

State of Colorado
Colorado School of Mines

Financial and Compliance Audit

Fiscal Year Ended June 30, 2002

**LEGISLATIVE AUDIT COMMITTEE
2003 MEMBERS**

Senator Ron Tupa
Chairman

Representative Tambor Williams
Vice-Chairman

Senator Norma Anderson
Representative Fran Coleman
Representative Pamela Rhodes
Senator Stephanie Takis
Senator Jack Taylor
Representative Val Vigil

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

State of Colorado
Colorado School of Mines
June 30, 2002

Contents

Report Summary	1
Recommendation Locator	5
Description of the Colorado School of Mines	6
Auditor’s Findings and Recommendations	7
Disposition of Prior Year Audit Recommendations	18
Independent Accountants’ Report on Financial Statements and Supplementary Information	19
Management’s Discussion and Analysis	20
 Financial Statements	
Statement of Net Assets.....	28
Statement of Revenues, Expenses and Changes in Net Assets.....	29
Statement of Cash Flows	30
Notes to Financial Statements	32
 Independent Accountants’ Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with <i>Government Auditing Standards</i>	 50
 Independent Accountants’ Report on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs	 52
 Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs.....	 54
 Notes to the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs	 55
 Independent Accountants’ Audit Committee Communication	 56
 Audit Report Distribution Summary	 60

State of Colorado
Colorado School of Mines
Report Summary
June 30, 2002

Purposes and Scope of Audit

The purposes and scope of this audit were to:

- Express an opinion on the financial statements of the Colorado School of Mines (the University) as of and for the year ended June 30, 2002, 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*.
- Express an opinion on the special purpose financial statements of the following auxiliary bond funds as of and for the year ended June 30, 2002, including consideration of compliance with certain bond indenture provisions.
 - Refunding and Improvement Revenue Bonds, Series 1993
 - Auxiliary Facilities Enterprise Revenue Bonds, Series 1996
 - Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B
 - Auxiliary Facilities Enterprise Revenue Bonds, Series 1999

(The report for the auxiliary bond funds is issued under a separate cover.)

- Express an opinion on the separately issued financial statements of Colorado School of Mines Development Corporation as of and for the year ended June 30, 2002.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2002.
- Issue a report on the University's compliance with certain provisions of laws, regulations, contracts and grants and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs of the University for the year ended June 30, 2002.
- Evaluate progress in implementing prior year audit recommendations.

State of Colorado
Colorado School of Mines
Report Summary (continued)
June 30, 2002

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

The Auditor's Findings and Recommendations Section contains the following:

- There is diversity of opinion and practice regarding the classification of research and development and other federal, state and private grants as exchange and nonexchange transactions pursuant to GASB Statement No. 33 and classification of such grants as operating and nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets of Business-Type Activities pursuant to GASB Statement No. 34. We understand the University and the State will work to obtain clarification of these matters from the Governmental Accounting Standards Board.
- Federal regulations require that the University monitor subrecipients' compliance with federal rules, regulations and specific program requirements. The University did not maintain adequate documentation that it had met monitoring requirements.
- Federal regulations require that the University document the close-out of federal contracts. The University did not maintain adequate documentation of close-out procedures.
- The University calculates Pell grants based on schedules provided by the Federal Government. In our testing, we noted that one of the students was awarded the incorrect amount.
- The University is required to submit student change status to the lenders and guarantors of student loans. The transmissions made did not contain all of the required information to reflect current graduation status.
- The University has not had an arbitrage calculation performed on the 1993, 1996 and 1997 bond issues to determine if any tax liability exists and if any funds should be reimbursed to the Federal Government. Arbitrage calculations should be performed every fifth anniversary date of tax-exempt bond issues and upon final retirement.
- The University receives monies in other departments that are not initially processed through the cashier such as the Athletics and Special Programs and Continuing Education (SPACE) departments. The University does not have written policies and control procedures for monies received in other departments. In addition no reconciliation is performed between the amount remitted to the cashier and the department's records, the amount recorded in the general ledger or the amounts deposited in the bank. The University should develop written policies and control procedures at the department level and perform reconciliations as needed.
- The University currently enters equipment into its depreciation system in advance of the date the equipment is placed into service, overstating depreciation expense.

State of Colorado
Colorado School of Mines
Report Summary (continued)
June 30, 2002

- The University currently has an accounting staff that performs all tasks related to accounts receivable including receiving cash receipts, adjusting the general ledger and reconciling the bank account to the cash receipts and the account receivable detail. The University should limit, to the extent possible, performance of incompatible duties by individuals in the University's accounting department.
- The accounting records of the University were not complete/accurate at the start of the audit. Several adjustments were made prior to finalizing including entries proposed by the University and by the auditors.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2001, included five recommendations. The disposition of these 5 audit recommendations as of September 27, 2002, was as follows:

<u>Status</u>	<u>Number</u>
Implemented	2
Partially Implemented	1
Not Implemented	<u>2</u>
Total	<u>5</u>

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the University's financial statements, special purpose financial statements of the University's auxiliary bond funds (under a separate cover), financial statements of Colorado School of Mines Development Corporation (under a separate cover) and the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs as of and for the year ended June 30, 2002.

A reportable condition in internal controls over financial reporting was identified, which is not considered a material weakness.

No instances of noncompliance considered material to the financial statements were disclosed by the audit.

We did note certain areas in which the University could improve its internal controls and compliance procedures. These areas are discussed in the Auditor's Findings and Recommendations section of this report.

State of Colorado
Colorado School of Mines
Report Summary (continued)
June 30, 2002

Significant Audit Adjustments

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole include fringe rate allocations for grants, capital assets and classification of certain grants and contracts as operating or non-operating revenue. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease net assets as of June 30, 2001 by \$737,200; decrease the change in net assets by \$801,000 for the year ended June 30, 2002, decrease current assets and non-current assets by \$274,000 and \$1,265,000, respectively, and to increase non-operating and decrease operating revenue by \$22,150,000.

**State of Colorado
Colorado School of Mines
Recommendation Locator
June 30, 2002**

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	9	Improve subrecipient monitoring.	Agree	April 2003
2	10	Ensure that all grant close-out procedures are properly documented.	Agree	January 2003
3	11	Ensure that students who receive Federal Pell grants are awarded the proper amounts.	Agree	March 2003
4	12	Ensure that transmissions to NSLDS are complete and accurate.	Agree	February 2003
5	13	Perform bond arbitrage calculations.	Agree	April 2003
6	14	Improve controls on cash receipts by other departments.	Agree	April 2003
7	15	Ensure reliability of capital assets records.	Agree	May 2003
8	16	Improve segregation of accounting duties.	Agree	June 2003
9	17	Improve accounting records quality.	Agree	June 2003

State of Colorado
Colorado School of Mines
Description of the University
June 30, 2002

The Colorado School of Mines (the University) was founded on February 9, 1874. The University came under state control with statehood in 1876. The first diploma was granted in 1882. The authority under which the University operates is Article 40 of Title 23, C.R.S.

The Board of Trustees is the governing body of the University and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms; and one nonvoting student member elected by the student body.

Financial support comes from student tuition and fees and from the State through an annual appropriation. Funds are augmented by government and privately sponsored research, private support from alumni, and support from industry and friends, through the Colorado School of Mines Foundation, Inc.

The primary emphasis of the Colorado School of Mines is engineering and science education and research. The full-time equivalent (FTE) for student enrollment, faculty and staff of the University has been as follows:

Student FTE Enrollment

	Resident Student FTE	Non-Resident Student FTE	Total Student FTE
2000	2,344	933	3,277
2001	2,251	864	3,115
2002	2,357	858	3,215

Faculty and Staff FTE

	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
2000	215	386	601
2001	211	356	567
2002	227	362	589

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations
June 30, 2002

Obtain Clarification the Classification of Research and Development and Other Grants

There is diversity of opinion and practice regarding the classification of research and development (R&D) and other federal, state and private grants as exchange and nonexchange transactions pursuant to Governmental Accounting Standards Board (GASB) Statement No. 33. A similar diversity of opinion and practice exists regarding classification of such grants as operating and nonoperating revenues in the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA) of Business-Type Activities, such as the University, pursuant to GASB Statement No. 34.

The University classified all R&D grants as exchange transactions and reflected them as operating revenue in its SRECNA for the year ended June 30, 2002. Such grants aggregated approximately \$24,700,000. Under BKD's understanding of the provisions of GASB Statement Nos. 33 and 34, approximately \$22,150,000 of these grants should have been classified as nonexchange transactions and reflected as nonoperating revenue in the University's SRECNA. While this reporting has no effect on the change in net assets, it does impact the classification of revenue and the magnitude of the operating income or loss reported for the period.

It is our understanding that the University, the State Controller and the State Auditor will, in conjunction with other affected Departments and Universities within the state, work to obtain clarification of these matters from the GASB so the State can ensure that revenues are properly classified and reported in the future.

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Receipt and Use of Federal Funds

The Colorado School of Mines (the University) participates in numerous federal grant programs throughout the year. These grants are largely for research and development programs within the University and for student financial aid. Research and development and student financial aid were tested as major programs under the *Office of Management and Budget (OMB) Circular A-133* for the year ended June 30, 2002. During the year the University had expenditures under these federal grants of \$14.8 million. Our testing noted instances of noncompliance with the requirements of federal grants or OMB Circular A-133 as follows in recommendations 2 through 5:

Improve Subrecipient Monitoring

In the fiscal year ending June 30, 2002 the University reported on its Schedule of Federal Assistance funds passed through to subrecipients of \$2,850,048 in eight programs.

The requirements set forth in the OMB Circular A-133 provide that pass-through entities (in this case the University) obtain reasonable assurance that federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtains required audits and takes appropriate corrective action on audit findings. During our testing of research and development grants we found that the University did not adequately document information about its subrecipient monitoring.

The University designates a principal investigator for each grant, usually a university professor. This investigator is responsible for approving all expenditures submitted by subrecipients and for supervision of the subrecipient. While proper supervision may be occurring, the University did not have documentation to support the monitoring process. Without the documentation, it is not possible to determine if all federal requirements had been met.

The University should maintain a database that lists all subrecipients. The database should document that the subrecipients have received an OMB Circular A-133 audit and are aware of the guidelines of this regulation. University personnel should then document their review of the audit and respond to any reported findings and questioned costs. If the University does not receive an A-133 audit from the subrecipient a certification letter should be sent to the subrecipient. The subtitles on the certification letter should include the following: 1) audit not complete 2) audit complete/no findings 3) audit complete/related findings or 4) not subject to audit. The database should also track any other communication or monitoring of the subrecipient by the principal investigator. If a certification letter or A-133 audit is not received the subrecipient should be considered not in compliance. If a subrecipient is not in compliance the principal investigator should be notified. The principal investigator should inform the subrecipients that payments will be withheld until they are in compliance with the regulations.

This recommendation was made in the prior two years audit and has not been corrected.

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Recommendation No. 1

The University should develop subrecipient monitoring documentation policies and procedures to help ensure that subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.

Colorado School of Mines Response

The University agrees.

The University continued to strengthen this area within the past twelve months. A database was created to track all subrecipients; however, the procedure to certify compliance concerning the recipient's completion of an A-133 audit has not yet been implemented. This will be implemented in the current fiscal year.

Implementation Date: April 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Proper Close-out Procedures

During the year ended June 30, 2002, the University completed approximately 100 projects for which it received federal research and development grants. To ensure compliance with applicable laws, regulations and provisions of each grant, the University documents "close-out" procedures for each project completed. Documentation of close-out procedures includes contractual and financial status checklists and conversation logs between the department receiving the grant and the grantor. Close-out procedures are in place to ensure that additional expenses are not charged to the project after it has been completed. In our testing, 1 of the 21 closed projects tested lacked documentation of close-out procedures due to an oversight in the grant department. While we did not observe improper expenditures in this grant, there is risk to the University when the policies aren't followed.

Recommendation No. 2

The University should follow the policies and procedures to help ensure close-out procedures are documented for each project completed to prevent erroneous expenses being charged to these projects and ensure compliance with applicable laws and regulations.

Colorado School of Mines Response

The University agrees.

There is a documented process and procedure in place to close-out each project. The audit identified an error in one phase of the close-out database. This technical error was corrected during the current fiscal year. An additional procedure was also added to identify all closed-out projects on the financial system and the close-out database.

Implementation Date: January 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Calculating Pell Grant Amounts

The University has 411 students who received approximately \$955,446 in grants under the Federal Pell Grant Program. Under the Federal Pell Grant Program, amounts are awarded to students based on the students' expected family contribution, expected cost of attendance and enrollment status. The University calculates amounts to be awarded to students using the "Regular Payment Schedule for Determining Scheduled Awards" provided annually by the federal government. In our testing, 1 of the 30 students tested was awarded an incorrect amount of \$125 and should have been awarded \$2,900. The students Pell Grant was calculated based on part-time in school status rather than fulltime.

Recommendation No. 3

The University should develop a process for reviewing financial aid awards to ensure that Pell Grants are awarded in the correct amount.

Colorado School of Mines Response

The University agrees.

The University has policies and procedures in place for calculating the correct financial aid awards. The procedures will be reviewed for an opportunity to strengthen them. When the error was discovered, it was corrected and the amount was properly remitted to the student.

Implementation Date: March 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Transmissions to the National Student Loan Data System

The University has 1,724 students who received approximately \$7,455,056 in loans under the Federal Family Education Loan (FFEL) program. Under the FFEL program, the University is required to communicate to lenders and guarantors changes in student status when students graduate, withdraw or drop out. The University performs the required communication through the National Student Loan Data System (NSLDS). The University transmits all required information to NSLDS which makes available the information to lenders and guarantors. The transmission to NSLDS for spring graduates did not include final grades for the spring semester; as a result graduation dates were not included for students that graduated in May 2002. This was due to the transmission being sent to NSLDS prior to the final grades being entered into the system. The University did retransmit the information once the problem was detected. This is a violation of the provisions of the FFEL program. As a result of NSLDS not receiving this information, and therefore the lenders not receiving graduation dates, students that graduated would not have gone into repayment status on their loans at the correct time. The University should determine the cause of the missing information and develop a report review system to ensure all required fields are communicated in the future.

Recommendation No. 4

The University should develop policies and procedures to help ensure that all communications with NSLDS are complete, accurate and timely.

Colorado School of Mines Response

The University agrees.

Colorado School of Mines is required to transmit data three times per semester to the NSLDS. NSLDS publishes requirements and due dates for submittal of information. Due to an internal process error, the transmittal cited was submitted earlier than the due date. Controls are now in place to ensure that the school does not submit the report early nor without all of the required information.

Implementation Date: February 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Bond Arbitrage Calculation

The University has not had an arbitrage calculation performed for outstanding bond issues. Arbitrage calculations are required to be performed every fifth anniversary date of tax-exempt bond issues and upon final retirement. The Internal Revenue Code limits the amount of interest that can be earned on funds established with proceeds of tax-exempt bonds. The amount of investment earnings on these funds cannot exceed the interest rate of the bonds. If investment earnings exceed the interest paid on the bonds, positive arbitrage is potentially created. Any positive arbitrage may be required to be refunded to the Federal Government. Failure to comply with the arbitrage rules could result in penalties, interest, and the loss of tax-exempt status. The fifth anniversary of the University's Series 1993, 1996 and 1997 Revenue Bonds occurred in 1998, 2001 and 2002, respectively. Additionally, other bond issues of the University will face five-year anniversary dates in the next several years as shown below:

Bond Issue	5 Year Anniversary
Series 1999	2004
Series 2001	2006

This recommendation was made in the prior year audit and has not been corrected.

Recommendation No. 5

The University should have an arbitrage calculation performed on the 1993, 1996 and 1997 bond issues to determine if any tax liability exists and reimburse any amounts due to the Federal Government. In addition, arrangements should be made for future calculations upon meeting the anniversary dates noted above.

Colorado School of Mines Response

The University agrees.

Within the next 30 days, the University's Controller will engage an outside firm to perform the calculations.

Implementation Date: April 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Controls on Cash Receipts by Other Departments

The University received approximately \$2,017,000 in other departments that are not initially processed through the cashier such as Athletics and Special Programs and Continuing Education (SPACE) departments. These departments are responsible for establishing internal controls and reconciliation processes for any monies received. All cash receipts are required to be remitted to the cashier the next workday for deposit. The University does not have written policies and control procedures for monies received at the department level. In addition no reconciliation is performed by the Accounting Department between the amount remitted to the cashier and the department's records, the amount recorded in the general ledger or the amounts deposited in the bank. The lack of internal controls over cash receipts creates a risk that errors and irregularities will go undetected and that assets are not adequately safeguarded. The University should develop written policies and control procedures at the accounting department level and perform reconciliations as needed.

This recommendation was made in the prior year audit and has not been corrected.

Recommendation No. 6

The University should develop written policies and control procedures for monies received in other departments. The University should also develop a reconciliation process between the Accounting Department and the other departments to ensure all funds received by the departments are deposited timely and properly recorded in the general ledger.

Colorado School of Mines Response

The University agrees.

Within the next 30 days, the new Colorado School of Mines Controller will oversee the development of proper methods and procedures for departmental collection and resultant account reconciliation.

Implementation Date: April 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Ensuring Reliability of Capital Assets Records

The University currently enters equipment into its depreciation system in advance of the date the equipment is placed into service. As a result of entering these items into the depreciation system prior to the date placed into service, excess depreciation expense has been recorded in the general ledger. The University should recognize depreciation on capital assets from the date the asset is placed into service. We have estimated using an average depreciable life of 5 years and using the assumption that these assets are depreciated on average one year in advance of the date placed into service, that approximately \$149,000 of excess depreciation expense has been recognized during fiscal year 2002.

In testing the proper capitalization of construction in progress, it was noted that the University does not transfer construction in progress to its depreciable capital assets records timely upon completion of the asset. Currently, a residence hall that was completed and ready in July 2000 has not been recorded as a depreciable asset and thus no depreciation expense has been recorded. We have estimated using an average depreciable life of 40 years that approximately \$493,938 in depreciation expense should have been recognized during fiscal year 2002 and approximately \$617,423 should have been recorded as accumulated depreciation as of June 30, 2002.

Recommendation No. 7

The University should recognize depreciation on capital assets from the date the asset is placed into service. In addition, the University should periodically take a physical inventory of equipment and remove items no longer owned by the University from its capital assets records.

Colorado School of Mines Response

The University agrees.

Accounting and tracking of construction expenditures for all projects has been assumed by Finance and Operations. This process change should ensure the proper recording of the in-service date for all construction projects.

Implementation Date: May 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal control, involving the separation of custody of assets from related recording of transactions. We have identified one accounting department employee that can perform duties relating to custody of assets, recording of transactions and reconciling the transactions. This employee can receive cash payments when the regular cashiers are not available, adjust student accounts, reconcile student accounts receivable detail with the general ledger balances and reconcile the cash receipts to the bank account. These duties should be separated so that the custody of assets (i.e. receiving cash) is separated from the recording and monitoring functions in order to decrease the risk of errors and irregularities.

Recommendation No. 8

The University should limit, to the extent possible, performance of incompatible duties by individuals within the University's accounting department. The position that collects the cash receipts should not have access to change the student accounts or reconcile the accounts.

Colorado School of Mines Response

The University agrees.

Due to the limited number of professional accountants within Fiscal Services, optimal separation of duties is sometimes difficult to achieve. An additional accountant is being hired in 2003. At that time, the University will perform a review of the functions within Fiscal Services and will realign some management duties to ensure a greater separation of duties.

Implementation Date: June 2003

State of Colorado
Colorado School of Mines
Auditor's Findings and Recommendations (continued)
June 30, 2002

Improve Accounting Records

The accounting records of the University were not complete at the start of the audit. Of the 104 working trial balance accounts, 30 required adjustments, either submitted by the University because the accounts were not correct at closing, or submitted by BKD as audit adjustments. We also noted that there were Exhibits prepared for various financial disclosures with either incomplete or incorrect information. Keeping the accounts current and reconciled throughout the year is essential for providing accurate information to management and for proper reporting to the State.

Recommendation No. 9

The University should ensure that the records are accurate and complete throughout the year and at the year-end closing date. This includes making sure that all possible entries are recorded prior to closing, accounts are reconciled and schedules and exhibits are complete and accurate.

Colorado School of Mines Response

The University agrees.

The Fiscal Services Department has begun a formalized process improvement review for each function within the department. The results from the review should lead to an increased efficiency in the processing of transactions and a noticeable decline in the number of incomplete exhibits and journal entries at year-end.

Implementation Date: June 2003

State of Colorado
Colorado School of Mines
Disposition of Prior Year Audit Recommendations
June 30, 2002

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2001 included five recommendations. The disposition of these audit recommendations as of September 27, 2002, was as follows:

	Recommendation	Disposition
1	The University should ensure that estimates submitted to the Department of the Navy are complete and accurate.	Implemented
2	The University should develop subrecipient monitoring documentation policies and procedures to help ensure that subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.	Partially implemented. See current year Recommendation No. 2
3	The University should develop policies and procedures to help ensure proper documentation of notification to lenders and documentation that counseling sessions are performed for students borrowing for the first time and students leaving school.	Implemented
4	The University should have an arbitrage calculation performed on the 1993 bond issue to determine if any tax liability exists and reimburse any amounts due to the Federal Government. In addition, arrangements should be made for future calculations upon meeting the anniversary dates noted above.	Not implemented. See current year Recommendation No. 6
5	The University should develop written policies and control procedures for monies received in other departments. The University should also develop a reconciliation process between the Accounting Department and the other departments to ensure all funds received by the departments are deposited and properly recorded in the general ledger.	Not implemented. See current year Recommendation No. 7

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado School of Mines (the University), an institution of the State of Colorado, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Colorado School of Mines 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 State of Colorado that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2002, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado School of Mines as of June 30, 2002, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, in 2002, the University changed its method of financial statement presentation and disclosure by retroactively restating prior years' financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2002, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

September 27, 2002

Except for Note 15 as to which the date is November 11, 2002

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Management's Discussion and Analysis

This section of the Colorado School of Mines annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes.

The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. Since this is a transition year for new financial statement formats, only one year of financial data is presented. In future years a comparative analysis will be presented. The financial statements, footnotes and this discussion are the responsibility of management.

Executive Summary

The 2001-02 fiscal year financial statements reported here reflect positive financial results for the Colorado School of Mines. During the year, net assets grew by \$4.7 million or 4.1%. Assets exceed liabilities by more than three times, reflecting that the University is well positioned to cover both its ongoing and long-term obligations.

Two of the major revenue sources are tuition and fees, and state appropriations. Student admissions and enrollment trends reflect a stable flow of students. Reasonable tuition rate growth further supports this level of stability in enrollments. The recent designation of the Colorado School of Mines by the Colorado General Assembly as the state's first and only Exemplary Institution will further enhance the University's ability to attract a high-quality student body.

Revenue from grants and contracts is another major revenue source. This primarily reflects the University's significant activity in research. Construction of a new research building, scheduled for completion in fall 2002, will support continuing strong research volume.

A source of concern for the near future is the State of Colorado's continuing revenue situation and the underlying state of the economy. Reductions in the level of state appropriations may be required during the 2002-03 fiscal year. State investment in capital projects has also had to be curtailed and will be limited in the near future.

Using the Annual Financial Report

This annual report consists of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statements 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements differ significantly in both form and accounting principles used from prior financial statements. The statements presented in prior years focused on the accountability of funds, while these new statements focus on the financial position of the University as a whole, the changes in financial position and cash flows. Three major changes implemented with these new accounting principles are: discounting of tuition revenue by the application of a scholarship allowance; depreciation of capital assets; and allocation of summer school revenues and expenses between fiscal years.

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year ended June 30, 2002

The three financial statements – the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows – present financial information for the Colorado School of Mines in a form similar to that used by corporations. The information provided in these statements speaks to the financial health of the University, with relevant non-financial facts provided in this Discussion and Analysis section.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents revenues earned and expenses incurred during the fiscal year. Activities are reported as either operating or nonoperating, in accordance with GASB Statements 34 and 35. Under these guidelines, state appropriations and gifts are classified as nonoperating revenues. Because public universities depend so significantly on state appropriations, this results in an operating loss. The use of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The Statement of Cash Flows presents the University's ability to meet financial obligations as they mature. It portrays information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities.

Condensed Statement of Net Assets (in thousands)
June 30, 2002

		Percent
Assets		
Current assets	\$ 30,987	18.1%
Noncurrent assets		
Capital	120,811	70.4%
Other	19,717	11.5%
Total assets	171,515	100.0%
Liabilities		
Current liabilities	14,449	26.9%
Noncurrent liabilities	39,351	73.1%
Total liabilities	53,800	100.0%
Net Assets		
Invested in capital assets, net of related debt	94,037	79.9%
Restricted		
Nonexpendable	4,279	3.6%
Expendable	10,324	8.8%
Unrestricted	9,075	7.7%
Total net assets	\$ 117,715	100.0%

**State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002**

The Colorado School of Mines has a ratio of current assets to current liabilities of 2.14, and a ratio of total assets to total liabilities of 3.18. These results indicate that the University is positioned well for covering both its ongoing and long-term obligations.

The University's capital assets consist of land, buildings, equipment, library holdings and construction in progress totaling \$120.8 million at June 30, 2002. This amount is net of accumulated depreciation of \$84.6 million. Construction in progress includes a new research building scheduled for completion in fall 2002, a number of student housing projects, an addition to the Student Center, a new technology classroom building, and major renovations and additions to Hill Hall, which houses classrooms, laboratories and offices. Further detail regarding capital asset activity is contained in the footnotes to these financial statements.

During 2001, the University issued \$10,860,000 in revenue bonds to fund the construction of a research facility.

Net assets, which represent the difference between University assets and liabilities, total \$117.7 million. During the 2001-02 fiscal year, net assets grew by \$4.7 million or 4.1%.

Restricted nonexpendable net assets – 3.6% of net assets – consist of endowment gifts with specific restrictions on spending the principal. Restricted expendable net assets – 8.8% of all net assets – consist of income from endowment funds, gifts and pledges with specific restrictions, grants from third party agencies with expenditure restrictions and certain loan funds.

Unrestricted net assets – 7.7% of all net assets – represent balances not restricted by parties external to the University such as donors or grant agencies. This includes funds that have been designated by the Board of Trustees for specific purposes as well as amounts that have been contractually committed for goods and services not yet received.

**Condensed Statement of Revenues, Expenditures and
Changes in Net Assets (in thousands)
Fiscal Year Ended June 30, 2002**

Operating Revenues	
Tuition and fees	\$ 22,377
Grants and contracts	32,579
Auxiliary enterprises	6,949
Other operating revenues	<u>3,692</u>
Total operating revenues	65,597
Operating Expenses	<u>91,776</u>
Operating Income (Loss)	(26,179)
Nonoperating Revenues	
State appropriations	19,308
Contribution from Colorado School of Mines Foundation, Inc.	8,627
Other nonoperating revenues	<u>(762)</u>
Net nonoperating revenues	27,173
Income Before Other Revenues	994

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Other Revenues	
State capital contributions	3,293
Capital grants and gifts	409
Net other revenues	3,702
Total Increase in Net Assets	4,696
Net Assets	
Net Assets at Beginning of Year, Restated	113,019
Net Assets at End of Year	\$ 117,715

Total operating revenues for the 2001-02 fiscal year were \$65.6 million, including \$22.4 million from tuition and fees (34.1%) and \$32.6 million from grants and contracts (49.6%). Tuition and fee revenues are net of a scholarship allowance of \$7.8 million, representing a 25.7% tuition discount.

Net nonoperating revenues of \$27.1 million include state appropriations of \$19.3 million, gifts, investment income, and interest payments on capital debt. The state appropriation makes up a significant portion of the University's revenues. Tuition revenues depend directly on student enrollment, and, in Colorado, state appropriations are also linked to enrollment levels. Recent enrollment has been stable, as shown below. The slight 2000-01 dip reflects a reduction in credit hour requirements for graduate students. The University's Board of Trustees has determined that it does not wish to pursue overall enrollment increases.

Fiscal Year	Undergraduates			Graduate Students			Combined		
	Resident	Nonresident	Total	Resident	Nonresident	Total	Resident	Nonresident	Total
2001-02	2,123	661	2,784	234	197	431	2,357	858	3,215
2000-01	2,017	678	2,695	234	186	420	2,251	864	3,115
1999-00	2,015	675	2,690	328	258	586	2,344	933	3,277
1998-99	1,948	723	2,671	333	246	579	2,281	969	3,250
1997-98	1,850	775	2,625	318	268	586	2,168	1,043	3,211

Tuition rates, shown below, support the University's tuition and fee revenues. Reasonable rates of growth, along with stable student enrollment levels, indicate the University's current and continued ability to attract students interested in the degree programs offered. Room and board charges, also shown below, contribute to the affordability of attendance at the Colorado School of Mines. Revenue from room and board charges, along with other specified student fees, support maintenance of student life facilities and bond payments outstanding for past, current and planned improvements and additions to these facilities.

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Fiscal Year	Annual Full-time Tuition Rates		Annual Room and Board (avg.)		
	Residents	Nonresidents	Double	Single	Board
2002-03	\$ 5,246	\$ 17,516	\$ 3,200	\$ 3,783	\$ 2,800
2001-02	4,940	16,070	2,996	3,544	2,632
2000-01	4,750	15,304	2,913	3,434	2,519
1999-00	4,616	14,716	2,775	3,240	2,421
1998-99	4,508	14,372	2,682	3,132	2,305

Undergraduate admissions data, outlined below, show another aspect of the University's basis for student enrollment. The 2002 increase in applications reflects a new marketing program, which resulted in a higher-quality though not larger entering freshman class.

Fall Semester Undergraduate Admissions

Fall of Year	Number of Applicants	Number Accepted	Percent Accepted	Number Committed	Percent Committed
2002	2,910	1,960	67.4%	670	34.2%
2001	1,910	1,542	80.7%	695	45.1%
2000	2,176	1,721	79.1%	740	43.0%
1999	2,285	1,962	85.9%	681	34.7%
1998	2,316	1,675	72.3%	679	40.5%

Another major source of revenues is grants and contracts. The School of Mines received research awards totaling about \$32.6 million during the 2001-02 fiscal year. Of this award volume, 43% comes from the private sector, 11% from state government agencies and 46% from federal agencies. The School of Mines is encouraging future expansion of research programs conducted by its faculty and partner industries and governmental agencies. A new research building, to be completed in fall 2002, will provide additional laboratory space for major research projects.

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Operating expenses of \$91.8 million include \$33.6 million for instruction (36.7%) and \$20.5 million for research (22.3%). A comparison of operating expenses by function and by natural classification follows.

Operating Expenses by Function Compared with
Operating Expenses by Natural Classification (in thousands)
Fiscal Year Ended June 30, 2002

Function

Instruction	\$	33,648
Research		20,547
Academic support		4,623
Student services		3,861
Institutional support		6,421
Operation and maintenance of plant		9,041
Scholarships and fellowships		1,158
Auxiliary enterprises		5,596
Depreciation		<u>6,882</u>
Total operating expenses	\$	<u>91,777</u>

Classification

Wages and benefits		
Faculty wages	\$	35,931
Nonexempt staff wages		13,108
Benefits		<u>11,728</u>
Subtotal wages and benefits		<u>60,767</u>
Scholarships and fellowships		1,158
Utilities		2,354
Supplies and other		20,616
Depreciation		<u>6,882</u>
Total operating expenses	\$	<u>91,777</u>

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Statement of Cash Flows

The cash flows statement shows cash receipts and cash payments during the year. This information helps analyze the stability of the institution's cash sources, as well as the University's ability to meet obligations as they come due.

Condensed Statement of Cash Flows (in Thousands)

Fiscal Year Ended June 30, 2002

Cash and cash equivalents provided/(used) by		
Operating activities	\$	(18,808)
Noncapital financing activities		28,420
Capital and related financing activities		(3,051)
Investing activities		<u>2,643</u>
Net increase in cash and cash equivalents		9,204
Cash and cash equivalents – beginning of the year		<u>22,323</u>
Cash and cash equivalents – end of the year	\$	<u>31,527</u>

Major sources of cash from operating activities include tuition and fees (\$22.2 million) and grants, contracts and gifts (\$33.1 million). Major uses of funds go to employees for salaries and benefits (\$55.1 million) and to suppliers of goods and services (\$28.7 million). The state appropriation of \$19.3 million is the major source of noncapital financing activities.

Capital and related financing activities reflect issuance of bonds for the purpose of constructing a research building, and cash payments for construction related to the research building, acquisition of two properties adjacent to the campus, and construction related to a number of student life projects that were finished during the fiscal year.

Cash in-flows related to investment activities include proceeds from a trust payout and earnings on deposits with the State Treasurer, and cash from that portion of the research building bond issue invested while not yet needed to pay for construction-related costs.

Factors Impacting Future Periods

Subsequent to year end, the University issued \$32 million of unsecured bonds. The proceeds were used to refund prior bond issues and \$25 million will be used for capital construction needs.

The level of state support, compensation costs, student enrollment and resulting tuition and fee revenues, and a growing research volume are the major factors that impact the University's ability to maintain and improve the quality of academic programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

Tuition and fee revenues contribute 42% of operating and nonoperating revenues – not including grants, contracts and auxiliaries – and are therefore vital to the University's continuing ability to provide high quality academic programs that continue to attract students.

State of Colorado
Colorado School of Mines
Management's Discussion and Analysis
Year Ended June 30, 2002

Similarly, the state appropriation contributes approximately 36.3% of operating and nonoperating revenue – not including grants, contracts and auxiliary revenues. As such, the level of state support is a critical factor influencing the University's ability to deliver its highly regarded academic programs. During the 2001-02 fiscal year, the Colorado legislature approved a performance agreement between the Colorado School of Mines and the Colorado Commission on Higher Education that implements a legislative act passed during the 2001 legislative session to designate the University as the state's first and only Exemplary Institution.

As part of this designation and the performance agreement, the University will have greater flexibility in adding degree programs and in setting tuition rates, beginning with the 2002-03 fiscal year. Both of these factors will impact the University's financial health in the future, as new degree programs to meet market need will support continued strong enrollment, and tuition rate flexibility will help protect that significant source of revenues.

A source of concern for the near future is the State of Colorado's own continuing revenue shortfall situation. This has resulted in state appropriations reductions during the 2001-02 fiscal year, with additional reductions anticipated in the near future. Also because of these shortfalls, the state's planned investment in capital projects has had to be curtailed, reducing the University's ability to proceed with some planned building improvements and expansions.

State of Colorado
Colorado School of Mines
Statement of Net Assets
June 30, 2002

Assets

Current Assets

Cash and cash equivalents	\$ 24,589,496
Short-term investments	506,957
Accounts receivable, net of allowance of \$84,705	1,289,267
Federal and state grants receivable, net of allowance of \$44,450	1,825,267
Other receivables	1,895,438
Inventories	185,272
Loans to students, net of allowance of \$5,488	556,322
Prepaid expenses	<u>138,510</u>
Total current assets	<u>30,986,529</u>

Noncurrent Assets

Restricted cash and cash equivalents	6,938,065
Endowment investments	8,075,250
Loans to students, net of allowance of \$163,269	4,465,441
Capital assets, net	120,811,790
Bond issuance costs, net	<u>237,982</u>
Total noncurrent assets	<u>140,528,528</u>

Total assets 171,515,057

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	4,894,093
Deferred revenue	7,053,970
Capital leases payable – current portion	215,000
Bonds payable – current portion	725,000
Other current liabilities	<u>1,560,708</u>
Total current liabilities	<u>14,448,771</u>

Noncurrent Liabilities

Accrued compensated absences	3,166,212
Deferred revenue	4,859,366
Capital leases payable	316,675
Bonds payable	<u>31,008,434</u>
Total noncurrent liabilities	<u>39,350,687</u>

Total liabilities 53,799,458

Net Assets

Invested in capital assets, net of related debt	94,036,604
Restricted	
Nonexpendable	
Scholarships and fellowships	4,279,047
Expendable	
Scholarships and fellowships	51,287
Research	485,033
Loans	4,817,423
Capital projects	4,969,094
Debt service	2,566
Unrestricted	<u>9,074,545</u>
Total net assets	<u>\$ 117,715,599</u>

State of Colorado
Colorado School of Mines
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2002

Operating Revenues	
Tuition and fees, net	\$ 22,376,741
Federal grants and contracts	15,005,226
State grants and contracts	3,587,024
Nongovernmental grants and contracts	13,987,478
Interest on student loans receivable	184,250
Auxiliary enterprises, net	6,948,616
Other operating revenues	<u>3,508,009</u>
Total operating revenues	<u>65,597,344</u>
Operating Expenses	
Instruction	33,647,750
Research	20,546,889
Academic support	4,623,094
Student services	3,860,810
Institutional support	6,421,595
Auxiliary enterprises	5,595,702
Operation and maintenance of plant	9,041,054
Scholarships and fellowships	1,158,010
Depreciation	<u>6,881,637</u>
Total operating expenses	<u>91,776,541</u>
Operating Loss	<u>(26,179,197)</u>
Nonoperating Revenues (Expenses)	
State appropriations	19,308,287
Contributions from Colorado School of Mines Foundation, Inc.	8,626,598
Contributions	385,000
Other nonoperating expenses	(463,395)
Investment income	221,882
Interest on capital asset-related debt	(1,004,728)
Other nonoperating revenues	<u>99,645</u>
Net nonoperating revenues	<u>27,173,289</u>
Income Before Other Revenues, Expenses, Gains or Losses	994,092
Capital Appropriations – State	3,292,689
Capital Grants and Gifts	<u>409,288</u>
Increase in Net Assets	<u>4,696,067</u>
Net Assets, Beginning of Year – As Previously Reported	191,647,739
Cumulative effect of change in accounting principle	<u>(78,628,208)</u>
Net Assets, Beginning of Year – As Restated	<u>113,019,531</u>
Net Assets, End of Year	<u>\$ 117,715,599</u>

State of Colorado
Colorado School of Mines
Statement of Cash Flows
Year Ended June 30, 2002

Operating Activities	
Tuition and fees	\$ 22,167,137
Grants and contracts	33,111,587
Payments to suppliers	(28,745,701)
Scholarships disbursed	(1,158,010)
Payments to employees	(55,121,541)
Loans issued to students	(726,709)
Collection of loans to students	1,260,523
Sales and services of auxiliary enterprises	6,896,791
Other receipts	<u>3,508,009</u>
Net cash used in operating activities	<u>(18,807,914)</u>
Noncapital Financing Activities	
State appropriations	19,308,287
Receipts from the Colorado School of Mines Foundation, Inc.	8,626,598
Gifts for other than capital purposes	385,000
Other receipts	<u>99,645</u>
Net cash provided by noncapital financing activities	<u>28,419,530</u>
Capital and Related Financing Activities	
Proceeds from issuance of revenue bonds payable	10,860,000
Cash paid for bond issuance costs	(244,956)
Capital appropriations-state	3,292,689
Capital grants, contracts and gifts received	409,287
Acquisition and construction of capital assets	(15,818,560)
Principal paid on capital leases and revenue bonds payable	(900,000)
Interest paid on capital asset-related debt	<u>(649,324)</u>
Net cash used in capital and related financing activities	<u>(3,050,864)</u>
Investing Activities	
Interest and dividends on investments	1,690,106
Proceeds from sales and maturities of investments	<u>953,455</u>
Net cash provided by investing activities	<u>2,643,561</u>
Increase in Cash and Cash Equivalents	9,204,313
Cash and Cash Equivalents, Beginning of Year	<u>22,323,248</u>
Cash and Cash Equivalents, End of Year	<u>\$ 31,527,561</u>

State of Colorado
Colorado School of Mines
Statement of Cash Flows
Year Ended June 30, 2002

**Reconciliation of Cash and Cash Equivalents to the
Statement of Net Assets**

Cash and cash equivalents	\$ 24,589,496
Restricted cash and cash equivalents – noncurrent	<u>6,938,065</u>

Total cash and cash equivalents \$ 31,527,561

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	\$ (26,179,197)
Depreciation expense	6,881,637
Changes in operating assets and liabilities	
Receivables, net	370,687
Inventories	106,587
Prepaid expenses	23,613
Accounts payable and other liabilities	465,779
Deferred revenue	(816,993)
Accrued compensated absences	<u>339,973</u>

Net Cash Used in Operating Activities \$ (18,807,914)

Supplemental Cash Flows Information

Accounts payable incurred for capital asset purchases	\$ 324,512
---	------------

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Colorado School of Mines (the University) is a public institution of higher education with a primary emphasis in engineering and science education and research. The University is an institution of the State of Colorado. Operations are funded largely through student tuition and fees and through annual state appropriations. Funds are augmented by government and private sponsored research, private support from alumni and support from industry and friends, through the Colorado School of Mines Foundation, Inc. The University extends unsecured credit to its students.

As an Institution of the State of Colorado, the University's operations and activities are funded primarily through state appropriations. In accordance with Section 23-1-104, C.R.S. unspent revenues earned by the University in excess of appropriated amounts are retained by the University for future use.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally certain federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

Reporting Entity and Blended Component Unit

The financial statements of the University include all of the integral parts of the University's operations. The University applied various criteria to determine if it is financially accountable for any organization which would require that organization to be included in the University's reporting entity. These criteria include fiscal dependency, financial benefit/burden relationship, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

In accordance with accounting principles generally accepted in the United States of America, the combined financial statements present the University (primary government) and its component units, the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation (see Notes 6 and 7). The component units are included in the University's reporting entity because of the significance of their operational and financial relationships with the University in accordance with GASB Statement No. 14, *The Financial Reporting Entity*. Financial statements of the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation can be obtained from their administrative offices.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2002, cash equivalents consisted primarily of money market funds with brokers and certificates of deposit.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include amounts restricted for project construction and bond debt service reserves.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is recorded net of estimated uncollectible amounts.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Inventories

Inventories are stated at the lower of costs, determined using the FIFO (first-in, first-out) method, or market.

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization for the year ended June 30, 2002, was \$6,974.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the University:

Land improvements	20 years
Buildings and improvements	20 – 40 years
Equipment	3 – 10 years
Library materials	10 years

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest incurred in 2002 was \$1,388,486 of which \$383,756 was capitalized.

Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Deferred Revenue – Tuition, Fees and Grants

Deferred revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements. Deferred revenue for tuition, fees and grants totaled \$5,621,670 at June 30, 2002.

Deferred Revenue – Development Assistance and Trademark License

The University entered into a ten-year agreement to provide development assistance and other planning activities in connection with the development of a foreign University. Additionally, the University received a nonrefundable up front fee for non-exclusive license to use its trademarks for the term of the agreement. Development assistance fees and trademark license fees are recognized as revenue over term of the agreement. Deferred revenue for development assistance and trademark license totaled \$6,291,666 at June 30, 2002.

Classification of Revenues

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

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2002, were \$7,724,863 and \$55,594, respectively.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Foundation

The University is the beneficiary of a foundation that is a separate legal entity with its own board of trustees (see Note 5). The foundation has legal title to all of the foundation assets. The foundation is not a component unit of the University and, thus, not reflected in the accompanying financial statements.

Note 2: Deposits, Investments and Investment Return

Deposits

At June 30, 2002, the University had \$17,115,808 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

At year end, cash and time deposits included petty cash and change funds of \$15,681, certificates of deposit of \$469,167, money market accounts of \$3,091,394 and bank accounts of \$3,897,446.

At June 30, 2002, the carrying value of those University deposits was \$7,473,688 and the bank balance was \$12,023,824. The bank balance classified by custodial credit risk category includes \$347,881 covered by federal depository insurance and \$11,675,943 covered by collateral held by the pledging institution's agent in the University's name. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies and instrumentalities or the state of Colorado; bonds of any city, county, school district or special road district of the state of Colorado; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Investments

The University has authority to invest institutional funds in any investment deemed advisable by the governing board per section 15-1-1106, C.R.S. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in equity securities.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

The University's investments are categorized to give an indication of the level of custodial credit risk assumed by the University. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer bank's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department in other than the University's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank. The University's investments in mutual funds are not classified by custodial risk category as they are not evidenced by securities in physical or book entry form. The University's investment pool funds are not classified by custodial credit risk category as they are not evidenced by securities that exist in physical or book entry form.

Investments at June 30 consisted of the following:

	1	Category 2	3	Carrying Value	Fair Value
Corporate stocks	\$ <u>506,957</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>506,957</u>	\$ <u>506,957</u>
	\$ <u>506,957</u>	\$ <u>0</u>	\$ <u>0</u>	506,957	506,957
Mutual funds				6,938,065	6,938,065
Investment pool				<u>8,075,250</u>	<u>8,075,250</u>
				<u>\$ 15,520,272</u>	<u>\$ 15,520,272</u>

The investment pool consists of investments managed by the Colorado School of Mines Foundation, Inc., on behalf of the University.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statement of net assets as follows:

Carrying value	
Deposits	\$ 24,589,496
Investments	<u>15,520,272</u>
Total as of June 30, 2002	<u>\$ 40,109,768</u>
Included in the following statement of net assets captions	
Cash and cash equivalents	\$ 24,589,496
Short-term investments	506,957
Restricted cash and cash equivalents	6,938,065
Endowment investments	<u>8,075,250</u>
	<u>\$ 40,109,768</u>

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Investment Income

Investment income for the year ended June 30, 2002, consisted of:

Interest and dividend income	\$ 1,690,106
Net decrease in fair value of investments	<u>(1,468,224)</u>
	<u>\$ 221,882</u>

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2002 was:

	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Disposals	Ending Balance
Land	\$ 2,093,726	\$ —	\$ 681,528	\$ —	\$ 2,775,254
Land improvements	5,656,759	—	—	—	5,656,759
Buildings and improvements	84,183,531	—	843,192	—	85,026,723
Equipment	35,727,124	1,757,905	2,407,523	561,835	39,330,717
Library materials	13,126,133	—	1,146,102	22,912	14,249,323
Construction in progress	<u>47,758,601</u>	<u>(485,070)</u>	<u>11,064,727</u>	<u>—</u>	<u>58,338,258</u>
	<u>188,545,874</u>	<u>1,272,835</u>	<u>16,143,072</u>	<u>584,747</u>	<u>205,377,034</u>
Less accumulated depreciation					
Land improvements	—	4,687,189	67,809	—	4,754,998
Buildings and improvements	1,344,036	33,711,719	3,521,562	—	38,577,317
Equipment	—	27,988,990	2,504,236	98,440	30,493,226
Library materials	<u>—</u>	<u>9,974,585</u>	<u>788,030</u>	<u>22,912</u>	<u>10,739,703</u>
	<u>1,344,036</u>	<u>76,362,483</u>	<u>6,881,637</u>	<u>22,912</u>	<u>84,565,244</u>
Net capital assets	<u>\$ 187,201,838</u>	<u>\$ (75,089,648)</u>	<u>\$ 9,261,435</u>	<u>\$ 561,835</u>	<u>\$ 120,811,790</u>

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Note 4: Long-Term Liabilities

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2002:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases					
Revenue bonds payable					
Series 1993 (A)	\$ 7,390,000	\$ —	\$ 420,000	\$ 6,970,000	\$ 440,000
Series 1996 (B)	1,475,000	—	60,000	1,415,000	65,000
Series 1997A (C)	4,935,000	—	215,000	4,720,000	220,000
Series 1997B (C)	460,000	—	—	5,180,000	—
Series 1999 (D)	7,794,333	—	—	7,794,333	—
Series 2001	<u>—</u>	<u>10,860,000</u>	<u>—</u>	<u>10,860,000</u>	<u>—</u>
	22,054,333	10,860,000	695,000	32,219,333	725,000
Less unamortized bond discounts	<u>(524,837)</u>	<u>—</u>	<u>(38,938)</u>	<u>(485,899)</u>	<u>—</u>
	21,529,496	10,860,000	656,062	31,733,434	725,000
Capital lease obligations	<u>736,675</u>	<u>—</u>	<u>205,000</u>	<u>531,675</u>	<u>215,000</u>
Total bonds and capital leases	<u>22,266,171</u>	<u>10,860,000</u>	<u>861,062</u>	<u>32,265,109</u>	<u>940,000</u>
Other noncurrent liabilities					
Accrued compensated absences	2,827,239	338,973	—	3,166,212	—
Deferred revenue					
Tuition, fees and grants	4,931,561	5,621,670	4,931,561	5,621,670	4,720,637
Development assistance and trademark license	<u>5,875,000</u>	<u>916,666</u>	<u>500,000</u>	<u>6,291,666</u>	<u>2,333,333</u>
Total other noncurrent liabilities	<u>13,633,800</u>	<u>6,877,309</u>	<u>5,431,561</u>	<u>15,079,548</u>	<u>7,053,970</u>
Total noncurrent liabilities	<u>\$ 35,899,971</u>	<u>\$ 17,737,309</u>	<u>\$ 6,292,623</u>	<u>\$ 47,344,657</u>	<u>\$ 7,993,970</u>

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Auxiliary Housing Services Revenue Bonds

The University had the following Auxiliary Housing Services Revenue Bonds outstanding at June 30, 2002:

- (A) Refunding and improvement revenue bonds, Series 1993 – Serial obligations maturing in fiscal years ending June 30, 2003 to 2014; due in annual installments ranging from \$440,000 to \$750,000 with interest payable semi-annually ranging from 4.15% to 5%. The purpose of the issue was to refund the Series 1988 Bond; finance the construction, renovation, other acquisition and equipping of additional dining and recreational facilities at the Ben H. Parker Student Center, and improve and equip other auxiliary facilities.
- (B) Auxiliary facility enterprises revenue bonds, Series 1996 – Serial obligations maturing in fiscal years ending June 30, 2003 to 2017; due in annual installments ranging from \$65,000 to \$140,000 with interest payable semi-annually ranging from 4.75% to 6%. The purpose of the issue was to finance the installation of a new telephone system along with the replacement of and additions to the television, data, telephone and electrical cabling for the residence halls.
- (C) Auxiliary facility enterprises revenue bonds, Series 1997A and 1997B – Series 1997A serial obligations mature in fiscal years ending June 30, 2003 to 2017; due in annual installments ranging from \$220,000 to \$435,000 with interest payable semi-annually ranging from 4.2% to 5%. Series 1997B serial obligation bonds mature December 1, 2017. Interest is payable annually through 2017 at 5.3%. The purpose of this issue was to finance the construction, acquisition and equipping of Mines Park residential housing complex.
- (D) Auxiliary facility enterprises revenue bonds, Series 1999 – Serial obligations issued to finance major renovations to four of the existing residence halls; construction, other acquisitions and equipping of an approximately 13,000 square foot addition to the Ben H. Parker Student Center; acquisitions and construction of two fraternity housing facilities; and construction, acquisition and equipping of two additional buildings at the Mines Park residential housing complex. Obligations include the following:
 - (a) \$2,785,000, 5% Series 1999 Current Interest Bonds. These obligations mature on December 1, 2028 and are subject to mandatory sinking fund redemption on December 1, 2027 of \$1,300,000. Interest is payable semi-annually on December 1 and June 1.
 - (b) \$5,009,333, Series 1999 Capital Appreciation Bonds. These bonds mature on December 1, 2014 to 2027. Interest accretes from the date of issuance, compounding semi-annually until maturity, ranging from 5.14% to 5.4%.

The auxiliary bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined. The auxiliary bonds are not secured by any encumbrance, mortgage, or other pledge of property, except the net pledged revenues, and do not constitute general obligations of the University. Bond provisions require the establishment of a reserve fund. The reserve fund is funded with a surety bond provided by the bond insurer, as required. The minimum reserves for Series 1993 Series 1996, Series 1997 and Series 1999 auxiliary bonds are \$773,411, \$144,200, \$473,296 and \$779,433, respectively. The University is also required to maintain certain rate covenants related to the bonds.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

The auxiliary bond resolutions allow the University the right, subject to certain conditions, to issue additional bonds which are payable from net pledged revenues of the auxiliary facilities. However, additional bonds, if any, may only have a lien on parity with, not superior to, the existing lien.

Revenue Bonds issued by Colorado School of Mines Development Corporation (See Note 7)

The Series 2001 serial obligations mature September 1, 2026. The purpose of the issue was to finance the construction and acquisition of educational facilities at the Colorado School of Mines.

Interest is payable at varying rates, not to exceed 10%. Interest rates and payment periods are determined, as elected by the Corporation, using either (i) weekly, one month or three month interest rates, with interest payable monthly or (ii) six month, one year, five year, ten year or fixed interest rates, with interest payable semi-annually. The interest rate on variable rate bonds is calculated using the weekly interest rate of 1.35% at June 30, 2002.

Bonds bearing interest at the five, ten or fixed interest rates are subject to mandatory sinking fund redemption commencing on the September 1 next succeeding the applicable interest rate adjustment date, as defined. Bonds are subject to early redemption at the option of the issuer under certain conditions as described in the trust agreement.

The bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined, a letter of credit with a bank totaling \$10,961,162 and are guaranteed by the Colorado School of Mines Foundation. The letter of credit terminates on October 4, 2006. If the Corporation does not secure a substitute letter of credit, the bonds are subject to mandatory tender prior to the termination of the letter of credit. The bonds are not secured by any encumbrance, mortgage or other pledge of property, except the net pledged revenues, and do not constitute general obligations of the University.

The trust indenture allows the Corporation the right, subject to certain conditions, to issue additional bonds which are payable from net pledged revenues. However, additional bonds, if any, may only have a lien on parity with, not superior to, the existing lien.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Debt Service Requirements on Revenue Bonds

The debt service requirements as of June 30, 2002, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2003	\$ 1,668,107	\$ 725,000	\$ 943,107
2004	1,665,023	755,000	910,023
2005	1,669,648	795,000	874,648
2006	1,671,212	835,000	836,212
2007	1,665,000	870,000	795,000
2008 – 2012	8,334,193	5,070,000	3,264,193
2013 – 2017	8,354,172	5,051,738	3,302,434
2018 – 2022	8,351,490	2,656,041	5,695,449
2023 – 2027	19,077,192	12,651,410	6,425,782
2028 – 2029	<u>3,043,873</u>	<u>2,810,144</u>	<u>233,729</u>
	<u>\$ 55,499,910</u>	<u>\$ 32,219,333</u>	<u>\$ 23,280,577</u>

Defeased Bonds

During September 1984, Housing System Revenue Bond Series E was placed in trust with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payments. Accordingly, the Series E Bond is considered to be extinguished in 1984, and does not appear as a liability in the accompanying statement of net assets. At June 30, 2002 bonds in the amount of \$3,105,000 are outstanding.

During March 1988, Housing System Revenue Bond Series 1984 was placed in trust with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payment. Accordingly, the Series 1984 Bond is considered to be extinguished in 1988, and does not appear as a liability in the accompanying statement of net assets. At June 30, 2002 bonds in the amount of \$3,040,000 are outstanding.

During October 1993, Housing System Revenue Bond Series 1988 was placed in trust with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payments. Accordingly, the Series 1988 Bond is considered to be extinguished in 1993, and does not appear as a liability in the accompanying statement of net assets. At June 30, 2002 bonds in the amount of \$3,235,000 are outstanding.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. The following is a schedule by year of future minimum lease payments under the capital lease including interest at approximately 7.5 % together with the present value of the future minimum lease payments as of June 30, 2002.

2003	\$ 237,691
2004	228,256
2005	<u>104,000</u>
Total minimum lease payments	569,947
Less amount representing interest	<u>38,272</u>
Present value of future minimum lease payments	<u>\$ 531,675</u>

Operating Leases

The University leases property and equipment under noncancelable operating leases expiring in various years through 2005. Rental expense under these agreements totaled \$246,711 for the year ended June 30, 2002. Future minimum lease payments at June 30, 2002 are:

2003	\$ 218,843
2004	127,736
2005	<u>64,121</u>
Future minimum lease payments	<u>\$ 410,700</u>

Note 5: Related Party Transactions

Colorado School of Mines Research Institute

The Colorado School of Mines Research Institute (CSMRI), a nonprofit corporation, was established in 1949 as a separate corporation under the laws of the State of Colorado. The purpose of CSMRI is to promote, encourage and aid scientific and technological investigation and research in the field of energy. Certain University officers are trustees of CSMRI.

CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. As of December 31, 2001, CSMRI had net assets of \$78,222. CSMRI once held a lease on property owned by the University. Funds remaining from the proceeds of the sales and satisfaction of indebtedness are to be applied to rehabilitation costs of the property leased to CSMRI and the remaining property owned by CSMRI.

Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the Colorado School of Mines.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Colorado School of Mines Foundation, Inc.

The Colorado School of Mines Foundation, Inc. (the Foundation) was established in 1928 as a separate corporation existing for the benefit of the Colorado School of Mines for the purpose of soliciting, collecting and investing donations for the University. Certain University trustees are directors of the Foundation. During the year ended June 30, 2002, the University received \$8,626,598 from the Foundation which was designated as restricted funds by the Foundation. The accumulated net assets of the Foundation at June 30, 2002 are \$109,651,864. The Foundation owed the University \$245,646 as of June 30, 2002.

Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the Colorado School of Mines.

Note 6: Colorado School of Mines Building Corporation

The Colorado School of Mines Building Corporation (the Building Corporation) was established in June of 1976 as a separate corporation under the laws of the State of Colorado. The purpose of the corporation was to build a facility that would house the United States Geological Survey. The accumulated net assets of the Building Corporation at June 30, 2002 were \$2,230,179. Under GASB 14, the financial activity for the Building Corporation has been blended into the financial statements of the University.

At the end of the building lease term, the title to the building will revert to the Colorado School of Mines.

Note 7: Colorado School of Mines Development Corporation

The Colorado School of Mines Development Corporation (the Corporation) was established in September 2001 as a separate corporation under the laws of the State of Colorado. The Corporation was formed for the purpose of issuing obligations for or assist in the financing of capital expenditures on behalf of or for the benefit of the Colorado School of Mines. The accumulated net assets of the Corporation at June 30, 2002 were \$70,285. Under GASB 14, the financial activity for the Corporation has been blended into the financial statements of the University.

Upon payment in full of any indebtedness of the Corporation, the title to all assets will revert to the Colorado School of Mines.

Note 8: Pension Plan

Plan Description

Virtually all Colorado School of Mines employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan, administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Plan members vest after five years of service and most are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years of service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be 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 monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent of their gross covered wages to an individual account in the Plan.

During FY01-02, the State contributed 9.9 percent of the employee's gross covered wages, which was allocated by PERA before January 1, 2002, as follows:

- 1.42 percent was allocated to the Health Care Trust Fund
- 8.48 percent was allocated to the defined benefit plan

After January 1, 2002, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy.

- 1.64 percent was allocated to the Health Care Trust Fund

The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 9). The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The University contributions to the three programs described above for the fiscal years ended June 30, 2002, 2001 and 2000 were \$3,949,612, \$4,363,662 and \$4,443,171, respectively, equal to its required contributions for those years.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Note 9: Volunteer Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month (7 percent for judges in the Judicial Branch). The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403b plan. Members who contribute to any of these plans also receive the State match.

Note 10: Post Retirement Health Care and Life Insurance Benefits

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During FY01-02, the premium subsidy was \$115.00 for those with 20 years of service credit (\$230.00 for members under age 65), and reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 8.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2001 there were 34,325 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group life insurance plans offered by Prudential and Rocky Mountain Life. Members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction or other means.

Note 11: Commitments and Contingencies

Significant Commitments

The University is currently constructing a general research laboratory building. The remaining projected costs to completion are approximately \$4.6 million with funding provided from issued bonds.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Claims and Litigation

At June 30, 2002, the University was a party to various litigation and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the University. However, of these cases, there is one case that merits mention:

In November 1992, the University and numerous other parties were notified by the United States Environmental Protection Agency (EPA) of potential liability pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Such potential liability results from costs associated with the cleanup of hazardous substances at a site owned by the University and leased to the Colorado School of Mines Research Institute (CSMRI) which performed research for a variety of private and governmental entities. Negotiations with the EPA, the enforcement agency related to past costs for clean up, have been resolved. The Colorado Department of Health and EPA have reserved their rights as to future costs of clean up. Management believes that any future liability that it may incur as a result of this matter will not adversely affect the continued operation of the University.

Government Grants

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Note 12: Risk Management

The University is subject to risks of loss from liability for accident, property damage and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill. Therefore, the University is not required to purchase insurance for such risk of loss. Commercial insurance coverage is purchased for employee health benefits. There has been no reduction in coverage nor have any settlements exceeded coverage in any of the three preceding years. The University does not retain risk of loss except for damage incurred to property belonging to the State, limited to a \$1,000 deductible per incident.

The State Division of Risk Management is deemed to be a public entity risk pool; therefore, under the Governmental Immunity Act, the University is protected from suit by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

Note 13: Legislative Appropriations

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill. The Long Bill appropriated funds may include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

For the year ended June 30, 2002, appropriated expenses were within the authorized spending authority. The University had a total appropriation of \$46,721,221. Actual appropriated revenues earned totaled \$46,650,606. Actual appropriated expenses totaled \$46,638,360. The net increase in appropriated net assets was \$12,246.

All other revenues and expenses reported by the University represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues and other revenue sources.

The accompanying financial statements contain revenues and expenses from both appropriated and non-appropriated funds.

Note 14: Change in Accounting Principle

In 1999, GASB issued Statement No. 34, *Basic Financial Statement-and Management's Discussion and Analysis-for State and Local Governments* and Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of depreciation on capital assets and include a narrative management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the University did not maintain a complete set of detailed historical cost records on its capital assets nor did it record depreciation on its capital assets. To comply with the requirements of these statements, the University has prepared detailed cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001. The cumulative effect of adoption at July 1, 2001, is as follows:

Adjustment to increase capital assets carrying amounts to agree to detailed cost records	\$ 1,272,835
Adjustment to record accumulated depreciation on capital assets	(76,362,483)
Adjustment to deferred revenue for summer tuition	209,892
Adjustment to deferred revenue for prior year restricted fund additions for grant funds received in advance of expenses incurred	<u>(3,748,452)</u>
Decrease to net assets at July 1, 2001	<u>\$ (78,628,208)</u>

In addition to the changes described above, there was a significant change in the overall form and content of the University's financial statements.

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2002

Note 15: Subsequent Event

Bond Issuance

On November 11, 2002, the University issued \$32,044,000 of unsecured bonds. The bonds are subordinate to all senior indebtedness, bear interest ranging from 3.25% to 5% and are due in amounts ranging from \$335,000 to \$3,245,000 beginning December 1, 2017 through December 1, 2037. Proceeds from the issuance were used to refund portions of prior bond issues and \$25,000,000 will be used for capital construction needs.

Note 16: Future Change in Accounting Principle

The Governmental Accounting Standards Board recently adopted its Statement No. 39 (GASBS No. 39), *Determining Whether Certain Organizations Are Component Units*, which provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University. The Statement generally requires reporting as a discretely presented component unit, each organization that raises and holds economic resources for the direct benefit of the University or a component unit of the University. The University expects to first apply GASBS No. 39 during the year ending June 30, 2004, by retroactively restating prior years' financial statements. The impact of applying the Statement has not yet been determined. Organizations to be evaluated for inclusion in the University's reporting entity under GASBS No. 39 include the Colorado School of Mines Research Institute and the Colorado School of Mines Foundation, Inc.

Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado School of Mines (the University), an institution of the State of Colorado, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 27, 2002 which contained an explanatory paragraph regarding a change in accounting principle. 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Auditor's Findings and Recommendations section of this report as Recommendation Number 7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the management of the University in the Auditor's Findings and Recommendations Section of this report.

Members of the Legislative Audit Committee (continued)

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and the management of the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2002

Independent Accountants' Report on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs (the Statement) of the Colorado School of Mines (the University), an institution of the State of Colorado, for the year ended June 30, 2002. This Statement is the responsibility of the University's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in notes to the Statement, the Statement was prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 2002 version. The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Perkins Loan and Colorado Work-Study Programs, and does not present certain transactions that would be included in the Statement of the state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the financial position, changes in financial position or cash flows of the University in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers and reversions of the state-funded student assistance programs of the Colorado School of Mines for the year ended June 30, 2002, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Assistance Programs*, as described in Note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2002 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of the Legislative Committee (continued)

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and the management of the University and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2002

Colorado School of Mines
Statement of Appropriations, Expenditures, Transfers and Reversions
of the State-Funded Student Assistance Programs
Year Ended June 30, 2002

	CSIG Student Incentive Grants	CSG Student Grant Program	Governor's Opportunity Scholarship	CWS Work- Study Program	CGF Graduate Fellowship Program	UGM Under- Graduate Merit	Perkins Match	Total State- Funded Student Assistance
Appropriations								
Original	\$ 51,352	\$ 649,227	\$ 137,000	\$ 309,591	\$ 68,094	\$ 440,325	\$ 14,585	\$1,670,174
Adjustments/Transfers	<u>(3,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,000)</u>
Total	48,352	649,227	137,000	309,591	68,094	440,325	14,585	1,667,174
Expenditures	<u>48,352</u>	<u>649,227</u>	<u>137,000</u>	<u>309,591</u>	<u>68,094</u>	<u>440,325</u>	<u>14,585</u>	<u>1,667,174</u>
Reversions to State General Fund	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

State of Colorado Colorado School of Mines

Notes to Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs

June 30, 2002

Note 1: Summary of Significant Accounting Policies

The University's accounting system is structured and administered in accordance with the accounting principles promulgated by the Governmental Accounting Standards Board.

The Perkins Student Loan Direct Student Loan matching requirement from general funds, as approved by the Colorado Commission on Higher Education, is recorded as a transfer from general funds to loan funds, and not as a general fund expense and loan fund revenue.

All student aid is expended on a cash basis, except for Perkins Student Loan and the Colorado Work-Study Program (CWS). The Perkins Student Loans are recorded as loans receivable when the funds are disbursed. The CWS is on the accrual basis in that the expense is recognized when the services are performed.

Note 2: Description of Programs

In addition to the student assistance awards made during the period, the University obtained authorizations to award federal student financial aid of \$852,952 in the Pell Grant Program, \$171,873 in the Supplemental Educational Opportunity Grant Program and \$129,062 in the College Work-Study Program. The University also received \$41,163 in capital contributions for the Perkins Loan program.

The Director of Financial Aid is responsible for administration of these programs. This responsibility includes application processing, eligibility determination and financial aid packaging, as well as ensuring compliance with regulations governing the participation of the University in federal and state financial aid programs. The University's Controller is responsible for the programs' financial management, general ledger accounting, payments and collections.

Note 3: Student Incentive Grants

Student Incentive Grants consist of \$39,879 non-federal state funds and \$11,098 of federal funds.

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Colorado School of Mines (the University) as of and for the year ended June 30, 2002, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS 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. Our contract with the State Auditor more specifically discusses our responsibilities.

Significant Accounting Policies

The University's significant accounting policies are described in Note 1 of the audited financial statements.

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
- Compensated absences
- Depreciation on capital assets

Audit Adjustments

During the course of any audit, an auditor will propose adjustments of 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. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate. Areas in which adjustments were proposed that management recorded include:

- Capital assets
- Depreciation on capital assets

Members of the Legislative Audit Committee (continued)

Areas in which uncorrected misstatements were aggregated during the current engagement and were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole include the classification of grant revenue, fringe rate allocations for grants and depreciation and capitalization of capital assets. The effect of the uncorrected misstatements had they been recorded would have been to decrease net assets as of June 30, 2001 by \$737,200, decrease the change in net assets by \$801,000 for the year ended June 30, 2002 and decrease current assets and noncurrent assets by \$274,000 and \$1,265,000, respectively, and to increase non-operating revenue and decrease operating revenue by \$22,150,000.

This letter is intended for the information and use of the Legislative Audit Committee, the Board of Trustees and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2002

**Colorado School of Mines
ATTACHMENT**

This analysis and the attached "Schedule of Uncorrected Misstatements" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Adjusted for Misstatements	% Change
Current Assets	30,986,529	(273,898)	30,712,631	-0.88%
Non-Current Assets	140,528,528	(1,264,741)	139,263,787	-0.90%
Current Liabilities	(14,448,771)	(2,207,650)	(16,656,421)	15.28%
Non-Current Liabilities	(39,350,687)	2,207,650	(37,143,037)	-5.61%
Current Ratio	2.145		1.844	-14.03%
Total Assets	171,515,057	(1,538,639)	169,976,418	-0.90%
Net Assets	(117,715,599)	1,538,639	(116,176,960)	-1.31%
Total Net Assets	(117,715,599)	1,538,639	(116,176,960)	-1.31%
Revenues & Income Operating	(65,597,344)	22,255,600	(43,341,744)	-33.93%
Net Non-operating revenue	(30,875,266)	(22,150,000)	(53,025,266)	71.74%
Costs & Expenses	91,776,543	695,836	92,472,379	0.76%
Change in Net Assets	(4,696,067)	801,436	(3,894,631)	-17.07%
Change in Net Assets - Three Year Average	(4,696,067)	801,436	(3,894,631)	-17.07%

Client: Colorado School of Mines

SCHEDULE OF ADJUSTMENTS PASSED

Period Ending: June 30,2002

PAJE Scope: \$57,800

Description	AWP REF	Assets				Liabilities				(X) Non Tax	Revenues & Income		Revenues & Income Non		Costs & Expenses		Fund Balance (Beg. of year)		Capital & Other Equity		Net Effect on Following Year					
		Current		Non-Current		Current		Non-Current			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Prior Year																										
Diff in fair value of invest bet actual and reported	6a										105,600							(105,600)								
Current Year																										
Over allocation of fringe rate to R & D grants	L-3	(273,898)															(27,010)	300,908								
To adjust for early depreciation of assets	G-9			148,270													(148,270)									
Depreciation on completed building	G-6			(1,111,361)													493,938	617,423								
Over capitalization of interest expense	G-10			(301,650)													301,650									
Error in application of GASB 35 (Difference in calculating beginning balance adjustment and actual	RWP2																75,528	(75,528)								
Reclassification of grant revenue to non operating											22,150,000	(22,150,000)														
Estimated current portion of compensated absenses	L-1					(2,207,650)	2,207,650																			
Taxable passed adjustments											22,255,600	(22,150,000)				695,836	737,203									
Times (1 - estimated tax rate of 00%)											100%	100%				100%	100%									
Taxable passed adjustments net of tax impact											22,255,600	(22,150,000)				695,836	737,203									
Nontaxable passed adjustments		(273,898)	(1,264,741)	(2,207,650)	2,207,650																					
Total passed adjustments, net of tax impact (if any)		(273,898)	(1,264,741)	(2,207,650)	2,207,650						22,255,600	(22,150,000)				695,836	737,203									
Times expansion factor		1.3	1.3	1.3	1.3						1.3	1.3				1.3	1.3							1.3		
Expanded impact of passed adjustments		(356,067)	(1,644,163)	(2,869,945)	2,869,945						28,932,280	(28,795,000)				904,587	958,364									
																	Impact on Change in Net Assets		1,041,867							
																	Impact on Equity		2,000,231							

1041867

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.