

**Colorado School of Mines
Auxiliary Bonds**

Accountants' Report and Financial Statements

June 30, 2002

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Colorado School of Mines
Auxiliary Bonds
Accountants' Report and Financial Statements

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Independent Accountants' Report

Members of the Legislative Audit Committee:

We have audited the accompanying special purpose financial statements of the Auxiliary Bonds 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.

The accompanying special purpose financial statements were prepared for the purpose of complying with the provisions of certain bond indentures as described in Note 4 and are not intended to be a complete presentation of the University's assets, liabilities, revenues and expenses.

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

This report is intended solely for the information and use of the Legislative Audit Committee, the Colorado State Auditor, the Board of Trustees and management of Colorado School of Mines, the Auxiliary Bonds trustee and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

September 27, 2002

State of Colorado
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Statement of Net Assets
June 30, 2002

Assets

Current Assets

Cash and cash equivalents	\$ 1,660,701
Accounts receivable	<u>145,750</u>
Total current assets	<u>1,806,451</u>

Noncurrent Assets

Capital assets, net	<u>20,493,813</u>
Total assets	<u>22,300,264</u>

Liabilities

Current Liabilities

Vouchers payable	134,020
Accrued liabilities	54,786
Deferred revenue	28,997
Bonds payable, current portion	725,000
Other liabilities	<u>239,804</u>
Total current liabilities	<u>1,182,607</u>

Noncurrent Liabilities

Accrued interest payable	901,033
Bonds payable	20,148,434
Other liabilities	<u>116,675</u>
Total noncurrent liabilities	<u>21,166,142</u>
Total liabilities	<u>22,348,749</u>

Net Assets

Invested in capital assets, net of related debt	(1,512,329)
Restricted	
Expendable	
Capital projects	319,125
Debt service	2,566
Unrestricted	<u>1,142,153</u>
Total net assets	<u>\$ (48,485)</u>

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**Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2002**

Operating Revenues	
Tuition and fees	\$ 5,984,678
Other operating revenues	<u>815,303</u>
Total operating revenues	<u>6,799,981</u>
Operating Expenses	
Student services	67,060
Depreciation	974,894
Auxiliary enterprises	<u>4,718,411</u>
Total operating expenses	<u>5,760,365</u>
Operating Income	<u>1,039,616</u>
Nonoperating Revenues (Expenses)	
Interest on capital asset-related debt	<u>(662,682)</u>
Net nonoperating revenues	<u>(662,682)</u>
Income Before Transfers	376,934
Transfers out	<u>(27,226)</u>
Increase in Net Assets	<u>349,708</u>
Net Assets, Beginning of Year – As Previously Reported	7,049,269
Cumulative effect of change in accounting principle	<u>(7,447,462)</u>
Net Assets, Beginning of Year – As Restated	<u>(398,193)</u>
Net Assets, End of Year	<u><u>\$ (48,485)</u></u>

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Notes to Financial Statements
Year Ended June 30, 2002

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

The accompanying financial statements include the separate accounts of the Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1993, Auxiliary Facilities Revenue Bonds, Series 1996, Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B and Auxiliary Facilities Enterprise Revenue Bonds, Series 1999, collectively identified as Auxiliary Bonds.

Basis of Accounting and Presentation

The financial statements of the Auxiliary Bonds of the Colorado School of Mines (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 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 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.

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 revenue and expenditures 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.

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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
Building and improvements	20-40 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 was \$1,103,582 of which \$361,139 was capitalized.

Classification of Revenues

Revenues are classified 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*.

Note 2: Cash and Cash Equivalent

At June 30, 2002, the Auxiliary Bonds had \$318,382 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

At June 30, 2002, cash included petty cash and change funds of \$1,280, money market accounts of \$3,087,535 and bank accounts of \$(1,746,496). The bank balance includes \$3,087,535 covered by collateral held by the pledging institution's agent in the University's name.

Note 3: Capital Assets

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Colorado School of Mines
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**Notes to Financial Statements
Year Ended June 30, 2002**

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

	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 5)	Additions	Disposals	Ending Balance
Land and improvements	\$ 36,622	\$ —	\$ —	\$ —	\$ 36,622
Building and improvements	20,136,132	—	—	—	20,136,132
Equipment	—	—	231,675	—	231,675
Construction in progress	<u>5,398,315</u>	<u>—</u>	<u>3,113,425</u>	<u>—</u>	<u>8,511,740</u>
	25,571,069	—	3,345,100	—	28,916,169
Less accumulated depreciation	<u>—</u>	<u>(7,447,462)</u>	<u>974,894</u>	<u>—</u>	<u>8,442,356</u>
Net capital assets	<u>\$ 25,571,069</u>	<u>\$ (7,447,462)</u>	<u>\$ 2,370,206</u>	<u>\$ 0</u>	<u>\$ 20,493,813</u>

Note 4: Revenue Bonds Payable

The following is a summary of Auxiliary Bonds transactions for the year ended June 30, 2002:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 1993	\$ 7,390,000	\$ —	\$ 420,000	\$ 6,970,000	\$ 440,000
Series 1996	1,475,000	—	60,000	1,415,000	65,000
Series 1997A	4,935,000	—	215,000	4,720,000	220,000
Series 1997B	460,000	—	—	5,180,000	—
Series 1999	<u>7,794,333</u>	<u>—</u>	<u>—</u>	<u>7,794,333</u>	<u>—</u>
	22,054,333	—	695,000	21,359,333	725,000
Less unamortized bond discounts	<u>(524,837)</u>	<u>—</u>	<u>(38,938)</u>	<u>(485,899)</u>	<u>—</u>
	<u>\$ 21,529,496</u>	<u>\$ 0</u>	<u>\$ 656,062</u>	<u>\$ 20,873,434</u>	<u>\$ 725,000</u>

Series 1993 Bonds

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**Notes to Financial Statements
Year Ended June 30, 2002**

Revenue bonds payable were issued in 1993 in connection with constructing, renovating, otherwise acquiring and equipping the Ben H. Parker Student Center and improving and equipping dormitories and housing facilities. The 1993 revenue bonds outstanding as of June 30, 2002 consist of the following:

Auxiliary Facilities Refunding and Improvement Revenue Bonds	
Series 1993, with interest at 4.15% - 5%	\$ 6,970,000
Less unamortized discount	<u>343,340</u>
	<u>\$ 6,626,660</u>

Series 1993 is a serial obligation maturing in fiscal years ending June 30, 2003 to 2014. Required annual principal and interest payments on the remaining Series 1993 Bonds at June 30, 2002 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2003	\$ 769,891	\$ 440,000	\$ 329,891
2004	769,916	460,000	309,916
2005	773,411	485,000	288,411
2006	769,947	505,000	264,947
2007	769,719	530,000	239,719
2008-2012	3,851,525	3,085,000	766,525
2013-2014	<u>1,539,125</u>	<u>1,465,000</u>	<u>74,125</u>
	<u>\$ 9,243,534</u>	<u>\$ 6,970,000</u>	<u>\$ 2,273,534</u>

Series 1996 Bonds

Revenue bonds payables were issued in 1996 in connection with constructing, acquiring, and equipping improvement to auxiliary facilities. The 1996 revenue bonds outstanding as of June 30, 2002 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds	
Series 1996, with interest at 4.75% – 6%	\$ 1,415,000
Less unamortized discount	<u>8,460</u>
	<u>\$ 1,406,540</u>

Series 1996 are serial obligations maturing in fiscal years ending June 30, 2003 to 2017. Required annual principal and interest payments on the Series 1996 Bonds at June 30, 2002 are:

Year Ending

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**Notes to Financial Statements
Year Ended June 30, 2002**

June 30,	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 143,468	\$ 65,000	\$ 78,468
2004	140,259	65,000	75,259
2005	141,849	70,000	71,849
2006	143,142	75,000	68,142
2007	139,251	75,000	64,251
2008-2012	701,604	450,000	251,604
2013-2017	<u>711,750</u>	<u>615,000</u>	<u>96,750</u>
	<u>\$ 2,121,323</u>	<u>\$ 1,415,000</u>	<u>\$ 706,323</u>

Series 1997 Bonds

Revenue bonds payable were issued in 1997 in connection with constructing, acquiring, and equipping improvements to auxiliary facilities. The 1997 revenue bonds outstanding as of June 30, 2002 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds	
Series 1997A, with interest at 4.2% – 5%	\$ 4,720,000
Series 1997B, with interest at 5.3%	<u>460,000</u>
	5,180,000
Less unamortized discount	<u>68,340</u>
	<u>\$ 5,111,660</u>

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**Notes to Financial Statements
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Series 1997 are serial obligations maturing in fiscal years ending June 30, 2003 to 2018. Required annual principal and interest payments on the Series 1997 Bonds at June 30, 2002 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2003	\$ 468,888	\$ 220,000	\$ 248,888
2004	468,988	230,000	238,988
2005	468,528	240,000	228,528
2006	472,263	255,000	217,263
2007	470,170	265,000	205,170
2008-2012	2,351,764	1,535,000	816,764
2013-2017	2,353,997	1,975,000	378,997
2018	<u>472,190</u>	<u>460,000</u>	<u>12,190</u>
	<u>\$ 7,526,788</u>	<u>\$ 5,180,000</u>	<u>\$ 2,346,788</u>

Series 1999 Bonds

Revenue bond payables were issued in 1999 in connection with constructing, acquiring, and equipping improvements to auxiliary facilities. The 1999 revenue bonds outstanding as of June 30, 2002 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds, Series 1999	
Current Interest Bonds; interest at 5%	\$ 2,785,000
Capital Appreciation Bonds; interest at 5.14% to 5.4%	<u>5,009,333</u>
	7,794,333
Less unamortized discount	<u>65,759</u>
	<u>\$ 7,728,574</u>

Series 1999 Current Interest Bonds 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. Series 1999 Capital Appreciation Bonds mature on December 1, 2014 to 2027. Interest accretes from the date of issuance, compounding semi-annually until maturity. Required annual principal and interest payments on Series 1999 Bonds at June 30, 2002 are:

Year Ending

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**Notes to Financial Statements
Year Ended June 30, 2002**

June 30,	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 139,250	\$ —	\$ 139,250
2004	139,250	—	139,250
2005	139,250	—	139,250
2006	139,250	—	139,250
2007	139,250	—	139,250
2008-2012	696,250	—	696,250
2013-2017	3,016,250	996,738	2,019,512
2018-2022	7,146,250	2,196,041	4,950,209
2023-2027	7,606,250	1,791,410	5,814,840
2028-2029	<u>3,043,873</u>	<u>2,810,144</u>	<u>233,729</u>
	<u>\$ 22,205,123</u>	<u>\$ 7,794,333</u>	<u>\$ 14,410,790</u>

Defeased Bonds

During September 1984, Housing System Revenue Bond Series E was placed 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 \$3,350,000 are outstanding.

During March 1988, Housing System Revenue Bond Series 1984 was placed 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 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 \$3,330,000 are outstanding.

During October 1993, Housing System Revenue Bond Series 1988 was placed 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 \$3,580,000 are outstanding.

Pledge of Net Income

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The Auxiliary Bonds are secured by a first (but not an exclusive first) lien upon the net pledged revenues, while any portion of the Auxiliary Bonds remain outstanding. Net pledged revenues are defined by the bond resolution to be gross revenues less general operating expenses and all other moneys credited to either the bond fund or the reserve fund.

Gross revenues consist of all income and revenues derived directly or indirectly from the operations of the auxiliary facilities, including, but not limited to, the student center fee, any special fees assessed against students or employees which is related to auxiliary facilities, and any investment earnings.

The auxiliary bond resolutions allow the Board of Trustees (the Board) 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 a parity with, not superior to, the existing lien.

The Auxiliary Bonds are special limited obligations of the Colorado School of Mines and are payable solely from 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 Colorado School of Mines.

Required Reserves

The auxiliary bond resolutions require the Board to establish a minimum reserve in accordance with the applicable resolution. The minimum reserve under the bond resolution is equal to the maximum principal and interest due in any calendar year for the particular bond issue. The auxiliary bond resolutions allow the Board to elect to fund the minimum reserve through a surety bond or letter of credit. The Auxiliary Bonds minimum reserves have been funded by the issuance of surety bonds provided by Municipal Bond Insurance Association (MBIA) in an amount equal to the maximum principal and interest due in any calendar year on those issues. The minimum reserves for the Series 1993, Series 1996, Series 1997 and Series 1999 Auxiliary Bonds are \$773,411, \$144,200, \$473,296 and \$779,433, respectively.

Debt Service Coverage

The Auxiliary Bonds specify debt service coverage requirements for the auxiliary facilities. The debt service coverage provisions require net pledged revenues, as defined above, to be equal to 110% of the combined principal and interest payments on the Auxiliary Bonds and any additional bonds due during any subsequent fiscal year. The following combined debt service coverage calculation includes all Auxiliary Bonds since all bonds are payable from net pledged revenues on a parity with the other bonds.

The calculation of the combined debt service coverage for the year ended June 30, 2002 is as follows:

Series 1999 Series 1997 Series 1996 Series 1993

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**Notes to Financial Statements
Year Ended June 30, 2002**

	<u>Bonds</u>	<u>A&B Bonds</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Total</u>
Debt service:					
Principal	\$ —	\$ 215,000	\$ 60,000	\$ 420,000	\$ 695,000
Interest	<u>139,250</u>	<u>258,296</u>	<u>81,478</u>	<u>348,441</u>	<u>827,465</u>
Total debt service	<u>\$ 139,250</u>	<u>\$ 473,296</u>	<u>\$ 141,478</u>	<u>\$ 768,441</u>	<u>\$ 1,522,465</u>
Operating revenues					\$ 6,799,981
Operating expenditures, net of depreciation					<u>4,786,271</u>
Net pledged revenues					2,013,710
Amount available in unrestricted net assets					<u>1,142,153</u>
Amount available for debt service					<u>\$ 3,155,863</u>
Ratio of amount available for debt service to total debt service					<u>2.07</u>

As stated in the auxiliary bond resolutions, the Board has pledged to impose fees, rates and charges sufficient to pay all obligations required under the provisions of the auxiliary bond resolutions.

Additional Covenants

In addition to the other requirements listed in this footnote, the auxiliary bond resolutions require the Board to maintain compliance with various additional covenants while the Auxiliary Bonds are outstanding. These covenants, among other things, restrict the disposition of the auxiliary facilities under certain circumstances, require the Board to maintain adequate insurance on the auxiliary facilities, require the Board to continue to operate the auxiliary facilities and require an annual audit of the Auxiliary Bond Fund.

Events of Default

An event of default will have occurred under the auxiliary bond resolutions, in general, if (a) any payment of principal or interest on the Auxiliary Bonds is not made when due; (b) the Board is unable to fulfill its obligations under the auxiliary bond resolutions; or (c) the Board has defaulted

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in the performance of any covenant, condition, agreement, or provision contained in any of the auxiliary bond resolutions.

Note 5: Change in Accounting Principle

In 1999, GASB issued Statement No. 34, *Basic Financial Statements 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 detail 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, on the Colorado School of Mines Auxiliary Bonds is as follows:

Decrease in net assets at July 1, 2001 for adjustment to record accumulated depreciation on capital assets	\$ <u>(7,447,462)</u>
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In addition to the changes described above, there was a significant change in the overall form and content of the University's Auxiliary Bonds financial statements.

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