REPORT OF

THE

STATE AUDITOR

COLORADO SCHOOL OF MINES FINANCIAL AND COMPLIANCE AUDIT

Fiscal Year Ended June 30, 1999

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October 15, 1999

Members of the Legislative Audit Committee:

This report contains the results of our financial and compliance audit of the Colorado School of Mines. The audit included examinations of the financial statements and the statement of state-funded student assistance programs. Included in the report are the findings and recommendations resulting from the examinations, and the responses of the Colorado School of Mines.

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J. DAVID BARBA, CPA
State Auditor

COLORADO SCHOOL OF MINES
FINANCIAL AND COMPLIANCE AUDIT
FISCAL YEAR ENDED JUNE 30, 1999

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted auditing standards and the financial and compliance standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. We performed our audit from April 1999 through October 1999.

The purposes of this audit were to:

- Express an opinion on the combined financial statements of the Colorado School of Mines (University) as of and for the year ended June 30, 1999. This includes a review of internal control as required by generally accepted auditing standards and *Government Auditing Standards*.

- Evaluate compliance with laws, regulations, contracts and grants governing the expenditure of federal and state funds.

- Express an opinion on the University's compliance and internal control over financial reporting based on our audit of the combined financial statements performed in accordance with *Government Auditing Standards*.

- Express an opinion on the financial statements of the University's bond funds as of and for the year ended June 30, 1999. This included an evaluation of compliance with bond indenture provisions.

- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs of the University for the year ended June 30, 1999.

- Evaluate progress in implementing prior audit recommendations.

For further information on this report, contact the Office of the State Auditor at (303) 866-2051.

The financial statements of the University's bond funds and the related audit opinion are contained in the University's bond funds report issued under separate cover. The University's Schedule of Expenditures of Federal Awards and applicable opinions thereon of our Office are included in the June 30, 1999, State of Colorado Statewide Single Audit Report issued under separate cover.

Audit Opinions and Reports

We expressed unqualified opinions on the University's combined financial statements, bond funds financial statements, and the Statement of Appropriations, Expenditures, Transfers, and Reversions of the State-funded Student Assistance Programs as of and for the year ended June 30, 1999.

We did not note any material internal control weaknesses or any material instances of noncompliance with legal or regulatory requirements based on our audit of the combined financial statements. However, we did note certain areas in which the University could improve its internal control and compliance procedures. These areas are discussed in the Auditor's Findings and Recommendations section of this report.

We applied certain limited procedures on Year 2000 supplementary information required by the Governmental Accounting Standards Board. This consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on such information.

Summary of Findings and Recommendations

The following is a summary of the significant findings included in this report. The Recommendation Locator at the end of this Section contains a summary of the audit recommendations; an indication of the University's agreement with the recommendations and planned implementation dates; and the location of the full text of the findings, recommendations, and University responses.

We identified areas where the University could improve its financial management and reporting practices. These include:

- The University did not request reimbursements of federal expenditures in a timely manner. Reimbursement requests of several hundred thousand dollars were delayed up to two months. We estimate the delays for three federal agencies resulted in lost interest on state funds of approximately $19,000.

- The University did not submit accurate and timely information to the State Controller's Office. This information is important for the preparation of the notes of the statewide financial statements. For example, the exhibit reporting the amount of defeased debt was understated by $7.5 million.

- The University has not calculated arbitrage earnings to determine if any potential tax and financial statement liabilities exist on its bond issues. These calculations are important for financial reporting, investment planning, and setting aside funds to pay any future liabilities.

Additionally, we found problems with the administration of an endowment fund. In 1997 a donor contacted the University and the Office of the State Auditor about concerns he had about the proper accounting of his funds. We reviewed actions taken by the University to address the issues and found that it took the University over two years to correct some errors in the handling and accounting of the donor’s funds. We also noted some issues that were not addressed. As a result, the donor’s funds may still be improperly accounted for and misused. For example, the University has not credited interest earnings on cash balances to the donor's accounts. In addition, the University has not used any of the donor’s funds to make financial aid loans to students since 1997 ($80,000 of the donor’s funds were available at June 30, 1999, for this purpose). We recommend the University take action to resolve issues with the donor's endowment and loan funds, and correct accounts as warranted.

We identified areas in which administrative procedures could be improved or internal controls strengthened. These include:

- About 100 University personnel use a procurement card for purchases under $1,000. The University reviewed the procurement card program and found about two-thirds of the monthly statements reviewed were not approved by authorizing officials and about 4 percent of the transactions reviewed did not have proper records to document purchases made with the card. The University should enhance its review procedures by developing a schedule to follow up on past reviews to ensure action has been taken to correct these problems.

- The University’s disaster plan needs to be refined to address matters such as communications, transportation, and personnel in the event of a disaster.

We noted several areas in which the University has not maintained an internal control environment that ensures compliance with federal requirements. This could jeopardize future federal funding and cause inaccurate reporting to the federal government. These areas include:

- Federal regulations require that the University monitor whether subrecipients (i.e., entities receiving federal funds from the University) comply with federal rules and regulations. The University did not have records to demonstrate that it had met subrecipient monitoring requirements.

- Close-out reports are to be submitted to federal granting agencies within 90 days of project completion. The University continues to have a problem meeting this requirement. The University had 33 contracts at the end of the fiscal year that are late for close-out. About half of these are grant projects with end dates from one to seven years old.

- Certain federal grants require the University to match federal costs with cash or in-kind contributions. The University was unable to provide evidence that it met all federal matching requirements.

We recommend the University establish policies and procedures to ensure compliance with federal requirements.

As discussed above, we observed various weaknesses in the University's accounting controls. These can be categorized as not adequately monitoring activities, not correcting accounting problems promptly, and not establishing adequate procedures. In addition to implementing the specific recommendations in this report, the University should develop a plan to improve its overall accounting function.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 1998, included seven recommendations. The disposition of these audit recommendations as of October 15, 1999, was as follows:

Status	Number
Implemented	3
Partially Implemented	2
Not Implemented	2
Total	7

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	12	The University should improve its financial management and reporting practices in certain areas.	Agree	June 2000
2	15	The University should take action to resolve issues with a donor's endowment and loan funds, and correct accounts as warranted.	Agree	June 2000
3	18	The University should improve administrative and internal controls.	Agree	June 2000
4	22	The University should establish policies and procedures to ensure compliance with federal requirements.	Agree	June 2000
5	24	The University should develop a plan to improve its overall accounting function.	Agree	June 2000

Description of the Colorado School of Mines

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

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

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

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

STUDENT FTE ENROLLMENT

	Resident Student FTE	Non-Resident Student FTE	Total Student FTE
1997	2,160	1,082	3,242
1998	2,168	1,043	3,211
1999	2,282	969	3,251

FULL-TIME FACULTY AND STAFF FTE

	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
1997	195	337	532
1998	206	353	559
1999	199	390	589

Auditor's Findings and Recommendations

Financial Management and Reporting

Introduction

The Colorado School of Mines (the University) had about $110 million of revenues and $93 million of expenditures during Fiscal Year 1999 and $199 million of assets as of June 30, 1999. As part of its annual financial and compliance audit, we reviewed the University's financial management and reporting practices. This included determining whether the financial statements are fairly presented, reviewing the administrative and accounting controls over financial operations, and verifying the accuracy of reports submitted to the State Controller's Office for preparation of the statewide financial statements.

We identified the following areas in which the University could improve its financial management and reporting practices.

Federal Funds Are Not Requested in a Timely Manner

In Fiscal Year 1999 the University expended about $13 million in federal funds for federal research and development projects. The University obtained reimbursement of approximately half of its federal expenditures by letter-of-credit during Fiscal Year 1999. A letter-of-credit is a method by which an official of a federal agency authorizes a state agency to draw funds from the United States Treasury. The University's policy for letter-of-credit reimbursements is to request federal funds approximately every two to three days when expenditures reach $2,000 to $3,000 for each federal agency.

Our audit included a review of the timeliness of reimbursement requests for three federal agencies. We found that requests for federal reimbursement were submitted much later than prescribed by University policy. The following illustrates the more significant delays that occurred in requesting federal reimbursements from the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF), and the U.S. Department of Education (Education).

Federal Agency	Days Between Requests	Amount of Request
Education	91	$ 73,150
NSF	66	530,770
NASA	63	290,580
NSF	41	227,000
Education	34	652,345
NSF	27	200,900
NSF	17	191,100
Education	17	105,500
Education	17	101,000
NSF	16	126,200
NASA	13	518,170
NSF	10	283,220

The number of significant delays that has occurred indicates a serious lack of controls over the federal reimbursement process. Timely request of federal funds is important because it minimizes the time that state funds are used for federal programs. State Fiscal Rules require that agencies obtain federal funds as soon as possible after the use of the funds. Allowing an extended period of time to pass before requesting reimbursement results in lost interest on state funds that could have been invested or held in the State Treasury pool. We estimate that approximately $19,000 of interest earnings was lost from the delays in requesting reimbursements for the above three federal agencies.

Financial Reporting Practices Need Improvement

In conjunction with our audit of the financial statements, we noted additional accounting problems.

- **Prepaid items such as tuition, housing, and other expenses were improperly accounted for**. Prepaid items totaling $453,886 were accounted for as reductions of student accounts receivable rather than as deferred revenue. Consequently, the University's accounts receivable balances were actually 54 percent higher than reported. The University corrected applicable financial statement balances when we brought the improper accounting to its attention.

- **The University did not provide accurate and timely information to the State Controller’s Office.** State agencies are required to submit exhibits which provide information that is not contained in the State's financial reporting system and is important for the preparation of the notes of the statewide financial statements. Four of the exhibits were required to be submitted on August 20, 1999, but the University did not submit them until September 1999. Another exhibit (the Schedule of Federal Assistance) that was required to be submitted on September 17, 1999, was also submitted a month late. In addition, the submitted exhibits contained a number of errors. For example, $4.2 million of defeased debt was reported on an exhibit, which understated the debt by $7.5 million. The exhibit to disclose cash balances indicated $12.7 million was collateralized, when in fact $851,765 of the $12.7 million is uninsured and uncollateralized.

- **The allowance for doubtful accounts is understated and uncollectible receivables are not written off.** The University's last two financial and compliance audits have recommended that an appropriate allowance for doubtful accounts be computed. For Fiscal Year 1997 the University, with the help of its independent auditors, calculated an allowance of $82,000 based on the amount of sponsor receivables that were one year or older. As of June 30, 1999, the University used the $82,000 amount as its allowance for doubtful accounts. However, this amount is understated by about $43,000 of private sponsor receivables that were more than one year past due at June 30, 1999. Part of the reason for the increase in the amount of receivables over one year old is that the University may not be writing off receivables that are uncollectible and may not be aggressively collecting receivables.

Potential for Bond Arbitrage Liability Needs to Be Evaluated

Arbitrage is profit realized when the University invests bond proceeds in higher-yielding taxable securities than paid to bond holders. All net earnings above the bond yield must be remitted to the Internal Revenue Service (IRS). The potential arbitrage rebate liability must be determined at least every five years and when the bonds are retired. However, annual calculations may be needed by the University for financial reporting, investment planning, or setting aside funds to pay a future liability. Failure to comply with the arbitrage rules could result in penalties, interest, and the loss of tax-exempt status.

If it is determined upon completion of an arbitrage calculation that a rebate liability exists, IRS rules say 90 percent of the rebate must be paid to the IRS within 60 days of the fifth bond anniversary date. Subsequent payments must be submitted every five years, and the full amount of the aggregate liability must be paid within 60 days after the final bond is redeemed. The fifth anniversary of the University's Series 1993

Revenue Bonds occurred in 1998. The University has not had an arbitrage calculation performed for this bond issue. Additionally, three other bond issues of the University will face five-year anniversary dates in the next several years as shown below:

Issue	5-Year Anniversary Date
Series 1996 Revenue Bonds	2001
Series 1997 Revenue Bonds	2002
Series 1999 Revenue Bonds	2004

The University should determine if any tax liability exists for the 1993 bond issue and reimburse any amounts due to the federal government. Identifying a tax liability is also important for proper financial statements presentation. It may be beneficial for the University to have an arbitrage calculation performed for some of the other issues as well to determine the potential for future tax and financial statement liabilities.

Recommendation No. 1:

The Colorado School of Mines should improve its financial management and reporting practices by:

a. Requesting letter-of-credit reimbursements in a timely manner.

b. Recording prepaid items as deferred revenue in the future.

c. Preparing accurate exhibits for the State Controller's Office and submitting them by required due dates.

d. Writing off uncollectible private sponsor receivables and recalculating the allowance for doubtful accounts based on periodic reviews of past collection experience.

e. Calculating arbitrage earnings on bond issues to determine whether any potential tax and financial statement liabilities exist.

Colorado School of Mines Response:

a. Agree. Letter-of-credit reimbursements will be requested in a timely manner, in accordance with our revised policy, when expenditures reach $5,000 to $10,000 for a federal agency. Implementation–February 2000.

b. Agree. The University will continue to report prepaid items as deferred revenue in our financial statements. Implementation–June 2000.

c. Agree. The importance of providing accurate and timely information to the State Controller's Office will be reinforced with staff accountants. Improvements will be made. Implementation–January 2000.

d. Agree. Fiscal Services will annually review and adjust our allowance for private sponsor receivables based on past collection experience. The write-off of uncollectible receivables will be periodically recommended to management. Implementation–June 2000.

e. Agree. The University will contact our bond council to conduct the arbitrage review where appropriate. Implementation–March 2000.

Administration of Endowment Fund

Introduction

In March 1997 an individual contacted the Office of the State Auditor about concerns he had related to the accounting of his donated funds. The donor had contributed monies to the University and established an endowment and related loan fund for making financial assistance loans to students. As of June 30, 1999, the fund balance in the donor's endowment fund was about $350,000 and the balance in the donor's loan fund was about $210,000, for a total of $560,000.

Our Office made a limited review of the donor's accounts and notified the University of several apparent problems that needed review and possible correction. These problems pertained to whether the donor's funds were appropriately accounted for between July 1992 and February 1997. The issues identified were whether the University had properly:

- Credited the donor's account for interest earned on investments during Fiscal Years 1995 and 1996.
- Invested excess cash balances so that unneeded funds could earn interest during Fiscal Years 1993 through 1996.

- Recorded the correct amount of interest earned on student loan repayments during Fiscal 1994.

- Transferred principal and interest on student loan repayments to the corpus of the donor's Endowment Fund during Fiscal Years 1993 through 1996 as stipulated in the donor's agreement.

Donor Accounts May Still Be Misused

During our current audit we reviewed the actions taken by the University to address the above issues. We found that it had taken over two years for the University to address some of the issues. Recently the University credited the donor's account for about $16,000 of interest it estimated should have been earned on investments in past years and transferred about $184,000 of student loan repayments to the donor's endowment fund corpus.

Our review indicated that the University has not addressed all of the issues concerning the donor's accounts. As a result, the donor's funds may still be misused and improperly accounted for. Specifically, the University:

- Has not managed cash balances so that they earn interest. For example, cash balances ranged from $40,000 to $80,000 during Fiscal Years 1998 and 1999. The University told us that the cash balances have been maintained in non-interest-bearing accounts. We understand that these cash balances could be included in pooled cash and investment accounts which earn interest. The University should place the cash in the pooled cash and investment accounts so that the donor's funds earn interest.

- Did not evaluate whether the proper amount of interest earnings on student loan repayments was recorded in the donor's accounts. For example, we compared loan receivable balances with loan interest earned as shown in University reports between 1992 and 1999. We found there was a large variation in the amount of interest earned on loans during that time period. Loan interest credited to the donor's accounts varied from 0.3 percent to 6 percent of loan receivable balances. The University could not provide an explanation for the variations.

We also noted that loan interest may not have been transferred to the endowment fund in past years. A transfer of loan interest to the corpus of the endowment fund is required by the donor's agreement.

In addition to these issues, we noted that the University has not made any loans from this endowment to students since Fiscal Year 1997. The University's Student Financial Aid Department told us that there are students who could use and qualify for the loan funds. There is about $80,000 currently available in the loan fund that could be used for financial aid purposes.

Recommendation No. 2:

The Colorado School of Mines should take the following actions to resolve issues with the donor's accounts and correct accounts as warranted.

a. Place cash in interest-bearing accounts.

b. Evaluate whether the proper amount of interest earnings on student loan repayments has been recorded and transferred to the endowment corpus.

c. Use available donor funds to make financial aid loans to students.

Colorado School of Mines Response:

a. Agree. The University will regularly review cash balances and place available amounts in interest-bearing accounts. Implementation– February 2000.

b. Agree. The University will evaluate whether the proper amount of interest earnings on student loans has been recorded and appropriately transferred to the endowment corpus, per the Memorandum of Agreement. Implementation–March 2000.

c. Agree. Financial Aid will make the loan funds available to seniors and graduate students who meet the prerequisites for loan consideration. Implementation–June 2000.

Internal Controls

Introduction

During the course of our audit we identified several areas where administrative procedures could be improved or internal controls could be strengthened. These are discussed below.

Controls Over Purchases Can Be Strengthened

University disbursement procedures and State Fiscal Rules require proper authorization of invoices and purchase requisitions by authorized department personnel. The University's policy requires every purchase to have a proper authorizing signature. In tests of 25 non-payroll expenditure transactions, we found that three of the expenditures were processed by the Purchasing and Accounting Departments without proper authorization by University personnel. This was also a finding in last year’s audit of the University.

In addition to purchase order requisitions, the University uses a MasterCard procurement card program for purchases under $1,000. Currently about 100 University personnel have been issued a MasterCard and have signed agreements concerning its use. These cards are primarily used for purchases of office and lab supplies, conference registrations, books and periodicals, and membership fees. Card users are responsible for reviewing monthly statements of their charges, attaching supporting documentation for the purchases, and having their department’s approving authority sign the statements.

The University began a program to review the procurement card program. It performed reviews from February through April 1999 and found that:

- About 64 percent of the 70 monthly statements reviewed did not have the proper authorizing signatures of the cardholder’s approving official.

- About 4 percent of the 400 transactions reviewed did not have proper records to document purchases made with the card.

It is important to ensure that proper authorization and documentation exist for procurement card purchases. The risk of unauthorized purchases increases if authorizing personnel do not review purchase transactions or if supporting documentation for purchases is not retained.

We believe the University has initiated a good program to review the procurement card program. We think its efforts can be enhanced by developing a schedule for future reviews of procurement cardholders activities and by following up on past reviews to ensure corrective action has been taken.

Voided Cashier Transactions Should Be Reviewed

The cashiering function at the University is responsible for processing cash and checks received in person or by mail. A full-time cashier and other accounting and student personnel help operate the cashier's counter at various times. Any of these personnel may void transactions.

We noted that no review is performed by supervisory staff of voided cashier transactions. When transactions are voided, it is possible that a cashier could misuse funds without being detected. We believe instituting a review of voided transactions can help reduce the risk of misappropriation of cash and checks.

Written Procedures Are Needed in Key Areas

The University has developed written procedures for its accounting and administrative functions. However, written procedures do not exist in the areas of payroll, accounts payable, and cash management.

It is important to have adequate documentation of key processes. This is necessary when there is limited cross-training of individuals for certain duties and minimal supervisory review of individuals performing those duties. Not having adequate written procedures increases the risk that the University would have difficulty performing key functions if certain individuals terminate their employment with the University.

Disaster Recovery Plan Should Include Additional Procedures

The University's disaster recovery plan consists of an agreement with the Colorado Community Colleges and Occupational Education System to act as the University's recovery site should the University be required to shut down for a period of time. Specific plans and procedures, however, have not been developed on how the University would deal with matters such as facilities, security, communications, housing, transportation, and personnel.

Identifying specific steps that need to be taken in the event of a manmade or natural disaster would help ensure continuity of the University's operations. It would also help minimize the amount of time required for the University to recover from a disruption and make the recovery process go smoother.

Recommendation No. 3:

The University should improve administrative and internal controls by:

a. Ensuring that payments are not made on invoices/purchase requisitions without proper departmental authorization.

b. Developing a schedule for future reviews of procurement cardholders and following up on past reviews to ensure corrective action has been taken.

c. Having supervisory personnel review and approve voided transactions.

d. Developing written procedures for noted accounting and administrative functions.

e. Developing specific plans and procedures concerning the steps to be followed to restore disrupted operations in the event of a disaster.

Colorado School of Mines Response:

a. Agree. To promote compliance with University policy, Finance and Operations will reiterate to all campus employees the need/importance of appropriate authorizations on transactions. Implementation–February 2000.

b. Agree. Fiscal Services will schedule periodic reviews of procurement card transactions and follow up previous reviews where the need for corrective action was noted. Implementation–April 2000.

c. Agree. Voided cashier transactions will be reviewed by supervisory personnel. Implementation–January 2000.

d. Agree. Written procedures for payroll, accounts payable, and cash management will be developed and available by fiscal year-end. Implementation–June 2000.

e. Agree. The University will pursue a budget allocation for the development of specific disaster recovery plans and procedures. Implementation–June 2000.

Federal Grant Compliance

Introduction

The School of Mines expended about $14.3 million of federal funds during Fiscal Year 1999. Approximately $1.3 million was for student financial aid and the remaining $13 million was for research and development activities. The main federal agencies that provided research and development funds to the University were the U.S. Department of Energy at $3.9 million, the National Science Foundation at $2.8 million, and the National Aeronautics and Space Administration at $2.3 million.

The federal government has established compliance and reporting requirements for the administration of federal grants. The requirements are set forth in a number of places including the Office of Management and Budget (OMB) Circular A-133, the OMB Compliance Supplement, the Code of Federal Regulations, and specific grant and contract agreements with federal agencies.

The State Controller's Office requires that each state agency report certain federal financial and program information through preparation of a Schedule of Federal Assistance. The State Controller's Office compiles the information from these schedules for all state agencies. This compilation forms the basis for preparation of the Schedule of Expenditures of Federal Awards for the State of Colorado that is submitted to the federal government.

Our audit identified areas in which the University has not maintained an internal control environment that ensures compliance with federal requirements. This could jeopardize the University's ability to receive federal funding in the future. It also can cause inaccurate reporting of the University's federal financial assistance programs to the federal government.

Subrecipients Are Not Monitored or Properly Reported

Primary recipients of federal funds can provide grant assistance to subrecipients (i.e., entities receiving federal funds from the University). Of the three subrecipients identified on the University's Schedule of Federal Assistance, two were universities in Texas and California. Federal regulations require that primary recipients monitor subrecipients to ensure they comply with federal laws and regulations.

In Fiscal Year 1999 the University reported on its initial Schedule of Federal Assistance that it passed through $1,158,431 of federal funds through seven programs. As discussed below, our audit found that the University did not adequately monitor or report information about its subrecipients who are administering these programs.

Our review showed that two of the seven programs (29 percent) listed on the University's original Schedule of Federal Assistance were incorrectly identified as funds passed to subrecipients. These two programs were administered by University professors who were carrying out federal research activities for the University. As such, the funds should not have been reported as funds passed to subrecipients. University staff subsequently corrected this error on the Schedule of Federal Assistance after we brought this matter to their attention. This change reduced the amount of funds passed to subrecipients reported on the Schedule by $141,404, from $1,158,431 to $1,017,027.

Not only were the amounts reported incorrectly, but in addition, we could not satisfy ourselves that all entities receiving federal funds from the University have been properly included on the Schedule of Federal Assistance. This is because the University does not have an adequate process to convey the subrecipient information from the Office of Research Services to Accounting Department personnel who complete the Schedule of Federal Assistance. The University needs to design a process to identify all entities to whom it disburses federal funds and evaluate whether they are subrecipients that should be reported on the Schedule of Federal Assistance.

Further, the University needs to establish mechanisms to monitor subrecipients so the University is in compliance with the federal requirements. As a pass-through entity, the University is responsible for:

a. Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers federal awards in compliance with federal requirements. This can be accomplished by implementing a system to a) regularly contact the subrecipients and make the appropriate inquiries concerning the federal program; b) monitor subrecipient budgets; and c) review financial and programmatic records.

b. Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings. This could include determining whether the subrecipients met the thresholds requiring an audit under OMB Circular A-133. If an audit is required, the University should ensure that the subrecipient submits the reports and documents required by OMB circulars to the federal government and the University.

c. Communicating to the subrecipient the federal award information and applicable compliance requirements. There should be written policies and procedures to establish communication of federal award requirements to subrecipients. Further, all agreements with subrecipients should include the requirement to adhere to the compliance requirements applicable to the federal program, including the audit requirements of OMB Circular A-133.

d. Determining and evaluating the impact of any subrecipient noncompliance on the University's federal programs.

The University's Office of Research Services has not established a subrecipient monitoring process to meet the above responsibilities. As a result, we were unable to determine whether the University complied with applicable federal laws and regulations regarding subrecipient monitoring, and whether subrecipients were in compliance.

Grant Close-Out Reports Continue to Be Submitted Late

Federal rules and regulations generally require that close-out reports be submitted to federal granting agencies within 90 days of project completion. These reports can include both fiscal and programmatic information. Both the 1997 and 1998 financial and compliance audits of the University reported that the University was not submitting federal grant close-out reports and reimbursement requests in a timely manner.

In reviewing lists of contracts pending closure and contracts closed out in Fiscal Year 1999, we noted the timely closure of federal projects continues to be a problem. Of the 42 contracts pending closure at the end of Fiscal Year 1999, 33 (79 percent) were late for close-out. Almost half (48 percent) of these relate to grant projects with end dates from one to seven years old. Of the grants that were closed in Fiscal Year 1999, 26 percent were projects closed over one year after the project end date.

The University has instituted new procedures and devoted additional resources to close-out contracts over the past two years. However, a large backlog of close-out reports continues to exist. The University does not have a formal plan on how or when it will eliminate the backlog. Developing such a plan would enable the University to measure its progress in eliminating the backlog.

Documentation Showing Compliance With Matching Requirements Should Be Retained

Matching requirements provide for the University to pay a specified amount or percentage of federal costs in cash or in-kind contributions. The specific matching requirements are unique to each federal program and are found in the laws, regulations, and contract or grant agreements for each program.

In our review of federal matching requirements, we found that the University does not maintain information to determine whether it met all federal matching requirements. The University needs to retain appropriate documentation to show that the matching calculations and accounting entries made meet federal matching requirements. This should include retaining spreadsheets. It also would be useful to maintain a file showing all the grants requiring a match as well as a copy of the contract or grant provision that specifies the matching requirement.

Non-Cash Assistance Is Not Reported on the Schedule of Federal Assistance

For federal reporting purposes, the State Controller's Office requires that state agencies disclose the value of non-cash federal assistance on their Schedule of Federal Assistance. The University's Office of Research Services told us that the University sometimes receives non-cash federal assistance for a project in the form of equipment or computers.

There is currently no process in place to report non-cash assistance on the Schedule of Federal Assistance. The University needs to establish a mechanism for doing so to enable it to meet federal reporting requirements.

Recommendation No. 4:

The Colorado School of Mines should establish policies and procedures to ensure compliance with federal requirements by:

a. Identifying all entities that receive federal funds from the University and evaluating which entities are subrecipients; monitoring subrecipients as dictated by the federal government.

b. Developing a plan and timetable for eliminating the backlog of grant close-out reports and measuring its progress against the plan.

c. Retaining appropriate documentation to demonstrate compliance with federal matching requirements.

d. Reporting non-cash assistance in accordance with federal requirements.

Colorado School of Mines Response:

a. Agree. Fiscal Services and the Office of Research Services will coordinate efforts to accurately identify subrecipients of federal funds and adequately monitor those subrecipients as required by the federal government. Our monitoring efforts will include regular contact with subrecipients, the comparison of actual expenditures with approved budgets, and the required review of any audit findings and related corrective actions. Implementation–March 2000.

b. Agree. The University will establish a plan and continue to pursue elimination of the backlog of pending federal project closeouts. It should be noted that 14 of the federally funded projects pending closure at June 30, 1999 were funded by one agency. That agency withholds 1% retainage, which is not released until a desk audit of the project is conducted, sometimes years after the project end date. Accordingly, the University can not realistically expect to eliminate the backlog of pending closures unless we are successful in negotiating a policy change with that agency. Implementation–June 2000.

c. Agree. The University reviews all closing projects to assure compliance with matching requirements. Fiscal Services will improve the retention of documentation (including copies of interim spreadsheets supporting the matching calculations) that demonstrates our compliance with federal matching requirements. Implementation–January 2000.

d. Agree. Fiscal Services will establish a mechanism to include non-cash assistance in our Schedule of Federal Assistance. Implementation–June 2000.

Management Controls Over Accounting Should Be Strengthened

As discussed in previous comments, we observed various weaknesses in accounting and administrative controls. These can be categorized in the following areas:

a. **Activities are not being appropriately monitored.** This includes not billing the federal government for federal expenditures in a timely manner and not properly monitoring subrecipient compliance with federal requirements.

b. **Accounting problems are not corrected promptly.** This includes not correcting accounting inaccuracies in an endowment and student loan fund account that existed for over two years and being late in submitting federal close-out reports for the last three years.

c. **Adequate procedures have not been established.** This includes not having written procedures for certain accounting functions and not establishing procedures to comply with all federal requirements.

In addition, we had significant problems obtaining basic accounting information from the University. For example, schedules supporting account balances were not readily available, and we had difficulty obtaining explanations about account activity and structure. Basic information such as this is needed to run an effective accounting operation.

The University needs to strengthen its management controls over accounting. In addition to implementing the specific recommendations in this report, the University should develop a plan to improve its accounting function.

Recommendation No. 5:

The Colorado School of Mines should develop a plan to improve its accounting function. The plan should include steps to ensure accounts are appropriately monitored, accounting problems are promptly corrected, and procedures are in place to ensure adequate controls over accounting operations.

Colorado School of Mines Response:

Agree. Fiscal Services is currently involved in a project to redefine accounting functions, customer service requirements, policies, and procedures. The accounting improvements identified in our financial audit will be specifically addressed as part of this ongoing process. Implementation–June 2000.

Disposition of Prior Year Audit Findings and Recommendations

The following audit recommendations are from the Colorado School of Mines audit for fiscal year ended June 30, 1998.

	Recommendation	Disposition
1.	Review the accounts receivable aging report and identify past due balances to pursue for collection and establish a reserve for doubtful accounts as deemed necessary.	Not implemented. See current year Recommendation No. 1.
2.	a. Properly update and maintain the manual signatures in order to verify the validity of the authorization.	Implemented.
	b. Do not allow a payment to be made on an invoice/purchase requisition without proper approval.	Not implemented. See current year Recommendation No. 3.
3.	Implement the procedures and controls necessary to ensure that grant close-out reports and reimbursement requests are submitted as quickly as possible following the completion of a project.	Partially implemented. See current year Recommendation No. 4.
4.	The Athletics Department should review its accounts to update signature authority and notify the Purchasing/Accounting Department appropriately.	Implemented.

	Recommendation	Disposition
5.	The Athletics Department needs to make a concerted effort to deposit receipts in a timely manner to ensure that monies are not kept on-hand for long periods of time.	Implemented.
6.	The Athletics Department needs to ensure that the ticket taker/seller report is accurately and appropriately completed and reviewed directly following the event.	Implemented.
7.	The Athletics Department should follow the University's procurement standards and communicate its urgent needs to the purchasing department so that processing and appropriate authorization occur.	Not implemented. See current year Recommendation No. 3.

COMBINED FINANCIAL STATEMENTS SECTION

J. DAVID BARBA, CPA
State Auditor

STATE OF COLORADO

OFFICE OF THE STATE AUDITOR
(303) 866-2051
FAX (303) 866-2060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

October 15, 1999

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying combined financial statements of the Colorado School of Mines (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1999. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 1999, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 1999, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

COMBINED BALANCE SHEET
JUNE 30, 1999 AND 1998 (In Thousands)

	Current Funds							
	Unrestricted		Restricted		Student Loan Funds		Endowment Funds	
	1999	1998	1999	1998	1999	1998	1999	1998
ASSETS:								
Cash on hand and in banks:								
Cash and time deposits	$ 5,120	$ 8,234	$ 141	$	$	$	$ 129	$ 129
Cash with State Treasurer	5,632	1,525	1,130	2,102	224	188	34	8
Spending authority								
Investments					690	603	9,133	6,399
Accounts receivable								
Less allowance	1,281	1,604	3,257	3,010				
Loans receivable								
Less allowance					5,339	5,325		
Accrued interest receivable	11	11						
Due from Other Funds								
Inventories	413	411						
Prepaid expenses	106	55	62	127				
Land and improvements								
Buildings								
Equipment								
Library books								
Construction in progress								
TOTAL ASSETS	$ 12,563	$ 11,840	$ 4,590	$ 5,239	$ 6,253	$ 6,116	$ 9,296	$ 6,536

See notes to financial statements.

(Continued)

STATE OF COLORADO
COLORADO SCHOOL OF MINES

COMBINED BALANCE SHEET
JUNE 30, 1999 AND 1998 (In Thousands)

	Plant Funds								Memorandum Only Totals	
	Unexpended		Renewal and Replacement		Retirement of Indebtedness		Investment in Plant			
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
ASSETS:										
Cash on hand and in banks:										
Cash and time deposits	$ 7,382	$ 2,810	$		$		$	$	$ 12,772	$ 11,173
Cash with State Treasurer	74	125	192	123	40	58			7,326	4,129
Spending authority	1,317	1,656							1,317	1,656
Investments									9,823	7,002
Accounts receivable										
Less allowance	614	78							5,152	4,692
Loans receivable										
Less allowance									5,339	5,325
Accrued interest receivable									11	11
Due from Other Funds	158								158	
Inventories									413	411
Prepaid expenses									168	182
Land and improvements							7,564	4,968	7,564	4,968
Buildings							62,550	62,557	62,550	62,557
Equipment							30,565	28,480	30,565	28,480
Library books							11,308	10,750	11,308	10,750
Construction in progress	44,278	34,664							44,278	34,664
TOTAL ASSETS	$ 53,823	$ 39,333	$ 192	$ 123	$ 40	$ 58	$ 111,987	$106,755	$ 198,744	$ 176,000

See notes to financial statements.

(Continued)

STATE OF COLORADO
COLORADO SCHOOL OF MINES

COMBINED BALANCE SHEET
JUNE 30, 1999 AND 1998 (In Thousands)

	Current Funds							
	Unrestricted		Restricted		Student Loan Funds		Endowment Funds	
	1999	1998	1999	1998	1999	1998	1999	1998
LIABILITIES:								
Vouchers payable	$ 1,852	$ 1,269	$ 772	$ 854	$	$	$	$
Due to State Treasurer		$ 1,218						
Accrued liabilities	2,020	2,226			1,530	1,554		
Deposits held for others	253	199	41	45				
Due to Other Funds	158							
Deferred revenue	1,166	748						
Accrued compensated absences	2,595	2,521						
Life income payable							75	75
Construction - retainage								
Lease obligation								
Long-term debt								
Total liabilities	8,044	8,181	813	899	1,530	1,554	75	75
FUND BALANCES:								
U.S. grants refundable					2,799	2,691		
Restricted			3,777	4,340				
Unrestricted	7,114	6,180						
Designated:								
CSM Foundation					751	632		
Loan funds					1,173	1,239		
Endowments							9,221	6,461
Net investment in plant								
Unfunded compensated absences	(2,595)	(2,521)						
Total fund balances	4,519	3,659	3,777	4,340	4,723	4,562	9,221	6,461
TOTAL LIABILITIES AND FUND BALANCES	$12,563	$11,840	$ 4,590	$ 5,239	$ 6,253	$ 6,116	$ 9,296	$ 6,536

See notes to financial statements. (Continued)

STATE OF COLORADO
COLORADO SCHOOL OF MINES

COMBINED BALANCE SHEET
JUNE 30, 1999 AND 1998 (In Thousands)

	Plant Funds								Memorandum Only Totals	
	Unexpended		Renewal and Replacement		Retirement of Indebtedness		Investment in Plant			
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
LIABILITIES:										
Vouchers payable	$ 861	$ 1,773	$	$	$	$	$	$	$ 3,485	$ 3,896
Due to State Treasurer										1,218
Accrued liabilities	36				40	47			3,626	3,827
Deposits held for others									294	244
Due to Other Funds									158	
Deferred revenue									1,166	748
Accrued compensated absences									2,595	2,521
Life income payable									75	75
Construction - retainage	945	998							945	998
Lease obligation							1,131	1,317	1,131	1,317
Long-term debt	13,426	7,526					9,322	8,088	22,748	15,614
Total liabilities	15,268	10,297			40	47	10,453	9,405	36,223	30,458
FUND BALANCES:										
U.S. grants refundable									2,799	2,691
Restricted	38,555	29,036	192	123		11			42,524	33,510
Unrestricted									7,114	6,180
Designated:										
CSM Foundation									751	632
Loan funds									1,173	1,239
Endowments									9,221	6,461
Net investment in plant							101,534	97,350	101,534	97,350
Unfunded compensated absences									(2,595)	(2,521)
Total fund balances	38,555	29,036	192	123		11	101,534	97,350	162,521	145,542
TOTAL LIABILITIES AND FUND BALANCES	$ 53,823	$ 39,333	$ 192	$ 123	$ 40	$ 58	$ 111,987	$ 106,755	$ 198,744	$ 176,000

See notes to financial statements.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1999 (In Thousands)

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Student Loan Funds	Endowment Funds	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS:								
Unrestricted current fund revenues	$ 59,178	$	$	$	$	$	$	$
State appropriations - restricted		1,376			9,472			
Federal grants and contracts restricted		12,384						
State grants and contracts restricted		1,554						
Private gifts, grants and contracts - restricted		15,143	58					
Investment income - restricted		164	116	1,130	72			
Income on loan receivable			264					
U.S. Government advances			64					
Additions to plant facilities (including $2,488 charged to current fund expenditures)								7,252
Retirement of indebtedness					245			560
Other revenue			22		1,105			
Total revenues and other additions	59,178	30,621	524	1,130	10,894			7,812
EXPENDITURES AND OTHER DEDUCTIONS:								
Education and general expenditures	43,851	26,619						
Auxiliary enterprise expenditures	11,228							
Indirect costs		4,355						
Life income distributions				78				
Loan cancellations and write-offs			13					
Administrative and collection costs			23					
Refund to grantors			20					
Expended for plant facilities					2,809			
Retirement of indebtedness					245		560	
Interest on indebtedness			136		416		501	
Disposal of plant facilities								1,964
Other					306			56
Total expenditures and other deductions	55,079	30,974	192	78	3,776		1,061	2,020
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)								
Mandatory:								
Principal and interest	(1,647)		(208)	208	2,125		1,061	(1,608)
Renewal and replacement						69		
Loan fund matching grant		(21)	21					
Non-mandatory	(1,592)	(189)	16	1,500	276		(11)	
Total transfers	(3,239)	(210)	(171)	1,708	2,401	69	1,050	(1,608)
NET INCREASE/(DECREASE) FOR THE YEAR	860	(563)	161	2,760	9,519	69	(11)	4,184
FUND BALANCE AT BEGINNING OF YEAR	3,659	4,340	4,562	6,461	29,036	123	11	97,350
FUND BALANCE AT END OF YEAR	$ 4,519	$ 3,777	$ 4,723	$ 9,221	$ 38,555	$ 192	$	$101,534

See notes to financial statements.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
YEAR ENDED JUNE 30, 1999, WITH COMPARATIVE AMOUNTS FOR 1998 (In Thousands)

	Current Funds				Total Current Funds	
	Unrestricted		Restricted			
	1999	1998	1999	1998	1999	1998
REVENUES						
Tuition and fees	$ 26,513	$ 26,671	$	$	$ 26,513	$26,671
State appropriations	17,455	16,293	1,376	1,286	18,831	17,579
Indirect cost recovery	4,355	4,016			4,355	4,016
Federal grants and contracts			10,759	7,564	10,759	7,564
State grants and contracts			1,350	1,252	1,350	1,252
Private gifts, grants and contracts	44	63	13,155	13,944	13,199	14,007
Sales and services of educational activities	510	523			510	523
Sales and services of auxiliary activities	7,588	6,885			7,588	6,885
Other revenue	2,713	1,056			2,713	1,056
Total revenues	59,178	55,507	26,640	24,046	85,818	79,553
EXPENDITURES AND MANDATORY TRANSFERS						
EDUCATIONAL AND GENERAL						
Instruction	21,550	21,638	4,505	4,874	26,055	26,512
Research	839	1,109	16,506	14,415	17,345	15,524
Public service	50	1		11	50	12
Academic support	3,821	3,801	37	37	3,858	3,838
Student services	2,327	1,770	245	179	2,572	1,949
Institutional support	6,488	6,687	309	326	6,797	7,013
Operation and maintenance of plant	5,938	6,247	9		5,947	6,247
Scholarships and fellowships	2,838	3,111	5,008	4,179	7,846	7,290
Educational and general expenditures	43,851	44,364	26,619	24,021	70,470	68,385
Mandatory transfers for:						
Principal and interest						
Loan fund matching grant			21	25	21	25
Total education and general expenditures	43,851	44,364	26,640	24,046	70,491	68,410
AUXILIARY ENTERPRISES						
Expenditures	11,228	9,435			11,228	9,435
Mandatory transfers for:						
Principal and interest	1,647	(129)			1,647	(129)
Total auxiliary enterprises	12,875	9,306			12,875	9,306
Total expenditures and mandatory transfers	56,726	53,670	26,640	24,046	83,366	77,716
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS)						
Excess of restricted receipts over transfers to revenues			(374)	794	(374)	794
Non-mandatory transfers	(1,592)	336	(189)	(352)	(1,782)	(16)
NET INCREASE/(DECREASE) IN FUND BALANCE	$ 860	$ 2,173	$ (563)	$ 442	$ 296	$ 2,615

See notes to financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Colorado School of Mines (the University) are presented in accordance with the fund accounting guidelines as set forth in the American Institute of Certified Public Accountants' industry guide, *Audits of Colleges and Universities*, and the National Association of College and University Business Officers' publication, *Financial Accounting and Reporting Manual*. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The preparation of the University's financial statements on the basis of accounting described above requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates.

Reporting Entity and Blended Component Unit

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

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

As required by generally accepted accounting principles (GAAP), these financial statements present the University (primary government) and its component unit, the Colorado School of Mines Building Corporation. The component unit discussed in Note 10 is included in the University's reporting entity because of the significance of its operational or financial relationships with the University in accordance with Government Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity,"* which was adopted by the University for fiscal year 1994. Separate financial statements of the Colorado School of Mines Building Corporation can be obtained from its administrative office.

Related Organizations

Colorado School of Mines Research Institute (CSMRI) and the Colorado School of Mines Foundation (the Foundation) have been excluded from the reporting entity. They are separate legal entities which are fully independent from the University, are not financially dependent upon the University, have separate appointed Boards of Directors and, as such, have substantial autonomy and separate government entity characteristics. They have no fiscal accountability to the University (see Notes 8 and 9).

Other Accounting Policies

The financial statements of the University have been prepared on the accrual basis. The Statement of Current Funds Revenues, Expenditures and Other Changes is a statement of financial activities of operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a Statement of Income or a Statement of Revenues and Expenses.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is a procedure by which the accounting and reporting activities for resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Funds with similar characteristics are combined into fund groups in the financial statements. Accordingly, all financial transactions are recorded and reported by fund group.

Within each group of funds, fund balances restricted by outside sources have been identified. Externally restricted funds may only be utilized in accordance with the restrictions placed upon the resources by the external source. Within the restricted group of funds, revenue is recognized only to the extent that expenditures are made. Resources received in excess or deficiency of expenditures made are recorded as "Excess of Restricted Receipts Over Transfer to Revenue" in the Statement of Current Funds Revenues, Expenditures and Other Changes.

Fund group classifications consist of the following:

Current Funds are used primarily for current operating expenditures incurred in performing the primary and support objectives of the University, i.e., instruction, research, public service, and activities to support these functions. The Current Funds group has two basic subgroups, unrestricted and restricted.

Student Loan Funds consist of loans to students and of resources available for such purposes.

Endowment Funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowment funds are similar to Endowment Funds except that upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as Endowment Funds, any portion of quasi-endowment funds may be expended. Endowment Funds are administered by the Colorado School of Mines Foundation (Note 9).

Plant Funds consist of four self-balancing subgroups. Unexpended Plant Funds are used for the acquisition of long-lived assets for institutional purposes. Funds for Renewal and Replacement are those set aside for the renewal and replacement of institutional properties. Retirement of Indebtedness Funds are those set aside for debt service charges and the retirement of indebtedness on institutional properties. Investment in Plant includes all long-lived assets of the University.

Plant Fund assets are recorded at acquisition cost or, if contributed, at fair market value at the date of the gift. Library books are being recorded at average cost. Equipment costing $2,000 or more is capitalized if they will benefit a program for more than two years. Effective for the fiscal year ended June 30, 1998, the University changed its policy for capitalization of equipment. Prior to fiscal year 1998, equipment costing $1,000 or more, or $500 if purchased from federal sources, was capitalized. The effect of the change in capitalization was a decrease in the equipment balance of $3,079,902.

Depreciation on Plant Fund assets is not recorded. When Current Funds are used to finance plant assets, the amounts so provided are accounted for as 1) expenditures, in the case of new and replacement equipment and library books; 2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewals and replacement; and 3) as transfers of a non-mandatory nature for all other cases.

Construction in progress is recorded in the Unexpended Plant Fund. Upon completion of a construction in progress project, costs associated with that project are transferred to the Investment in Plant Fund.

Investments purchased are stated at market value; donated investments and other gifts are also stated at market value. Investments of a highly liquid nature, with maturities of three months or less, are reported as cash and cash equivalents.

Inventories and supplies are stated at the lower of cost (first-in, first-out) or market.

Summer University tuition, instructional revenues, student activity fees, and the related direct academic expenditures recorded at June 30 which related to the current summer session are deferred to the subsequent fiscal year, in which the summer session is predominantly conducted.

Revenues from sponsored programs are recognized to the extent of expenditures incurred. Amounts received in excess of expenditures are included as additions to fund balances during the year and may be subject to repayment if additional program expenditures are not made. Funds relating to sponsored programs restricted by the State of Colorado and its agencies have been classified as current restricted funds.

Interest on loans to students is recognized as income when received.

Accrued liabilities which are applicable to state appropriated funds in the unexpended plant fund are reported as amounts to be provided by state capital construction funds.

Gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments and notes receivable, is accounted for in the fund owning such assets, except for endowment and similar funds where, under the terms of the endowment, the income is directed to other funds.

Unrestricted resources are considered revenue when received or accrued and are accounted for in the proper fund. The University records as unrestricted revenue the reimbursement of indirect costs applicable to sponsored programs at the negotiated rates for each contract. Restricted gifts, grants, appropriations, endowment income and other restricted resources are considered revenue when earned through expenditures. Restricted advances from sponsors are classified as additions to fund balance rather than payables, for financial statement purposes.

Total columns on the Combined Balance Sheets are captioned “memorandum only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund elimination have not been made in the aggregation of this data.

Reclassifications

Certain amounts from 1998 have been reclassified to conform with the 1999 financial statement presentation.

2. CASH ON HAND AND IN BANKS

At June 30, 1999, the University had $7,326,347 on deposit with the State Treasurer. Detailed information on the State Treasurer’s pooled cash and investments is available from that office.

At year end, the University’s cash not on deposit with the State Treasurer was $12,772,226. This cash included petty cash and change funds of $10,385, CD’s of $153,332, $7,382,256 in liquid money funds with maturities of three months or less, and bank accounts of $5,226,253. The corresponding bank balance was $13,941,043, and in accordance with Governmental Accounting Standards Board Statement No. 3, Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements, the following table provides information concerning the credit risk for the University’s bank balances as of June 30, 1999:

Category of credit risk	*1999*
Insured or collateralized with securities held by the University or its agent in the University’s name	$ 400,000
Collateralized with securities held by the pledging institution in the University’s name	12,689,278
Uninsured or uncollateralized	851,765
	$13,941,043

3. INVESTMENTS

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

Investments of the University are categorized into the following three categories of credit risk:

Category I: Investments that are insured, or registered, and held by the State or its agents in the State’s name.

Category II: Investments that are uninsured, or unregistered, and held by the counter-party, or by its trust department or agent in the State's name.

Category III: Investments that are uninsured, or unregistered, and held by the counter-party, or by its trust department or agent but not in the State's name.

Category of credit risk

	Category No. 1	*Category No. 2*	*Category No. 3*	*Market Value Total*
U.S. Government Securities	$	$	$ 757,559	$ 757,559
Mutual Funds			148,460	148,460
Corporate Securities	422,432		78,304	500,736
Corporate Bonds			49,440	49,440
Investment Pool			8,367,129	8,367,129
Total	$ 422,432	$	$ 9,400,892	$ 9,823,324

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

4. ACCOUNTS AND LOANS RECEIVABLE

Accounts and loans receivable and related allowance for doubtful accounts at June 30, 1999 and 1998 are as follows:

	June 30, 1999	June 30, 1998
Unrestricted Fund (less allowance of $173,294 and $152,728)	$ 1,281,374	$ 1,603,527
Current Restricted Fund (less allowance of $82,000)	3,256,890	3,009,501
Unexpended Plant Fund (no allowance considered necessary)	613,866	78,458
Total accounts receivable	$ 5,152,130	$ 4,691,486
Loans receivable:		
Student Loan Fund (less allowance of $370,443 and $435,828)	$ 5,338,672	$ 5,325,423

5. CAPITAL LEASES

The University leases land, buildings, and telecommunications equipment under agreements which are accounted for as capital leases. Accordingly, the assets and liabilities are recorded at amounts equal to the lesser of the present values of the minimum lease payments or the fair value of the leased property at the beginning of the respective lease terms. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the lease.

These agreements provide that any obligation payable after the current fiscal year are contingent upon funds for that purpose being available.

Future minimum lease payments as of June 30, 1999 are as follows:

2000	$ 248,719
2001	243,734
2002	238,443
2003	237,691
2004	228,256
2005 and later	104,000
Total minimum lease payments	1,300,843
Less amount representing stated interest	(169,168)
Present value of minimum lease payments	$1,131,675

6. OPERATING LEASES

The University leases property and equipment under operating leases expiring in various years through 2005.

Future minimum lease payments under noncancelable operating leases as of June 30, 1999 are as follows:

2000	$ 235,878
2001	145,682
2002	137,127
2003	131,301
2004	105,640
2005	40,251
Total minimum lease payments	$ 795,879

Rental expense under these agreements for the year ended June 30, 1999 was $174,012.

7. LONG-TERM DEBT

Long-term debt consist of the following:

	1999	1998
Refunding and improvement revenue bonds - Series 1993 with interest at 2.7% - 5.0%	$ 8,185,000	$ 8,560,000
Auxiliary facilities enterprise revenue bonds - Series 1996 with interest at 3.9% - 6.0%	1,585,000	1,640,000
Auxiliary facilities enterprise revenue bonds - Series 1997A and 1997B with interest at 3.9% -5.125% and 5.3%, respectively.	5,795,000	5,985,000
Auxiliary facilities enterprise revenue bonds - Series 1999 with interest at 5.0% - 5.4%	7,794,333	
	23,359,333	16,185,000
Discount and unamortized issue costs	(611,067)	(570,630)
Total	$22,748,266	$15,614,370

Series 1993 is a serial obligation maturing in fiscal years 1995 to 2014. These bonds are payable solely by a pledge on the net revenues (as defined by the bond resolutions) derived from the operation and ownership of a Housing System (as defined by the bond resolutions). The purpose of the issue was to refund the Series 1988 Bond and finance the construction, renovation, other acquisition and equipping of additional dining and recreational facilities at the Ben Parker Student Center.

Series 1996 is a serial obligation maturing in fiscal years 1998 to 2017. These bonds are payable solely by a pledge on the net revenues (as defined by the bond resolutions) derived from the operation and ownership of a Housing System (as defined by the bond resolutions). The purpose of the issue was to finance the installation of a new telephone system along with the replacement of and additions to the television, data, telephone and electrical cabling for the residence halls.

Series 1997A and Series 1997B Auxiliary Facilities Enterprise Revenue Bonds are serial obligations bonds maturing in fiscal years 1999 through 2018. These bonds are payable solely by a pledge on the net revenues (as defined by the bond resolutions) derived from the operation of Auxiliary Facilities at the Colorado School of Mines (as defined by the bond resolutions). The purpose of this issue was to finance the construction, acquisition and equipping of an approximately 200-bed residential housing complex (Mines Park).

Series 1999 Auxiliary Facilities Enterprise Revenue Bonds are serial obligations bonds maturing in fiscal years 2015 through 2029. These bonds are payable solely by a pledge on the net revenues (as defined by the bond resolutions) derived from the operation of Auxiliary Facilities at the Colorado School of Mines (as defined by the bond resolutions). The purpose of this issue was to finance major renovations to four of the existing residence halls; construction, other acquisitions and equipping of an approximately 13,000 square foot addition to the Ben Parker Student Center; acquisition and construction of two fraternity housing facilities; construction, acquisition and equipping of two additional buildings at the Mines Park housing complex.

Required principal and interest payments on the long-term debt for the fiscal years 2000 through 2029 are:

Year Ending June 30,	Principal	Interest	Total
2000	$ 640,000	$ 889,638	$ 1,529,638
2001	665,000	856,399	1,521,399
2002	695,000	827,465	1,522,465
2003	725,000	796,497	1,521,497
2004	755,000	763,413	1,518,413
2005-2009	4,380,000	3,229,349	7,609,349
2010-2014	5,610,000	1,991,380	7,601,380
2015-2019	3,942,139	3,681,116	7,623,255
2020-2024	2,122,504	5,493,746	7,616,250
2025-2029	3,824,690	3,781,936	7,606,626
Total	$ 23,359,333	$ 22,310,939	$ 45,670,272

Reserve Funds - Bond provisions require the establishment of a reserve fund. The reserve fund is funded with a surety bond provided by the bond insurer, as required.

Defeased Bonds - During September 1984, Housing System Revenue Bond Series E was placed with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payments. Accordingly, the Series E Bond is considered to be extinguished in 1984, and does not appear as a liability in the accompanying balance sheet. At June 30, 1999 bonds in the amount of $3,740,000 are outstanding.

During March 1988, Housing System Revenue Bond Series 1984 was placed with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payment. Accordingly, the Series 1984 Bond is considered to be extinguished in 1988, and does not appear as a liability in the accompanying balance sheet. At June 30, 1999 bonds in the amount of $3,825,000 are outstanding.

During October 1993, Housing System Revenue Bond Series 1988 was placed with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payments. Accordingly, the Series 1988 Bond is considered to be extinguished in 1993, and does not appear as a liability in the accompanying balance sheet. At June 30, 1999 bonds in the amount of $4,200,000 are outstanding.

8. COLORADO SCHOOL OF MINES RESEARCH INSTITUTE

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

The CSMRI once held a lease on property owned by the University. Operations on the site have ceased and the Institute's accumulated net assets at December 31, 1998, were $152,055.

The Institute ceased active operations during 1987 and sold most of its real estate in July and October 1988. Funds remaining from the proceeds of the sales and satisfaction of indebtedness are to be applied to rehabilitation costs of the property leased to CSMRI and the remaining property owned by CSMRI.

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

9. COLORADO SCHOOL OF MINES FOUNDATION

The Colorado School of Mines Foundation, Inc. (the Foundation) was established in 1928 as a separate corporation existing for the benefit of the Colorado School of Mines for the purpose of soliciting, collecting and investing donations for the University. Certain University trustees are directors of the Foundation. During the years ended June 30, 1999 and 1998, the University received $6,863,799 and $5,819,892 from the Foundation. Included in those amounts were Foundation designated restricted funds of $6,310,913 and $5,540,892 for the years ended June 30, 1999 and 1998. The accumulated net assets of the Foundation at June 30, 1999 and 1998 are $123,594,289 and $102,321,019, respectively. The Foundation owed the University $132,351 and $24,032, respectively, as of June 30, 1999 and 1998. The University had accrued liabilities of $1,529,658 and $1,554,379 to the Foundation at June 30, 1999 and 1998 for student loan funding.

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

10. COLORADO SCHOOL OF MINES BUILDING CORPORATION

The Colorado School of Mines Building Corporation was established in June of 1976 as a separate corporation under the laws of the State of Colorado. The purpose of the corporation was to build a facility that would house the United States Geological Survey. Bonds in the amount of $3,330,000 were sold in June of 1976, which pledged all future net rent to principal and interest payments over the twenty-year term of the lease. The accumulated net assets of the Building Corporation at June 30, 1999 and 1998 were $2,961,486 and $4,007,672, respectively. Under GASB 14, the financial activity for the Building Corporation has been blended into the financial statements of the University.

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

11. COMPENSATED ABSENCES FOR ANNUAL AND SICK LEAVE

University employees may accrue annual leave and sick leave based on their length of service and subject to certain limitations regarding the amount which will be paid upon termination. The estimated liability for compensated absences for which employees are vested is estimated to be $2,595,379 and $2,520,652, respectively at June 30, 1999 and 1998.

The portion of the current unrestricted funds compensated absence liability relating to the current restricted fund is estimated at $495,258 and $376,592 at June 30, 1999 and 1998, respectively.

Current revenues and expenditures include $74,727 and $181,757 for June 30, 1999 and 1998, respectively, for the change (all funds) in the estimated compensated absence liability.

The recording of the liability for compensated absences may result in fund balance deficits that will be funded by State appropriations, federal funds, or other sources available in future years when the liability is paid.

12. DEFINED BENEFIT PENSION PLAN

Plan Description

Virtually all Colorado School of Mines employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability.

Administration of the Plan

The plan a cost-sharing multiple employer plan, is administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, and the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund. The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.).

The state plan as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

Service Requirement and Termination

Employees who terminate before meeting the required years of service are refunded their contributions made to the plan plus interest. Employees terminating after meeting the service requirements may, if they desire, remain in the plan until eligible for retirement. Those withdrawing from the plan receive their contributions, interest on their contributions, plus an additional 25 percent of their contribution and interest. This terminates their individual accounts. The interest rate paid is set at 80 percent of the PERA actuarial investment rate.

Defined Retirement Benefits

Plan members are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit. Service retirement benefits are calculated at 2.5 percent of HAS for each year of service up to a maximum of 40 years.

Reduced service retirement benefits are available at the following age and years of service, 50 – 25, 55 – 20, and 60 – 5. The benefit is calculated similarly to a service retirement benefit; however, it is reduced by percentages that vary from .25 to .5, depending on age and years of service, for each month before the eligible date for the full service retirement.

Money Purchase Retirement Benefit

A retiring member may elect to withdraw their PERA account and receive an additional matching amount equal to 50 percent of their contribution plus interest, or receive a lifetime benefit based on the amount the member could withdraw. The withdrawal or the lifetime benefit is in lieu of the defined benefit.

Disability and Survivor Benefits

Beginning January 1, 1999, PERA adopted two types of disability programs. Disabled members who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may apply for disability benefits. If the member is not totally and permanently disabled, they are provided reasonable income replacement through a third party insurance carrier and rehabilitation or retraining services. If the member is totally and permanently disabled they receive disability retirement benefits projected to age 65 but generally limited to 50 percent of HAS.

If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) are entitled to a single payment or monthly benefit payments. If there are no eligible children, the member's spouse is paid the monthly benefit, and absent an eligible spouse or children over the age of 23, the financially dependent parents receive a survivor benefit.

Funding Policy

Plan members and the University are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and the University are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. Members are required to contribute 8 percent of their gross salary. Annual gross covered wages subject to PERA are gross earnings less any reduction in pay to offset employer contributions to the state-sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

The University contribution rate from July 1, 1998 to June 30, 1999 was 11.4 percent of the employee's gross covered wages with 10.6 percent allocated to the employees retirement account and the remaining .8 percent allocated to the Health Care Fund (see Note 13). The University's contributions for the fiscal years ended June 30, 1999, 1998 and 1997 were \$3,798,628, \$3,594,205 and \$3,458,066, respectively, which is equal to their required contributions for each year.

13. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to providing pension benefits, the University provides certain health care and life insurance benefits for retired employees. Substantially all of the institution's employees may become eligible for those benefits if they reach normal retirement age while working for the University. The cost of retiree health care and life insurance benefits is recognized by charging the premiums paid as a current expense. These costs amounted to \$57,507 and \$70,594 for the years ended June 30, 1999 and 1998, respectively.

PERA Post-Employment Health Care and Life Insurance Benefits

<u>Health Care Program</u>

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1998, the subsidy was $115.00 for those with 20 years of service credit and reduced by $5.75 for each year under 20.

The Health Care Fund is maintained by an employer's contribution of 0.8% of covered salary. The University's contributions to HCF for the years ended June 30, 1999, 1998 and 1997 were $266,570, $250,032 and $238,487, respectively, equal to their required contributions for each year.

Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 1998, there were 30,291 participants, including spouses and dependents, from all contributors to the plan.

<u>Life Insurance Program</u>

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

14. COMMITMENTS

The University had encumbrances outstanding of approximately $7,518,618 related to purchase orders issued prior to June 30, 1999. Encumbrances represent commitments related to unperformed contracts for goods or services.

15. CONTINGENCIES

At June 30, 1999, the University was a party to various litigation and other claims in the ordinary course of business. In the opinion of management, the ultimate resolution of these matters will not have a significant effect on the financial position of the University. However, there is one case that merits mention:

> In November of 1992, the University as well as numerous other parties were notified by the United States Environmental Protection Agency (EPA) of potential liability pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Such potential liability results from costs associated with the cleanup of hazardous substances at a site owned by the University and leased to the Colorado School of Mines Research Institute (CSMRI) which performed research for a variety of private and governmental entities. The level of remediation of the site and the costs associated with such cleanup are at this time unknown but may be extensive. Furthermore, there has been no apportionment of liability among the University, CSMRI and the other private and governmental entities named as potentially liable parties by the EPA. However, based on the information that is presently available to it, the University does not believe that any liability that it may incur as a result of this matter will adversely affect the continued operation of the University.

Amounts expended under the terms of certain Federal grants are subject to audit and possible adjustment by an agency of the Federal Government. In the opinion of the University administration, any adjustments which may be required will not be material.

The State of Colorado, including the University, is self-insured in regard to its general and automobile liability exposures. The University also participates in a State commercial insurance policy covering loss or damage to University buildings and contents. During the years ended June 30, 1999 and 1998, the University paid approximately $231,722 and $260,173, respectively to participate in these programs. Liability of State higher education institutions is limited by the Colorado Governmental Immunity Act. No reductions occurred in coverage nor did any settlements exceed coverage.

16. LEGISLATIVE APPROPRIATIONS

Appropriated Funds

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill. Appropriated funds 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 year ended June 30, 1999 and 1998, appropriated expenditures were within the authorized spending authority. The University had a total appropriation of $41,900,207 and $40,149,459, respectively. Actual appropriated revenues earned totaled $41,837,699 and $40,032,285. Actual appropriated expenditures and transfers totaled $41,832,403 and $39,632,277. The net increase in appropriated fund balances was $5,296 and $400,008.

Non-Appropriated Funds

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

Financial Statement Presentation

The accompanying financial statements contain revenues and expenditures from both appropriated and non-appropriated funds. Appropriated and non-appropriated revenues and expenditures are included in each fund group based upon the principles of fund accounting.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION SECTION

STATE OF COLORADO

J. DAVID BARBA, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
(303) 866-2051
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Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

October 15, 1999

Independent Auditor's Report
On Required Supplementary Information

Members of the Legislative Audit Committee:

Our audit was made for the purpose of forming an opinion on the combined financial statements for the Colorado School of Mines (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1999 which are presented in the preceding section of this report. The year 2000 supplementary information presented herein is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs may interpret the year 2000 as the year 1900. In addition, some programs may be unable to recognize the year 2000 as a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as, environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under Colorado School of Mines (the University) direct control but also the systems of other entities with which the University transacts business. Some of the University's systems and equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the University is or will be year 2000 ready, that the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

In early 1997, the Legislature directed the Office of State Planning and Budgeting and the Commission on Information Management to assess and report on the cost of year 2000 readiness preparations. The Commission developed a process for assessing and monitoring year 2000 project progress. It has asked state agencies that are not higher education institutions to report on completion of stages for each critical system. Higher education institutions report similar information directly to the Joint Budget Committee of the legislature.

At June 30, 1999 the University had no dollars committed to the various projects through contracts with parties external to the state.

At any given time, work on the year 2000 issue with respect to each system deemed critical falls predominantly in one of the following stages:

- *Awareness Stage* – Establishing a budget and project plan for dealing with the year 2000 issue.

- *Assessment Stage* – Identifying the systems and components for which year 2000 work is needed.

- *Remediation Stage* – Making changes to systems and equipment.

- *Validation/Testing Stage* – Validating and testing changes that were made during the remediation stage.

Completion of any or all of the stages does not mean the University systems are or will be year 2000 ready or compliant.

The University identified 14 business systems in its inventory, and 10 were deemed critical. The following table shows for each stage the number and percentage of total critical systems where the University has completed work.

Stage	**Number**	**Percent**
Awareness	10	100
Assessment	10	100
Remediation	10	100
Validation/Testing	6	60

The University identified 11 embedded systems in its inventory, and all were deemed critical. The following table show for each stage the number and percentage of total critical systems where the University has completed work.

Stage	**Number**	**Percent**
Awareness	11	100
Assessment	10	91
Remediation	10	91
Validation/Testing	6	55

The University does business with many external entities that may have year 2000 problems. The University makes no representation that these external entities are or will be year 2000 ready or compliant. However, the University has determined the following systems of external entities may not be year 2000 ready or compliant, and it deems the interaction with these system to be critical.

- The University has identified no such systems.

Additional information as to the year 2000 issue related to non-higher education state agencies can be obtained from the Year 2000 Project Office web site at http://www.state.co.us/Y2.

STATE OF COLORADO

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October 15, 1999

**Independent Auditor's Report
On Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

Members of the Legislative Audit Committee:

We have audited the combined financial statements of the Colorado School of Mines (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1999, and have issued our report thereon dated October 15, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University´s combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are discussed in the Auditor's Findings and Recommendations section of this report as Recommendation Number 4.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University´s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Auditor's Findings and Recommendations section of this report as Recommendation Numbers 1, 2, 3, and 5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose the reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Legislative Audit Committee, the Board of Trustees and University management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

STATE-FUNDED STUDENT ASSISTANCE PROGRAMS SECTION

STATE OF COLORADO

J. DAVID BARBA, CPA
State Auditor

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Legislative Services Building
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Denver, Colorado 80203-2211

October 15, 1999

**Independent Auditor's Report
On the Statement of Appropriations, Expenditures,
Transfers and Reversions of the State-Funded
Student Assistance Programs**

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs (the Statement) of the Colorado School of Mines (the University), a component unit of the State of Colorado, for the year ended June 30, 1999. This Statement is the responsibility of the University's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in notes to the Statement, the Statement was prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 1999 revision. The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Perkins Loan and Colorado Work-Study Programs, and does not present certain transactions that would be included in the Statements of the state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the financial position or changes in fund balances of the University in conformity with generally accepted accounting principles.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers and reversions of the state-funded student assistance programs of the University for the year ended June 30, 1999, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Assistance Programs*, as described in note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 1999 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF THE STATE-FUNDED STUDENT ASSISTANCE PROGRAMS
YEAR ENDED JUNE 30, 1999

	CSIG Student Incentive Grants	CSG Student Grant Program	Colorado Graduate Grant	CWS Work-Study Program	CGF Graduate Fellowship Program	UGM Under-Graduate Merit	CDG Diversity Grants	Part-Time Student Grant	Perkins Match	Total State-Funded Student Assistance
Appropriations:										
Original	$ 37,700	$ 585,532	$ 6,508	$ 257,786	$ 67,749	$ 406,646	$	$ 2,217	$ 21,488	$ 1,385,626
Adjustments/ Transfers		(112,043)	(6,508)		79,625	(79,625)	118,551			0
Total	37,700	473,489		257,786	147,374	327,021	118,551	2,217	21,488	1,385,626
Expenditures	37,700	473,489		257,786	147,374	327,021	118,551	2,217	21,488	1,385,626
Reversions to State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

See notes to financial statement.

NOTES TO STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF THE STATE-FUNDED STUDENT ASSISTANCE PROGRAMS YEAR ENDED JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado School of Mines' accounting system is structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Officers in the revised publication *College and University Business Administration*, as supplemented by the American Institute of Certified Public Accountants' industry audit guide *Audits of Colleges and Universities*. Financial Statement presentation and other accounting criteria are included in the *Colorado Handbook for State-Funded Student Assistance Programs*.

All student aid is expended 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. This basis differs from generally accepted accounting principles primarily because appropriations are presented instead of revenue and because assets, liabilities, and fund balance are not included in the financial statements.

2. DESCRIPTION OF PROGRAMS

In addition to the student assistance awards made during the period, the University obtained authorizations to award federal student financial aid of $930,845 in the Pell Grant Program, $181,500 in the Supplemental Educational Opportunity Grant Program and $171,405 in the College Work-Study Program. The University also received $64,464 in capital contributions for the Perkins Loan program.

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

3. STUDENT INCENTIVE GRANTS

Student Incentive Grants consist of $28,275 of non-federal state funds and $9,425 of federal funds. The amount shown is the combined total.

* * * *

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d.b.a. General Support Services
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