

**State of Colorado
Colorado School of Mines
Development Corporation**

Accountants' Report and Financial Statements
For the Period September 7, 2001 to June 30, 2002

**LEGISLATIVE AUDIT COMMITTEE
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**State of Colorado
Colorado School of Mines
Development Corporation**

For the Period September 7, 2001 to June 30, 2002

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**State of Colorado
Colorado School of Mines
Development Corporation
Auditor's Findings and Recommendations**

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Corporation's accounting department is difficult because of the limited number of personnel. However, there are compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage the Corporation to limit, to the extent possible, performance of incompatible duties by individuals in the Corporation's accounting department. Consider implementing the following changes to improve controls:

- Where review procedures have been implemented to reduce the risk from lack of segregation (i.e., having the secretary/treasurer and the bookkeeper review each other's work), demonstrate written evidence of this review process, either directly on the item being reviewed or on a daily review log.
- Require requests for payment to be supported by evidence of receipt as well as approval of authorized purchaser.
- Increase management oversight over accounting activities, including, but not limited to
 - Review of bank statements and enclosures prior to submission to the bookkeeper for reconciliation.
 - Review of monthly financial statements and related account reconciliations for unusual transactions/balances and/or unreconciled amounts.

Recommendation No.1

The Corporation should review employee tasks to identify incompatible duties and segregate the incompatible duties to improve internal controls within the Corporation.

Corporation's Response

The Corporation agrees.

The Corporation will complete a review of the employee tasks and implement a written procedure to outline the segregation of duties.

Implementation Date: May 2003

**State of Colorado
Colorado School of Mines
Development Corporation
Auditor's Findings and Recommendations (continued)**

Physical Control of Checks

During our evaluation of internal controls we discovered that access to the checks for the Corporation is currently not restricted. This could result in any employee taking checks to manipulate for their own use. Checks should be kept locked at all times and access to these items restricted.

Recommendation No.2

The Corporation should restrict physical access to checks.

Corporation's Response

The Corporation agrees.

The checks have been moved from the Controller's office and now are stored in a safe in the Fiscal Services Department.

Implementation Date: February 2003

**State of Colorado
Colorado School of Mines
Development Corporation
Auditor's Findings and Recommendations (continued)**

Controls Over Payments

The Corporation's software is not advanced enough to detect if an invoice has been previously paid. The invoices are attached to check copies to show that they have been paid. There is a risk that a duplicate invoice could be paid. Invoices should be checked for payment prior to being paid.

Recommendation No.3

The Corporation should implement a process to review invoices prior to payment to reduce the chance of duplicate payments.

Corporation's Response

The Corporation agrees.

The Corporation will review the payment process and identify controls to put into practice to reduce the chance of duplicate payments.

Implementation Date: May 2003

Independent Accountants' Report

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado School of Mines Development Corporation (the Corporation), a component unit of the Colorado School of Mines, as of and for the period September 7, 2001 through June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the Corporation'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2002, and its changes in financial position and cash flows for the period September 7, 2001 through June 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2002, on our consideration of the Corporation'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 inquiries 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 16, 2002

**State of Colorado
Colorado School of Mines
Development Corporation
Management's Discussion and Analysis
For the Period September 7, 2001 to June 30, 2002**

Management's Discussion and Analysis

This section of the Colorado School of Mines Development Corporation (the Corporation) financial statements presents management's discussion and analysis of the financial performance of the Corporation during the period September 7, 2001 through June 30, 2002. This discussion and analysis has been prepared by management and should be read in conjunction with the basic financial statements and footnotes.

The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. Since the Corporation was created during the fiscal year, only one year of financial data is presented. In future years a comparative analysis will be presented.

Executive Summary

The Corporation was established as a component unit of the Colorado School of Mines (the University) in September 2001. The purpose of the Corporation is the issuance of obligations to finance the construction of a research building, which will also house the Colorado School of Mines Geology Museum.

The Corporation issued revenue bonds in the amount of \$10.9 million in September 2001 to finance construction of the new research and museum building. Construction on this new facility began immediately and the building is scheduled for completion during fall 2002.

The revenue bonds issued are secured by a letter of credit with a bank and are guaranteed by the Colorado School of Mines Foundation, Inc. They do not constitute general obligations of the Corporation.

Using this Report

This report contains three basic financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*.

The information provided in the basic financial statements – the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows – provide information about the financial health of the Corporation, with relevant non-financial facts provided in this Management's Discussion and Analysis section.

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**Management's Discussion and Analysis (continued)
Period September 7, 2001 to June 30, 2002**

The Statement of Net Assets presents all assets and liabilities of the Corporation. It is prepared using 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. The Statement of Cash Flows presents information related to cash inflows and outflows, indicating the Corporation's ability to meet financial obligations as they mature.

**Condensed Statement of Net Assets
June 30, 2002**

Restricted cash and cash equivalents	\$ 6,938,064
Capital assets	4,347,234
Other noncurrent assets	<u>237,982</u>
Total assets	\$ <u>11,523,280</u>
Current liabilities	\$ 592,995
Noncurrent liabilities	<u>10,860,000</u>
Total liabilities	<u>11,452,995</u>
Total net assets	\$ <u>70,285</u>

Assets consist of restricted cash and cash equivalents from the bond issue of \$6.9 million and construction in progress on the research building of \$4.3 million. Debt issuance costs net of accumulated amortization total \$237,982.

Liabilities consist of bonds payable of \$10.9 million, accounts payable for construction work of \$581,405, and accrued interest of \$11,590.

As a result, net assets remaining as of June 30, 2002, total \$70,285. The sole purpose of the Corporation is to issue bonds to finance construction of the research building.

Debt service requirements, which are presented in Note 3 of these financial statements, are paid by the University from indirect costs recovered from sponsored research projects conducted by the University's faculty. Revenue sources that support the bonds issued by the Corporation will increase upon completion of the new research building. Research award volume received by the University has increased significantly over the past 10 years, as shown in the following chart.

**State of Colorado
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**Management's Discussion and Analysis (continued)
Period September 7, 2001 to June 30, 2002**

Research Grant and Awards Volume

Fiscal Year	Award Volume	Dollar Increase (Decrease)	Percent Increase (Decrease)
1991-92	\$ 13,435,455		
1992-93	16,510,715	\$ 3,075,260	22.9%
1993-94	14,179,022	(2,331,693)	(14.1)
1994-95	22,338,380	8,159,358	57.5
1995-96	20,072,614	(2,265,766)	(10.1)
1996-97	19,922,993	(149,621)	(0.7)
1997-98	21,364,496	1,441,503	7.2
1998-99	20,374,902	(989,594)	(4.6)
1999-00	23,814,344	3,439,442	16.9
2000-01	27,977,562	4,163,218	17.5
2001-02	30,301,850	<u>2,324,288</u>	<u>8.3</u>
10-Year Increase		<u>\$ 16,866,395</u>	<u>125.5%</u>

**Condensed Statement of Revenues, Expenses
and Changes in Net Assets
Period September 7, 2001 to June 30, 2002**

Net Nonoperating Revenues	\$ 70,285
Increase in Net Assets	70,285
Net Assets, Beginning of Year	<u>—</u>
Net Assets, End of Year	<u>\$ 70,285</u>

Revenues include contributions from the Colorado School of Mines for payment of bond debt service of \$123,806.

Expenses include bank fees of \$46,547, and amortization expense of \$6,974.

Revenues exceeded expenses by \$70,285, the ending net asset amount for the Corporation for its first fiscal year.

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Colorado School of Mines
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**Management's Discussion and Analysis (continued)
Period September 7, 2001 to June 30, 2002**

**Condensed Statement of Cash Flows
Period September 7, 2001 to June 30, 2002**

Cash Provided by	
Operating activities	\$ 112,780
Capital and related financing activities	<u>6,825,284</u>
Net Increase in Cash and Cash Equivalents	6,938,064
Cash and Cash Equivalents, Beginning of Year	<u>—</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,938,064</u>

Capital-asset related financing activities generated \$6.8 million primarily from proceeds from \$10.9 million bond issuance, net of \$244,957 in bond issuance costs and construction costs paid of \$3.7 million.

Cash and cash equivalents available at the end of the year will cover remaining construction costs of the research building.

Factors Impacting Future Periods

Revenue sources that support the bond repayment and debt service are expected to increase upon completion of the new research building. The facilities in the building will be used to promote additional major research projects on campus, which is expected to increase the amount of indirect costs collected from sponsored research projects. The growth in research projects is anticipated to make the University more attractive to future faculty and graduate students, further supporting continued growth in research activity.

At this time, the University does not plan to issue additional bonds through the Corporation. If additional research facilities are needed in the future, the Corporation would possibly assist in obtaining the financing and construction of the new facility.

**State of Colorado
Colorado School of Mines
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Statement of Net Assets
September 7, 2001 to June 30, 2002**

Assets

Noncurrent Assets

Restricted cash and cash equivalents	\$ 6,938,064
Bond issuance costs, net of accumulated amortization of \$6,974	237,982
Construction in progress, at cost	<u>4,347,234</u>
Total assets	<u>11,523,280</u>

Liabilities

Current Liabilities

Accounts payable	581,405
Accrued interest	<u>11,590</u>
Total current liabilities	<u>592,995</u>

Noncurrent Liabilities

Bonds payable	<u>10,860,000</u>
Total liabilities	<u>11,452,995</u>

Net Assets

Invested in capital assets, net of related debt	—
Restricted – expendable	
Capital projects	<u>70,285</u>
Total net assets	<u>\$ 70,285</u>

**State of Colorado
Colorado School of Mines
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**Statement of Revenues, Expenses and Changes in Net Assets
Period September 7, 2001 to June 30, 2002**

Nonoperating Revenues (Expenses)	
Capital asset-related debt remarketing fees	\$ (46,547)
Amortization of bond issuance costs	(6,974)
Contributions	<u>123,806</u>
Net nonoperating revenues	<u>70,285</u>
Increase in Net Assets	70,285
Net Assets, Beginning of Period	<u>—</u>
Net Assets, End of Period	<u>\$ 70,285</u>

**State of Colorado
Colorado School of Mines
Development Corporation
Statement of Cash Flows
Period September 7, 2001 to June 30, 2002**

Operating Activities	
Interest income	\$ <u>112,780</u>
Net cash provided by operating activities	<u>112,780</u>
Capital and Related Financing Activities	
Proceeds from issuance of bonds	10,860,000
Cash paid on bond issuance costs	(244,957)
Fees paid for bond remarketing	(46,547)
Construction of capital assets	(3,731,621)
Contributions	123,806
Interest paid on capital debt and leases	<u>(135,397)</u>
Net cash provided by capital and related financing activities	<u>6,825,284</u>
Increase in Cash and Cash Equivalents	6,938,064
Cash and Cash Equivalents, Beginning of Period	<u>—</u>
Cash and Cash Equivalents, End of Period	<u>\$ <u>6,938,064</u></u>
Supplemental Cash Flows Information	
Accounts payable incurred for capital asset purchases	\$ 581,405

**State of Colorado
Colorado School of Mines
Development Corporation
Statement of Cash Flows
Period September 7, 2001 to June 30, 2002**

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

Nature of Operations

Colorado School of Mines Development Corporation (the Corporation) was established on September 7, 2001 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 Corporation is a component unit of the Colorado School of Mines. The Corporation's revenues are derived principally from contributions received from the Colorado School of Mines and its return on investments.

Basis of Accounting and Presentation

The financial statements of the Corporation 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 Corporation 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 Corporation prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The Corporation 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 Corporation 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 revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

**State of Colorado
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Statement of Cash Flows
Period September 7, 2001 to June 30, 2002**

Cash Equivalents

The Corporation 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 U.S. Government money market funds with a broker.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include amounts restricted for project construction.

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.

The Corporation 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 capitalized was:

Total interest expense incurred on borrowings for project	\$ 135,397
Interest income from investment of proceeds of borrowings for project	<u>112,780</u>
Net interest cost capitalized	<u>\$ 22,617</u>

Bond Issue Costs

Bond issue costs are being amortized on a straight-line basis over the term of the bonds. Total amortization for the year ended June 30, 2002, was \$6,974.

Classification of Revenues

The Corporation 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 rents received on research facility.

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.

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Statement of Cash Flows
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Income Taxes

The Corporation has applied for exemption from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law but has not received a final ruling as of September 16, 2002. However, the Corporation is subject to federal income tax on any unrelated business taxable income.

Functional Expenses

Corporation expenses include costs related to project construction and acquisitions and bond debt services.

Note 2: Investments

The Corporation 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.

The Corporation's investments include cash equivalent U.S. Government money market mutual funds. The Corporation's investments in mutual funds are not classified by custodial credit risk categories, as they are not evidenced by securities that exist in physical or book entry form.

Note 3: Bond Payable

On September 15, 2001, the Corporation issued \$10,860,000 of revenue bonds. The purpose of the issue was to finance the construction and acquisition of educational facilities at the Colorado School of Mines.

The bonds mature on September 1, 2026 with interest 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 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 Corporation.

**State of Colorado
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Statement of Cash Flows

Period September 7, 2001 to June 30, 2002

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 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.

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2003	\$ 146,610	\$ —	\$ 146,610
2004	146,610	—	146,610
2005	146,610	—	146,610
2006	146,610	—	146,610
2007	146,610	—	146,610
2008 – 2012	733,050	—	733,050
2013 – 2017	733,050	—	733,050
2018 – 2022	733,050	—	733,050
2023 – 2027	<u>11,324,332</u>	<u>10,860,000</u>	<u>464,332</u>
	<u>\$ 14,403,142</u>	<u>\$ 10,860,000</u>	<u>\$ 3,543,142</u>

Note 4: Related Party Transactions

The Corporation received \$123,806 in contributions from the Colorado School of Mines (the University) for bond debt service payments. Additionally, the University provides certain administrative and accounting functions at no cost to the Corporation.

Note 5: Significant Commitments

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

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 Colorado School of Mines Development Corporation (the Corporation) as of and for the period September 7, 2000 through June 30, 2002, and have issued our report thereon dated September 16, 2002. 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 Corporation'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 Corporation'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 Corporation's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the Auditor's Finding and Recommendations section of this report as Recommendation Number 1.

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 a material weakness. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the Corporation's management in the Auditor's Findings and Recommendations section of this report.

Members of the Legislative Audit Committee

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 is not intended to be and should not be used by anyone other than these specified parties.

September 16, 2002

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