

Independent Auditors' Report on Bond Compliance

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System, State of Colorado (the System), as of and for the year ended June 30, 2012, which collectively comprise its basic financial statements and have issued our report thereon dated November 19, 2012, which contained an explanatory paragraph indicating the financial statements do not purport to, and do not, present the State of Colorado's financial position, changes in financial position, or, where applicable, cash flows and contained a reference to the report of other auditors. 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. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit, as described in our report on the System's financial statements. The financial statements of the Colorado State University Foundation, the discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of the respective Authorizing Bond Resolutions and the Official Statements (collectively, bond resolutions) insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such compliance.

In accordance with the respective bond resolutions discussed above, revenue bonds' earnings requirement schedules (Schedules) are shown on pages 105-107. We have not audited the Schedules and express no opinion on them.

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

BKD, LLP

November 19, 2012

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Colorado State University System
Revenue Bonds' Earnings Requirement Schedules
(Unaudited)
Year Ended June 30, 2012

Colorado State University (CSU) Enterprise System Revenue and Refunding Bonds

The following information is presented in accordance with the bond resolutions of the Enterprise System Refunding and Improvement Revenue Bonds. Below are calculations of the earnings requirement for meeting the following bond resolutions: a) CSU Enterprise System Refunding and Revenue Bonds, Series 2005 B, which report the earnings of the entire Enterprise System net of the revenues and expenses earned and expensed between the Auxiliary Facilities; b) CSU-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2003; and c) System Enterprise Revenue Bonds, Series 2007 A, B and C, 2008 A, 2009 A, 2010 A, B and C, and 2012 A and 2012 B and C, which include the earnings of 10 percent tuition, CSU 80 percent facilities fees, CSU-Pueblo 100 percent facilities fees, CSU Research Building Revolving Fund, and the remaining Auxiliary pledged revenues after debt service requirements on the 2003 and 2005 B bonds.

- a) The bond resolutions require that earnings be calculated after the payment of the bond maturities for the prior year of the Auxiliary Facilities and the Student Recreational Facilities bonds. For the purposes of determining compliance with the bond resolution, earnings for the fiscal year ended June 30, 2012 are computed as follows:

| | | |
|--|----|-------------|
| Auxiliary revenues | \$ | 86,838,370 |
| Add: | | |
| Auxiliary fee revenue | | 18,090,261 |
| Investment income | | 988,684 |
| | | 105,917,315 |
| Auxiliary expenses | | |
| Unrestricted expenses | | 83,430,121 |
| Less: | | |
| Excluded equipment expenditures | | (453,016) |
| Compensated absences adjustment | | 25,622 |
| | | 83,002,727 |
| Student sports recreational facilities | | |
| Unrestricted expenses | | 3,951,875 |
| Less: | | |
| Excluded equipment expenditures | | (8,664) |
| Compensated absences adjustment | | (893) |
| | | 3,942,318 |
| Net income to meet the earnings requirement under the bond resolution | \$ | 18,972,270 |
| Net income required under the bond resolution: | | |
| Current year principal and interest payments | \$ | 5,399,084 |
| Minimum earnings ratio required by bond resolution | | 100% |
| Net income required under the bond resolution | \$ | 5,399,084 |

The net income to meet the earnings requirement under the bond resolution shown above exceeds the required amount.

Colorado State University System
Revenue Bonds' Earnings Requirement Schedules
(Unaudited)
Year Ended June 30, 2012

b) For the purposes of determining compliance with the bond resolution, 2003 CSU-Pueblo Auxiliary Facility Enterprise Refunding and Improvement Revenue Bonds earnings for the fiscal year ended June 30, 2012 are computed as follows:

| | | |
|--|----|------------|
| Auxiliary revenues | \$ | 13,338,902 |
| Add: | | |
| Auxiliary fee revenue | | 235,371 |
| Investment income | | 378,608 |
| | | 13,952,881 |
| Unrestricted expenses | | 9,956,317 |
| Less: | | |
| Excluded equipment expenditures | | (263,203) |
| Compensated absences adjustment | | (17,101) |
| | | 9,676,013 |
| Net income to meet the earnings requirement under the bond resolution | \$ | 4,276,868 |
| Net income required under the bond resolution: | | |
| Current year principal and interest payments | \$ | 497,963 |
| Minimum earnings ratio required by bond resolution | | 125% |
| Net income required under the bond resolution | \$ | 622,454 |

The net income to meet the earnings requirement under the bond resolution shown above exceeds the required amount.

Colorado State University System
Revenue Bonds' Earnings Requirement Schedules
(Unaudited)
Year Ended June 30, 2012

c) For the purposes of determining compliance with the bond resolution, earnings for the System Enterprise Revenue for the fiscal year ended June 30, 2012 are computed as follows:

| | Tuition and Facilities Fee | Research Building Revolving Fund | Total |
|--|---|---|----------------|
| Pledged revenues | \$ 42,706,703 | 49,233,347 | 91,940,050 |
| Pledged investment income | 46,789 | 45,590 | 92,379 |
| | 42,753,492 | 49,278,937 | 92,032,429 |
| Operating expenses | 16,080 | 647,218 | 663,298 |
| Total tuition, facilities fee and Research Building Revolving Fund, net of operating expenses | 42,737,412 | 48,631,719 | 91,369,131 |
| Auxiliary revenues | | | |
| Net available revenues | | | 23,249,138 |
| Current year debt service requirements for 2003 and 2005 B bonds | | | (5,897,046) |
| Total available for enterprise system | | | 17,352,092 |
| Total net enterprise system revenue | | | \$ 108,721,223 |
| Net income required under the bond resolution: | | | |
| Current year principal and interest payments | | | \$ 26,028,961 |
| Minimum earnings ratio required by bond resolution | | | 100% |
| Net income required under the bond resolution | | | \$ 26,028,961 |

The net income to meet the earnings requirement under the bond resolution shown above exceeds the required amount.