

Colorado School of Mines
Financial Statements and Independent Accountants' Reports
Financial Audit
Years Ended June 30, 2011 and 2010
Compliance Audit
Year Ended June 30, 2011

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BKD, LLP
Contract Auditors

November 23, 2011

Members of the Legislative Audit Committee:

We have completed the financial statement audits of the Colorado School of Mines as of and for the years ended June 30, 2011 and 2010. Our audits were conducted 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.

We were engaged to conduct our audits pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports which we have issued as a result of this engagement are set forth in the table of contents which follows.

BKD, LLP

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Colorado School of Mines
Years Ended June 30, 2011 and 2010

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Colorado School of Mines
Years Ended June 30, 2011 and 2010

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Colorado School of Mines

Report Summary

Year Ended June 30, 2011

Purposes and Scope of Audit

The Office of the State Auditor engaged BKD, LLP (BKD) to conduct a financial and compliance audit of the Colorado School of Mines (the School) for the year ended June 30, 2011. BKD performed the audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. BKD was not engaged to audit the School's discretely presented component unit, the Colorado School of Mines Foundation, Incorporated (the Foundation). The Foundation was audited by other auditors as disclosed in the Independent Accountants' Report on Financial Statements and Supplementary Information, and the Foundation's audit was not performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

The purposes and scope of this audit were to:

- Express opinions on the financial statements of the Colorado School of Mines (the School) as of and for the years ended June 30, 2011 and 2010, 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*.
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditures of Federal and State funds for the year ended June 30, 2011.
- Issue a report on the School's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards* for the year ended June 30, 2011.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs of the School for the year ended June 30, 2011.
- Express an opinion on compliance, and report on internal control over compliance, with requirements applicable to each state-funded student assistance program for the year ended June 30, 2011.
- Evaluate progress in implementing prior audit recommendations.

The School's schedule of expenditures of federal awards and applicable opinions thereon, issued by the Office of the State Auditor, are included in the Statewide Single Audit Report issued under separate cover.

Colorado School of Mines
Report Summary (continued)
Year Ended June 30, 2011

Audit Opinions and Reports

The Independent Accountants' Reports expressed unqualified opinions on the School's financial statements as of and for the years ended June 30, 2011 and 2010 and on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs for the year ended June 30, 2011.

No material weaknesses in internal control over financial reporting were identified.

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

We did note certain areas in which the School could improve its internal control procedures. These areas are discussed in the Auditor's Findings and Recommendations section of this report and are summarized below.

Significant Audit Adjustments

There were thirteen proposed audit adjustments identified during the audit. Two of these adjustments were made to the financial statements and eleven were not recorded. The proposed audit adjustments not recorded were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease the change in net assets by \$1,348,000.

Summary of Audit Recommendations

Auditor's Findings and Recommendations Section

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

Independent Review of Transactions

A number of errors were identified during the audit, including errors in supporting schedules and exhibits prepared to support the financial statements. The errors resulted in four proposed audit adjustments and revision of several supporting schedules and exhibits. The School should continue to strengthen its existing independent review policies and procedures in order to eliminate similar types of errors from occurring in future years.

Accounting for Derivatives

The School did not properly account for transactions occurring during Fiscal Year 2011 relating to an interest rate swap agreement. This resulted in a proposed audit adjustment recorded by management. The authoritative guidance for derivatives is complex. The School should develop policies and procedures to ensure that unusual, significant, and complex transactions are properly accounted for and disclosed in the financial statements in accordance with authoritative guidance.

Colorado School of Mines
Report Summary (continued)
Year Ended June 30, 2011

Recommendations and Responses

A summary of our recommendations and responses can be found in the Recommendation Locator section of this report. Responses to the findings have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Summary of Progress in Implementing Prior Audit Recommendations

The audit for the year ended June 30, 2010, included two recommendations. The disposition of those two audit recommendations as of November 23, 2011, was as follows:

Status	Number
Implemented	1
Not implemented	<u>1</u>
Total	<u><u>2</u></u>

Colorado School of Mines

Recommendation Locator

Year Ended June 30, 2011

All recommendations are addressed to the Colorado School of Mines

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	8	Strengthen existing independent review policies and procedures.	Agree	December 1, 2011
2	10	Develop policies and procedures to ensure unusual, significant, and complex transactions are properly accounted for and disclosed in the financial statements.	Agree	December 1, 2011

Colorado School of Mines

Description of Colorado School of Mines

Year Ended June 30, 2011

The Colorado School of Mines (the School) was founded on February 9, 1874. The School came under state control with statehood in 1876. The first diploma was granted in 1882. The authority under which the School operates is Article 41 of Title 23, C.R.S.

The Board of Trustees is the governing body of the School and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms and two non-voting members, representing the faculty and students of the School, voted in by the respective constituents.

Financial support comes from student tuition and fees and from the state through a fee-for-service contract and student stipends. 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, Incorporated.

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

	Student FTE Enrollment		
	Resident Student FTE	Non-resident Student FTE	Total Student FTE
2009	3,144	1,181	4,325
2010	3,339	1,336	4,675
2011	3,380	1,464	4,844

	Faculty and Staff FTE		
	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
2009	362	456	818
2010	374	445	819
2011	389	471	860

Colorado School of Mines
Auditor's Findings and Recommendations
Years Ended June 30, 2011 and 2010

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Colorado School of Mines (the School) as of and for the year ended June 30, 2011 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, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, provides guidance to auditors on evaluating the severity of control deficiencies identified in our audit of financial statements. The definitions outlined below for control deficiencies, significant deficiencies and material weaknesses are provided by SAS 115 to provide categories of control deficiencies for purposes of communicating such internal control deficiencies to those charged with governance of the audited entity.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the School's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be significant deficiencies:

Significant Deficiency - Internal Control Over Financial Reporting

Independent Review of Transactions

Accounting tasks such as monthly reconciliations, cross-checks, and reviews, play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements and other reports.

Colorado School of Mines
Auditor's Findings and Recommendations (continued)
Years Ended June 30, 2011 and 2010

The Colorado School of Mines' (School's) current procedures require that significant and/or complex transactions be reviewed and approved by someone other than the person submitting the transaction for recording and that all external reporting of financial information be reviewed and approved by someone other than the preparer of the information.

What was the purpose of the audit work?

The purpose of the audit work was to assess the adequacy of the School's control environment as it relates to financial reporting and to help ensure financial statements are complete and accurate.

What audit work was performed and how were results measured?

The audit work included walkthrough procedures of key controls over financial reporting to gain an understanding of the design effectiveness of those key controls, as well as a detailed review of significant account balances, transactions, journal entries, and information prepared for external reporting of financial information for Fiscal Year 2011.

What problem did the audit work identify?

Our audit procedures identified instances in which the School's review of financial information failed to identify errors in the financial statements, which were not detected by management when the supporting documents were reviewed. These errors resulted in four proposed audit adjustments, one of which was recorded by management and three others that were not recorded because they were determined by management not to be material to the financial statements. Additionally, we identified an error in a financial statement disclosure. However, the error was determined by management not to be material and the disclosure was not revised. The errors that resulted in proposed audit adjustments were as follows:

Error and related audit adjustment that was recorded by management:

- Capitalized interest on taxable debt was understated due to a calculation error (\$1,145,725)

Error and related proposed audit adjustments and a change to a disclosure that were not recorded by management included:

- Depreciation expense on buildings was overstated due to calculation errors (approximately \$456,500)
- Fixed assets were overstated due to an error recording duplicative items (approximately \$94,000)
- Retainage payable was improperly recorded as a negative expense (approximately \$144,000)
- Variable rate debt included in the five-year maturity disclosure was not calculated at the rate in effect at year-end (monetary effect not readily determinable)

Colorado School of Mines
Auditor's Findings and Recommendations (continued)
Years Ended June 30, 2011 and 2010

We also noted that several supporting schedules and exhibits prepared for the audit contained errors and required revision during the audit process. As a result of the errors made by School staff on the supporting schedules, twelve exhibits that are required to be filed with the Office of the State Controller (OSC) for its use in preparing the State's annual financial statements required revision because they contained incorrect information when initially reported to the OSC. Exhibits often require revision because they are prepared prior to the finalization of review procedures by School personnel in order to meet the OSC's submission deadlines. However, these exhibits were not corrected timely once the School finalized the supporting detail.

Why did the problem occur?

The primary cause for the errors we identified in the School's financial information was a lack of sufficient review by the reviewers in key accounting positions for which primary and/or secondary review responsibilities exist. We have reported similar findings in our previous two audits.

Why does this problem matter?

By not performing a sufficient review of financial transactions and financial reporting (including supporting schedules), original errors made by the preparer that might be material to the financial statements may go undetected.

Classification of Finding:

Significant Deficiency.

Recommendation No 1:

The Colorado School of Mines should strengthen its existing independent review policies and procedures by requiring that the reviewer examine all supporting documentation necessary to determine that financial transactions and financial reporting are accurate and complete. Furthermore, management should consider implementing a year-end checklist that identifies schedules to be prepared, entries to be made, and review responsibilities to help ensure issues identified above are prevented.

Colorado School of Mines Response

Agree. The recommendation will be implemented by December 1, 2011.

Accounting for Derivatives

Derivatives are unique and often complex financial arrangements that a government may enter into with another party, typically a private-sector financial firm. Governments enter into derivatives to hedge against specific risks or, in some cases, to lower the borrowing costs of debt. Interest rate swaps are a common derivative entered into by governmental entities.

Colorado School of Mines
Auditor's Findings and Recommendations (continued)
Years Ended June 30, 2011 and 2010

In Fiscal Year 2008, the School originally entered into interest rate swap agreements in connection with variable rate bond issuances. The School had one interest rate swap outstanding as of June 30, 2011. The interest rate swap, a financial instrument separate from the debt, allows the School to hedge the interest rate on variable rate debt resulting in a synthetic fixed interest rate on the bonds. Interest rate swaps are used to protect the borrower under variable rate debt from interest rate fluctuations.

The Governmental Accounting Standards Board (GASB) issued GASB 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), which requires the reporting of the fair value of derivatives in the financial statements as well as disclosure of information for the public to understand the nature and associated risks of these transactions.

What was the purpose of the audit work?

The purpose of the audit work was to ensure the School properly accounted for the aforementioned interest rate swap in accordance with GASB 53.

What audit work was performed and how were results measured?

The audit work included reviewing the derivative instruments and related hedged debt and evaluating the accuracy of the accounting entries to determine associated transactions were recorded in accordance with GASB 53.

What problem did the audit work identify?

The School did not properly account for an interest rate swap agreement as of June 30, 2011.

Our audit work identified the following issues relating to this transaction:

- The School refunded the original 2008 debt that was hedged with the swap during the fiscal year and the swap was then designated as a hedge for the new 2010 debt. The School did not properly follow GASB 53 provisions for the termination of the hedging relationship with the 2008 debt and the designation of the swap as a hedging instrument for the new 2010 debt which resulted in an audit adjustment made by management. The net effect of the adjustment was a reclassification of the balance of the deferred outflow related to the swap at the time of refunding to a deferred loss on refunding of approximately \$8,300,000. Additionally, due to the reassignment of the swap as a hedge for the 2010 debt, the deferral account used to account for the change in fair value of the swap from the time it was designated as a hedge for the 2010 debt changed from a deferred outflow amount of \$6,182,000 to a deferred inflow amount of approximately \$2,006,000 as of June 30, 2011. There was a relatively small impact on the change in net assets for the year ended June 30, 2011, because the amortization of the deferred loss on refunding differed only slightly from the change in the fair value of the swap from the time it was designated as a hedge for the 2010 debt.

Colorado School of Mines
Auditor's Findings and Recommendations (continued)
Years Ended June 30, 2011 and 2010

- Effectiveness of the related swap was not reviewed by management prior to the start of fieldwork as required. GASB 53, paragraph 31 requires that potential hedging derivative instruments be evaluated for effectiveness as of the end of each reporting period. Effectiveness means that the derivative significantly reduces an identified financial risk by providing changes in fair value or cash flows that substantially offset the changes in fair values or cash flows of the associated item being hedged. The School subsequently documented the calculation of effectiveness and determined the interest rate swap met the GASB 53 criteria for effectiveness. Effectiveness should be evaluated and documented on an annual basis.

Why did the problem occur?

GASB 53 is a complex pronouncement. Additionally, the debt agreements associated with the swap are complex. The primary cause for the above issues was the School's misunderstanding of the elements of the transaction and the requirements and guidance contained within the pronouncement governing derivative instruments.

Why does this problem matter?

Recording transactions properly is a critical element of reporting complete and accurate financial statements. By not understanding all requirements of a pronouncement and intricacies of complex transactions, there is a potential for the financial statements to be materially misstated.

Classification of Finding:

Significant Deficiency.

Recommendation No. 2:

The Colorado School of Mines should develop procedures to identify unusual, significant, and complex transactions to help ensure that such transactions are properly accounted for and disclosed in the financial statements in accordance with authoritative guidance. Such procedures should include an extensive detailed review performed by management and, if necessary, involvement of experts to help ensure the accounting for the transactions are evaluated early in the process.

Colorado School of Mines Response

Agree. The recommendation will be implemented by December 1, 2011.

Colorado School of Mines
Disposition of Prior Audit Recommendations
Year Ended June 30, 2011

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2010 included two recommendations. The disposition of those audit recommendations, as of November 23, 2011, was as follows:

Recommendation Number	Recommendation	Disposition
1	Strengthen existing independent review policies and procedures.	Not Implemented. See current year Recommendation No.1
2	Implement policies and procedures to ensure all subrecipients who receive ARRA subawards have a valid CCR registration prior to the subaward being made.	Implemented.

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Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Colorado School of Mines (the School), a component unit of the State of Colorado, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Colorado School of Mines Foundation, Incorporated, the discretely presented component unit of the School. Those statements were audited by other accountants whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Colorado School of Mines Foundation, Incorporated, are based solely on the report of the other accountants.

We conducted our audits 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 reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Colorado School of Mines Foundation, Incorporated, the discretely presented component unit of the School, were not audited in accordance with *Government Auditing Standards*. 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 and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Colorado School of Mines as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Legislative Audit Committee:

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 and the other accountants 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.

BKD, LLP

November 23, 2011

Colorado School of Mines

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2011

We are pleased to present this financial discussion and analysis of the Colorado School of Mines (the School). It is intended to make the School's financial statements easier to understand and communicate our financial situation in an open and accountable manner. It provides an objective analysis of the School's position and results of operations as of and for the years ended June 30, 2011 and 2010 (Fiscal Years 2011 and 2010, respectively) with comparative information for Fiscal Year 2009. School management is responsible for the completeness and fairness of this discussion and analysis and the financial statements, as well as the underlying system of internal controls.

Understanding the Financial Statements

Financial highlights are presented in this discussion and analysis to help your assessment of the School's financial activities. Since the presentation includes highly summarized data, it should be read in conjunction with the financial statements, which have the following five additional parts:

- **Independent Accountants' Report** presents an unqualified opinion prepared by our auditors, an independent certified public accounting firm, on the fairness, in all material respects, of our financial statements.
- **Statements of Net Assets** present the assets, deferred outflows, liabilities, deferred inflows, and net assets of the School at a point in time (June 30, 2011 and 2010). Their purpose is to present a financial snapshot of the School. They aid readers in determining the assets available to continue the School's operations; how much the School owes to employees, vendors and investors; and a picture of net assets and their availability for expenditure by the School.
- **Statements of Revenues, Expenses and Changes in Net Assets** present the total revenues earned and expenses incurred by the School for operating, nonoperating and other related activities during a period of time (the years ended June 30, 2011 and 2010). Their purpose is to assess the School's operating and nonoperating activities.
- **Statements of Cash Flows** present the cash receipts and disbursements of the School during a period of time (the years ended June 30, 2011 and 2010). Their purpose is to assess the School's ability to generate net cash flows and meet its obligations as they come due.
- **Notes to the Financial Statements** present additional information to support the financial statements and are commonly referred to as "Notes". Their purpose is to clarify and expand on the information in the financial statements. Notes are referenced in this discussion and analysis to indicate where details of the financial highlights may be found.

Colorado School of Mines
Management's Discussion and Analysis
(Unaudited)
Year Ended June 30, 2011

We suggest that you combine this financial discussion and analysis with relevant nonfinancial indicators to assess the overall health of the School. Examples of nonfinancial indicators include trend and quality of student applicants, incoming class size and quality, student retention, building condition and campus safety. Information about nonfinancial indicators is not included in this discussion and analysis but may be obtained from the School's Integrated Marketing Communications Office. It should be noted that the School's financial statements include the presentation of a discretely presented component unit, the Colorado School of Mines Foundation, Incorporated (the Foundation), which is a required presentation by accounting standards.

Financial Highlights

Sustained increases in net assets over time are one indicator of financial health. For the past three years, the School has had increases in its total net assets. For Fiscal Years 2011, 2010, and 2009 the School's net assets increased by approximately \$35,547,000, \$19,334,000, and \$9,275,000, respectively. The net increases are primarily due to the School's increased operating revenues, including tuition and fees and sponsored project activity, and management's continued cost containment measures. In addition, the School continues to experience consistent gift revenues, primarily from the Colorado School of Mines Foundation, and positive realized and unrealized investment income.

The School experienced operating income in Fiscal Year 2011 of \$5,400,000 compared to operating losses in Fiscal Years 2010 and 2009 of \$17,352,000 and \$11,960,000, respectively. The increase in operating income from Fiscal Year 2010 to Fiscal Year 2011 is primarily attributed to increased tuition and fee revenues and an increase in state funding from the College Opportunity Fund (COF) in the form of fee-for-service contracts. The increase in fee-for-service contracts is offset by a decrease in State Fiscal Stabilization Fund revenues received from the State as part of the American Recovery and Reinvestment Act of 2009. The increase in operating losses from Fiscal Year 2009 to Fiscal Year 2010 was primarily attributed to a decrease in state funding from the COF with an equal increase in funding from the State Fiscal Stabilization Fund. The funding from the State Fiscal Stabilization Fund is reported as nonoperating revenues and ended in the first quarter of Fiscal Year 2011. The following sections provide further explanations of these drivers of the School's financial health.

Statements of Net Assets

Table 1 - Condensed Statements of Net Assets demonstrates that the School has grown over the past three years. Analysis of the School's deferred outflows, deferred inflows, capital assets and related debt is included in the section titled Capital Assets and Debt Management, while this section provides analysis of the School's noncapital assets and other liabilities.

Colorado School of Mines
Management's Discussion and Analysis
(Unaudited)
Year Ended June 30, 2011

Table 1 - Condensed Statements of Net Assets as of June 30, 2011, 2010 and 2009 *(all dollars in thousands)*

	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Assets							
Cash and Restricted Cash	\$135,304	144,461	85,326	\$ (9,157)	(6.3%)	\$ 59,135	69.3%
Other Noncapital Assets	43,655	37,977	31,638	5,678	15.0%	6,339	20.0%
Net Capital Assets	232,546	184,871	175,437	47,675	25.8%	9,434	5.4%
Total Assets	\$ 411,505	367,309	292,401	\$ 44,196	12.0%	\$ 74,908	25.6%
Deferred Outflows	\$ -	7,778	7,462	\$ (7,778)	(100.0%)	\$ 316	4.2%
Liabilities							
Nondebt Liabilities	\$ 55,437	52,293	42,958	\$ 3,144	6.0%	\$ 9,335	21.7%
Debt Liabilities	157,482	161,761	115,206	(4,279)	(2.6%)	46,555	40.4%
Total Liabilities	\$ 212,919	214,054	158,164	\$ (1,135)	(0.5%)	\$ 55,890	35.3%
Deferred Inflows	\$ 2,006	-	-	\$ 2,006	100%	-	-
Net Assets							
Invested in Capital Assets Net of Related Debt	\$ 117,322	102,274	102,095	\$ 15,048	14.7%	\$ 179	0.2%
Restricted:							
Nonexpendable Purposes	2,493	2,025	1,386	468	23.1%	639	46.1%
Expendable Purposes	17,497	10,490	8,659	7,007	66.8%	1,831	21.1%
Unrestricted	59,268	46,244	29,559	13,024	28.2%	16,685	56.4%
Total Net Assets	\$ 196,580	161,033	141,699	\$ 35,547	22.1%	\$ 19,334	13.6%

In analyzing the School's noncapital assets and liabilities, cash and restricted cash comprises approximately 75.6 percent and 79.2 percent of the School's total noncapital assets as of June 30, 2011 and 2010, respectively. The restricted cash primarily represents unspent revenue bond proceeds that will be used for capital related activity. The Statements of Cash Flows provide additional information on where cash is received and how it is used by the School. The School's nondebt related liabilities totaling \$55,437,000 and \$52,293,000 as of June 30, 2011 and 2010, respectively, comprise 26.0 percent and 24.4 percent, respectively, of the total liabilities. The largest three categories of nondebt related liabilities are payables to vendors, accrued salaries and benefits, and deferred grants and contracts revenue. Accrued salaries and benefits represent amounts earned by School employees, primarily for June payroll, but not paid as of fiscal year-end. Deferred grants and contracts revenue represents amounts paid by grantors and contractors for which the School has not met all of the requirements for revenue recognition. These amounts will be recognized as revenue in future periods after all requirements have been satisfied. See Notes 5 and 6 for additional information.

Colorado School of Mines
Management's Discussion and Analysis
(Unaudited)
Year Ended June 30, 2011

The School's net assets may have restrictions imposed by external parties, such as donors, or by their nature are invested in capital assets (property, plant and equipment). To help understand these restrictions, the School's net assets are shown in three categories.

- The largest category of the net assets relates to the School's investment in capital assets, net of the related debt issued to fund the purchase or construction of those assets. This category comprises 59.7 percent and 63.5 percent of net assets for Fiscal Years 2011 and 2010, respectively. These net capital assets represent investments in campus facilities and equipment, net of related accumulated depreciation, necessary to carry out the teaching and research mission of the School.
- Restricted nonexpendable net assets represent gift funds received from donors whereby the donor has specified the original principal be set aside for perpetual investment (endowment). The majority of the endowment assets benefiting the School are held and managed by the Colorado School of Mines Foundation, Incorporated (the Foundation), which is a discretely presented component unit (Note 1). The Foundation's net assets are not included in the above table.
- Restricted expendable net assets represent funds received for specific purposes, but allow the School to fully expend those funds in accordance with the purposes identified by the entity providing the funds. These net assets also include investment earnings on endowments. Over the past three fiscal years, the School's nonexpendable and expendable net assets have increased 99 percent. The increase in restricted for expendable purposes in Fiscal Year 2011 is primarily related to sponsored project activity while the increase in Fiscal Year 2010 was primarily the result of one large estate gift received for \$1,387,000.

The unrestricted net assets represent the amount available for spending for any lawful purpose and under the full discretion of management. In some instances, management or the board has placed internal designations on the use of these funds.

Statements of Revenues, Expenses and Changes in Net Assets

Table 2 - Condensed Statements of Revenues, Expenses and Changes in Net Assets present the financial activity of the School during the fiscal year. A key component of these statements is the differentiation between operating and nonoperating activities. Operating revenues are earned by providing goods and services to the various students and constituencies of the School. Operating expenses are incurred to acquire or produce goods and services necessary to carry out the mission of the School for which the School earns operating revenues. Nonoperating revenues are received when goods and services are not provided.

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Table 2 - Condensed Statements of Revenues, Expenses and Changes in Net Assets for Years Ended June 30, 2011, 2010 and 2009
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	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Operating Revenues	\$ 168,916	139,227	133,909	\$ 29,689	21.3%	\$ 5,318	4.0%
Operating Expenses	163,516	156,579	145,869	6,937	4.4%	10,710	7.3%
Operating Income (Loss)	5,400	(17,352)	(11,960)	22,752	131.1%	(5,392)	(45.1%)
Net Nonoperating Revenues	15,117	26,290	12,620	(11,173)	42.5%	13,670	108.3%
Income before Other Revenues	20,517	8,938	660	11,579	129.5%	8,278	1254.2%
Other Revenues	15,030	10,396	8,615	4,634	44.6%	1,781	20.7%
Increase in Net Assets	35,547	19,334	9,275	16,213	83.9%	10,059	108.5%
Net Assets, Beginning of Year	161,033	141,699	132,424	19,334	13.6%	9,275	7.0%
Net Assets, End of Year	\$ 196,580	161,033	141,699	\$ 35,547	22.1%	\$ 19,334	13.6%

Table 3 - Operating and Nonoperating Revenues for the Years Ended June 30, 2011, 2010 and 2009 provides gross operating and nonoperating (noncapital) revenues by major sources. As Table 3 shows, the School's total operating revenues increased 21.3 percent and 4.0 percent for Fiscal Years 2011 and 2010, respectively. The School has experienced increases in all sources of operating revenues for the past three years except for the fee-for-service contracts. The increase in student tuition and fees reflects a combination of increases in enrollment and tuition rates as shown in Tables 11 and 12 below.

Funding of the School's research enterprise increased by 18.0 percent and 11.3 percent over the last two years and reflects the School's commitment to increase its focus and national role as a research institution. Revenue from the Federal government represents approximately 61.9 percent and 63.5 percent of total grants and contracts revenue for Fiscal Years 2011 and 2010, respectively. These sources also benefit the School in that the contracts generally allow for reimbursement of most of its related administrative and facility overhead costs. In Fiscal Years 2011 and 2010, the School received approximately \$10,238,000 and \$9,712,000 respectively, of such administrative and facility overhead costs reimbursements. The School pledges this reimbursement along with other auxiliary revenues to satisfy its bond obligations, which are commonly referred to as pledged revenues. The School's research awards of \$46,700,000 in Fiscal Year 2011 represents a decrease from the record research award volume in Fiscal Years 2010 and 2009 of \$53,600,000 and \$51,400,000, respectively, which surpassed the School's Strategic Plan goal of \$50 million by Fiscal Year 2014. The decrease in funding experienced during Fiscal Year 2011 is attributed to funding decreases caused by the federal budget negotiations and a decrease in new American Recovery and Reinvestment Act of 2009 (ARRA) awards.

The School receives funding from The College Opportunity Fund (COF) in two ways; (1) fee-for-service contracts with the Department of Higher Education and (2) stipends to qualified undergraduate students used to pay a portion of tuition. Funding in Fiscal Year 2011 related to fee-for-service contracts increased by \$8,699,000, or 127.0 percent. Funding in Fiscal Year 2010 decreased by \$6,420,000, or 48.4 percent, as a result of overall State cuts in funding to higher education.

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The anticipated COF funding related to student stipends is incorporated into the School's student tuition and fees rates. In Fiscal Years 2011, 2010, and 2009, the School applied \$5,039,000, \$3,746,000, and \$7,413,000, respectively, of COF stipends against student bills. The increase from 2010 to 2011 reflects the increase in the per credit hour stipend allotted per student from \$44 in Fiscal Year 2010 to \$62 in Fiscal Year 2011. During Fiscal Year 2010, the COF per credit hour stipend allotted per student was reduced from \$68 to \$44. During Fiscal Year 2009, the COF per credit hour stipend allotted per student was reduced from \$92 to \$68. Under State statutes, the School was not permitted to bill students for mid-year decreases in COF funding.

The fluctuations in total State funding from COF each year corresponds with fluctuations in funding from the Federal State Fiscal Stabilization Fund. On February 17, 2009, the ARRA was signed into law. ARRA is a \$787 billion economic package designed to stimulate the national economy out of a continued recession. Included in the package was \$144 billion of federal funds allocated to State governments, via the State Fiscal Stabilization Fund (SFSF) to mitigate the impacts of cuts to the State's budgets as a result of the recession. The State of Colorado received \$760 million from SFSF over a three year period, of which \$622 million was allocated for education stabilization. For Fiscal Years 2009, 2010 and 2011, the School received \$4,444,000, \$12,643,000 and \$870,000, respectively, to replace an equal amount of State funding cuts from COF in the form of student stipends and fee-for-service contracts. State funding from COF and SFSF funds totaled \$25,124,000, \$23,237,000 and \$21,456,000 for Fiscal Years 2009, 2010, and 2011, respectively.

During Fiscal Year 2011, gifts for noncapital purposes, received primarily from the School's Foundation, totaled \$10,312,000 which was an increase of 5.2 percent from Fiscal Year 2010. This compares to a decline of 9.1 percent between Fiscal Year 2009 and Fiscal Year 2010.

Federal nonoperating revenues consist of interest subsidies received for taxable Build America Bonds (BAB) issued by the School and financial aid received under the Pell program. The School received \$1,080,000 in federal interest subsidies in Fiscal Year 2011 compared to \$500,000 received in Fiscal Year 2010. The increase is due to receiving a full year's worth of interest subsidy in Fiscal Year 2011, compared to a half year in Fiscal Year 2010, combined with the School issuing a second BAB taxable bond issue during Fiscal Year 2011. Revenues from the Pell program have increased during the past three years from \$1,640,000 in Fiscal Year 2009 to \$3,066,000 in Fiscal Year 2011.

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Table 3 - Operating and Nonoperating Revenues for Years Ended June 30, 2011, 2010, and 2009 *(all dollars in thousands)*

	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Operating Revenues							
Student Tuition and Fees	\$ 79,763	68,122	62,776	\$ 11,641	17.1%	\$ 5,346	8.5%
Grants and Contracts	56,955	48,285	43,400	8,670	18.0%	4,885	11.3%
Fee for Service	15,547	6,848	13,268	8,699	127.0%	(6,420)	(48.4%)
Auxiliary Enterprises, Net	13,805	13,145	12,544	660	5.0%	601	4.8%
Other Operating	2,846	2,827	1,921	19	0.7%	906	47.2%
Total Operating Revenues	168,916	139,227	133,909	29,689	21.3%	5,318	4.0%
Nonoperating Revenues							
Gifts	10,312	9,798	10,775	514	5.2%	(977)	(9.1%)
Investment Income (Loss), Net	4,350	5,684	(104)	(1,334)	(23.5%)	5,788	5565.4%
State Fiscal Stabilization Funds	870	12,643	4,444	(11,773)	(93.1%)	8,199	184.5%
Federal Nonoperating	4,145	3,149	1,639	996	31.6%	1,510	92.1%
Other Nonoperating, net	85	52	358	33	63.5%	(306)	(85.5%)
Total Nonoperating Revenues	19,762	31,326	17,112	(11,564)	(32.3%)	14,214	69.5%
Total Revenues (noncapital)	\$ 188,678	170,553	151,021	\$ 18,125	10.6%	\$ 19,532	12.9%

The School continues to experience fluctuations in investment revenue due primarily to the ongoing uncertainty in the financial markets resulting in changes in the fair market value of the School's investments held by the Foundation and amounts held by the State Treasury. The School experienced unrealized gains of \$606,000 and \$3,695,000 in Fiscal Years 2011 and 2010, respectively and unrealized losses of \$1,656,000 in Fiscal Year 2009. The realized investment earnings in Fiscal Years 2011, 2010 and 2009 were \$3,744,000, \$1,989,000 and \$1,552,000, respectively.

The programmatic uses of resources displayed in Table 4 - Operating Expenses by Function demonstrate that the focus of the School has not changed over the past three years. Operating expenses increased overall by 4.4 percent from Fiscal Year 2010 to Fiscal Year 2011 and by 7.3 percent from Fiscal Year 2009 to Fiscal Year 2010. The majority of the increase in Fiscal Year 2011 is attributed to increases in support of the teaching and research missions of the School. The increase in Fiscal Year 2010 was associated with research activity and operation and maintenance of plant, which is primarily due to certain renovations and necessary land improvements. The School's other functional operating expenses have remained relatively flat or have decreased. This is in line with the management's continuing cost containment efforts. Recognizing the state of the national and Colorado economies, in early Fiscal Year 2009 and continuing through Fiscal Year 2011, the School put in place cost containment measures in order to protect the School's financial position from the anticipated budget cuts. These measures included a hiring freeze, salary freezes, travel restrictions, as well as restrictions on any non-mandatory spending.

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Table 4 - Operating Expenses by Function for Years Ended June 30, 2011, 2010, and 2009 (all dollars in thousands)

Functional Expense	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Education and General							
Instruction	\$ 51,288	48,356	48,229	\$ 2,932	6.0%	\$ 127	0.3%
Research	40,962	38,970	34,335	1,992	5.1%	4,635	13.5%
Public Service	119	69	-	50	72.5%	69	-
Academic Support	11,508	10,498	10,418	1,010	9.6%	80	0.8%
Student Services	4,067	3,755	3,456	312	8.3%	299	8.7%
Institutional Support	9,610	9,854	11,499	(244)	(2.5%)	(1,645)	(14.3%)
Operation and Maintenance of Plant	17,351	17,998	12,079	(647)	(3.6%)	5,919	49.0%
Scholarships and Fellowships	1,008	833	549	175	21.0%	284	51.7%
Total Education and General	135,913	130,333	120,565	5,580	4.3%	9,768	8.1%
Auxiliary Enterprises	15,483	15,814	15,445	(331)	(2.1%)	369	2.4%
Depreciation and amortization	12,120	10,432	9,859	1,688	16.2%	573	5.8%
Total Operating Expenses	\$ 163,516	156,579	145,869	\$ 6,937	4.4%	\$ 10,710	7.3%

Research expenses (excluding capital purchases) increased 5.1 percent and 13.5 percent in Fiscal Year 2011 and 2010, respectively, which was a direct result of increased research activity on campus. Institutional support decreased in Fiscal Years 2011 and 2010 by 2.5 percent and 14.3 percent, respectively, which reflects the School's aforementioned cost containment measures undertaken in Fiscal Year 2010 that continued into Fiscal Year 2011. Operation and maintenance of plant decreased by 3.6 percent from Fiscal Year 2010 to 2011 compared to an increase of 49.0 percent from Fiscal Year 2009 to 2010. In Fiscal Year 2010, the School recorded \$1,779,000 of expenses associated with the environmental assessment and response at the Colorado School of Mines Research Institute (CSMRI) site south of Clear Creek and the remainder is primarily associated with various campus funded controlled maintenance projects. The amounts shown for scholarships and fellowships do not reflect the actual resources dedicated to student aid. The majority of the School's student aid resources are being applied to the student's accounts and netted against tuition and fee revenue as scholarship allowance. The School's scholarship allowance was \$18,092,000 and \$16,723,000 in Fiscal Years 2011 and 2010, respectively.

Table 5 – Operating Expenses by Natural Classification summarizes operating expenses into five categories. As demonstrated, salary expenses have increased by 3.5 percent and 2.7 percent in Fiscal Years 2011 and 2010, respectively. This increase is attributable to the continued growth of the School's instruction and research activity, as shown in Table 4, resulting in the hiring of additional graduate research and teaching assistants. Benefits costs have increased by 18.0 percent and 4.3 percent in Fiscal Years 2011 and 2010, respectively. The increases in benefits are primarily related to graduate tuition assistance which increased by \$2,491,000 and \$2,645,000 in Fiscal Years 2011 and 2010, respectively. The increase also reflects legislation passed in 2011 that shifted 2.5 percent of the required retirement contribution from the School to the employees, which reduced the School's contribution by \$756,000 in Fiscal Year 2011. The increase in supplies and other operating expenses from Fiscal Year 2009 to Fiscal Year 2010 is attributable to one-time costs

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related to pollution remediation clean-up being performed by the School and various other building repair and maintenance costs. The increase in depreciation expense from Fiscal Year 2010 to Fiscal Year 2011 is the result of the completion of several large construction projects, including Brown Hall and Maple Hall, during the year.

Table 5 – Operating Expenses by Natural Classification (all dollars in thousands)

Natural Classification	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Salaries	\$ 76,622	73,996	72,029	\$ 2,626	3.5%	\$ 1,967	2.7%
Benefits	30,671	25,995	24,925	4,676	18.0%	1,070	4.3%
Supplies and Other Operating Expenses	40,384	42,451	35,376	(2,067)	(4.9%)	7,075	20.0%
Utilities	3,719	3,705	3,680	14	0.4%	25	0.7%
Depreciation	12,120	10,432	9,859	1,688	16.2%	573	5.8%
Total Operating Expenses	\$ 163,516	156,579	145,869	\$ 6,937	4.4%	\$ 10,710	7.3%

Capital Assets and Debt Management

As indicated in Table 6 - Capital Asset Categories, the School's capital assets consist of land, construction in progress, buildings and improvements, equipment, library materials, and intangible assets with a gross book value of \$370,507,000, \$313,095,000 and \$294,271,000 at June 30, 2011, 2010 and 2009, respectively, offset by accumulated depreciation of \$137,961,000, \$128,224,000 and \$118,834,000, respectively. The Fiscal Year 2010 increase in construction in progress of \$11,266,000 and subsequent decrease in Fiscal Year 2011 of \$8,680,000 is primarily due to planning and construction costs incurred for several large construction projects that were underway in Fiscal Year 2010 and completed in Fiscal Year 2011.

Table 6 - Capital Asset Categories (before depreciation) as of June 30, 2011, 2010 and 2009 (all dollars in thousands)

	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Land	\$ 4,274	3,257	3,224	\$ 1,017	31.2%	\$ 33	1.0%
Construction in Progress	12,741	21,421	10,155	(8,680)	(40.5%)	11,266	110.9%
Land Improvements	17,477	15,007	9,771	2,470	16.5%	5,236	53.6%
Buildings & Improvements	281,847	223,185	222,780	58,662	26.3%	405	0.2%
Software	1,409	1,283	-	126	9.8%	1,283	-
Equipment	39,751	35,930	35,436	3,821	10.6%	494	1.4%
Library & Other Collections	12,408	12,412	12,305	(4)	(0.0%)	107	0.9%
Intangible	600	600	600	-	-	-	-
Total Capital Assets	\$ 370,507	313,095	294,271	\$ 57,412	18.3%	\$ 18,824	6.4%

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Several other large construction projects are continuing into Fiscal Year 2012 as detailed in Table 7 - Current Capital Construction Projects. The increase in buildings and improvements of \$58,662,000 in Fiscal Year 2011 is the result of the completion of several construction projects, namely the Brown Hall addition and Maple Hall. The increase in land improvements of \$5,236,000 in Fiscal Year 2010 is the result of the completion of improvements to the Creekside athletic fields. Further detail regarding capital asset activity can be found in Note 4.

Table 7 - Current Capital Construction Projects (in thousands)

Project Description	Financing Sources	Budget
Marquez Hall and Academic Wing	Gifts and Bond proceeds	\$ 36,600
Weaver Towers renovation	Bond proceeds	10,000
Student Health & Wellness Center	Bond proceeds	2,800
Energy conservation improvements	Bond proceeds	2,744
Campus fire safety improvements	State capital appropriations	1,015
Replace failed corroded piping	State capital appropriations	953
Hill Hall REMRSEC renovation	Campus cash resources	803
Brown Hall HVAC replacement	Campus cash resources	750
Alderson Hall roof replacement	State capital appropriations	599
Steam Infrastructure improvements	Campus cash resources	515
Creekside parking lot	Campus cash resources	500
USGS data center remodel	Campus cash resources	456
Processing Lab Clean Room expansion	Campus cash resources	450
Dining Hall renovation	Auxiliary cash resources	400

In addition to operating and nonoperating revenues, the School received capital revenues in the amount shown in Table 8 – Capital Revenues. The variances in capital contributions from the State over the past three years are primarily related to the construction of Brown Hall. In Fiscal Year 2008, the State issued certificates of participation, for the benefit of several institutions of higher education. The School received a total of \$6,748,000 from the State towards the construction of Brown Hall. Increases in capital grants and gifts in Fiscal Year 2011 and Fiscal Year 2010 are attributed to \$11,938,000 and \$1,387,000, respectively, in capital gifts, received primarily from the Foundation, to be used towards the construction of the School's new petroleum engineering building, Marquez Hall.

Table 8 – Capital Revenues for the Years Ended June 30, 2011, 2010 and 2009 (all dollars in thousands)

Natural Classification	2011	2010	2009	Increase (Decrease)			
				2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Capital appropriations from the State	\$ 818	800	3,510	\$ 18	2.3%	\$ (2,710)	(77.2%)
Capital contributions from the State	811	5,260	1,186	(4,449)	(84.6%)	4,074	343.5%
Capital grants and gifts	13,367	3,671	2,159	9,696	264.1%	1,512	70.0%
Total Capital Revenues	\$ 14,996	9,731	6,855	\$ 5,265	54.1%	\$ 2,876	42.0%

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The School's long-term obligations, as shown in Table 9 – Long-Term Debt Categories, are comprised principally of various revenue bonds issued to finance construction of the capital assets discussed above. As of June 30, 2011, 2010 and 2009, net revenue bonds payable of \$156,731,000, \$160,951,000 and \$109,810,000, respectively, were outstanding. During Fiscal Year 2011, the School refinanced \$42,860,000 of variable rate debt, backed with a letter of credit that was due to expire, with an equal amount of new variable rate debt through a direct purchase by a financial institution. The School also issued \$11,195,000 of Taxable Build America Bonds (BAB) under the American Recovery and Reinvestment Act (ARRA) to be used to construct, improve, renovate and equip a new academic wing to Marquez Hall. The School also issued \$2,800,000 of taxable Qualified Energy Conservation Bonds (QECB) to be used to finance one or more qualified energy conservation improvement projects. The QECB also qualified as BAB. During Fiscal Year 2010, the School issued \$68,005,000 of new and refunding debt. The proceeds of the debt issuance are being used to finance construction activity across the campus and to refinance existing variable rate debt to fixed rate debt and terminate an interest rate swap agreement associated with the variable rate debt. Of the debt issued in Fiscal Year 2010, \$42,860,000 qualified as BAB. As qualified BAB, the School expects to receive a cash subsidy payment from the United States Treasury, referred to as Federal Direct Payments, equal to a percentage of the interest payable on the bonds on or around each interest payment date.

Table 9 – Long-Term Debt Categories at June 30, 2011, 2010, and 2009 *(all dollars in thousands)*

Debt Type	Increase (Decrease)						
	2011	2010	2009	2011 vs 2010		2010 vs 2009	
				Amount	Percent	Amount	Percent
Revenue bonds	\$ 156,731	160,951	109,810	\$ (4,220)	(2.6%)	\$ 51,141	46.6%
Capital leases	319	98	4,402	221	225.5%	(4,304)	(97.8%)
Note payable	432	712	993	(280)	(39.3%)	(281)	(28.3%)
Total Long Term Debt	\$ 157,482	161,761	115,205	\$ (4,279)	(2.6%)	\$ 46,556	40.4%

In accordance with accounting standards, the School is required to separately identify the change in the fair market value of derivative instruments in separate sections called Deferred Outflows or Deferred Inflows, depending on the fair market value of the derivative instrument. As discussed more fully in Note 8, the School had entered into two interest rate swap agreements associated with the Series 2008A and 2008B variable rate debt to hedge against possible future increases in debt service cash flow requirements resulting from interest rate increases. When the School refinanced the Series 2008A Bonds in Fiscal Year 2011, the swap agreement associated with the Series 2008A bonds was reassigned to the new Series 2010A Bonds. There was no cost to the School to change the association of the swap agreement to the new bonds. At the time of the refunding, the swap had a fair market value of (\$8,301,000). In accordance with applicable accounting standards, the fair market value of the swap at the time of the refunding of the Series 2008A bonds was included in the calculation of the deferred gain or loss on refunding of the 2008A bonds. Accordingly, as of June 30, 2011, \$8,301,000 is included as a deferred loss on refunding and is being amortized over the life of the 2010A bonds. The change in fair market value of the derivative instrument from the time of the refunding to June 30, 2011 is recorded as a deferred inflow on the Statement of Net Assets. As of June 30, 2011 and 2010, the outstanding swap had a fair market value of (\$6,182,000) and (\$7,778,000), respectively. During Fiscal Year 2010, the School issued new fixed rate revenue

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bonds with a portion of the proceeds being used to make a \$2,444,000 payment to terminate the swap associated with the Series 2008B bonds. Further detail regarding the School's long-term liabilities can be found in Note 8.

Factors Impacting Future Periods

The School's ability to maintain and improve the quality of academic programs, undertake new initiatives, and meet its core mission and ongoing operational needs are impacted by many factors: principally, by student enrollment and the resulting tuition and fees revenue, research volume, the level of state support, and the School's largest expense, compensation costs. As tuition and fees revenue is the School's single largest revenue source, it continues to be vital for the School to have the ability to set tuition at a level which will support the cost of educating a Colorado School of Mines student.

The challenges facing the State's budget will continue to impact the School in Fiscal Years 2012, 2013 and likely beyond. While the School's total operating revenue continues to increase each year, actual state funding, in the form of direct State General Fund appropriations, student stipends, fee-for-service revenues, and funding from the State Fiscal Stabilization Fund, has decreased in each of the last two fiscal years and is expected to decrease further in Fiscal Year 2012 as shown in Table 10 - State Operating Support.

Table 10 - State Operating Support (all dollars in thousands)

Fiscal Year	Amount of State Support *	State Fiscal Stabilization Funds	Total State Operating Support	Total Operating Revenues	% of Total State Operating Support to Total Operating Revenues
2012**	\$ 16,254	-	16,254	-	-
2011	20,585	870	21,456	168,916	12.7%
2010	10,594	12,643	23,237	139,227	16.7%
2009	20,680	4,444	25,124	133,909	18.8%

* State support includes direct state appropriations and student stipends and a fee-for-service contract funded from the College Opportunity Fund.

**Fiscal Year 2012 based on amounts included in the State's Long Appropriation Act (Long Bill).

To offset the continued and further anticipated decreases in State funding, the School increased tuition in Fiscal Year 2011 by 9.0 percent for residents and 5.0 percent for non-residents. Table 11 - Full Time Tuition and Room and Board Charges per Year, provides a trend of tuition and room and board charges for the past four academic years.

Table 11 - Full Time Tuition and Room and Board Charges per Year

Academic Year	Annual Full-time Tuition Rates		Annual Room and Board (avg.)		
	Residents	Non-residents	Double	Single	Meal Plan
2012	\$ 12,585	27,270	4,638	5,486	4,250
2011	11,550	25,980	4,385	5,192	3,926
2010	10,590	24,750	4,176	4,945	3,775
2009	9,810	23,820	3,996	4,732	3,630

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The increase in tuition rates combined with enrollment changes have a significant impact on the School's ability to provide the quality of education expected by our students. Table 12 - Fall Enrollment Trends presents undergraduates, graduate and combined enrollments for each of the last three years. Table 13 - Fall Semester Undergraduate Admissions Trends highlights the School's ability to attract freshmen students. As demonstrated by the two tables below, the School has been successful in attracting new students and retaining existing students.

Table 12 - Fall Enrollment Trends

Academic Year	Undergraduates			Graduate Studies			Total		
	Residents	Non-residents	Total	Residents	Non-residents	Total	Residents	Non-residents	Total
2011	2,867	1,141	4,008	513	323	836	3,380	1,464	4,844
2010	2,866	1,043	3,909	473	293	766	3,339	1,336	4,675
2009	2,744	936	3,680	400	245	645	3,144	1,181	4,325

Table 13 - Fall Semester Undergraduate Admissions Trends

Fall of Year	Number of Applicants	Number Accepted	Percent Accepted	Number Committed	Percent Committed
2011	11,117	4,730	42.5%	969	20.6%
2010	10,436	4,709	45.1%	957	20.3%
2009	7,710	4,704	61.0%	975	20.7%

The School is preparing and planning for additional cuts in the State's budget for Fiscal Year 2012 as the State continues to experience budget shortfalls. The School, even in this time of economic volatility, is financially well-positioned. Over the past few years, the School has ended the year with an operating surplus primarily due to strong enrollment and deliberate measures taken to contain costs. The School continues to experience strong enrollment, which resulted in record applications and freshmen enrollment for the previous and current academic year. Fiscal Year 2009 had been the School's highest research award volume at \$51,400,000. That was surpassed in Fiscal Year 2010 by \$2,200,000 to \$53,600,000. While the award volume declined in Fiscal Year 2011 to \$46,700,000, the School anticipates an award volume of around \$50,000,000 in Fiscal Year 2012. The growth in research is having a direct and positive impact on graduate student enrollment, research expenditures, as well as indirect costs recovered from these expenditures.

Additionally, the School must ensure that the physical infrastructure accommodates student enrollment, optimizes the academic and social life of the student, fosters growth in research, and supports a world-class institution. The ability to obtain and devote resources to support the physical infrastructure is a high priority of the School, especially in this time when the State has not been able to provide funding for higher education capital needs. In recent bond issues, the School exercised its ability to pledge tuition for the repayment of debt; however, the School is not utilizing tuition revenue to repay debt. The School intends to utilize the broader pledge base to support any future debt obligations. Given that the School's debt capacity is limited even with the expanded

Colorado School of Mines
Management's Discussion and Analysis
(Unaudited)
Year Ended June 30, 2011

pledge ability, utilizing a diverse source of funds will be critical to meet our growing infrastructure needs.

As the State continues its attempt to manage the State budget and identify additional funding sources for higher education, the School is assessing the implications on the long-term health and maintenance of the School and its ability to attract high quality students by providing high quality academic programs. To that end, management is working towards the goal of strengthening the School's financial position and obtaining additional operating and financial flexibility in this environment of limited state support. The School continues to position itself to fully implement its strategic plan and in doing so must continually work to secure the financial and human resources needed to fulfill the School's mission.

Requests for Information

This financial report is designed to provide a general overview of the Colorado School of Mines' finances for all those with an interest in the School's finances. Questions concerning any other information provided in this report or requests for additional financial information should be addressed to the Department of Finance and Administration, 1500 Illinois Street, Golden, Colorado 80401-1887.

Colorado School of Mines
Statements of Net Assets
June 30, 2011 and 2010 (in thousands)

	2011		2010	
	School	Component Unit	School	Component Unit
Assets				
Current Assets				
Cash and cash equivalents	\$ 61,925	6,197	52,914	10,808
Accounts & loans receivable, net	19,167	3,129	18,863	7,890
Inventories	110	-	104	-
Other assets	870	-	171	-
Total Current Assets	82,072	9,326	72,052	18,698
Noncurrent Assets				
Restricted cash and cash equivalents	73,379	146	91,547	952
Investments	14,628	216,059	12,314	181,752
Loans receivable	4,932	10,958	5,106	11,808
Deferred charges and other assets	3,948	536	1,419	615
Capital assets, net	232,546	26	184,871	40
Total Noncurrent Assets	329,433	227,725	295,257	195,167
Total Assets	\$ 411,505	237,051	367,309	213,865
Total Deferred Outflows	\$ -	-	7,778	-
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 23,180	1,967	16,879	1,284
Accrued compensated absences	441	-	429	-
Deferred revenue	16,786	-	18,221	-
Bonds, notes, & leases payable	4,155	-	4,483	-
Other liabilities	1,467	-	2,331	-
Total Current Liabilities	46,029	1,967	42,343	1,284
Noncurrent Liabilities				
Accrued compensated absences	4,401	-	4,273	-
Bonds, notes, & leases payable	153,327	-	157,278	-
Other liabilities	9,162	25,754	10,160	23,407
Total Noncurrent Liabilities	166,890	25,754	171,711	23,407
Total Liabilities	\$ 212,919	27,721	214,054	24,691
Total Deferred Inflows	\$ 2,006	-	-	-
Net Assets				
Invested in capital assets, net of related debt	\$ 117,322	26	102,274	40
Restricted for nonexpendable purposes				
Scholarships and fellowships	1,623	75,430	1,385	65,250
Other	870	62,857	640	55,618
Total restricted for nonexpendable purposes	2,493	138,287	2,025	120,868
Restricted for expendable purposes				
Scholarships and fellowships	2,806	11,460	2,351	7,445
Loans	5,441	1,481	4,821	1,178
Research	5,098	1,415	310	1,177
Capital projects	2,290	5,067	1,387	10,171
Other	1,862	27,844	1,621	30,250
Total restricted for expendable purposes	17,497	47,267	10,490	50,221
Unrestricted	59,268	23,750	46,244	18,045
Total Net Assets	\$ 196,580	209,330	161,033	189,174

Colorado School of Mines
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010 (in thousands)

	2011		2010	
	School	Component Unit	School	Component Unit
Operating Revenues				
Tuition and fees, (net of scholarship allowance of \$17,858 in 2011 and \$16,445 in 2010)	\$ 79,763	-	68,122	-
Fee for Service	15,547	-	6,848	-
Federal grants and contracts	35,233	-	30,651	-
State grants and contracts	2,996	-	2,584	-
Nongovernmental grants and contracts	18,726	-	15,050	-
Auxiliary enterprises, (net of scholarship allowance of \$234 in 2011 and \$278 in 2010)	13,805	-	13,145	-
Contributions	-	11,384	-	13,606
Other operating revenues	2,846	194	2,827	250
Total Operating Revenues	168,916	11,578	139,227	13,856
Operating Expenses				
Education and General				
Instruction	51,288	-	48,356	-
Research	40,962	-	38,970	-
Public service	119	-	69	-
Academic support	11,508	-	10,498	-
Student services	4,067	-	3,755	-
Institutional support	9,610	26,658	9,854	13,592
Operation and maintenance of plant	17,351	-	17,998	-
Scholarships and fellowships	1,008	-	833	-
Total Education and General	135,913	26,658	130,333	13,592
Auxiliary enterprises	15,483	-	15,814	-
Depreciation and amortization	12,120	23	10,432	25
Total Operating Expenses	163,516	26,681	156,579	13,617
Operating Income (Loss)	5,400	(15,103)	(17,352)	239
Nonoperating Revenues (Expenses)				
Contributions from the Foundation	9,837	-	9,212	-
Contributions	475	-	586	-
Investment income	4,350	35,259	5,684	19,332
Interest on debt	(4,282)	-	(4,575)	-
Amortization of bond costs	(252)	-	(431)	-
Loss on disposal of assets	(111)	-	(30)	-
Federal state fiscal stabilization funds	870	-	12,643	-
Federal nonoperating revenue	4,145	-	3,149	-
Other nonoperating revenue	85	-	52	-
Net Nonoperating Revenues	15,117	35,259	26,290	19,332
Income Before Other Revenues	20,517	20,156	8,938	19,571
Capital appropriations from state	818	-	800	-
Capital contributions from state	811	-	5,260	-
Capital grants and gifts	13,367	-	3,671	-
Additions to permanent endowments	34	-	665	-
Total Other Revenues	15,030	-	10,396	-
Increase in Net Assets	35,547	20,156	19,334	19,571
Net Assets, Beginning of Year	161,033	189,174	141,699	169,603
Net Assets, End of Year	\$ 196,580	209,330	161,033	189,174

Colorado School of Mines
Statements of Cash Flows
Years Ended June 30, 2011 and 2010 (in thousands)

	2011	2010
Cash Flows from Operating Activities:		
Tuition and fees	\$ 80,497	69,255
Grants and contracts	70,242	53,198
Collection of loans to students	1,280	1,098
Sales of services from auxiliary enterprises	13,796	13,052
Rental income	1,318	1,469
Other operating receipts	1,532	932
Payments to suppliers	(30,386)	(28,932)
Scholarships disbursed	(773)	(568)
Payments to employees	(76,606)	(73,923)
Payments for employee benefits	(30,655)	(28,180)
Loans issued to students	(1,135)	(1,025)
Payments for auxiliary enterprises	(13,090)	(12,889)
Net cash provided by (used for) operating activities	16,020	(6,513)
Cash Flows from Noncapital Financing Activities:		
Receipts from the Foundation	9,590	8,792
Gifts and grants for other than capital purposes	846	1,523
Additions to permanent endowments	34	665
Proceeds from noncapital debt	2,800	-
Endowment funds invested with the Foundation	(302)	(2,116)
Federal state fiscal stabilization funds	870	12,643
Federal nonoperating revenue	3,066	2,649
Direct lending receipts	22,241	16,529
Direct lending disbursements	(22,290)	(16,546)
Agency inflows	7,579	3,147
Agency outflows	(7,499)	(3,197)
Net cash provided by noncapital financing activities	16,935	24,089
Cash Flows from Capital & Related Financing Activities:		
Capital gifts	13,314	3,625
Bond issuance and other loan costs	(313)	(576)
Acquisition and construction of capital assets	(50,002)	(8,347)
Proceeds from capital debt and refinancing	53,974	68,540
Principal payments on capital debt and leases	(53,995)	(20,307)
Interest payments on capital debt and leases	(7,932)	(3,764)
Federal subsidy on Build America Bonds	1,080	500
Swap termination payment	-	(2,444)
Proceeds from insurance recovery	22	31
Net cash provided by (used for) capital and related financing activities	(43,853)	37,258
Cash Flows from Investing activities:		
Interest and dividends on investments	1,741	4,301
Net cash provided by investing activities	1,741	4,301
Net Increase in cash and cash equivalents	(9,157)	59,135
Cash and cash equivalents, July 1	144,461	85,326
Cash and cash equivalents, June 30	\$ 135,304	144,461

Colorado School of Mines
Statements of Cash Flows
Years Ended June 30, 2011 and 2010 (in thousands)

	2011	2010
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Operating income (loss)	\$ 5,400	(17,352)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities		
Depreciation and amortization expense	12,120	10,432
Insurance recoveries	(22)	(30)
Other noncash operating expenses	1,037	175
Receipts of items classified as nonoperating revenues	85	52
Changes in assets and liabilities		
Accounts and loans receivables	170	(2,870)
Inventories	(6)	4
Other assets	(3,283)	(135)
Loans to students	179	-
Accounts payable and accrued liabilities	2,212	218
Deferred revenue	(1,435)	2,551
Accrued compensated absences	140	108
Other liabilities	(577)	334
Net cash provided by (used for) operating activities	\$ 16,020	(6,513)

Noncash Investing, Capital and Financing Activities:

Capital assets acquired by donations, state funded, and payable increases	\$ 11,227	12,171
Deferred loss on refunding	8,499	118
Fair value change in interest rate swap	1,596	2,209
Unrealized gains/losses on investments	2,383	1,383
Accretion of interest on deep discount debt	483	459
Amortization of premiums/discounts	153	36
Amortization of bond issue costs	174	443
Amortization of deferred losses and swap termination	605	258

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

Governance

Colorado School of Mines (the School) is a public institution of higher education with a primary emphasis in engineering and science education and research. The School is governed by a nine member Board of Trustees. Seven voting members are appointed by the Governor of the State of Colorado with the consent of the Colorado Senate. Two non-voting members, representing the faculty and students of the School, are voted in by the respective constituents.

Financial Reporting Entity and Basis of Presentation

The School's financial reporting entity includes the operations of the School and all related entities for which the School is financially accountable or that provide services to the School, referred to as blended component units. Financial accountability may stem from the School's ability to appoint a majority of the governing board of the related organization, its ability to impose its will on the related organization, its ability to access assets, or its responsibility for debts of the related organization. The School includes the following blended component units:

- Colorado School of Mines Building Corporation was established in June 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. Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the School. Separate financial statements are not prepared.
- Colorado School of Mines Development 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 assisting in the financing of capital expenditures on behalf of or for the benefit of the Colorado School of Mines. Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the School. Separate financial statements are not prepared.
- Mines Applied Technology Transfer Inc. (MATTI) was established in 2002 as a separate corporation under the laws of the State of Colorado with a December 31 year end. The purpose of MATTI, a not-for-profit 501(c)(3), is to further the education, research, development and public services objectives of the School and to further the transfer of newly created technologies from the School to the private sector. The corporation shall be operated exclusively for the benefit of the School. Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the School. Separate financial statements are not prepared.

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

Discretely Presented Component Unit

The School's financial statements include one supporting organization as a discretely presented component unit (DPCU) of the School.

Colorado School of Mines Foundation, Incorporated (the Foundation) is a legally separate entity incorporated under Article 40, Title 7 of the Colorado Revised Statutes of 1973. The Foundation was established in 1928 to promote the welfare, development and growth of the School. The Foundation has a determination letter from the Internal Revenue Service stating it qualifies under Section 501(c)(3) of the Internal Revenue Code as a public charity. Although the School does not control the timing of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the School by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the School, the Foundation is considered a component unit of the School and is discretely presented in the School's financial statements. Separately issued financial statements are available by contacting the Foundation at PO Box 4005, Golden, Colorado, 80401-0005.

Related Organizations

The Colorado School of Mines Research Institute (CSMRI), a not-for-profit 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.

CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. CSMRI once held a lease on property owned by the School. 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. Although CSMRI is not controlled by the School, upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the School.

Relationship to State of Colorado

Article VIII, Section 5 of the Colorado Constitution declares the School to be a state institution. Thus, for financial reporting purposes, the School is included as part of the State's primary government.

Basis of Accounting and Presentation

For financial reporting purposes, the School is considered a special-purpose government engaged only in business-type activities. Accordingly, the School's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

The School applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. The School 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 School has elected not to apply FASB pronouncements issued after the applicable date.

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

The Foundation reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Modifications have been made to the Foundation's financial information in the School's financial reporting entity for these differences.

Significant Accounting Policies

Cash and Cash Equivalents

The School and the Foundation consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of funds invested through the State Treasurer's Cash Management Program and money market funds with brokers.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include amounts whose use is constrained either through external party restrictions or imposition by law. Restricted purposes include gifts, endowments, debt funded 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 include, but are not limited to, funds managed by the Foundation on behalf of the School.

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 and Loans Receivables

Accounts and loans receivables consist of tuition and fee charges to students, charges for auxiliary enterprise services provided to students, faculty and staff, reimbursements outstanding on research contracts and grants, and short- and long-term loans issued to students under various federal and other loan programs to cover tuition and fee charges. Receivables are recorded net of estimated uncollectible amounts. The School also administers student loans on behalf of the discretely presented component unit. The student loans administered by the School are recorded as a receivable from the student, included with loans to students in the statement of net assets, and a liability to the component unit.

Inventories

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

Bond Issuance Costs

Bond issuance costs incurred on the revenue bond issues have been deferred and are being amortized on an effective interest basis over the life of the bonds.

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

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 School:

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

For equipment, the capitalization policy includes all items with a value of \$5,000 or more, and an estimated useful life of greater than one year.

Renovations to buildings and other improvements that significantly increase the value or extend the useful life of the structure are capitalized. For renovations and improvements, the capitalization policy includes items with a value of \$50,000 or more. Routine repairs and maintenance are charged to operating expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project. Interest incurred during the construction phase is included as part of the value of the construction in progress.

Assets recorded under capital lease agreements are recorded at the present value of future minimum lease payments and are amortized over either the term of the lease or the estimated useful life of the asset, whichever period is shorter. Such amortization is included as depreciation expense in the accompanying financial statements.

Intangible assets are carried at cost and are comprised of an indefeasible right to use certain fiber optic cables. Intangible assets are being amortized over 20 years.

Compensated Absences

School 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 liabilities that 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 statements 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.

Deferred Revenue – Tuition, Fees and Grants

Deferred revenue represents unearned student tuition and fees, for which the School has not provided the associated services, and advances on grants and contract awards for which the School has not met all of the applicable eligibility requirements or services provided.

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

Bonds, Notes and Leases

For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the statement of net assets, this deferred amount is reported as a deduction from or an addition to the new debt liability.

The School has an ISDA (International Swaps and Derivatives Association) Master Swap Agreement in order to convert certain variable rate debt to a fixed rate, thereby economically hedging against changes in the cash flow requirements of the Schools variable rate debt obligations (Note 8).

Classification of Revenues

The School 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 or exchange like transactions, program-specific, or government-mandated non-exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) contracts and grants for research activities and (4) interest on student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions and other revenue sources that are not deemed operating revenues, including Federal State Fiscal Stabilization Fund (SFSF), Federal Pell revenue, and interest subsidy payments associated with Build America Bonds.

Scholarship Discounts and Allowances

Student tuition, fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the School 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 School's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the School has recorded a scholarship allowance.

Donor Restricted Endowments

Disbursements of the net appreciation (realized and unrealized) of investments of endowment gifts are permitted by state law, except where a donor has specified otherwise. The amount of earnings and net appreciation available for spending by the School and the Foundation is based on a spending rate set by the Foundation board on an annual basis. For the years ended June 30, 2011 and 2010, the authorized spending rate was equal to the 4.5 percent of the rolling 36-month average market value of the endowment investments. Earnings in excess of the amount authorized for spending are available in future years and are included in the value of the related investment. Earnings authorized to be spent are recognized in the School's financial statements as investment or gift revenue for School or Foundation-owned endowments, respectively.

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

Application of Restricted and Unrestricted Resources

The School first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

As a state institution of higher education, the income of the School 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 School is subject to federal income tax on any unrelated business taxable income. There was no tax liability related to income generated from activities unrelated to the School's exempt purpose as of June 30, 2011 and 2010.

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.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Note 2: Cash and Cash Equivalents and Investments

The School's and DPCU cash and cash equivalents as of June 30 are detailed in Table 2.1, Cash and Cash Equivalents.

TABLE 2.1 Cash and Cash Equivalents *(in thousands)*

Type	2011	2010
School		
Cash on hand	\$ 15	14
Cash with U.S. financial institutions	6,398	6,448
Cash with State Treasurer	128,891	137,999
Total Cash and Cash Equivalents-School	\$ 135,304	144,461
Discretely Presented Component Unit		
Cash with U.S. financial institutions	\$ 6,343	11,760
Total Cash and Cash Equivalents-DPCU	\$ 6,343	11,760

Deposits

The School deposits the majority of its cash with the Colorado State Treasurer pursuant to Colorado Revised Statutes (C.R.S.). The State Treasurer pools these deposits and invests them in securities authorized by Section 24-75-601.1, C.R.S. The State Treasury (Treasury) acts as a bank for all state agencies and most state supported institutions of higher education. Moneys deposited in the Treasury are invested until the cash is needed. As of June 30, 2011, the School had cash on deposit with the

Colorado School of Mines

Notes to Financial Statements

June 30, 2011 and 2010

Treasury of \$128,891,000 which represented approximately 2.1 percent of the total \$6,100.3 million fair value of deposits in the State Treasury Pool.

For financial reporting purposes all of the Treasury's investments are reported at fair value, which is determined based on quoted market prices at fiscal year-end. On the basis of the School's participation in the Pool, the School reports as an increase or decrease in cash for its share of the Treasury's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Treasury Pool's resources in any external investment pool, and there is no assignment of income related to participation in the Pool. The unrealized gains/losses included in income reflect only the change in fair value for the fiscal year.

Investments in the Treasury's Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2011, none of the investments in the Treasury's Pool are subject to custodial credit risk.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies that assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2011, approximately 86.7 percent of investments of the Treasury's Pool are subject to credit quality risk reporting. Except for \$18,384,300 of corporate bonds rated lower medium and \$15,015,000 of corporate bonds rated as very speculative, these investments are rated from upper medium to the highest quality, which indicates that the issuer has strong capacity to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on the types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2011, the weighted average maturity of investments in the Treasurer's Pool is 0.015 years for Commercial Paper (1.3 percent of the Pool), 1.054 years for U.S. Government Securities (81.7 percent of the Pool), 1.06 years for Asset Backed Securities (6.9 percent of the Pool), and 3.133 years for Corporate Bonds (10.1 percent of the Pool).

The Treasury's Pool was not subject to foreign currency risk or concentration of credit risk in Fiscal Year 2010-11.

Additional information on investments of the Treasury's Pool may be obtained in the State's Comprehensive Annual Financial Report for the year ended June 30, 2011.

Deposits not with the State Treasury are exposed to custodial credit risk (the risk that, in the event of the failure of a depository financial institution, the government would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party), if they are not covered by depository insurance (FDIC) and the deposits are uncollateralized, collateralized with

Colorado School of Mines

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securities held by the pledging financial institution, except for deposits collateralized by certain types of collateral pools including a single financial institution collateral pool where the fair value of the pool is equal to or exceeds all uninsured public deposits held by the financial institution (The Public Deposit Protection Act) or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor – government's name. Accordingly, none of the School's deposits as of June 30, 2011 and 2010 are deemed to be exposed to custodial credit risk. As of June 30, 2011, the DPCU had cash balances of approximately \$80,000 that exceeded federally insured limits.

Investments

The School has authority to invest institutional funds in any investment deemed advisable by the governing board per section 15-1-1106, C.R.S. The School 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.

Credit Quality Risk – Credit quality risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk only applies to debt investments. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The School has no investment policy that would further limit its investment choices beyond those allowed by State statute.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Interest rate risk only applies to debt investments. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the School's investments is measured by monitoring the modified duration of the overall investments portfolio. Modified duration estimates the sensitivity of the School's investments to changes in the interest rates. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The following table presents investment balances by type.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. At June 30, 2011 and 2010, no single investment of the School exceeded 5 percent of the total investments.

The School's and DPCU Investments at June 30 are shown in Table 2.2 Investments.

TABLE 2.2 Investments (in thousands)

Investment Type	2011	2010
School		
Cash	\$ 604	401
Corporate equity securities	6,001	4,258
Hedge funds	3,268	2,916
Private equity	2,556	2,059
Corporate bonds	2,199	2,680
Total Investments-School	\$ 14,628	12,314

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TABLE 2.2 Investments (continued) (in thousands)

Investment Type	2011	2010
Discretely Presented Component Unit		
Cash	\$ 8,048	5,251
Corporate equity securities	75,450	52,974
Hedge funds	43,513	38,229
Private equity	34,024	26,995
Corporate bonds	29,274	35,129
Split-interest agreements	10,929	10,244
Gift annuity agreements	5,673	5,207
Beneficial interest investments	9,148	7,723
Total Investments-DPCU	\$ 216,059	181,752

The School's investments are managed by the Colorado School of Mines Foundation, Incorporated, on behalf of the School and are reflected in its Long-term Investment Pool. The School investments are under the Foundation's Long-term Investment Pool (LTIP) policy. This policy requires funds to be managed in a diversified manner to reduce risks with the goal of providing a steady stream of funding for the School. The LTIP must be over a broad investment spectrum in order to create a mix of potential returns that, in the aggregate, would achieve the overall portfolio objectives. This diversification is to ensure that adverse or unexpected developments arising in one security or asset class will not have a significant detrimental impact on the entire portfolio. This policy minimizes concentration credit risk.

Table 2.3, Debt Investments, Interest Rate Risk and Credit Quality Risk, presents the School's rating and duration for its debt securities.

TABLE 2.3 Debt Investments, Interest Rate and Credit Quality Risk (in thousands)

Investment Type	2011	2010
School		
Corporate bonds		
Fair Value	\$ 2,199	2,680
Standard & Poor's Rating	AA	AA
Duration (yrs)	5	5
Discretely Presented Component Unit		
Bond Mutual Funds		
Fair Value	\$29,274	*
% of Rated Value by Credit Rating	52% - AA	
	48% - A+	
Duration	1.4 - 4.8	

* 2010 information relating to the Foundation is not available.

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Note 3: Accounts, Contributions and Loans Receivable

Table 3.1, Accounts Receivable, segregates receivables as of June 30, 2011 and 2010, by type.

TABLE 3.1 Accounts Receivable (in thousands)

Type of Receivable	2011			Net Current Portion
	Gross Receivables	Allowance	Net Receivable	
School				
Student accounts	\$ 4,287	1,030	3,257	3,257
Student loans	5,567	154	5,413	481
Federal government	8,536	-	8,536	8,536
Other governments	143	-	143	143
Private sponsors	4,620	271	4,349	4,349
DPCU	1,965	-	1,965	1,965
Other	436	-	436	436
Total Receivable-School	\$ 25,554	1,455	24,099	19,167
Discretely Presented Component Unit				
Contributions*	\$ 11,251	-	11,251	2,008
Due from School	2,836	-	2,836	462
Total Receivable-DPCU	\$ 14,087	-	14,087	2,470
Type of Receivable	2010			Net Current Portion
	Gross Receivables	Allowance	Net Receivable	
School				
Student accounts	\$ 4,178	1,028	3,150	3,150
Student loans	5,736	144	5,592	486
Federal government	8,785	63	8,722	8,722
Other governments	301	-	301	301
Private sponsors	4,716	532	4,184	4,184
DPCU	1,430	-	1,430	1,430
Other	590	-	590	590
Total Receivable-School	\$ 25,736	1,767	23,969	18,863
Discretely Presented Component Unit				
Contributions*	\$ 16,878	-	16,878	7,347
Due from School	2,820	-	2,820	543
Total Receivable-DPCU	\$ 19,698	-	19,698	7,890

*The allowance on the contributions receivable is comprised of uncollectible and unamortized discounts of \$233 and \$299, respectively, for June 30, 2011, and \$370 and \$462 respectively, as of June 30, 2010.

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Note 4: Capital Assets

Table 4.1, Capital Assets, presents the changes in capital assets and accumulated depreciation by major asset category for the years ended June 30, 2011 and 2010.

TABLE 4.1 Capital Assets (in thousands)

Category	Balance 2010	Additions	Deletions	Transfers	Balance 2011
Nondepreciable capital assets					
Land	\$ 3,257	1,050	33	-	4,274
Construction in progress	21,421	53,924	362	(62,242)	12,741
Total nondepreciable assets	24,678	54,974	395	(62,242)	17,015
Depreciable capital assets					
Land improvements	15,007	-	77	2,547	17,477
Buildings and improvements	223,185	641	918	58,939	281,847
Software	1,283	126	-	-	1,409
Equipment	35,930	4,775	1,710	756	39,751
Library materials	12,412	146	150	-	12,408
Intangible assets	600	-	-	-	600
Total depreciable capital assets	288,417	5,688	2,855	62,242	353,492
Less accumulated depreciation					
Land improvements	6,533	568	-	-	7,101
Buildings	86,357	8,121	634	-	93,844
Software	578	21	-	-	599
Equipment	23,721	3,177	1,599	-	25,299
Library materials	11,002	200	150	-	11,052
Intangible assets	33	33	-	-	66
Total accumulated depreciation	128,224	12,120	2,383	-	137,961
Net depreciable assets	160,193	(6,432)	472	62,242	215,531
Total Net Capital Assets	\$ 184,871	48,542	867	-	232,546

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TABLE 4.1 Capital Assets (continued) (in thousands)

Category	Balance 2009	Additions	Deletions	Transfers	Balance 2010
Nondepreciable capital assets					
Land	\$ 3,224	33	-	-	3,257
Construction in progress	10,155	18,780	867	(6,647)	21,421
Total nondepreciable assets	13,379	18,813	867	(6,647)	24,678
Depreciable capital assets					
Land improvements	9,771	-	-	5,236	15,007
Buildings and improvements	222,780	634	1,450	1,221	223,185
Equipment	35,436	3,329	1,742	190	37,213
Library materials	12,305	109	2	-	12,412
Intangible assets	600	-	-	-	600
Total depreciable capital assets	280,892	4,072	3,194	6,647	288,417
Less accumulated depreciation					
Land improvements	6,129	404	-	-	6,533
Buildings	78,731	7,723	97	-	86,357
Equipment	23,187	2,786	1,674	-	24,299
Library materials	10,787	217	2	-	11,002
Intangible assets	-	33	-	-	33
Total accumulated depreciation	118,834	11,163	1,773	-	128,224
Net depreciable assets	162,058	(7,091)	1,421	6,647	160,193
Total Net Capital Assets	\$ 175,437	11,722	2,288	-	184,871

The total interest costs related to capital asset debt incurred by the School during the years ended June 30, 2011 and 2010, was \$8,011,000 and \$7,475,000, respectively. The School capitalizes interest costs as a component of construction in progress during the period of construction, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the tax-exempt debt. The total amount of interest costs capitalized as part of construction in progress during the years ended June 30, 2011 and 2010 was \$4,649,000 and \$2,469,000, respectively.

Note 5: Accounts Payable and Accrued Liabilities

Table 5.1, Accounts Payable and Accrued Liabilities, details the accounts payable and accrued expenses as of June 30, 2011 and 2010.

TABLE 5.1 Accounts Payable and Accrued Liabilities (in thousands)

Type	2011	2010
Accounts payable - vendors	\$ 12,956	9,203
Accrued salaries and benefits	9,671	7,193
Accrued interest payable	553	483
Total Accounts Payable and Accrued Liabilities	\$ 23,180	16,879

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The School leases building space under operating lease rental agreements. Operating leases do not give rise to property rights or meet other capital lease criteria, and therefore, the related assets and liabilities are not recorded in the accompanying financial statements. For Fiscal Years 2011 and 2010, total rental expense under these agreements were \$55,000 and \$0, respectively. Table 5.2, Future Minimum Operating Lease Payments, details the future minimum operating lease payments.

TABLE 5.2 Future Minimum Operating Lease Payments *(in thousands)*

Years Ending June 30	Minimum Lease Payment
2012	\$ 73
2013	78
2014	82
2015	72
Total Operating Lease Payments	\$ 305

The School leases office space to an unrelated single tenant. The lease term is 10 years and expires in July 2018. The annual rent payment of \$1,287,000 is paid in monthly installments and is recorded as other operating revenue in the Statement of Revenues, Expenses and Changes in Net Assets.

Note 6: Deferred Revenue

Table 6.1, Deferred Revenue, details the types and amounts of deferred revenue as of June 30, 2011 and 2010.

TABLE 6.1 Deferred Revenue *(in thousands)*

Type	2011	2010
Tuition and fees	\$ 4,876	4,254
Grants and contracts	11,485	13,445
Miscellaneous	425	522
Total Deferred Revenue	\$ 16,786	18,221

In June 2001, the School entered into a ten-year agreement to provide development assistance and other planning activities in connection with the development of a foreign school. Additionally, the School received a nonrefundable up-front fee for a non-exclusive license to use its trademarks for the term of the agreement. The trademark license agreement ended in Fiscal Year 2011. Development assistance fees and trademark license fees were recognized as revenue over the term of the agreement. In Fiscal Year 2009 the development assistance portion of this contract was renegotiated; the opportunity to generate revenue from this part of the contract has been transitioned to research projects for the School. Deferred revenue for the trademark license totaled \$0 and \$458,000 at June 30, 2011 and 2010, respectively.

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Note 7: Compensated Absences

Table 7.1, Compensated Absences, presents the changes in compensated absences for the years ended June 30, 2011 and 2010.

	2011	2010
Beginning of the year	\$ 4,702	4,594
Additions	625	550
Adjustments/reductions	485	442
End of the year	\$ 4,842	4,702
Current Portion	\$ 441	429

Note 8: Bonds, Notes and Leases

As of June 30, 2011 and 210, the categories of long-term obligations are detailed in Table 8.2, Bonds, Notes and Leases Payable. Table 8.3, Changes in Bonds, Notes, and Leases Payable, presents the changes in bonds, notes, and capital leases payable for the years ended June 30, 2011 and 2010.

Revenue Bonds

A general description of each revenue bond issue, original issuance amount, and the amount outstanding as of June 30, 2011 and 2010 is detailed in Table 8.4, Revenue Bond Detail.

The School's fixed rate revenue bonds are payable semi-annually, have serial maturities contain sinking fund requirements and contain optional redemption provisions. The School's variable rate demand bonds are payable annually, contain sinking fund requirements and contain optional redemption provisions. The optional redemption provisions allow the School to redeem, at various dates, portions of the outstanding revenue bonds at varying prices. All School revenue bonds are special limited obligations of the Board. The revenue bonds are not secured by any encumbrance mortgage, or other pledge of property, except pledged revenues and do not constitute general obligations of the Board or School.

The revenue bonds are secured by a pledge of all net revenues as defined by the bond documents. As of June 30, 2011 and 2010, net auxiliary pledged revenues, total net pledged revenues, and the associated debt service coverage are shown in Table 8.1, Net Pledged Revenues. The School's net pledged revenues will continue to be pledged for the life of the associated revenue bonds as detailed in Table 8.2, Bonds, Notes, and Leases Payable. The outstanding principle and interest of the related pledged debt is detailed in Table 8.5, Revenue Bonds Future Minimum Payments. The School believes it is in compliance with all existing pledged revenue requirements of its outstanding bonds.

TABLE 8.1 Net Pledged Revenue *(in thousands)*

Source of Net Pledged Revenue	2011	2010
Auxiliary Revenue Bonds		
Net auxiliary facilities	\$ 5,679	5,692
Student fees	3,586	3,183
Renewal and replacement fund	493	420
Net auxiliary pledged revenues	9,758	9,295
Prior obligation auxiliary debt service	2,030	2,038
Prior obligation auxiliary debt service coverage	4.81%	4.56%

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TABLE 8.1 Net Pledged Revenue (continued) (in thousands)

Source of Net Pledged Revenue	2011	2010
Institutional Enterprise Revenue Bonds		
Student tuition	\$ 11,179	9,934
Student facility fees	2,826	1,691
Federal indirect cost recovery	10,238	9,712
Federal interest subsidy	1,080	500
Capital gifts	-	1,387
Net Institutional Enterprise Pledged Revenues	25,323	23,224
Total Net Pledged Revenues	35,081	32,516
Total Debt Service	11,718	6,455
Total Debt Service Coverage	2.99%	5.04%
% of Pledged Revenue to Total Revenue	87%	85%

The Auxiliary Facility Enterprise Revenue bonds specify debt service coverage requirements for the auxiliary facilities. The debt service coverage provisions require net pledged revenues to be equal to 110 percent of the combined principal and interest payments, excluding any reserves, on the Auxiliary Bonds and any additional bonds due during any subsequent fiscal year. The Auxiliary Facility Enterprise Revenue bonds are payable from net pledged revenues on parity with the other bonds and the note payable.

A master resolution adopted by the Board includes a covenant by the Board which provides, in summary, that, while the Bonds are outstanding, and subject to applicable law, the Board will continue to impose such fees and charges as are included within the Gross revenues and will continue the present operation and use of the Institutional Enterprise and the Facilities. The Board will continue to maintain such reasonable fees, rental rates and other charges for the use of all facilities and for services rendered by the Institutional Enterprise as will return annually Gross revenue sufficient to pay the prior bond obligations, to pay operation and maintenance expenses, to pay the annual debt service requirements of the bonds and any parity obligations payable from the net revenues. In addition, the Board will make any deposits required to the reserve fund. The debt covenant includes provisions relating to other matters such as maintenance of insurance coverage for the facilities. The Master Resolution prohibits the Board from selling, destroying, abandoning, otherwise disposing of or altering at any time the property comprising a part of the facilities until all bonds payable out of net revenues have been paid or provision has been made to pay all such bonds. The School believes it is in compliance with these covenants.

The Series 2009B, 2010B, and 2011 bonds qualify as Build America Bonds for purposes of the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. Pursuant to ARRA, for the Series 2009B and 2010B bonds, the School expects to receive a cash subsidy payment from the United States Treasury, referred to as Federal Direct Payments, equal to 35 percent of the interest payable on the bonds on or around each interest payment date. For the Series 2011 bonds, the School expects to receive Federal Direct Payments equal to 70 percent of the interest payable on the bonds on or around each interest payment date. Pursuant to the Colorado Recovery Act, the Board may pledge any Federal Direct Payments received to the payments of the bonds. The Board has pledged such payments to the payment of the Series 2009B bonds. In Fiscal Years 2011 and 2010, the School received \$ 1,080,000 and \$500,000, respectively, in Federal Direct Payments.

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The Series 2009A, 2009B, 2009C and 2009D revenue bonds qualify for the State Intercept Program established pursuant to Section 23-5-139 CRS. The State Intercept Program provides for the payment by the State Treasurer of principal and interest due with respect to the revenue bonds issued by state supported institutions of higher education if such institution will not make the payment by the date on which it is due. For Fiscal Year 2011, the School did not invoke the State Intercept Program.

The following table provides a summary of the School's long-term debt obligations as of June 30, 2011 and 2010 (in thousands):

TABLE 8.2 Bonds, Notes, and Leases Payable (in thousands)

Type	Interest Rates	Final Maturity	Balance 2011	Balance 2010
Auxiliary Facilities Enterprise Revenue Bonds	2.5% - 5.4%	2038	\$ 20,409	21,183
Institutional Enterprise Revenue Bonds				
Variable Rate Demand Bonds	0.825%*	2038	31,169	45,066
Fixed Rate Bonds	3% - 6.29%	2041	105,153	94,702
Capital Leases Payable	3.25% - 7.5%	2014	319	98
Notes Payable	4.5%	2012	432	712
Total Bonds, Notes and Leases Payable			\$ 157,482	161,761

* Variable rate demand bonds are set at an adjustable rate as discussed below. The rates reflected in the table are as of June 30, 2011.

The interest rate on the Series 2008A variable rate demand bonds was calculated weekly and the interest rate on the Series 2008B variable rate demand bonds was calculated daily based on the Securities Industry and Financial Markets Association (SIFMA). The interest rate on the Series 2008A as of June 30, 2010 was 0.28 percent. The interest rate on the Series 2008B as of June 30, 2010 was 0.18 percent. The interest rate on the Series 2010A variable rate demand bonds is calculated weekly based on 67 percent of the London interbank offered rate (LIBOR) plus a spread factor of 0.70. The interest rate on the Series 2010A as of June 30, 2011 was 0.825 percent.

Table 8.3, Changes in Bonds, Notes, and Leases payable presents the changes in bonds, notes and leases for the years ended June 30, 2011 and 2010.

TABLE 8.3 Changes in Bonds, Notes, and Leases Payable (in thousands)

Type	Balance 2010	Additions	Deductions	Balance 2011	Current Portion
Revenue bonds payable	\$ 167,747	57,338	53,570	171,515	3,580
Plus unamortized premiums	958	-	161	797	-
Less unamortized discounts	114	-	9	105	-
Less deferred loss	7,640	8,499	663	15,476	-
Total revenue bonds	160,951	48,839	53,059	156,731	3,580
Notes payable	712	-	280	432	432
Capital leases payable	98	366	145	319	143
Total Bonds, Notes and Leases Payable	\$ 161,761	49,205	53,484	157,482	4,155

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TABLE 8.3 Changes in Bonds, Notes, and Leases Payable (continued) *(in thousands)*

Type	Balance 2009	Additions	Deductions	Balance 2010	Current Portion
Revenue bonds payable	\$ 115,188	68,464	15,905	167,747	4,180
Plus unamortized premiums	82	921	45	958	-
Less unamortized discounts	123	-	9	114	-
Less deferred loss	5,337	2,562	259	7,640	-
Total bonds	109,810	66,823	15,682	160,951	4,180
Notes payable	993	-	281	712	283
Capital leases payable	4,402	-	4,304	98	20
Total Bonds, Notes and Leases Payable	\$ 115,205	66,823	20,267	161,761	4,483

TABLE 8.4 Revenue Bond Detail *(in thousands)*

Issuance Description	Original Issuance Amount	Outstanding Balance 2011	Outstanding Balance 2010
Auxiliary Facilities Enterprise Revenue Bonds:			
Capital Appreciation, Series 1999 - Used to fund capital improvements for residence halls, residential housing, student center and fraternity housing facilities	\$ 7,794	9,485	9,002
Refunding and Improvement Series 2002 - Used to refund a portion of the Auxiliary Facilities Refunding and Improvement Series 1993, Auxiliary Facilities Enterprise Series 1997, and acquire and equip certain auxiliary facilities	32,040	6,245	6,350
Refunding and Improvement, Series 2004 - Used to refund the Auxiliary Facilities Refunding and Improvement Series 1993, Auxiliary Facilities Series 1996, and construct and equip recreational and health facilities	17,450	4,690	5,810
Total Auxiliary Facilities Enterprise Revenue Bonds	57,284	20,420	21,162

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TABLE 8.4 Revenue Bond Detail (continued) (in thousands)

Issuance Description	Original Issuance Amount	Outstanding Balance 2011	Outstanding Balance 2010
Institutional Enterprise Revenue Bonds:			
Variable Rate Demand Refunding Series 2008A - Used to current refund the Refunding and Improvement Series 2007	\$ 43,200	-	42,860
Variable Rate Demand Improvement Series 2008B - Used to fund capital improvements to Brown Hall and other campus capital projects	34,075	-	7,000
Refunding and Improvement Series 2009A - Used to refund the Colorado School of Mines Development Corporation Refunding Variable Rate Demand Bonds, Series 2005, refund a portion of the Variable Rate Demand Improvement Series 2008B, make a payment in connection with modifying a portion of an existing swap agreement for the Series 2008B Bonds, and acquire certain real properties located in Golden, Colorado	28,720	27,815	28,720
Series 2009B - Used to fund construction or renovation of certain campus capital projects including a new residence hall, Weaver Towers, wellness center and other capital improvements	42,860	42,860	42,860
Refunding Series 2009C - Used to refund a portion of the Series 2008B and terminate an existing swap agreement for the Series 2008B bonds	16,745	16,275	16,745
Series 2009D - Used to fund construction of Marquez Hall	8,400	7,640	8,400
Variable Rate Demand Refunding Series 2010A - Used to current refund the Refunding Series 2008A	42,860	42,510	-
Series 2010B - Taxable Direct Payment Build America Bonds. Used to construct, improve, renovate and equip new academic wing to Marquez Hall and provide additional facilities	11,195	11,195	-
Series 2011 - Taxable Qualified Energy Conservation Bonds. Used to finance one or more qualified conservation improvement projects	2,800	2,800	-
Total Institutional Enterprise Revenue Bonds	230,855	151,095	146,585
Total Revenue Bonds	\$ 288,139	171,515	167,747
Plus Premiums		797	958
Less Discounts		105	114
Less Deferred Loss		15,476	7,640
Total Outstanding Revenue Bonds		\$ 156,731	160,951

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Letter of Credit for Series 2008A

Under an irrevocable Letter of Credit issued by Dexia, a European financial institution, through its New York branch the trustee or the remarketing agent (Morgan Stanley) may draw an amount sufficient to pay (a) the principal, the redemption price and (if not paid from remarketing proceeds) the purchase price of the Series 2008A Bonds, plus (b) up to 35 days' accrued interest on the Series 2008A Bonds computed at a maximum rate of 12 percent per annum. The School could not terminate the Letter of Credit agreement prior to March 5, 2010, except upon the payment by the School of a termination fee equal to the facility fees payable. Facility fee is a quarterly payment in arrears equal to the per annum rate associated with the rating as specified in the agreement. During Fiscal Years 2011 and 2010, the School paid a total of \$64,000 and \$191,000, respectively, in facility fees at 0.44 percent rate.

Under a Reimbursement Agreement dated March 1, 2008, and subsequently amended October 17, 2008, between the Board of Trustees of the Colorado School of Mines and Dexia, reimbursement by the School to the Bank for advances under the Letter of Credit shall be payable in semiannual installments on each amortization payment date (the first business day of the sixth calendar month immediately succeeding the amortization commencement date and the first business day of each sixth calendar month occurring thereafter). The amortization commencement date is 186 days from the related purchase date of the bonds.

Colorado School of Mines had a Remarketing Agreement for the Series 2008A Bonds with Morgan Stanley & Co. Incorporated. The School paid a quarterly remarketing fee in arrears equal to 0.10 percent per annum of the weighted average for the principal amount of bonds outstanding during each three-month period. For Fiscal Years 2011 and 2010, the remarketing fees paid were \$32,000 and \$32,000 respectively. The remarketing agreement was terminated with the refunding of the 2008A bonds.

In conjunction with the issuance of the Series 2010A Bonds, the paying agent was authorized to draw \$42,871,707 on the existing letter of credit agreement to provide for the purchase of the bonds. An equal amount of funds were received by the paying agent to reimburse the letter of credit. No amounts were disbursed by Dexia under the Letter of Credit Agreement as of June 30, 2010. With the issuance of the 2010A refunding bonds, the letter of credit with Dexia was cancelled.

Letter of Credit for Series 2008B

Under an irrevocable Letter of Credit issued by Dexia, through its New York branch, the trustee or the remarketing agent (Morgan Stanley) may draw an amount sufficient to pay (a) the principal, the redemption price and (if not paid from remarketing proceeds) the purchase price of the Series 2008B Bonds, plus (b) up to 35 days' accrued interest on the Series 2008B Bonds computed at a maximum rate of 12 percent per annum. The School could not terminate the Letter of Credit agreement prior to June 19, 2009, except upon the payment by the School of a termination fee equal to the facility fees payable. Facility fee is a quarterly payment in arrears equal to the per annum rate associated with the rating as specified in the agreement. During Fiscal Years 2011 and 2010, the School paid a total of \$19,000 and \$73,000, respectively at a 0.55 percent rate.

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Under a Reimbursement Agreement dated June 1, 2008, and subsequently amended October 17, 2008, between the Board of Trustees of the Colorado School of Mines and Dexia, reimbursement by the School to the Bank for advances under the Letter of Credit shall be payable in semiannual installments on each amortization payment date (the first business day of the sixth calendar month immediately succeeding the amortization commencement date and the first business day of each sixth calendar month occurring thereafter). The amortization commencement date is 186 days from the related purchase date of the bonds.

Under the terms of the Series 2009A bonds, a portion of the proceeds were deposited into a Series 2008B Refunding Account, sufficient without investment thereof, to enable the Series 2008B paying agent to current refund a portion of the Series 2008B bonds. The paying agent was authorized to draw on the Letter of Credit for the payment of the principal and interest due on May 1, 2009 and then use the amounts deposited in the 2008B Refunding Account to reimburse the Letter of Credit. No amounts were disbursed by Dexia under the Letter of Credit Agreement as of June 30, 2010. The letter of credit was terminated effective November 1, 2010 when the remaining Series 2008B bonds were retired.

Colorado School of Mines had a Remarketing Agreement for the Series 2008B Bonds with Morgan Stanley & Co. Incorporated. The School paid a quarterly remarketing fee in arrears equal to 0.10 percent per annum of the weighted average for the principal amount of bonds outstanding during each three-month period. For Fiscal Years 2011 and 2010, the remarketing fees paid were \$31,000 and \$9,000 respectively. The remarketing agreement was terminated with the payoff of the 2008B bonds.

Refunding Revenue Bond Activity

In November 2010, the School issued Variable Rate Demand Institutional Enterprise Revenue Refunding Bonds Series 2010A to refund the Variable Rate Demand Refunding Series 2008A bonds and entered into a three year agreement with Wells Fargo NA for the purchase of \$42,860,000 in outstanding bonds associated with Series 2008A. The demand feature of the bonds applies at the end of an interest rate mode period. This period can range from weekly to long-term. As a result of the agreement with Wells Fargo, the demand feature is not applicable until October 2013.

The Swap Agreement associated with the Series 2008A Bonds remains in effect and is now associated with the Series 2010A Bonds. The refunding resulted in no change in the cash flows to service the debt, there was no economic gain or loss and because of the associated swap, the variable rate Series 2010A Refunding bonds have a synthetic fixed rate of 3.59 percent and therefore there are no risks associated with interest rate fluctuations. The deferred loss on refunding recorded when the Series 2008A bonds were issued was included in the calculation of the loss on refunding with the issuance of the Series 2010A bonds and a total deferred loss on refunding of \$3,333,000 is being amortized over the life of Series 2010A bonds.

On November 3, 2009, the School issued \$16,745,000 in Institutional Enterprise Revenue Refunding Bonds, Series 2009C. The proceeds were used to current refund \$14,400,000 of the School's Variable Rate Demand Enterprise Improvement Revenue Bonds, Series 2008B. The current refunding resulted in a decrease in the cash flows to service the new debt versus the old debt of \$2,959,719, an economic loss of \$1,148,080 and a book loss of \$117,727 that is being amortized as an adjustment to interest expense over the remaining life of the new debt.

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Debt Service Requirements on Revenue Bonds

The future minimum revenue bonds debt service requirements as of June 30, 2011, are shown in Table 8.5, Revenue Bonds Future Minimum Payments.

TABLE 8.5 Revenue Bonds Future Minimum Payments *(in thousands)*

Years Ending June 30	Principal	Interest	Total
2012	\$ 3,580	8,012	11,592
2013	4,350	7,856	12,206
2014	4,505	7,700	12,205
2015	4,645	7,553	12,198
2016	4,755	7,399	12,154
2017 – 2021	25,415	34,253	59,668
2022 – 2026	23,185	30,437	53,622
2027 – 2031	28,145	25,395	53,540
2032 – 2036	37,050	19,779	56,829
2037 – 2041	42,195	14,342	56,537
Subtotal	177,825	162,726	340,551
Unaccreted interest -1999 Bonds	(6,310)		
Total Debt Service	\$ 171,515		

Interest Rate SWAP Agreements

In Fiscal Year 2008, the School entered into a floating to fixed interest rate swap agreement (Swap Agreement) in connection with the 2008A issuance. The Swap Agreement was entered into with the objective of protecting against the potential of rising interest rates. With the issuance of the Series 2010A Refunding Bonds, the swap agreement was not terminated and was associated with the Series 2010A Refunding Bonds. The Swap Agreement has an original notional amount of \$43,200,000, which amortizes in accordance with the associated debt, and a fair value of (\$6,182,000) and (\$7,778,000) at June 30, 2011 and 2010, respectively. The Swap Agreement provides for certain payments to or from Morgan Stanley equal to the difference between the fixed rate of 3.59 percent payable by the School and 67 percent of one month USD-LIBOR-BBA, 0.185 percent at June 30, 2011, payable by Morgan Stanley. The fair value of the swap is classified as a noncurrent liability and the change in fair value of the swap is classified as either a deferred outflow or deferred inflow at June 30, 2011 and 2010. On the date of the refunding of the Series 2008A Bonds, the fair market value of the swap was (\$8,301,000) and was included in the calculation of loss on refunding and is being amortized over the life of the Series 2010A Refunding Bonds. The change in fair market value of the swap agreement from the date of the refunding to June 30, 2011 of \$2,006,000 is reported as a deferred inflow on the Statement of Nets Assets. Morgan Stanley, counterparty to the Swap Agreement, determined the fair value as of June 30, 2011 and 2010, using a discounted forecasted cash flows; however, the actual method and significant assumptions used are proprietary. The Swap Agreement has an effective date of March 5, 2008 and a termination date of December 1, 2037.

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In Fiscal Year 2009, the School entered into a floating to fixed interest rate swap agreement in connection with the 2008B issuance. The Swap Agreement was entered into with the objective of protecting against the potential of rising interest rates. The Swap Agreement, with an original notional amount of \$34,075,000 that amortizes with the associated debt, provides for certain payments to or from Morgan Stanley equal to the difference between the fixed rate of 4.21 percent payable by the School and the USD-SIFMA Municipal Swap Index payable by Morgan Stanley under the 2008B Swap Agreement. In conjunction with the Series 2009A bonds, a \$1,693,000 swap modification payment was made to Morgan Stanley to reduce the nominal amount of the original swap agreement by \$12,675,000 to a nominal amount of \$21,400,000. As part of the Series 2009C bonds, a swap termination payment of \$2,444,000 was made to Morgan Stanley to terminate the 2008B swap agreement. The swap modification and termination payments are being amortized over the shorter of the life of the old or new debt issuance.

There can be risks inherent to interest rate swaps that the School addresses and monitors pursuant to entering into interest rate swap agreements:

Termination Risk – The need to terminate the transaction in a market that dictates a termination payment by the School. It is possible that a termination payment is required in the event of termination of a swap agreement due to a counterparty default or following a decrease in credit rating. In general, exercising the right to optionally terminate an agreement should produce a benefit to the School, either through receipt of a payment from a termination, or if a termination payment is made by the School, a conversion to a more beneficial debt instrument or credit relationship.

Credit Risk – The risk that the counterparty will not fulfill its obligations. The School considers the swap agreement counterparty's (Morgan Stanley) credit quality rating and whether the counterparty can withstand continuing credit market turmoil. As of June 30, 2011, Morgan Stanley's credit rating is A2 by Moody's, and A by Standards & Poor's & Fitch.

For the outstanding swap agreement the School has a maximum possible loss equivalent to the swaps' fair market value at June 30, 2011 and 2010 related to the credit risk. However, the School was not exposed to this loss because of the negative fair market value of the swaps as of June 30, 2011 and 2010. In addition, these agreements required no collateral and no initial net cash receipt or payment by the School.

Basis Index Risk – Basis risk arises as a result of movement in the underlying variable rate indices that may not be in tandem, creating a cost differential that could result in a net cash outflow from the School. Basis risk can also result from the use of floating, but different, indices. To mitigate basis risk, it is the School's policy that any index used as part of an interest rate swap agreement shall be a recognized market index, including, but not limited to, the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR).

As of June 30, 2011, the aggregate debt service payments and net swap cash payments, assuming current interest rates remain the same, for their term are reflected in Table 8.6, Future Revenue Bonds and Net Swap Minimum Payments.

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TABLE 8.6 Future Revenue Bonds and Net Swap Minimum Payments (in thousands)

Years Ending June 30	Principal	Interest	Interest Swap (net)	Total
2012	\$ 550	365	1,435	2,350
2013	575	360	1,415	2,350
2014	600	355	1,395	2,350
2015	625	349	1,374	2,348
2016	625	344	1,352	2,321
2017 – 2021	3,350	1,627	6,397	11,374
2022 – 2026	4,800	1,453	5,711	11,964
2027 – 2031	11,250	1,100	4,323	16,673
2032 – 2036	14,100	508	1,996	16,604
2037 – 2041	6,035	27	105	6,167
Total Debt Service	\$ 42,510	6,488	25,503	74,501

Extinguishment of Debt

Previous revenue bond issues considered to be extinguished through in-substance defeasance under generally accepted accounting principles are not included in the accompanying financial statements. The amount of debt in this category, covered by assets placed in trust to be used solely for future payments, amounted to \$23,800,000 as of June 30, 2011 and 2010.

Note Payable

As of June 30, 2011 and 2010, the School had an outstanding note payable with the Foundation issued for the construction of the School's Student Recreation Center. In addition to principal payments made by the School, the outstanding amount due shall also be reduced by the amounts of any restricted gifts made by donors for the benefit of or use by the School's Student Recreation Center during the term of the agreement. The agreement is unsecured.

Future minimum payments of the note payable to the Foundation are shown in Table 8.7 Future Minimum Note Payments.

Table 8.7 Future Minimum Note Payments (in thousands)

Year Ending June 30	Principal	Interest	Total
2012	\$ 432	17	449
Total Notes Payable	\$ 432	17	449

For Fiscal Year 2011 and 2010, \$0 and \$14,000, respectively, of the total principal payments made represented gifts received by the Foundation that were applied to the note.

Capital Leases

The School has entered into a lease agreement for athletics' team transportation bus with a purchase option at the end of the lease. The monthly lease payments are \$2,256. The School is expected to purchase this bus at the end of the lease in 2014.

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The School has entered into a three year lease agreement for a piece of equipment. Annual principal payments of \$121,000 are due each October.

Future minimum payments on the capital leases are shown in Table 8.8 Future Minimum Capital Lease Payments.

Table 8.8 Future Minimum Capital Lease Payments (in thousands)

Year Ending June 30,	Principal	Interest	Total
2012	\$ 143	13	156
2013	144	7	151
2014	32	6	38
Total Capital Lease Payments	\$ 319	26	345

The underlying gross capitalized asset costs for the capital leases are \$498,000. Accumulated amortization as of June 30, 2011 and 2010 is \$84,000 and \$40,000, respectively.

State of Colorado Certificates of Participation

In Fiscal Year 2008, State of Colorado Senate Bill 08-218 made Federal Mineral Leasing (FML) monies available for capital construction at institutions of higher education. FML money is derived from ongoing leasing and production activities on federal lands within Colorado and approximately half of these payments go to the State of Colorado. The State used part of this money on November 6, 2008 and issued Certificates of Participation (COP) to support some higher education construction and maintenance projects. The School received \$6,748,000 for a portion of the support in the construction of an addition to the Brown Hall building. The State of Colorado is responsible for making the principal and interest payments on the COP.

Note 9: Other Liabilities

Table 9.1, Other Liabilities, details other liabilities as of June 30, 2011 and 2010.

TABLE 9.1 Other Liabilities (in thousands)

Type	2011		2010	
	Total	Current Portion	Total	Current Portion
School				
Interest rate swap	\$ 6,182	-	7,778	-
Amounts due to the Foundation	2,476	81	2,195	104
Funds held for others	115	115	28	28
Pollution remediation	1,190	605	1,849	1,558
Miscellaneous	666	666	641	641
Total Other Liabilities - School	\$ 10,629	1,467	12,491	2,331
Discretely Presented Component Unit				
Colorado School of Mines	\$ 14,482	-	12,097	-
Other trust funds	966	-	856	-
Obligations under split-interest agreements	5,257	-	5,258	-
Obligations under gift annuity agreements	4,801	-	4,983	-
Refunded advances	120	-	96	-
Other liabilities	128	-	117	-
Total Other Liabilities - DPCU	\$ 25,754	-	23,407	-

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Direct Lending

The School began participation in the Direct Student Loan program operated by the Federal government in the spring of Fiscal Year 2010. This program enables eligible students or parents to obtain a loan to pay for the student's cost of attendance directly through the School rather than through a private lender. The School is responsible for handling the complete loan process, including funds management, as well as promissory note functions. The School is not responsible for collection of these loans or for defaults by borrowers, and therefore these loans are not recognized as receivables in the accompanying financial statements. Prior to participating in the Direct Student Loan Program, the School participated in the Federal Family Education Loans (FFEL) program. Under the FFEL program, students obtained loans from private lenders. Lending activity during the years ended June 30, 2011 and 2010 under these programs were \$22,290,000 and \$16,546,000, respectively.

Note 10: Pension Plan

Plan Description

Virtually all the School 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 an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at PO Box 5800, Denver, Colorado, 80217 or by calling PERA at 1-800-729-PERA (7372), or by visiting www.copera.org.

PERA also administers the Voluntary Investment Program that administers two defined contribution plans (Note 11).

New employees, excluding four-year college and university employees, are allowed 60 days to elect to participate in PERA's defined contribution retirement plan. If that election is not made, the employee becomes a member of PERA's defined benefit plan. Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Currently, higher education employees, excluding community college employees, are required to participate in their institution's optional plan, if available, unless they are active or inactive members of PERA with at least one year of service credit. In that case they may elect either PERA or their institution's optional plan. Community college employees hired after January 1, 2010, are required to become members of PERA's defined benefit or defined contribution plan.

PERA members electing the PERA defined contribution plan are allowed an irrevocable election between the second and fifth year of membership to use their defined contribution account to purchase service credit and be covered under the defined benefit retirement plan. However, making this election subjects the member to rules in effect for those hired on or after January 1, 2007, as discussed below. Employer contributions to both defined contribution plans are the same amount as the contributions to the PERA defined benefit plan

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Based on changes in the 2010 legislative session slightly different plan requirements were in effect until December 31, 2010. The following requirements were effective at June 30, 2011.

Plan members are eligible to receive a monthly retirement benefit when they meet age and service requirements based on their original hire date as follows:

- Hired before July 1, 2005 - age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For employees hired before January 1, 2007 and December 31, 2010 if the member has less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 60 with 30 years of service, or age 65 with 5 years of service.

Members with five years of service credit at January 1, 2011, are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 and age plus years of service equals 85 or more. For members hired before January 1, 2007, age plus years of service increase to 85 for members with less than five years of service credit as of January 1, 2011.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Most members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as 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 and limited to a 15 percent increase between periods. For retirements after January 1, 2009, four periods are used and are ranked from lowest to highest with the maximum increase between years limited to 15 percent. For members hired on or after January 1, 2007, the maximum increase between ranked periods is 8 percent. Notwithstanding any other provisions, members first eligible for retirement after January 2, 2011 have a maximum increase between periods of 8 percent.

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index increases.

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- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)
- The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drips below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are 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 eligible children under the age of 18 (23 if a full time student) or their spouse may be entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

Funding Policy

The contribution requirements of plan members and their employers are established, and may be amended by the General Assembly. Salary subject to PERA contribution is 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.

Historically, most employees contributed eight percent (10.0 percent for state troopers) of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010 Senate Bill 10-146 requires members in the State and Judicial Divisions to pay 2.5 percent additional contributions through June 30, 2011. Senate Bill 11-076 continued these increased contribution rates through June 30, 2012.

From July 1, 2010, to December 31 2010, the School contributed 11.35 percent of the employee's salary. From January 1, 2011, through June 30, 2011, the School contributed 12.25 percent. During all of Fiscal Year 2011, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2010, the division of PERA in which the State participates has a funded ratio of 62.8 percent and a 47 year amortization period based on current contribution rates. The funded ratio on the market value of assets is lower at 61.3 percent.

In the 2004 legislative session, and amended in the 2010 legislative session, the general assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED requires PERA employers to pay an additional 2.6 percent in 2011 (2.4 percent in 2010 and 2.2 percent in 2009) of total member salaries. The AED is scheduled to increase by 0.4 percent of salary through 2017 resulting in a cumulative increase of five percent.

In the 2006 legislative session, and amended in the 2010 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) to address a pension-funding shortfall. The SAED requires PERA employers to pay an additional two percent in 2011 (1.5 percent in 2010 and one percent in 2009) of total member salaries. The SAED is scheduled to increase by 0.5 percent

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through 2017 resulting in a cumulative increase of five percent. For State employers, each year's one half percentage point increase in the SAED will be deducted from the amount available for increases to State employees' salaries and used by the employer to pay the SAED.

Both the AED and SAED will be reduced by one-half percent point when funding levels reach 103 percent, and both will be increased by one-half percent point when the funding level subsequently falls below 90 percent. Neither the AED nor the SAED may exceed five percent.

Historically, members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session required, that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The School contributions to the three programs described above for the fiscal years ended June 30, 2011, 2010 and 2009 were \$7,136,000, \$7,892,000 and \$7,273,000, respectively, equal to its required contributions for those years.

CSM Foundation Retirement Plan

The Foundation participates in a defined contribution pension plan covering substantially all of its employees. Contributions and costs are based on the number of years of service and a percentage of regular salary. Pension expense was \$91,000 and \$121,000 for 2011 and 2010, respectively.

Note 11: Volunteer Tax-Deferred Retirement Plans (Voluntary Investment Program)

Defined Contribution Plan

The PERA Defined Contribution Retirement Plan was established January 1, 2006, as an alternative to the defined benefit plan. All employees, with the exception of certain higher education employees, have the option of participating in the plan. New member contributions to the plan vest from 50 percent to 100 percent evenly over 5 years. Participants in the plan are required to contribute 8 percent of their salary. For Fiscal Years 2010 and 2011 the legislature temporarily increased the required contribution rate to 10.5 percent. At December 31, 2010, the plan had 3,479 participants.

Deferred Compensation Plan

The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the State's deferred compensation plan which was established for State and local government employees in 1981. At July 1, 2009, the State's administrative functions were transferred to PERA, and all costs of administration and funding are borne by the plan participants. In calendar year 2010, participants were allowed to make contributions of up to 100 percent of their annual gross salary (reduced by their 8 percent PERA contribution) to a maximum of \$16,500. Participants who are age 50 and older may contribute an additional \$5,500 for total contributions of \$22,000. At December 31, 2010, the plan had 18,215 participants.

PERA also offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. Certain agencies and institutions of the state offer 403(b) or 401(a) plans.

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Note 12: Other Postemployment Benefits and Life Insurance

Health Care Plan

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; the program was converted to a trust fund in 1999. The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for health care coverage. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at PO Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

After the PERA subsidy, the benefit recipient pays the balance of the premium through an automatic deduction from the monthly retirement benefit. Monthly premium costs for participants depend on the health care plan selected, the PERA subsidy amount, Medicare eligibility, and the number of persons covered. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

Employees are not required to contribute to the Health Care Trust Fund, which is maintained by employer's contributions as discussed in Note 11 above. The School is required to contribute 1.02 percent of gross covered wages to the Health Care Trust Fund. The School contributed \$617,000, \$620,000 and \$593,000 as required by statute in Fiscal Years 2011, 2010 and 2009, respectively. In each year the amount contributed was 100 percent of the required contribution.

The Health Care Trust Fund offers two general types of plans: fully-insured plans offered through health care organizations and self-insured plans administered for PERA by third party vendors. As of December 31, 2010, there were 48,455 enrolled participants, including spouses and dependents, from all contributors to the plan. At December 31, 2010, the Health Care Trust Fund had an unfunded actuarial accrued liability of \$1.35 billion, a funded ratio of 17.5 percent, and a 42-year amortization period. The actuarial valuation was based on the entry age cost method, an 8 percent investment rate of return, a 4.5 percent projection of salary increases (assuming a .75 percent inflation rate), a 3.5 percent annual medical claims increase, no postretirement benefit increases, and a level dollar amortization on an open basis over 30 years.

In addition, the School has a Health Insurance Assistance Program for tenured faculty. This program was initiated in 1993 and was stopped July 1, 2004. The program was provided in conjunction with a Retirement Agreement negotiated between eligible faculty members and the School. For Fiscal Years 2011 and 2010, the School had four retired faculty members under this program with payments of approximately \$6,000 each year.

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Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA)

Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post-employment health coverage until the retiree is eligible for Medicare. As of June 30, 2011, there were 20 participants in post retirement coverage from the nine member higher education institutions. For Fiscal Year 2011, the School had three retired faculty administrative participants under CHEIBA.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States using the accrual basis of accounting following governmental accounting standards for a business-type activity. The financial statements can be obtained by contacting Marshall Parks, Treasurer, CHEIBA Trust. Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the Trust's investments is based on quoted market prices from national securities exchanges.

There are no long-term contracts for contributions to the plan. Participating schools can withdraw their participation in the plan with at least one year's notice to the CHEIBA board.

Note 13: Discretely Presented Component Unit

Colorado School of Mines Foundation

Distributions made by the Foundation to the School during the years ended June 30, 2011 and 2010 were approximately \$23,151,000 and \$10,413,000, respectively. These amounts have been recorded as contributions from the Foundation and as capital grants and gifts and Component Unit operating expenses in the accompanying financial statements. As of June 30, 2011 and 2010, the School has recorded an accounts receivable from the Foundation of \$1,965,000 and \$1,430,000, respectively.

The School is the ultimate beneficiary of substantially all restricted and trust funds held by the Foundation and is the income beneficiary of the majority of endowment funds held by the Foundation. The Foundation also manages a portion of School's endowments. The School has endowments and other assets held by the Foundation approximating \$14,295,000 and \$12,097,000 as of June 30, 2011 and 2010, respectively. The Foundation retains an investment management fee equal to 2 percent.

Note 14: Commitments and Contingencies

Commitments

Contracts have been entered into for the purpose of planning, acquiring, constructing and equipping certain building additions and other projects, with outstanding amounts totaling approximately \$45,738,000 as of June 30, 2011. These commitments will be funded or financed by donor contributions, state appropriations, existing revenue bonds, and other campus resources.

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Claims and Litigation

In November 1992, the School and numerous other potentially responsible parties (PRP's) 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 investigation and cleanup of hazardous substances at a site owned by the School and leased to the Colorado School of Mines Research Institute (CSMRI), which performed mining research for a variety of private and governmental entities. CSMRI, a not-for-profit corporation, was established in 1949 as a separate corporation under the laws of the State of Colorado. CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. Upon dissolution, subject to certain provisions, the net assets of CSMRI may be transferred to the School. Negotiations with the EPA, the enforcement agency related to past costs, have been resolved. The Colorado Department of Public Health and Environment (CDPHE) and EPA have reserved their rights as to future costs of investigation and cleanup. Investigation and remediation of the site are ongoing.

In relation to the site above, the CDPHE issued Radioactive Materials License Number 617-01 Amendment Number 7 (Amendment No. 7) to CSMRI in 2006. Amendment No. 7 contains a provision requiring CSMRI to provide an enforceable financial instrument to CDPHE within 60 days of issuance of Amendment No. 7. Amendment No. 7 states that the financial instrument must allow CDPHE access to a Colorado School of Mines bank account and/or other financial assets necessary to complete decommissioning of the site discussed above in an amount not less than \$2,780,000. On January 12, 2007, CSMRI filed a notice of appeal and request for hearing which objects to the Amendment No. 7 provision regarding provision of a financial instrument. The appeal was tabled while investigation and monitoring of the site continued.

CSMRI filed a Site Assessment and Characterization Plan to further license decommissioning. This plan describes an investigation in response to ground water monitoring results. The School executed a contract, and recorded a liability at June 30, 2010, in the amount of \$1.8 million to implement the plan. Work began in late 2010 and continues as of June 30, 2011. As work on the plan progresses, the School continues to monitor key benchmarks in the plan and will adjust the pollution remediation liability as appropriate. As of June 30, 2011, the liability was \$1,190,000. The School is currently negotiating with PRP's regarding the cost of the remediation work. It is unknown at this time how much, if any, the School will be able to recover from other potential responsible parties.

In the normal course of its operations, the School is involved in various litigation matters. Management believes that any future liability that it may incur as a result of these matters, including the EPA matter discussed above, will not have a material effect on the School's financial statements.

Government Grants

The School 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. Management believes that any

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future liability that it may incur as a result of audits by the granting department or agency will not have a material effect on the School's financial statements.

Note 15: Risk Management

The School 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 School 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 School 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 School is protected from suit by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

Note 16: Legislative Appropriations

The Colorado State Legislature establishes spending authority to the School 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.

For the years ended June 30, 2011 and 2010, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2011 and 2010, the School had a total appropriation of \$102,760,000 and \$93,933,000, respectively. For years ended June 30, 2011 and 2010, the School's appropriated funds included \$5,039,000 and \$3,746,000, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$15,547,000 and \$6,848,000, respectively, as fee-for-service contract revenue, as well as certain cash funds as specified in the State's annual appropriation bill. All other revenues and expenses reported by the School 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.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the discretely presented component unit of Colorado School of Mines (the School), a component unit of the State of Colorado, as of and for the year ended June 30, 2011, which collectively comprise its basic financial statements and have issued our report thereon dated November 23, 2011, which contained a reference to the report of other accountants. 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. The financial statements of the Colorado School of Mines Foundation, Incorporated, the discretely presented component unit of the School, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

Members of the Legislative Audit Committee:

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Auditor's Findings and Recommendations section of this document as Finding No. 1 and Finding No. 2, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The School's responses to the findings identified in our audit are described in the Auditor's Findings and Recommendations section of this document. We did not audit the School's responses and, accordingly, we express no opinion on them.

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

BKD, LLP

November 23, 2011

Colorado School of Mines

Report Summary

Year Ended June 30, 2011

INTRODUCTION

The Colorado School of Mines (the School) is a public institution of higher education located in Golden, Colorado.

The financial and compliance audits of the various state-funded student assistance programs at the School for the year ended June 30, 2011, was directed toward the objectives and criteria set forth in the *2010-11 Audit Guide, Colorado Funded Student Aid*, issued by the Department of Higher Education (DHE). The state-funded student assistance programs were audited simultaneously with the Federal financial aid programs for the year ended June 30, 2011.

STATE-FUNDED ASSISTANCE PROGRAMS

The various state-funded student assistance programs at the School include the Colorado Leveraging Educational Assistance (CLEAP) Program, Colorado Student Grant Program (which includes the Colorado Graduate Grant and Colorado Need-based Grant programs), Governor's Opportunity Scholarship Program, and the Colorado Work-Study Program.

The state-funded student assistance awards made by the School were \$1,678,269 during the fiscal year ended June 30, 2011.

The School's 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 School in Federal and State financial aid programs. The School's Controller is responsible for the programs' financial management, general ledger accounting, payments and collections.

In addition to the student assistance awards made during the year, the School obtained authorizations to award federal student financial aid of \$3,188,679 in the Pell Grant Program, \$119,974 in the Supplemental Educational Opportunity Grant Program, \$152,876 in the College Work-Study Program, \$371,756 in the Perkins Student Loan Program, \$147,650 in the Academic Competitiveness Grant and \$440,000 in the National Smart Grant.

During the year ended June 30, 2011, the School was authorized to award Colorado student financial aid funds of \$52,560 in the CLEAP Grant Program; \$1,192,188 in the Colorado Student Grant Program; \$32,100 in the Governor's Opportunity Scholarship Program; and \$405,087 in the Colorado Work-Study Program.

CURRENT YEAR FINDING

There were no findings or recommendations related to State-Funded Assistance Programs for the year ended June 30, 2011.

SUMMARY OF PROGRESS IN IMPLEMENTING PRIOR AUDIT RECOMMENDATIONS

The audit report for the year ended June 30, 2010, included no recommendations.

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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 of the Colorado School of Mines (the School), a component unit of the State of Colorado, for the year ended June 30, 2011. This statement is the responsibility of the School'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 reasonable assurance about whether the statement of appropriations, expenditures, transfers and reversions 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 presentation of the statement of appropriations, expenditures, transfers and reversions. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of the Colorado School of Mines (the Statement), the Statement was prepared in accordance with the format as set forth in the *2010-11 Audit Guide, Colorado Funded Student Aid* issued by the Department of Higher Education (DHE), and in conformity with the provisions of the Colorado Commission on Higher Education (CCHE) State-Funded Student Financial Aid Policy. The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Colorado Work-Study Program 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, and does not, present the financial position, changes in financial position or cash flows of the School in conformity with accounting principles generally accepted in the United States of America.

Members of the Legislative Audit Committee:

In our opinion, the accompanying statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of the Colorado School of Mines 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, 2011, pursuant to the *2010-11 Audit Guide, Colorado Funded Student Aid* issued by the Department of Higher Education, and in conformity with the provisions of the CCHE State-Funded Student Financial Aid Policy.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2011 on our consideration of the School's internal control over financing reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Our audit was conducted for the purpose of forming an opinion on the Statement in conformity with the provisions of the *CCHE Financial Aid Policy*. The introduction section is presented for purposes of additional analysis and is not a required part of the Statement. The introduction section has not been subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and management of the School, the Department of Higher Education and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 23, 2011

Colorado School of Mines
Statement of Appropriations, Expenditures, Transfers and Reversions
of the State-Funded Student Assistance Programs
Year Ended June 30, 2011

	Colorado Leveraging Educational Assistance Program	Colorado Student Grant Program	Governor's Opportunity Scholarship Program	Colorado Work-Study Program	Total State Funded Assistance
Appropriations					
Original	\$ 48,315	\$ 1,192,188	\$ 32,100	\$ 405,087	\$ 1,677,690
Adjustments/transfers	4,245	-	-	-	4,245
Total	52,560	1,192,188	32,100	405,087	1,681,935
Expenditures	52,560	1,192,188	28,434	405,087	1,678,269
Reversions to state general fund	\$ -	\$ -	\$ 3,666	\$ -	\$ 3,666

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

Colorado School of Mines

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

Year Ended June 30, 2011

Note 1: Summary of Significant Accounting Policies

The School's accounting system is structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Offices in their revised publication, *College & University Business Administration*, as supplemented by the American Institute of Certified Public Accountants Audit and Accounting Guide, *Audits of Colleges and Universities*.

The Statement of Appropriations, Expenditures, Transfers and Reversions was prepared in accordance with the format set forth in the *2010-11 Audit Guide, Colorado Funded Student Aid* issued by the Department of Higher Education and with the provisions of the Colorado Commission on Higher Education State-Funded Student Financial Aid Policy.

All student aid is expensed on a cash basis, except for the Colorado Work-Study Program (CWS). The CWS is on the accrual basis in that the expense is recognized when the services are performed.

Note 2: Student Incentive Grants

CLEAP Grant Program consists of state funds and federal funds. The amount shown is the combined total.

Note 3: Other – Required Statements, Comments and Recommendations

The School's packaging priority for need-based financial aid applicants is required to give the highest priority to the neediest students. Students with the lowest expected family contribution and the earliest date of filing a completed application are given top priority for available funds. Priority is not given on the basis of new or continuing student status, but on the date the application is completed. The student catalog further outlines additional eligibility requirements set forth for specific federal and state assistance programs including U.S. citizenship, Colorado residency, and meeting satisfactory academic progress guidelines.

CCHE's Financial Aid Policy and Guidelines for State Financial Assistance Programs issued by the Colorado Commission on Higher Education (CCHE) does not allow institutions receiving allocations for financial aid programs to transfer funds between those programs

Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements That Could Have a Direct and Material Effect on Each State-Funded Student Assistance Program

Members of the Legislative Audit Committee:

Compliance

We have audited the Colorado School of Mine's (the School), a component unit of the State of Colorado, compliance with the types of compliance requirements described in the *2010-11 Audit Guide, Colorado Funded Student Aid*, issued by the Department of Higher Education (DHE) that could have a direct and material effect on each of the School's state-funded student assistance programs for the year ended June 30, 2011. The School's state-funded student assistance programs are identified in the accompanying statement of appropriations, expenditures, transfers and reversions. Compliance with the requirements of laws, regulations, terms of agreements and Colorado Commission on Higher Education (CCHE) directives applicable to each of its state-funded student assistance programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2010-11 Audit Guide, Colorado Funded Student Aid*, issued by the DHE. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state-funded student assistance program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the Colorado School of Mines complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its state-funded student assistance programs for the year ended June 30, 2011.

Members of the Legislative Audit Committee:

Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, terms of agreements and CCHE directives applicable to state-funded student assistance programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a state-funded student assistance program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the audit requirements of the DHE, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state-funded student assistance program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state-funded student assistance program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Members of the Legislative Audit Committee, Board of Trustees and management of the Colorado School of Mines, the Department of Higher Education and the Colorado Commission on Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

November 23, 2011

Members of the Legislative Audit Committee:

As part of our audits of the financial statements and compliance of Colorado School of Mines (the School) as of and for the year ended June 30, 2011, we wish to communicate the following to you.

Auditor's Responsibility Under 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 and U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

An audit performed 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 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is designed to obtain reasonable, rather than absolute, assurance about the financial statements and about whether noncompliance with the types of compliance requirements described in OMB Circular A-133 that could have a direct and material effect on a major federal program occurred. In performing auditing 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.

These standards require communication of significant matters related to the financial statement and compliance audits that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

Audits of the financial statements and compliance do not relieve management or those charged with governance of their responsibilities.

Members of the Legislative Audit Committee:

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The School's significant accounting policies are described in Note 1 of the audited financial statements. With respect to unusual accounting policies or accounting methods used by the School for unusual transactions, we call your attention to the following topics:

- No matters are reportable

Alternative Accounting Treatments

We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement and disclosure considerations related to the accounting for specific transactions as well as general accounting policies, as follows:

- No matters are reportable

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 for accounts receivable, federal and private grants receivable and loans to students
- Accrued compensated absences
- Estimated useful lives of capital assets
- Fair value of investments
- Accrued pollution remediation obligations
- Fair value of derivative instruments

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition
- Derivative instruments (interest rate swaps)

Members of the Legislative Audit Committee:

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to 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 include:

Proposed Audit Adjustments Recorded

- Accounting for swap termination (\$8,300,000)
- Capitalized interest (\$1,145,725)

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole

Auditor's Judgments About the Quality of the Entity's Accounting Principles

During the course of the audit, we made the following observations regarding the School's application of accounting principles:

- No matters are reportable

Disagreements with Management

The following matters involved disagreements which if not satisfactorily resolved would have caused a modified auditor's opinion on the financial statements:

- Initial disagreement related to the accounting treatment of debt refunding and related derivative instruments (interest rate swaps). Management agreed with accounting treatment upon further discussion and review of accounting literature.

Members of the Legislative Audit Committee:

Consultation with Other Accountants

During our audit we became aware that management had consulted with other accountants about the following auditing or accounting matters:

- The Colorado School of Mines Foundation, Incorporated is audited by another accounting firm. We placed reliance on the audit of the financial statements of the Colorado School of Mines Foundation, Incorporated as of June 30, 2011, and for the year then ended.

Significant Issues Discussed with Management

Prior to Retention

During our discussion with management prior to our engagement, the following issues regarding application of accounting principles or auditing standards were discussed:

- No matters are reportable

During the Audit Process

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- Derivative instruments (interest rate swaps)

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

- As indicated by Recommendation No. 1, the School's review of financial information failed to identify errors in supporting schedules prepared for the audit, which in some instances required the supporting schedules to be revised by management during the audit process

Other Material Written Communications

Listed below are other material written communications between management and us related to the audit:

- Management representation letter

Members of the Legislative Audit Committee:

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

BKD, LLP

November 23, 2011

**Colorado School of Mines
ATTACHMENT**

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

QUANTITATIVE ANALYSIS

	Before		Subsequent to		% Change
	Misstatements	Misstatements	Misstatements	Misstatements	
Current Assets	82,071,841	127,181	82,199,022	82,199,022	0.15%
Non-Current Assets	329,432,874	170,438	329,603,312	329,603,312	0.05%
Current Liabilities	(46,029,244)	(271,388)	(46,300,632)	(46,300,632)	0.59%
Non-Current Liabilities	(168,895,654)		(168,895,654)	(168,895,654)	
Current Ratio	1.783		1.775	1.775	-0.45%
Total Assets	411,504,715	297,619	411,802,334	411,802,334	0.07%
Net Assets	(196,579,817)	(26,231)	(196,606,048)	(196,606,048)	0.01%
Revenues & Income	(203,707,833)	1,442,411	(202,265,422)	(202,265,422)	-0.71%
Expenditures	168,160,700	(94,180)	168,066,520	168,066,520	-0.06%
Net Increase	(35,547,133)	1,348,231	(34,198,902)	(34,198,902)	-3.79%

Colorado School of Mines
Audit Report Distribution Summary
Years Ended June 30, 2011 and 2010

The electronic version of this report is available on the Website of the
Office of the State 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.

Report Control Number 2090-11