that could be material to CSU – Global's financial statements could occur.

Colorado State University-Global Campus

Auditor's Findings and Recommendations

Years Ended June 30, 2012, 2011 and 2010

Recommendation No. 1

CSU – Global should strengthen its accounting review policies and procedures by requiring that reviewers analyze supporting documentation necessary to gain an understanding of the transactions and determine that the resulting accounting entries are appropriate, including those entries made to record activity captured in the CampusVue system into the COFRS system. Training on relevant accounting standards should also be provided to staff to ensure that financial transactions and financial reporting are accurate and complete.

Colorado State University – Global Campus Response

Agree. On May 1, 2013, CSU Global began using an internal financial system that integrates with its student information system. Transactions in the financial system are now automatically fed to COFRS. Additionally, internal controls will continue to be identified, tested, and implemented to ensure accuracy in transactions transmitted to COFRS from CSU – Global's student information and internal financial systems. In November 2012 CSU – Global hired a new controller (who holds a CPA) to support the existing VP of Finance; it has also recently hired a senior accountant and an additional students account specialist. The university and its leadership are committed to the continued development of the Business Office department, with the addition of personnel and training as needed, to ensure integrity and compliance with accounting standards and regulations.

Implementation Date: Partially implemented (full implementation expected August 2013)

Colorado State University-Global Campus
Disposition of Prior Audit Recommendations
Years Ended June 30, 2012, 2011 and 2010

Summary of Progress in Implementing Prior Audit Recommendations

There were no findings and recommendations reported for the years prior to June 30, 2012.

Independent Auditor's Report on Financial Statements

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System, State of Colorado (the CSU System), as of and for the years ended June 30, 2012, 2011 and 2010, which collectively comprise CSU – Global's basic financial statements as listed in the table of contents. These financial statements are the responsibility of CSU – Global's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of CSU – Global are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the CSU System that is attributable to the transactions of CSU – Global. They do not purport to, and do not, present fairly the financial position of the CSU System as of June 30, 2012, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Colorado State University – Global Campus, as of June 30, 2012, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

Members of the Legislative Audit Committee:

management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The Description of the Colorado State University-Global Campus listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

April 11, 2013

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2012, 2011 and 2010

(Unaudited)

Management's Discussion and Analysis

This section of the financial report presents management's discussion and analysis of the financial performance of Colorado State University-Global Campus (CSU – Global) (a university within the CSU System) for the fiscal years ended June 30, 2012, 2011, 2010, and 2009. In fiscal year 2009, CSU – Global began offering classes to students. Therefore, management's comments will primarily focus on the periods ending June 30, 2010 through June 30, 2012, when revenues increased significantly. This discussion provides an analysis of CSU – Global's financial activities based on currently known facts, decisions, or existing conditions, and should be read in conjunction with CSU – Global's financial statements and notes, which are also presented in this document. The analyses in this section of the report are unaudited.

Enrollment and Financial Highlights

The following accomplishments occurred during the fiscal years ended June 30, 2012, 2011, 2010 and 2009:

- Student enrollment between fiscal year 2009 and 2010 increased 291%.
- Student enrollment between fiscal year 2010 and 2011 increased 110%.
- Student enrollment between fiscal year 2011 and 2012 increased 48%.
- After the first year of offering classes in fiscal year 2009, tuition revenue increased by 278% from fiscal year 2009 to 2010.
- Tuition revenue increased over three (3) times or 307% from fiscal year 2010 to 2012.
- CSU – Global's financial reserves moved from a deficit of \$11 million at June 30, 2009 to a \$2.9 million surplus by June 30, 2012.
- CSU – Global repaid \$12.0 million in start-up loan funds by the close of its fourth (4th) year of offering classes.

The Basic Financial Statements

The enclosed financial statements are designed to provide readers with a broad overview of CSU – Global's financial activities. The statement of net assets, statement of revenues, expenses and changes in net assets, and the statement of cash flows compose the basic financials of CSU – Global.

Financial Analysis

Statement of Net Assets

- The statement of net assets presents the financial position of CSU – Global and includes all assets and liabilities of CSU – Global at a point in time. CSU – Global's assets exceeded liabilities resulting in positive net assets at June 30, 2012, of \$2.9 million. This was not the case at June 30, 2011, June 30, 2010, and June 30, 2009, as liabilities exceeded assets resulting in a deficit net asset position of (\$5.8) million, (\$12.4) million, and (\$11.0) million, respectively. At June 30, 2012, the majority (75%) of CSU – Global's assets are held as cash and cash equivalents. Surplus reserves or net assets are primarily designated to fund strategic initiatives such as enrollment growth and exceptional customer service, to maintain financial stability as required by our Board and Higher Learning Accrediting Authorities and for the development of new and maintenance of existing online courses and degree programs.

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2012, 2011 and 2010

(Unaudited)

Summary of Net Assets

	June 30			
	2012	2011	2010	2009
Current assets	\$ 4,822,858	\$ 3,336,150	\$ 1,203,730	\$ 2,393,042
Total assets	<u>\$ 4,822,858</u>	<u>\$ 3,336,150</u>	<u>\$ 1,203,730</u>	<u>\$ 2,393,042</u>
Current liabilities	\$ 1,622,511	\$ 933,309	\$ 1,446,667	\$ 1,229,159
Noncurrent liabilities	<u>288,335</u>	<u>8,229,610</u>	<u>12,158,136</u>	<u>12,131,941</u>
Total liabilities	<u>\$ 1,910,846</u>	<u>\$ 9,162,919</u>	<u>\$ 13,604,803</u>	<u>\$ 13,361,100</u>
Net assets				
Unrestricted	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>	<u>\$ (12,401,073)</u>	<u>\$ (10,968,058)</u>
Total net assets	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>	<u>\$ (12,401,073)</u>	<u>\$ (10,968,058)</u>

The introduction of new courses and degree programs followed by strong enrollment growth contributed to the increase of CSU – Global's assets. Cash and cash equivalents increased 52% or \$1.2 million in 2012 over that of 2011. For this same period, net student accounts receivable increased \$209,000 or 22%. In addition, the \$2.1 million increase in CSU – Global's assets in 2011 over that of 2010 is primarily related to increases in cash and cash equivalents of \$2.0 million. A \$1.5 million decrease occurred in cash and cash equivalents between fiscal year 2009 and 2010, as CSU – Global enrolled only 200 students. With respect to receivables, CSU – Global collected approximately 96% of billable tuition from fiscal year 2009 to fiscal year 2012.

In 2012, total liabilities decreased \$7.3 million. Current liabilities increased \$689,000 due to higher payroll accruals and the recognition of deferred revenue. No deferred revenue was recognized in fiscal year 2011 because no classes overlapped fiscal years 2011 and 2012. Noncurrent liabilities decreased \$8.0 million due to loan payments to Colorado State University and Colorado State University – Pueblo in connection with advances made to establish CSU – Global. In 2011, total liabilities decreased \$4.4 million. Current liabilities decreased \$513,000 primarily as there was no revenue to defer for classes whose duration spanned fiscal year 2012 and fiscal year 2011. Noncurrent liabilities decreased \$3.9 million, which is primarily related to \$4.0 million in loan payments to Colorado State University and Colorado State University-Pueblo. The loan was paid in full by June 30, 2012, thereby creating a favorable net asset position or surplus at June 30, 2012.

Statement of Revenues, Expenses and Changes in Net Assets

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

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2012, 2011 and 2010

(Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30			
	2012	2011	2010	2009
Operating revenues				
Student tuition and fees	\$ 25,199,562	\$ 17,045,639	\$ 6,192,392	\$ 1,602,549
Other operating revenue	46,779	54,308	174,745	81,774
Total operating revenues	<u>25,246,341</u>	<u>17,099,947</u>	<u>6,367,137</u>	<u>1,684,323</u>
Operating expenses				
Instruction	4,165,980	3,175,828	1,484,500	1,032,923
Academic support	2,050,645	1,490,751	1,355,899	1,514,379
Student services	5,869,570	4,564,118	1,308,186	1,206,817
Institutional support	4,131,357	1,183,187	2,951,743	4,587,477
Operation and maintenance of plant	164,366	101,554	301,515	294,909
Scholarships and fellowships	2,966,981	1,928,708	634,199	68,723
Total operating expenses	<u>19,348,899</u>	<u>12,444,146</u>	<u>8,036,042</u>	<u>8,705,228</u>
Operating income (loss)	<u>5,897,442</u>	<u>4,655,801</u>	<u>(1,668,905)</u>	<u>(7,020,905)</u>
Nonoperating revenues (expenses)				
Investment income (loss)	(8,877)	23,795	(22,818)	17,426
Federal nonoperating grants and contracts	2,966,981	1,928,708	634,199	-
Net nonoperating revenues	<u>2,958,104</u>	<u>1,952,503</u>	<u>611,381</u>	<u>17,426</u>
Income (loss) before other revenues (expenses)	8,855,546	6,608,304	(1,057,524)	(7,003,479)
Other revenues (expenses) or transfers				
Payments to governing boards or other institutions	(116,765)	(34,000)	(375,491)	-
Total other revenues, expenses or transfers	<u>(116,765)</u>	<u>(34,000)</u>	<u>(375,491)</u>	<u>-</u>
Increase (decrease) in net assets	8,738,781	6,574,304	(1,433,015)	(7,003,479)
Net assets, beginning of year	<u>(5,826,769)</u>	<u>(12,401,073)</u>	<u>(10,968,058)</u>	<u>(3,964,579)</u>
Net assets, end of year	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>	<u>\$ (12,401,073)</u>	<u>\$ (10,968,058)</u>

The introduction of new courses and degree programs combined with strong enrollment growth led to significant increases in operating revenues and expenses. Although tuition rates increased between the period of June 30, 2009, and June 30, 2012, the rate changes were minimal and only applied to first-time ever new students entering the university. CSU – Global offers fixed tuition pricing. Once a student enrolls in a degree program, the tuition rate is locked as long as the student remains in classes and in good academic standing. Total revenue is also affected by the amount of classes taken by each student and the ratio of undergraduate to graduate classes. From June 30, 2010, through June 30, 2012, total student enrollment increased 211%. During this same period, tuition revenue grew from \$6.2 million to \$25.2 million, an increase of 307%.

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2012, 2011 and 2010

(Unaudited)

As the interest and demand grew for CSU – Global online course offerings, so did its operating costs. From June 30, 2010, through June 30, 2012, the number of instructors increased 182%. The number of non-teaching or support staff employees increased 82% during this same period. CSU – Global invests approximately 40% of its operating budget on academic-related activities such as online instruction, and course design, maintenance, and development. Between fiscal years 2010 and 2012, an average of 33% of CSU – Global's operating costs was spent on student enrollment and retention services, while an average of 27% was spent on administration, technology and facilities.

Nonoperating revenues increased from \$611,000 to \$3.0 million dollars or 384% between fiscal year 2010 and fiscal year 2012. This increase is attributable to the increased number of undergrad students eligible for federal grants. Nonoperating revenues for CSU – Global primarily consist of federal Pell Grant awards received on behalf of students. Reporting standards require the receipt of these resources to be recognized as nonoperating revenue while the actual disbursement to students is reported as an operating expense.

As a result of increased enrollment and revenues in excess of costs, CSU – Global realized an increase in net assets of \$8.7 million and \$6.6 million in the fiscal years ended June 30, 2012, and June 30, 2011. Both years combined were sufficient to eradicate the deficit amount that existed as of June 30, 2010, and yield a favorable net asset position as of June 30, 2012.

Statement of Cash Flows

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

Economic Outlook for Colorado State University-Global Campus

Quality, convenience, flexibility and affordability are the growing demands of the educational consumer. Management believes that CSU – Global is well positioned to meet these expectations. The research and introduction of relevant courses and degree programs to educate and enhance skills of the workforce will continue to be a high academic initiative. Management believes CSU – Global will continue to experience strong enrollment growth as newly accredited programs are introduced to the market. Our fixed tuition guarantee will also drive student enrollment. Although CSU – Global is a Colorado public university, it receives no direct state funding. Therefore, the threat of reduced or limited state support will not encumber the mission of CSU – Global. Additionally, CSU – Global has minimal long-term debt and it is the intent of management to continue this fiscal policy. As of June 30, 2012, CSU – Global achieved a strong and favorable net asset position. Given our initiatives, trends, and observation of the educational market, management believes that the financial position of CSU – Global will continue to improve.

As in any industry, there are uncertain economic and political factors that may restrict the growth and threaten the financial viability of an organization. With CSU – Global's operational flexibility, minimal long-term debt load, low operating costs, and revenue diversification initiatives, management believes assets such as these will help maneuver through adverse and unforeseeable events.

Requests for Information

The financial report is designed to provide a general overview of the Colorado State University-Global Campus's finances for all those with an interest in CSU – Global's finances and to demonstrate CSU –

Colorado State University-Global Campus

Management's Discussion and Analysis

Years Ended June 30, 2012, 2011 and 2010

(Unaudited)

Global's accountability for money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the attention of the Chief Financial Officer, Colorado State University-Global Campus, 8000 East Maplewood Avenue, Building 5, Suite 250, Greenwood Village, CO 80111. A breakdown of assets by category, net of accumulated depreciation is provided below.

Colorado State University-Global Campus

Statements of Net Assets June 30, 2012, 2011 and 2010

	2012	2011	2010
Assets			
Current assets			
Cash and cash equivalents	\$ 3,609,150	\$ 2,368,618	\$ 319,748
Student accounts receivable, net	1,170,567	961,403	757,982
Grant and other accounts receivable, net	43,141	6,129	126,000
Total current assets	4,822,858	3,336,150	1,203,730
Total assets	\$ 4,822,858	\$ 3,336,150	\$ 1,203,730
Liabilities			
Current liabilities			
Accounts payable	\$ 139,382	\$ 180,928	\$ 179,926
Accrued liabilities	886,626	619,598	412,697
Deferred revenue	290,454	-	668,581
Deposits held for others	306,049	132,783	185,463
Total current liabilities	1,622,511	933,309	1,446,667
Noncurrent liabilities			
Other long-term liabilities	-	8,000,000	12,000,000
Compensated absence liabilities	288,335	229,610	158,136
Total noncurrent Liabilities	288,335	8,229,610	12,158,136
Total liabilities	\$ 1,910,846	\$ 9,162,919	\$ 13,604,803
Net Assets			
Net assets			
Unrestricted	\$ 2,912,012	\$ (5,826,769)	\$ (12,401,073)
Total net assets	\$ 2,912,012	\$ (5,826,769)	\$ (12,401,073)

See accompanying notes to basic financial statements

Colorado State University-Global Campus
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012, 2011 and 2010

	2012	2011	2010
Operating revenues			
Student tuition and fees	\$ 25,199,562	\$ 17,045,639	\$ 6,192,392
Other operating revenue	46,779	54,308	174,745
Total operating revenues	<u>25,246,341</u>	<u>17,099,947</u>	<u>6,367,137</u>
Operating expenses			
Instruction	4,165,980	3,175,828	1,484,500
Academic support	2,050,645	1,490,751	1,355,899
Student enrollment services	5,869,570	4,564,118	2,394,154
Institutional support	4,131,357	1,183,187	1,865,775
Operation and maintenance of plant	164,366	101,554	301,515
Scholarships and fellowships	2,966,981	1,928,708	634,199
Total operating expenses	<u>19,348,899</u>	<u>12,444,146</u>	<u>8,036,042</u>
Operating income (loss)	5,897,442	4,655,801	(1,668,905)
Nonoperating revenues (expenses)			
Investment income	(8,877)	23,795	(22,818)
Federal nonoperating grants and contracts	2,966,981	1,928,708	634,199
Net nonoperating revenues	<u>2,958,104</u>	<u>1,952,503</u>	<u>611,381</u>
Income before other revenues	<u>8,855,546</u>	<u>6,608,304</u>	<u>(1,057,524)</u>
Other revenues (expenses), or transfers			
Payments to governing boards or other institutions	(116,765)	(34,000)	(375,491)
Total other revenues (expenses), or transfers	<u>(116,765)</u>	<u>(34,000)</u>	<u>(375,491)</u>
Increase (decrease) in net assets	8,738,781	6,574,304	(1,433,015)
Net assets, beginning of year	<u>(5,826,769)</u>	<u>(12,401,073)</u>	<u>(10,968,058)</u>
Net assets, end of year	<u>\$ 2,912,012</u>	<u>\$ (5,826,769)</u>	<u>\$ (12,401,073)</u>

See accompanying notes to basic financial statements

Colorado State University System-Global Campus

Statements of Cash Flows

Years Ended June 30, 2012, 2011 and 2010

	2012	2011	2010
Cash flows from operating activities			
Cash received			
Tuition and fees	\$ 24,689,297	\$ 15,760,148	\$ 6,019,135
Other operating receipts	9,767	174,179	56,804
Cash payments			
Scholarships disbursed	(2,966,981)	(1,928,708)	(634,199)
Payments to employees	(9,411,066)	(7,138,438)	(3,957,116)
Payments to suppliers	(5,920,097)	(2,734,519)	(3,304,947)
Net cash provided by (used in) operating activities	6,400,920	4,132,662	(1,820,323)
Cash flows from noncapital financing activities			
Agency-direct lending outflows	23,547,826	17,675,569	6,691,470
Agency-direct lending inflows	(23,547,826)	(17,675,569)	(6,691,470)
Other agency inflows	230,465	11,446	50,587
Other agency outflows	(232,193)	(13,741)	(44,583)
Payments to governing boards or other institutions	(8,116,764)	(4,034,000)	(375,491)
Other nonoperating revenues	2,966,981	1,928,708	634,199
Net cash provided by (used in) noncapital financing activities	(5,151,511)	(2,107,587)	264,712
Cash flows from investing activities-investment (earnings) losses	(8,877)	23,795	(22,818)
Net increase (decrease) in cash and cash equivalents	1,240,532	2,048,870	(1,578,429)
Cash and cash equivalents, beginning of the year	2,368,618	319,748	1,898,177
Cash and cash equivalents, end of the year	\$ 3,609,150	\$ 2,368,618	\$ 319,748
Reconciliation of operating loss to net cash provided by (used in) operating activities			
Operating income	\$ 5,897,442	\$ 4,655,801	\$ (1,668,905)
Adjustments			
Bad debt expense	766,547	363,104	83,865
Decrease (increase) in assets			
Receivables, net	(1,012,724)	(446,654)	(569,536)
Prepays	-	-	96,553
Increase (decrease) in liabilities			
Accounts payable	(41,546)	1,002	(137,844)
Accrued liabilities	267,028	206,901	84,249
Deferred revenue	290,454	(668,581)	98,879
Deposits held for others	174,994	(50,385)	179,459
Compensated absences liabilities	58,725	71,474	12,957
Net cash provided by (used in) operating activities	\$ 6,400,920	\$ 4,132,662	\$ (1,820,323)
Noncash activities			
Unrealized (gains) losses on investments	\$ (8,877)	\$ 23,795	\$ (22,818)

See Notes to the Financial Statements

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

(1) Governance and Reporting Entity

Governance

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

Reporting Entity

The accompanying financial statements present the operations of CSU – Global. The income of CSU – Global is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of CSU – Global would be subject to tax under IRC Section 511(a)(2)(B). CSU – Global had no material unrelated business income for the years ended June 30, 2012, 2011 and 2010.

(2) Basis of Presentation

CSU – Global 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, CSU – Global has applied those FASB statements and interpretations issued on or before November 30, 1989. CSU – Global has elected not to apply FASB statements and interpretations issued after November 30, 1989.

Any effort to reconcile this report with presentations made for other purposes, such as data submitted with the legislative budget request of CSU – Global, 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, CSU – Global is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the basic financial statements of CSU – Global 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.

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.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

Compensated Absence Liabilities

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

Net Assets

Net assets of CSU – Global represent unrestricted resources derived from student tuition and fees. These resources are used for transactions relating to the academic, student support, and administrative operations of CSU – Global and may be used to meet current expenses for any purpose. Unrestricted net assets may be designated by actions of the Board or executive management.

Classification of Revenues

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

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

Deferred Revenue

CSU – Global defers a portion of the tuition revenue for courses whose duration span two fiscal years. The amount recognized or deferred is based on the number of teaching days that occur after June 30.

Use of Estimates

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

(4) Cash and Cash Equivalents

CSU – Global 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 Section 24-75-601.1 CRS. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2012, CSU – Global had cash on deposit with the State

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

Treasurer of \$1.1 million, which represented approximately 0.02 percent of the total \$6.5 billion fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2011, CSU – Global had cash on deposit with the State Treasurer of \$1.6 million, which represented approximately 0.03 percent of the total \$6.1 billion fair value of deposits in the Pool. As of June 30, 2010, CSU – Global had cash on deposit with the State Treasurer of \$300 thousand, which represented approximately 0.005 percent of the total \$6.0 billion fair value of deposits in the Pool.

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

The difference between CSU – Global's cash carrying value, deposits with the State Treasurer, and balances at other banks is due to outstanding checks and deposits in transit. CSU – Global earned no interest on deposits with the State for the fiscal years ended June 30, 2012, 2011 and 2010. However, CSU – Global recognized the occurrence of increases in cash and cash equivalents and increases or decreases in investment income as a result of unrealized gains or losses on deposits with the State Treasurer. CSU – Global reflected a cumulative unrealized gain of \$15 thousand, \$24 thousand, and \$0 on cash and cash equivalents on deposit with the State Treasurer for fiscal years ended June 30, 2012, 2011 and 2010, respectively. The unrealized loss included in investment income for the fiscal year ended June 30, 2012, was \$9 thousand, the unrealized gain included in investment income for the fiscal year ended June 30, 2011, was \$24 thousand, and the unrealized loss included in investment income for the fiscal year ended June 30, 2010, was \$23 thousand. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the 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, 2012, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

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

At June 30, 2012, 2011 and 2010, CSU – Global's book and bank balance value of cash not on deposit with the State Treasurer was \$2.6 million, \$864 thousand, and \$100 thousand, respectively. Cash includes petty cash or cash on hand and cash in bank accounts. Bank account balances per the bank at June 30, 2012, 2011 and 2010, of are \$2.6 million, \$864 thousand, and \$100 thousand, respectively. Deposits in bank accounts at June 30, 2012, 2011 and 2010, are covered by depository insurance and were not exposed to custodial credit risk.

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2012, approximately 89.0 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$12.1 million of corporate bonds rated lower medium, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2011, approximately 86.7 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$18.4 million of corporate bonds rated lower medium and \$15.0 million of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2010, approximately 88.1 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$25.6 million of corporate bonds rated lower medium, \$14.5 million of corporate bonds rated speculative, and \$14.0 million of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality which indicates that the issuer has a strong capability to pay principal and interest when due.

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, 2012, the weighted average maturity of investments in the Pool was 0.090 years for Commercial Paper (2.1 percent of the Pool), 0.803 years for U.S. Government Securities (75.2 percent of the Pool), 2.379 years for Asset Backed Securities (6.6 percent of the Pool), and 3.252 years for Corporate Bonds (16.1 percent of the Pool). As of June 30, 2011, the weighted average maturity of investments in the Pool was 0.015 years for Commercial Paper (1.3 percent of the Pool), 1.054 years for U.S. Government Securities (81.7 percent of the Pool), 1.06 years for Asset Backed Securities (6.9 percent of the Pool), and 3.133 years for Corporate Bonds (10.1 percent of the Pool). As of June 30, 2010, the weighted average maturity of investments in the Pool was 0.04 years for Commercial Paper (3.7 percent of the Pool), 0.01 years for Money Market Funds (3.2% of the Pool), 1.30 years for U.S. Government Securities (73.8 percent of the Pool), 1.36 years for Asset Backed Securities (12.6 percent of the Pool), and 2.05 years for Corporate Bonds (6.7 percent of the Pool).

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years ended June 30, 2012, 2011, or 2010.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

Colorado State University – Global Campus

Notes to Basic Financial Statements
Years Ended June 30, 2012, 2011 and 2010

(5) Accounts Receivable

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

	June 30		
	2012	2011	2010
Student accounts receivable	\$ 2,419,827	\$ 1,459,380	\$ 892,855
Less: allowance for doubtful accounts	(1,249,260)	(497,977)	(134,873)
Student accounts receivable, net	\$ 1,170,567	\$ 961,403	\$ 757,982
Other accounts receivable	\$ 43,141	\$ 6,129	\$ 126,000

(6) Accrued Liabilities

The current accrued liabilities balances as of June 30 2012, 2011 and 2010, were composed of the following:

	2012	2011	2010
Accrued payroll and benefits	\$ 886,626	\$ 619,598	\$ 412,697

(7) Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/2011	Additions	Reductions	Balance 6/30/2012	Amounts due within one year
Accrued compensated absences	\$ 229,610	\$ 93,166	\$ 34,441	\$ 288,335	\$ -

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	Balance 6/30/2010	Additions	Reductions	Balance 6/30/2011	Amounts due within one year
Accrued compensated absences	\$ 158,136	\$ 71,474	\$ -	\$ 229,610	\$ -
Other - start-up loan	12,000,000	-	4,000,000	8,000,000	-
Total long-term liabilities	\$ 12,158,136	\$ 71,474	\$ 4,000,000	\$ 8,229,610	\$ -

Colorado State University – Global Campus

Notes to Basic Financial Statements
Years Ended June 30, 2012, 2011 and 2010

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/2009	Additions	Reductions	Balance 6/30/2010	Amounts due within one year
Accrued compensated absences	\$ 145,179	\$ 32,740	\$ 19,783	\$ 158,136	\$ -
Start-up loan	12,000,000	-	-	12,000,000	-
Total long-term liabilities	<u>\$ 12,145,179</u>	<u>\$ 32,740</u>	<u>\$ 19,783</u>	<u>\$ 12,158,136</u>	<u>\$ -</u>

(8) Operating Leases

CSU – Global leases its office space under an operating lease agreement that expires October 31, 2013. Rent expense was \$163,005, \$102,634, and \$281,266 for fiscal years ended June 30, 2012, 2011 and 2010, respectively.

Future minimum lease payments under operating leases:

Fiscal year ending June 30:	
2013	\$ 204,950
2014	<u>72,859</u>
Total	<u>\$ 277,809</u>

In fiscal year 2011, CSU – Global received a 6-month retroactive property tax rent credit in the amount of \$60,587. In addition, a monthly credit of \$3,366 beginning July 1, 2010 (\$40,392 annually) continues for the duration of the lease.

(9) Net Assets

CSU – Global could be subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions and State of Colorado statutes.

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

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

(10) Employment Benefits

Employees of CSU – Global, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a Student Employee Retirement Plan (SERP), which is funded solely by student contributions. The SERP is a defined contribution plan administered by a consortium of institutions of higher education in the State. All other eligible employees of CSU – Global participate in one of two additional plans, the Public Employees' Retirement Association Defined Benefit Plan (PERA)

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

or an Optional Retirement Plan (ORP), subject to eligibility criteria defined by PERA and the University for each separate governing entity.

CSU – Global's total payroll for the fiscal years ended June 30, 2012, 2011 and 2010, was approximately \$8.0 million, \$6.1 million and \$3.3 million, respectively. Payroll for employees covered by the PERA plan and the optional defined contribution plan was approximately \$673 thousand, \$699 thousand, and \$1.1 million, respectively, for the fiscal year ended June 30, 2012, 2011 and 2010.

(a) PERA Defined Benefit Pension Plan

Plan Description

Employees of CSU – Global deemed eligible under PERA's membership rules for institutions of higher education may participate in the Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide lifetime retirement income to PERA annuitants and/or their families in the case of death or disability. The plan is a cost sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

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

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

- Hired before July 1, 2005 – at age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service

Colorado State University – Global Campus

Notes to Basic Financial Statements Years Ended June 30, 2012, 2011 and 2010

requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.

- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

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

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

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

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

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

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

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

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

Funding Policy

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

Prior to July 1, 2010, employees contributed 8 percent of their salary, as defined in CRS 2451-10 I (42), to an individual account in the plan. Effective July 1, 2010, Senate Bill 10-146 required members in the State to pay 2.5 percent additional member contributions through June 30, 2011. Effective July 1, 2011, Senate Bill 11-076 extended the requirement for members in the State to pay 2.5 percent additional member contributions through June 30, 2012. Employer contributions for members were reduced by 2.5 percent.

From July 1, 2009 to June 30, 2010, CSU – Global contributed 10.15% of the employee's salary. From July 1, 2010, to December 31, 2010, CSU – Global contributed 11.35% of the employee's salary. From January 1, 2011, through December 31, 2011, CSU – Global contributed 12.25% of the employee's salary. From January 1, 2012, through June 30, 2012, CSU Global contributed 13.15% of the employee's salary.

Per Colorado Revised Statutes CRS 24-51-211(1), an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates had a funded ratio of 57.7 percent and a 56-year amortization period based on current contribution rates. The funded ratio on the market value of assets was lower at 57.6 percent.

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

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

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

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

CSU – Global's payroll contributions to PERA for the fiscal years ended June 30, 2012, 2011, and 2010, were approximately \$86 thousand, \$83 thousand, and \$116 thousand. These contributions met the contribution requirement for each year.

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

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

Voluntary Tax-Deferred Retirement Plans

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

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

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

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

The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 CRS). As a university of the Board of Governors for the Colorado State University System, CSU – Global employees are eligible to participate in the System's retirement plan. The Defined Contribution Retirement Plan is a qualified plan under Section 401(a) of the IRC. CSU – Global participants contribute the required 8 percent of eligible salary. CSU – Global provides a matching contribution of 11.1 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. CSU – Global's aggregate contribution to the above two vendors was equal to 11.1 percent, 11.1 percent and 11.1 percent of covered payroll or approximately \$767 thousand, \$558 thousand and \$313 thousand for the fiscal years ended June 30, 2012, 2011 and 2010, respectively. The employee aggregate contribution to the above two vendors was equal to 8.0 percent, 8.0 percent, and 8.0 percent of covered payroll or approximately \$588 thousand, \$433 thousand and \$174 thousand for the fiscal year ended June 30, 2012, 2011 and 2010, respectively.

Health and Life Insurance Programs

CSU – Global's contribution to the various health insurance programs was approximately \$554 thousand, \$393 thousand and \$227 thousand for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

(11) Compensated Absences Liability

CSU – Global 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, 2012, 2011 and 2010, was \$288 thousand, \$230 thousand and \$158 thousand, respectively.

Overall, net expenses increased \$59 thousand for the fiscal year ended June 30, 2012, by \$71 thousand, for the fiscal year ended June 30, 2011, and by \$13 thousand for the fiscal year ended June 30, 2010, for the estimated compensated absences liabilities.

(12) Direct Student Financial Aid Reporting

During the fiscal years ended June 30, 2012 and 2011 and 2010, CSU – Global 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 – Global helps students obtain these loans, CSU – Global 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, 2012, 2011 and 2010, were \$23.5 million, \$17.6 million and \$6.7 million respectively.

(13) Scholarship Allowance

Tuition and fees revenues and the related scholarship allowances for the years ended June 30, 2012, 2011 and 2010, were as follows:

	Tuition and Fees		
	2012	2011	2010
Gross revenue	\$ 25,383,899	\$ 17,164,817	\$ 6,365,137
Less scholarship allowances			
Institutional	184,337	119,178	172,745
Net revenue	<u>\$ 25,199,562</u>	<u>\$ 17,045,639</u>	<u>\$ 6,192,392</u>

Colorado State University – Global Campus

Notes to Basic Financial Statements
Years Ended June 30, 2012, 2011 and 2010

(14) Related-Party Transactions

As one of three universities of the Colorado State University system, CSU – Global made payments to its sister institutions for various activities noted in the table below. In years prior to fiscal year 2010, CSU-Pueblo and CSU-Fort Collins advanced \$12 million as a start-up loan to create CSU – Global. For the years ending June 30, 2012, 2011, and 2010, payments were made as follows (other than the principal payments on the start-up loan, the amounts below are included in operating expenses for the years ending 2012, 2011 and 2010):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Colorado State University - Pueblo			
Principal Payments on Start-Up Loan	\$ 730,421	\$ 360,000	\$ -
Interest Payments on Start-Up Loan	110,865	-	-
Course Curriculum Acquisition	-	28,000	100,000
Revenue Share for Course Curriculum	74,362	-	-
Reimbursement for Payroll Costs	-	-	172,375
Reimbursement for Commencement Services	-	-	1,337
Student Financial Aid Processing Services	18,000	6,000	12,000
Military Outreach Services	16,667	-	89,779
Subtotal	<u>950,315</u>	<u>394,000</u>	<u>375,491</u>
Colorado State University - Fort Collins			
Principal Payments on Start-Up Loan	7,269,579	3,640,000	-
Course Curriculum Acquisition	-	-	8,000
Revenue Share for Course Curriculum	408,037	-	-
Rental Vehicle Costs for Military Enrollment Outreach	-	11,281	9,138
Advertising	-	5,350	7,145
Interim CEO Services & Operating Reimbursements	-	-	42,726
Subtotal	<u>7,677,616</u>	<u>3,656,631</u>	<u>67,009</u>
Total	<u>\$ 8,627,931</u>	<u>\$ 4,050,631</u>	<u>\$ 442,500</u>

CSU – Global had \$72,000 outstanding to Colorado State University for course curriculum acquisition at June 30, 2010, which was paid off during fiscal year ending June 30, 2011. There were no amounts receivable from related parties at June 30, 2012, 2011 or 2010.

(15) Risk Management

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

Colorado State University – Global Campus

Notes to Basic Financial Statements

Years Ended June 30, 2012, 2011 and 2010

(16) Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. There were no significant subsequent events that require disclosure under this standard.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System, State of Colorado (the CSU System) as of and for the years ended June 30, 2012, 2011 and 2010, which collectively comprise CSU – Global's basic financial statements and have issued our report thereon dated April 11, 2013, which contained an explanatory paragraph indicating the financial statements do not purport to, and do not, present the CSU System's financial position, changes in financial position, or, where applicable, cash flows. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of CSU – Global is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered CSU – Global's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CSU – Global's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CSU – Global's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as in the Auditor's Findings and Recommendations section of this document, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of CSU – Global's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described under Recommendation No. 1 in the Auditor's Findings and Recommendations section of this document to be a material weakness in internal control over financial reporting.

Members of the Legislative Audit Committee

Compliance and Other Matters

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

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

BKD, LLP

April 11, 2013

Independent Auditor's Audit Committee Communication

Members of the Legislative Audit Committee:

As part of our audits of the financial statements of Colorado State University – Global Campus (CSU – Global), a university within the Colorado State University System (the CSU System) as of and for the years ended June 30, 2012, 2011 and 2010, we wish to communicate the following to you.

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

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

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

An audit of the financial statements and compliance does not relieve management or those charged with governance of their responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

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

Alternative Accounting Treatments

- No matters are reportable.

Members of the Legislative Audit Committee:

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowance for doubtful accounts
- Scholarship allowance
- Compensated absences

Financial Statement Disclosures

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

- No matters are reportable.

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which adjustments were proposed include the following:

Proposed Audit Adjustments Recorded:

- Deferred revenue
- Accounts receivable
- Scholarship allowance
- Deposits held for others
- Prepaid expenses
- Accounts payable
- Accrued payroll

Proposed Audit Adjustments Not Recorded:

- The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been as follows:
 - i. increase current assets as of June 30, 2012, and decrease operating expenses for the year ended June 30, 2012, by approximately \$19,600.
 - ii. increase operating revenues and increase operating expenses by approximately \$15,300 for the year ended June 30, 2011.

Members of the Legislative Audit Committee:

- iii. increase operating expenses for the year ended June 30, 2010, and increase beginning net assets as of July 1, 2009, by approximately \$24,400.

Auditor’s Judgments About the Quality of the System’s Accounting Principles

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

- No matters are reportable.

Other Material Written Communications

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

- Management representation letter

* * * * *

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

BKD, LLP

April 11, 2013

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