State of Colorado
Colorado School of Mines Development Corporation

Independent Accountants' Report and Financial Statements

For the Year Ended June 30, 2003
and 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 Year Ended June 30, 2003 and the Period September 7, 2001 to June 30, 2002

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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. Because of the limited number of personnel, the same individual who has access to assets performs essentially all accounting, record keeping and monitoring functions. While management must consider the costs versus the benefit of any additional control procedures or the addition of new personnel, it is important for management and the Board of Directors to be aware of this risk.

We encourage the Corporation to limit, to the extent possible, performance of incompatible duties by individuals in the Colorado School of Mines' (the University) accounting department who perform the accounting function for the Development Corporation. 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.
- 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.

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

Recommendation No.1

The Corporation should improve internal controls within the Corporation by reviewing employee tasks to identify incompatible duties, segregating the incompatible duties where possible and establishing adequate management oversight to compensate for any lack of segregation of duties.

Corporation's Response

The Corporation agrees.

The manager who had responsibility for recording payments and preparing the financial statements has been replaced. The University's accounting department is being reorganized and functions are being more appropriately segregated where possible. Procedures are being developed to improve controls, including documenting the review process and ensuring greater management oversight.

Implementation Date: June 2004

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 allows for possible misappropriation of cash. Checks should be kept in a locked box or cabinet at all times accessible only by authorized personnel.

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

Recommendation No.2

The Corporation should restrict physical access to checks.

Corporation's Response

The Corporation agrees.

The checks have been moved from the manager's locked desk to the safe in the vault. Access to the safe is limited to appropriate personnel only.

Implementation Date: March 2004

Controls Over Payments

During the year, the Corporation made payments of $6,892,545 for additions to capital projects, interest payments, maintenance and other expenses. The Corporation's software is not advanced enough to detect if an invoice has been previously paid. For example, the software does not have the capability to check invoice numbers paid to a given vendor to ensure that duplicate payments are not made. In addition, there is currently no process to review payments made to see if the invoice has previously been paid. The invoices are attached to check copies to show that they have been paid. However, there is risk of the copy becoming separated or the accountant simply not remembering that the invoice was previously paid. Although the audit did not identify any duplicate payments, there is a risk that a duplicate invoice could be paid if received from a vendor. Invoices should be reviewed for previous payment prior to being paid.

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

Recommendation No.3

The Corporation should implement a process to review invoices prior to payment to see if they have been previously paid and to reduce the chance of duplicate payments.

Corporation's Response

The Corporation agrees.

The volume of payments has decreased significantly with the completion of the building. The accounts payable clerk is reviewing the vendor file for previous payments looking for duplicates. Management is reviewing the general journal monthly to identify any duplicate payments.

Implementation Date: June 2004

Board of Director Meeting Minutes

Through our inquiries for Board of Directors' meeting minutes we discovered that the Development Corporation currently does not take minutes and record the events of the Board of Directors' meetings. Minutes should be prepared each time a meeting is held. The Secretary/President should sign the minutes and they should be approved at the next meeting and be maintained in the Corporation's permanent records.

Recommendation No.4

The Corporation should prepare minutes of Board of Directors' meetings to document significant matters discussed. Minutes should be formally approved at the subsequent Board meeting and maintained as part of the permanent records.

Corporation's Response

The Corporation agrees.

The Board will begin to meet on a regular basis and institute a formal process for the recording of minutes and their subsequent adoption.

Implementation Date: June 2004

Lease with the Colorado School of Mines (the University)

The University leases space in the Development Corporation's building. During fiscal year 2003, the Corporation received approximately $160,000 of rent from the University. Through our audit inquiries, we discovered that there is no formal lease agreement between the University and the Corporation. The Corporation should develop a lease agreement to establish the terms of the lease so both parties understand and agree on these terms. This agreement should be developed to protect the Corporation and the University from future disagreements and liability.

Recommendation No.5

The Corporation and the University should sign a formal lease to document the terms under which the University leases space in the Corporation's building.

Corporation's Response

The Corporation agrees.

The terms of the lease have been negotiated and documented. The formal contract is in the final stages of approval with the State Controller.

Implementation Date: June 2004

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the period September 7, 2001 to June 30, 2002, included three recommendations. The disposition of these three audit recommendations as of September 26, 2003, was as follows:

	Recommendation	Disposition
1	The Corporation should review employee tasks to identify incompatible duties and segregate the incompatible duties to improve internal controls within the Corporation.	Not implemented See current year Recommendation No. 1
2	The Corporation should restrict physical access to checks.	Not implemented See current year Recommendation No. 2
3	The Corporation should implement a process to review invoices prior to payment to determine whether they have previously been paid.	Not implemented See current year Recommendation No. 3

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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 year ended June 30, 2003 and the period September 7, 2001 to 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2003 and 2002, and its changes in financial position and cash flows for the year and period then ended 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 26, 2003, 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.

\s\ **BKD, LLP**

September 26, 2003

Management's Discussion and Analysis

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 and rents received from the Colorado School of Mines and its return on investments.

This section of the Colorado School of Mines Development Corporation's annual financial report presents a discussion and analysis of the financial performance of the Corporation for the fiscal year ended June 30, 2003. 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. The financial statements, footnotes and this discussion are the responsibility of management.

Using the Annual Financial Report

The Corporation's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are presented in accordance with the Governmental Accounting Standards Board Statements No. 34 and 35, *Basic Financial Statements - and Management's Discussion and Analysis.*

The **Statement of Net Assets** includes all assets and liabilities using the accrual basis of accounting. All current year's revenues and expenses are taken into account regardless of when cash is received or paid. Net assets, the difference between total assets and total liabilities, are one indicator of the current financial position of the Corporation.

A summarized comparison of the Corporation's assets, liabilities and net assets at June 30 is as follows:

Condensed Statement of Net Assets

	2003	2002
Assets		
Cash and cash equivalents	$ 42,008	$ —
Other current assets	704,165	—
Restricted cash and cash equivalents	342,745	6,938,064
Capital Assets	11,577,567	4,347,234
Other noncurrent assets	276,936	237,982
Total assets	12,943,421	11,523,280
Liabilities		
Current liabilities	1,332,657	592,995
Noncurrent liabilities	10,860,000	10,860,000
Total liabilities	12,192,657	11,452,995
Net Assets	$ 750,764	$ 70,285

Construction of the research building was completed during fiscal year 2003, and tenants began occupying it in late 2002. Activity directly related to the construction and completion of the building contributed to the changes in balances of the net asset categories.

Completion of the project led to the increase of $7.2 million in capital assets. The increase was accompanied by a decrease in cash and cash equivalents of $6.6 million and a $0.7 million increase in accounts receivable from the Colorado School of Mines Building Corporation. In addition, a $0.8 million contribution from the Colorado School of Mines Foundation was recognized during the year.

The **Statement of Revenues, Expenses and Changes in Net Assets** presents the revenues earned and the expenses incurred for operating, nonoperating and other related activities during the year. Its purpose is to assess the Corporation's operating results. A summarized comparison of the Corporation's revenues, expenses and changes in net assets for the years ended June 30 is as follows:

Condensed Statement of Revenues, Expenditures and Changes in Net Assets

	2003	2002
Net Operating Revenues (loss)	$ (5,647)	$ —
Net Nonoperating Revenues	686,126	70,285
Increase in Net Assets	680,479	70,285
Net Assets, Beginning of Year	70,285	—
Net assets, End of Year	$ 750,764	$ 70,285

Colorado School of Mines leases space in the building from the Corporation. The rental income from this lease is expected to cover debt service.

The completed building was initially occupied during the fiscal year. The operating loss is attributed to the recognition of depreciation expense and building maintenance.

The increase in nonoperating revenue is the result of contributions from the Colorado School of Mines and the Colorado School of Mines Foundation to fund additional building costs prior to occupancy.

The **Statement of Cash Flows** presents cash receipts and payments of the Corporation during the year ended June 30, 2003. A comparative summary of the statement of cash flows for the years ended June 30 is as follows:

Condensed Statement of Cash Flows

	2003	2002
Cash flows provided (used) by		
Operating activities	$ 139,786	$ —
Capital and related financing activities	(6,693,097)	6,938,064
Net increase (decrease) in cash	(6,553,311)	6,938,064
Cash and cash equivalents, beginning of year	6,938,064	—
Cash and cash equivalents, end of year	$ 384,753	$ 6,938,064

Rental income provides for debt service coverage. Cash flows from capital and related financing activities reflect the use of cash for completion of the building.

State of Colorado
Colorado School of Mines Development Corporation
Statements of Net Assets
June 30, 2003 and 2002

Assets

	2003	2002
Current Assets		
Cash	$ 42,008	$ —
Accounts receivable, Colorado School of Mines Building Corporation	704,165	—
Total current assets	746,173	—
Noncurrent Assets		
Restricted cash and cash equivalents	342,745	6,938,064
Bond issuance costs, net of accumulated amortization; 2003 – $26,980 and 2002 – $6,974	276,936	237,982
Capital assets, net of accumulated depreciation; 2003 – $145,433 and 2002 – $-0-	11,577,567	4,347,234
Total noncurrent assets	12,197,248	11,523,280
Total assets	12,943,421	11,523,280

Liabilities

	2003	2002
Current Liabilities		
Accounts payable and accrued expenses	849,481	592,995
Retainage payable	483,176	—
Total current liabilities	1,332,657	592,995
Noncurrent Liabilities		
Bonds payable	10,860,000	10,860,000
Total noncurrent liabilities	10,860,000	10,860,000
Total liabilities	12,192,657	11,452,995

Net Assets

	2003	2002
Invested in capital assets, net of related debt	1,060,312	—
Restricted – expendable		
Capital projects	342,745	70,285
Unrestricted	(652,293)	—
Total net assets	$ 750,764	$ 70,285

State of Colorado
Colorado School of Mines
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Statements of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2003 and the Period September 7, 2001 to June 30, 2002

	2003	Period September 7, 2001 to June 30, 2002
Operating Revenues		
Rent income	$ 161,662	$ —
Total operating revenues	161,662	—
Operating Expenses		
Depreciation	145,433	—
Maintenance and other	21,876	—
Total operating expenses	167,309	—
Operating Loss	(5,647)	—
Nonoperating Revenues (Expenses)		
Amortization of bond issuance costs	(20,006)	(6,974)
Interest on capital-asset related debt	(161,662)	—
Capital asset-related debt remarketing fees	46,547	(46,547)
Contribution revenue	821,247	123,806
Net nonoperating revenues	686,126	70,285
Increase in Net Assets	680,479	70,285
Net Assets, Beginning of Period	70,285	—
Net Assets, End of Period	$ 750,764	$ 70,285

State of Colorado
Colorado School of Mines Development Corporation
Statements of Cash Flows
For the Year Ended June 30, 2003 and the Period September 7, 2001 to June 30, 2002

	2003	Period September 7, 2001 to June 30, 2002
Operating Activities		
Payments from tenants for rent	$ 161,662	$ —
Maintenance and other operating payments	(21,876)	—
Net cash provided by operating activities	139,786	—
Capital and Related Financing Activities		
Proceeds from issuance of bonds	—	10,860,000
Cash paid on bond issuance costs	(58,960)	(244,957)
Fees paid for bond remarketing	46,547	(46,547)
Construction of capital assets	(6,668,821)	(3,731,621)
Contributions	117,082	123,806
Interest income received	72,903	112,780
Interest paid on capital debt and leases	(201,848)	(135,397)
Net cash (used in) provided by capital and related financing activities	(6,693,097)	6,938,064
(Decrease) Increase in Cash and Cash Equivalents	(6,553,311)	6,938,064
Cash and Cash Equivalents, Beginning of Year	6,938,064	—
Cash and Cash Equivalents, End of Year	$ 384,753	$ 6,938,064
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash	$ 42,008	$ —
Restricted cash and cash equivalents – noncurrent	342,745	6,938,064
	$ 384,753	$ 6,938,064
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	$ (5,647)	$ —
Depreciation expense	145,433	—
Net Cash Provided by Operating Activities	$ 139,786	$ 0
Supplemental Cash Flows Information		
Accounts and retainage payable incurred for capital asset purchases	$ 1,332,657	$ 581,405

State of Colorado
Colorado School of Mines
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Notes to Financial Statements
For the Year Ended June 30, 2003 and the 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 assisting in the financing of capital expenditures on behalf of or for the benefit of the Colorado School of Mines (the University). The Corporation is a component unit of the University. The Corporation's revenues are derived principally from contributions and rents received from the University.

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 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, 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.

Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2003 and 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. 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 Corporation:

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

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:

	2003	Period September 7, 2001 to June 30, 2002
Interest expense incurred on borrowings for project	$ 161,662	$ 135,397
Interest income from investment of proceeds of borrowings for project	72,903	112,780
Net interest cost capitalized	$ 88,759	$ 22,617

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, 2003 and the period ended June 30 2002, was $20,006 and $6,974, respectively.

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.

Income Taxes

The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. 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.

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Capital Assets

Capital assets activity for the year ended June 30, 2003 and the period ended June 30, 2002 was:

	2003				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Buildings and improvements	$ —	$ 875,177	$ —	$ 10,847,823	$ 11,723,000
Construction in progress	4,347,234	6,500,589	—	(10,847,823)	—
	4,347,234	7,375,766	—	—	11,723,000
Less accumulated depreciation					
Buildings and improvements	—	145,433	—	—	145,433
	—	145,433	—	—	145,433
Net capital assets	$ 4,347,234	$ 7,230,333	$ 0	$ 0	$ 11,577,567

	2002			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	$ —	$ —	$ —	$ —
Construction in progress	—	4,347,234	—	4,347,234
	—	4,347,234	—	4,347,234
Less accumulated depreciation				
Buildings and improvements	—	—	—	—
	—	—	—	—
Net capital assets	$ 0	$ 4,347,234	$ 0	$ 4,347,234

Note 3: Bond Payable

The following is a summary of long-term obligation transactions for the Corporation for the year ended June 30, 2003 and the period ended June 30, 2002.

	2003				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds					
Revenue bonds payable Series 2001	$ 10,860,000	$ —	$ —	$ 10,860,000	$ —
Total noncurrent liabilities	$ 10,860,000	$ 0	$ 0	$ 10,086,000	$ 0

	2002				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds					
Revenue bonds payable Series 2001	$ —	$ 10,860,000	$ —	$ 10,860,000	$ —
Total noncurrent liabilities	$ 0	$ 10,860,000	$ 0	$ 10,860,000	$ 0

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 University.

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 1.05% at June 30, 2003.

Bonds bearing interest at the five year, ten year 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 in the trust agreement. 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 in the trust agreement, 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.

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, 2003 are as follows:

Year Ending June 30, 2003	Total to be Paid	Principal	Interest
2004	$ 114,030	$ —	$ 114,030
2005	114,030	—	114,030
2006	114,030	—	114,030
2007	114,030	—	114,030
2008 – 2012	570,150	—	570,150
2013 – 2017	570,150	—	570,150
2018 – 2022	570,150	—	570,150
2023 – 2027	11,221,095	10,860,000	361,095
	$ 13,387,665	$ 10,860,000	$ 2,527,665

Note 4: Related Party Transactions

The Corporation received $777,367 ($702,606 passed through from the Colorado School of Mines Foundation) and $123,806 in contributions from the University for capital construction during the year ending June 30, 2003 and the period ending June 30, 2002, respectively. Additionally, the University provides certain administrative and accounting functions at no cost to the Corporation.

The Corporation has an agreement with the University that specifies that the University will pay the Corporation rent receipts in the amount of the bond debt service.

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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 year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. 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.

\s\ **BKD, LLP**

September 26, 2003

BKD LLP

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Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Colorado School of Mines Development Corporation (the Corporation), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, 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.

Significant Accounting Policies

The Corporation'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:

Depreciation on capital assets and useful life of 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. Areas in which adjustments were proposed that management recorded include:

Capital assets
Depreciation on capital assets
Debt issuance cost
Rental income
Capitalized interest

Members of the Legislative Audit Committee

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

\s\ **BKD, LLP**

September 26, 2003

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