

University activities of instruction, research, and public service that are derived from and support its primary role and mission are recorded in the Unrestricted Funds group as a sub-set of the total operation called Education and General (E&G). E&G excludes auxiliaries which are defined in this context as entities that furnish goods or services to students, faculty, or staff; that charge a fee directly related to, though not necessarily equal to, the cost of the good or services; and that are managed as self-supporting activities. In this context, Continuing Education is considered an auxiliary and is therefore excluded from E&G. E&G also excludes sponsored programs and grants because of their restricted nature. Specific to CSU-Pueblo, all E&G activity is recorded in funds beginning with 01.

The University's E&G activity for the first quarter of FY10 that ended September 30, 2009 is summarized below.

<b>Education &amp; General Activity, <u>Cash Basis</u></b>			
<b>FY2009-10 at September 30, 2009</b>			
REVENUES		EXPENDITURES	
Tuition & Fees	\$14,642,000	Instruction	\$4,190,000
State Fee for Service	\$0	Academic Support	\$1,291,000
Federal Stimulus Funds	\$0	Student Services	\$1,271,000
Sales & Service of Educ. Activities	\$130,000	Operation & Maintenance of Plant	\$1,152,000
F & A Recoveries	\$55,000	Institutional Support	\$861,000
Interest Income	\$4,000	Scholarships & Fellowships	\$529,000
Other Sources	\$25,000	Research & Public Service	\$31,000
<b>TOTAL REVENUE</b>	<b>\$14,856,000</b>	<b>TOTAL EXPENDITURES</b>	<b>\$9,325,000</b>

The following information is important to understanding the relationship of these quarterly numbers as they relate to the University's annual budget and activity:

1. The University's primary revenue source is tuition and fees collected from students and from the State in the form of COF stipends for eligible resident undergraduate students. Thus, the University has two major revenue generating events annually – the beginning of the fall and spring semesters – with the summer semester being a minor revenue generating event.
2. Historically, the University collects 47% of this enrollment-driven revenue in August for the fall semester, 44% in January for the spring semester, and 9% in May for the summer semester.
3. As is the case with most higher education institutions, CSU-Pueblo's biggest E&G expense is personnel. 77% of the FY09 E&G expenditures went to salaries and benefits. The majority of personnel expenditures are made in relatively equal amounts over the twelve months of the fiscal year.
4. As a result, expenditures run ahead of revenues from the beginning of the fiscal year in July until the fall semester revenue is received. That revenue supports expenditures in September through December until the spring semester revenue is collected in January. That cumulative revenue supports expenditures through the end of the fiscal year with a small revenue increase in May for

the summer session. Thus, at the end of the first quarter of the fiscal year, revenues appear to grossly exceed expenditures. At the end of the second quarter of the fiscal year, expenditures will have nearly caught up to revenues. By the end of the third quarter of the fiscal year, over 90% of the annual revenue will have been collected and expenditures should be slightly less than that revenue amount. By the end of the fiscal year, revenues and expenditures will be matched and any difference will be an addition to or a reduction of the E&G fund balance.

5. For FY10, the September 30 quarterly report shows revenues exceeding expenditures not only because of the normal flow explained above but also because the E&G expenditure budget is based on a 5% enrollment growth assumption while reported revenues will reflect the 9.5% enrollment growth actually achieved. At the time the budget was finalized, it was anticipated that the expenditure budget would be increased proportionate to actual enrollment. However, in November the SBAC recommended that the E&G expenditure budget not be increased above the original 5% level and the President has accepted that recommendation as explained below.
6. When the FY10 E&G budget was developed and approved, it was anticipated that State funding for higher education would be reduced but would be fully backfilled by federal stimulus funds in both FY10 and FY11. Subsequently the Governor announced additional cuts to higher education in FY11. For the CSU System, the announced FY11 cuts are \$151 and only \$94M of those cuts will be backfilled leaving an actual funding cut of \$56M. Therefore, while State/federal funding for CSUS has remained at \$147M in FY2009 and FY10, it is anticipated that state support funding could drop to \$133M in FY11 and to \$113M in FY12. Further reductions are also possible.
7. The CSU-Pueblo FY10 budget was deliberately conservative in anticipation of the eventual loss of both state and federal backfill funds in FY12 in that all estimated enrollment revenue was not expended but rather a portion was budgeted to reserves. The decision not to increase that 5% FY10 budget was made in light of those additional budget reductions announced for FY11 and FY12 and the desire to budget additional funds to reserves. Given the uncertainty of state funding over the next few years, it is important to build reserves now because the University may need to use them to maintain levels of service and avoid personnel layoffs or furloughs in those future difficult years.

Financial activity derived from and supporting the University's primary role and mission activities of instruction, research, and public service are recorded in the Unrestricted Funds group as a sub-set of the total operation called Education and General (E&G). The FY10 first quarter E&G activity is discussed above. On a quarterly basis, the University provides the Colorado State University System Board of Governors an unaudited income/expense statement for the total operation including all fund sources. A summary of that statement is presented and discussed below.

The Condensed Summary of Revenues, Expenses and Changes in Net Assets includes financial statement presentation information that is not included in the E&G specific report displayed and discussed above. GAAP reporting requires the recording of several non-management-related, financial statement reporting adjustments. Some of the adjustments significant to understanding the chart below are 1) Tuition & Fees and Auxiliary Operations revenues are reported net of awarded student financial aid disbursed by application to student accounts; 2) Auxiliary Operations expenditures include Athletics which is supported by revenue reported in multiple lines including Tuition & Fees, Auxiliary Operations, and Gifts; 3) Grants & Contracts revenue is reported as expended in functional categories relevant to its use, such as Instruction or Research & Public Service; 4) Interest Earnings are reported net of interest paid on capital debt; and, 5) Depreciation is an un-budgeted, non-cash expense.

Condensed Summary of Revenues, Expenses and Changes in Net Assets, All Funds, <u>Unaudited GAAP Basis</u> September 30, 2009			
REVENUES		EXPENDITURES/EXPENSES	
Tuition & Fees, net	\$13,351,000	Instruction	\$4,565,000
Grants & Contracts	\$16,327,000	Auxiliary Operations	\$3,430,000
Auxiliary Operations, net	\$5,319,000	Student Services	\$1,455,000
Fee for Services (State)	\$1,508,000	Academic Support	\$1,572,000
Other Sources	\$320,000	Operation & Maintenance of Plant	\$1,337,000
ARRA Funds (Federal)	\$995,000	Institutional Support	\$1,068,000
Gifts	\$96,000	Depreciation	\$941,000
Interest Earnings	(\$91,000)	Scholarships & Fellowships	\$12,338,000
State Capital Funds	\$197,000	Research & Public Service	\$845,000
<b>TOTAL REVENUE</b>	<b>\$38,022,000</b>	<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>\$27,551,000</b>

The timing differences between collection of revenue and expenditure of funds discussed in points 1 through 4 above applies to some extent to the total University operation which is part of the reason for the \$10+M net revenue (\$38.022M revenues minus \$27.551M expenditures/expenses) at September 30, 2009 per the table above. Additionally, in accordance with generally accepted accounting procedures (GAAP) for higher education institutions, revenue received to support capital projects is included in this statement but the expenditure of that revenue is not.

The University's finances are managed in accordance with generally accepted accounting principles (GAAP) and auditing standards established for public higher education institutions by the Governmental Accounting Standards Board (GASB) and the National Association of College and University Business Officers (NACUBO). Further regulation is provided by statutes which are codified in State Fiscal Rules, State Procurement Rules, State Personnel Rules, and State Administrative Rules & Regulations.

The primary E&G revenue sources are tuition, fees, and unrestricted state and federal support. The expenditure of E&G funds fall into the functional expenditure classifications defined below:

*Educational & General:* High-level category of expenditures for the direct role and mission activities of the institution. Includes the functional classifications of expenditures for Instruction, Research, Public Service, Academic Support, Student Services, Institutional Support, Operation and Maintenance of Plant, and Scholarships and Fellowships. Excludes Auxiliaries and Independent Operations.

*Instruction:* Category of expenditures supporting an institution's instruction program for regular, special and extension sessions. Includes academic, vocational, technical, remedial, and tutorial instruction. Excludes academic administration when the primary assignment is administration, for example, deans and provosts.

*Research:* Category of expenditures for activities specifically organized to produce research outcomes, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Includes institutes, research centers, and internal individual, project, or departmental research.

*Public Service:* Category of expenditures for activities that are established primarily to provide non-instructional services beneficial to individuals and groups external to the institution. Includes community service activities, cooperative extension activities, and public broadcasting services.

*Academic Support:* Category of expenditures whose primary purpose is to provide support services for the institution's primary missions of instruction, research, and public service. Includes libraries, museums and galleries, educational media services, academic computing support, and academic administration.

*Student Services:* Category of expenditures for those activities whose primary purpose is to contribute to the student's emotional and physical well-being and to his/her intellectual, cultural, and social development outside the context of the formal instruction program. Includes the offices of admissions, registrar, and student life.

*Institutional Support:* Category of expenditures for central executive-level activities concerned with management and long-range planning of the entire institution; fiscal operations; administrative data process; space management; employee personnel and records; procurement, storerooms, printing, and transportation services; support services to faculty and staff, other than auxiliary enterprises; and, community and alumni relations, development, and fund raising activities.

*Operation and Maintenance of Plant:* Category of expenditures for the operation and maintenance of the physical plant, both grounds and facilities. Includes public safety, utilities, fire protection, and property insurance.

*Scholarships and Fellowships:* Category of expenditures for student financial assistance in the form of scholarships and fellowships. Includes grants to students resulting either from selection by the institution or from an entitlement program.

*Auxiliaries:* Entities that furnish goods or services to students, faculty, or staff; that charge a fee directly related to, though not necessarily equal to, the cost of the good or services; and that are managed as self-supporting activities. Includes resident halls, food services, college stores, and parking operations.

*Independent Operations:* Category of expenditures for operations that are independent of, or unrelated to, but which may enhance the primary mission of the institution.