State of Colorado
Colorado School of Mines

Financial and Compliance Audit

Fiscal Year Ended June 30, 2001

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STATE OF COLORADO
COLORADO SCHOOL OF MINES

JUNE 30, 2001

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STATE OF COLORADO
COLORADO SCHOOL OF MINES

Report Summary

June 30, 2001

Purposes and Scope of Audit

The purposes and scope of this audit were to:

- Express an opinion on the financial statements of the Colorado School of Mines (the University) as of and for the year ended June 30, 2001, including consideration of internal control over financial reporting as required by auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Express an opinion on the financial statements of the following auxiliary bond funds as of and for the year ended June 30, 2001, including consideration of compliance with certain bond indenture provisions.
  - Refunding and Improvement Revenue Bonds, Series 1993
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1996
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1999

  (The report for the auxiliary bond funds is issued under a separate cover.)
- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2001.
- Issue a report on the University's compliance with certain provisions of laws, regulations, contracts and grants and on internal control over financial reporting based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs of the University for the year ended June 30, 2001.
- Evaluate progress in implementing prior year audit recommendations.

Audit Findings and Financial Statement Audit Report Section

Summary of Major Audit Comments

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

- The University is required to submit to the Department of the Navy estimates of the University's fringe benefit cost rates. Upon approval, these rates are to be applied to all grants, contracts and other agreements. Over the past two years the estimates submitted by the University have been substantially less than actual fringe benefit costs incurred by the school. As a result of the under estimation of fringe benefit rates, the University underapplied fringe benefit costs to grants, contracts and other agreements. The University should ensure that estimates submitted to the Department of the Navy are complete and accurate.

- Federal regulations require that the University monitor subrecipients' compliance with federal rules, regulations and specific program requirements. The University did not maintain adequate documentation that it had met monitoring requirements.

- The University is required under the Federal Family Education Loan (FFEL) program to perform counseling sessions for all students who graduate, withdraw or drop out of school and for students who are borrowing funds for the first time. In our testing, we noted that documentation of compliance with these requirements was missing. The University should develop policies and procedures to help ensure proper counseling sessions are performed and documented for students borrowing for the first time and students leaving school.

- The University has not had an arbitrage calculation performed on the 1993 bond issue to determine if any tax liability exists and if any funds should be reimbursed to the Federal Government. Arbitrage calculations should be performed every fifth anniversary date of tax-exempt bond issues and upon final retirement.

- The University receives monies in other departments that are not initially processed through the cashier such as the Athletics and Special Programs and Continuing Education (SPACE) departments. The University does not have written policies and control procedures for monies received in other departments. In addition, no reconciliation is performed between the amount remitted to the cashier and the accounting department's records. The University should develop written policies and control procedures at the department level and perform reconciliations as needed.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2000, included twelve recommendations. The disposition of these audit recommendations as of September 7, 2001, was as follows:

Status	Number
Implemented	8
Partially Implemented	2
Not Implemented	2
Total	12

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the University's financial statements, auxiliary bond funds' financial statements (under a separate cover) 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, 2001.

Reportable conditions in internal controls over financial reporting were identified, none of which are considered material weaknesses.

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

We did note certain areas in which the University could improve its internal controls and compliance procedures. These areas are discussed in the Auditor's Findings and Recommendations section of this report.

Significant Audit Adjustments

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management and BKD,LLP to be immaterial, both individually and in the aggregate, to the financial statements as a whole include fringe rate allocations for grants and investment valuations. The effect of the uncorrected misstatements had they been recorded would have been to decrease fund balance as of June 30, 2000 by $237,700; decrease the change in fund balance by $125,000 for the year ended June 30, 2001 and decrease total assets and fund balance as of June 30, 2001 by $357,700.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

RECOMMENDATION LOCATOR

June 30, 2001

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	6	Ensure that estimates submitted to the Department of the Navy are complete and accurate.	Agree	February 2002
2	9	Develop a system to monitor subrecipients.	Agree	March 2002
3	10	Ensure counseling sessions are performed and documented for students borrowing for the first time and students leaving school.	Agree	November 2001
4	11	Perform bond arbitrage calculation.	Agree	December 2001
5	12	Improve controls on cash receipts by other departments.	Agree	January 2002

STATE OF COLORADO
COLORADO SCHOOL OF MINES

DESCRIPTION OF THE UNIVERSITY

JUNE 30, 2001

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
1999	2,282	969	3,251
2000	2,344	933	3,277
2001	2,251	864	3,115

FACULTY AND STAFF FTE

	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
1999	199	390	589
2000	215	386	601
2001	211	356	567

STATE OF COLORADO
COLORADO SCHOOL OF MINES

AUDITOR'S FINDINGS AND RECOMMENDATIONS

June 30, 2001

Receipt and Use of Federal Funds

The Colorado School of Mines (the University) participates in numerous federal grant programs throughout the year. These grants are largely for research and development programs within the University and for student financial aid. Research and development and student financial aid were tested as major programs under the *Office of Management and Budget (OMB) Circular A-133* for the year ended June 30, 2001. During the year the University had expenditures under these federal grants of $16.1 million. Our testing noted instances of noncompliance with the requirements of federal grants or OMB Circular A-133 as follows in recommendations 1 through 3:

Evaluate Estimates Used for Allocation of Fringe Benefits to Grants, Contracts and Other Agreements

The University is required to annually submit to The Department of the Navy estimates of the University's fringe benefit cost rates. These estimates are evaluated and approved by the Department of the Navy. Once approved, the rates are to be applied to all grants, contracts and other agreements in accordance with the provisions and costs principles mandated by the Office of Management and Budget (OMB) Circular A-21. Over the past two years the estimates submitted by the University have been substantially less than actual fringe benefit costs incurred by the school. As a result of the under estimation of fringe benefit rates, the University underapplied fringe benefit costs to grants, contracts and other agreements in the amount of $463,300 which is currently reflected as a receivable in the financial statements. The viability of this receivable is dependent on the ability of the University to recoup the underapplied costs in future years. Additionally, a more accurate estimation of fringe benefit costs minimizes the amount of state funds used for federal and other programs and increases earnings on state funds held at the State Treasury. We have estimated using an average investment yield of 6%, that approximately $18,000 of potential investment earnings was lost from the underapplied fringe benefit costs.

Recommendation No. 1

The University should ensure that estimates submitted to the Department of the Navy are complete and accurate. In addition, the University should evaluate the appropriateness of recording the underapplied fringe benefit costs as an asset.

Colorado School of Mines Response

Agree. Adjustments for prior under or over recoveries are included as a standard component of the fringe benefit rates negotiated annually with the Office of Naval Research. The current fringe benefit receivable will accordingly be recouped over the next couple of years through rate increases. Greater than estimated (double digit) increases in insurance premiums and annual/sick leave payouts are principal contributors to our under recovery of benefit costs. The University will evaluate and alter, as appropriate, current estimating techniques in an effort to improve the accuracy of future estimates.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

AUDITOR'S FINDINGS AND RECOMMENDATIONS

June 30, 2001

Improve Subrecipient Monitoring

In the fiscal year ending June 30, 2001 the University reported on its Schedule of Federal Assistance funds passed through to subrecipients of $2,215,030 in eight programs.

The requirements set forth in the OMB Circular A-133 provide that pass-through entities (in this case the University) obtain reasonable assurance that federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the subrecipient obtains required audits and takes appropriate corrective action on audit findings. During our testing of research and development grants we found that the University did not adequately document information about its subrecipient monitoring. This issue was also noted in the prior year audit.

The University designates a principal investigator, usually a university professor. This investigator is responsible for approving all expenditures submitted by subrecipients and for supervision of the subrecipient. While proper supervision may be occurring, the University did not have documentation to support the monitoring process. Without the documentation, it is not possible to determine if all federal requirements had been met.

The University should maintain a database that lists all subrecipients. The database should document that the subrecipients have received an OMB Circular A-133 audit and are aware of the guidelines of this regulation. University personnel should then document their review of the audit and respond to any reported findings and questioned costs. If the University does not receive an A-133 audit from the subrecipient a certification letter should be sent to the subrecipient. The sub-titles on the certification letter should include the following: 1) audit not complete 2) audit complete/no findings 3) audit complete/related findings or 4) not subject to audit. The database should also track any other communication or monitoring of the subrecipient by the principal investigator. If a certification letter or A-133 audit is not received the subrecipient should be considered not in compliance. If a subrecipient is not in compliance the principal investigator should be notified. The principal investigator should inform the subrecipients that payments will be withheld until they are in compliance with the regulations.

Recommendation No. 2

The University should develop subrecipient monitoring documentation policies and procedures to help ensure that subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.

Colorado School of Mines Response

Agree. Within the past year the University has undertaken several steps to strengthen its subrecipient monitoring. A checklist was developed and is currently in use to help determine whether a vendor or subrecipient relationship exists with a subcontractor. If a subrecipient relationship exits, the subcontractor is requested by letter to certify whether A-133 audit findings exist and provide their responses. The University will develop and maintain a database to document our subrecipient monitoring activities. Principal investigators will also be requested to complete some form of supervision checklist to verify their monitoring of each subrecipient.

Improve Documentation of Counseling Sessions of Students Who Are First-Time Borrowers or Leave School

The University has 1,161 students who received approximately $6,432,700 in loans under the Federal Family Education Loan (FFEL) program. Under the FFEL program, the University is required to conduct counseling sessions for students who are borrowing funds for the first time and students who graduate, withdraw or drop out of school. In our testing, 3 of the 30 students tested lacked documentation of the counseling session. This issue was also noted in the prior year audit.

Recommendation No. 3

The University should develop policies and procedures to help ensure counseling sessions are performed and documented for students borrowing for the first time and students leaving school.

Colorado School of Mines Response

Agree. The University altered counseling session procedures and documentation, during the past fiscal year, to incorporate both paper and electronic formats. The number of FFEL program policy exceptions was reduced by more than 70%. To ensure continued improvement in the performance and documentation of counseling sessions, the entire Financial Aid Office staff, including all work-study students, will receive additional training. A checklist will also be employed to make certain that appropriate information on exit counseling is provided to students who are withdrawing.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

AUDITOR'S FINDINGS AND RECOMMENDATIONS

June 30, 2001

Bond Arbitrage Calculation

The University has not had an arbitrage calculation performed for outstanding bond issues. This issue was also noted in the prior year audit. Arbitrage calculations are required to be performed every fifth anniversary date of tax-exempt bond issues and upon final retirement. The Internal Revenue Code limits the amount of interest that can be earned on funds established with proceeds of tax-exempt bonds. The amount of investment earnings on these funds cannot exceed the interest rate of the bonds. If investment earnings exceed the interest paid on the bonds, positive arbitrage is potentially created. Any positive arbitrage may be required to be refunded to the Federal Government. Failure to comply with the arbitrage rules could result in penalties, interest and the loss of tax-exempt status. The fifth anniversary of the University's Series 1993 Revenue Bonds occurred in 1998. Additionally, three other bond issues of the University will face five-year anniversary dates in the next several years as shown below:

Bond Issue	5 year Anniversary
Series 1996	2001
Series 1997	2002
Series 1999	2004

Recommendation No. 4

The University should have an arbitrage calculation performed on the 1993 bond issue to determine if any tax liability exists and reimburse any amounts due to the Federal Government. In addition, arrangements should be made for future calculations upon meeting the anniversary dates noted above.

Colorado School of Mines Response

Agree. The University will contact our bond trustee to ascertain specific arbitrage calculation requirements. Thereafter, arbitrage calculations will be arranged and performed for the 1993, 1996 and 1997 bond issues.

Controls on Cash Receipts by Other Departments

The University receives approximately $440,000 in other departments that are not initially processed through the cashier such as Athletics and Special Programs and Continuing Education (SPACE) departments. These departments are responsible for establishing internal controls and reconciliation processes for any monies received. All cash receipts are required to be remitted to the cashier the next workday for deposit. The University does not have written policies and control procedures for monies received at the department level. In addition, no reconciliation is performed by the Accounting Department between the amount remitted to the cashier and the department's records. This issue was also noted in the prior year audit. The University should develop written policies and control procedures at the accounting department level and perform reconciliations as needed.

Recommendation No. 5

The University should develop written policies and control procedures for monies received in other departments. The University should also develop a reconciliation process between the Accounting Department and the other departments to ensure all funds received by the departments are deposited and properly recorded in the general ledger.

Colorado School of Mines Response

Agree. The University has conducted information-gathering sessions with Athletics and Continuing Education to determine current practice for monies received at the department level. As a by-product of this activity, written policies and control procedures will be issued to ensure that all funds received in the departments are deposited and properly recorded. Fiscal Services will assist departments with policy implementation, reconciliation of remitted amounts and conduct follow-up reviews to monitor compliance.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

Disposition of Prior Year Audit Recommendations

June 30, 2001

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2000 included twelve recommendations. The disposition of these audit recommendations as of September 7, 2001, was as follows:

1. **Recommendation:**
The University should develop and adhere to a written policy for requesting reimbursement of federal funds entitled to the University. This policy should focus on minimizing to the extent possible the period which reimbursable funds are outstanding.

Disposition: Implemented

2. **Recommendation:**
The University should develop subrecipient monitoring documentation policies and procedures to help ensure that subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.

Disposition: Partially Implemented. See current year Recommendation No. 2

3. **Recommendation:**
The University should establish and document a consistent policy for satisfactory academic progress to include a cumulative GPA requirement to help ensure students are making progress towards and will be eligible for graduation.

Disposition: Implemented

4. **Recommendation:**
The University should develop policies and procedures to help ensure proper documentation of notification to lenders and documentation that counseling sessions are performed for students borrowing for the first time and students leaving school.

Disposition: Partially Implemented. See current year Recommendation No. 3

5. **Recommendation:**
The University should develop a checklist regarding the electronic and written documentation required to be maintained on each student receiving aid to help ensure adequate support is maintained regarding eligibility and financial aid award decisions.

Disposition: Implemented

6. **Recommendation:**
The University should have an arbitrage calculation performed on the 1993 bond issue to determine if any tax liability exists and reimburse any amounts due to the Federal Government. In addition, arrangements should be made for future calculations upon meeting the anniversary dates noted above.

Disposition: Not Implemented. See current year Recommendation No. 4

7. **Recommendation:**
The University should develop a procedure for random or scheduled reviews of procurement card purchases and supporting documentation, and reconcile any discrepancies noted.

Disposition: Implemented

8. **Recommendation:**
The University should evaluate the need for capitalization of interest on current construction projects related to tax-exempt bond issues and on all future construction projects.

Disposition: Implemented

9. **Recommendation:**
The University should accrue interest associated with Capital Appreciation Bonds on an annual basis.

Disposition: Implemented

10. **Recommendation:**
The University should develop written policies and control procedures for monies received in other departments. The University should also develop a reconciliation process between the Accounting Department and the other departments to ensure all funds received by the departments are deposited and properly recorded in the general ledger.

Disposition: Not Implemented. See current year Recommendation No. 5

11. **Recommendation:**
The University should monitor investment holdings, maturities and cash balances to minimize idle cash and help ensure an appropriate return on investments.

Disposition: Implemented

12. **Recommendation:**
The University should re-evaluate the liability recorded related to its charitable remainder trust and correctly record the present value of the payments due to the beneficiary as a liability.

Disposition: Implemented

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Independent Accountants' Report

Members of the Legislative Audit Committee:

We have audited the accompanying balance sheet of the **COLORADO SCHOOL OF MINES** (the University), a component unit of the State of Colorado, as of June 30, 2001 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **COLORADO SCHOOL OF MINES** as of June 30, 2001 and the changes in its fund balances and its current funds revenues, expenditures and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Solutions for Success

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BKD, LLP

September 7, 2001

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STATE OF COLORADO
COLORADO SCHOOL OF MINES
BALANCE SHEET
JUNE 30, 2001 (In Thousands)
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Student Loan Fund	Endowment Fund	Plant Funds: Unexpended	Plant Funds: Renewals and Replacements	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment In Plant	Totals (Memorandum Only) 2001	Totals (Memorandum Only) 2000
ASSETS										
Cash and cash equivalents										
Cash and time deposits	$ 2,161	$	$	$ 130	$ 3,018	$	$	$	$ 5,309	$ 14,685
Cash with State Treasurer	6,611	950	259	6,463	2,579	92	61		17,015	5,476
Spending authority					1,465				1,465	829
Investments			707	10,357		162			11,226	12,121
Accounts receivable										
Less allowance	1,416	3,782			36				5,234	4,693
Loans receivable										
Less allowance			5,161						5,161	5,296
Accrued interest receivable	13			6					19	10
Inventories	292								292	353
Prepaid expenses	68	94							162	238
Due from other funds	5,875								5,875	
Land and improvements								7,750	7,750	7,621
Buildings								82,840	82,840	82,982
Equipment								35,727	35,727	33,410
Library books								13,126	13,126	12,124
Construction in progress					47,759				47,759	32,540
Total Assets	$ 16,436	$ 4,826	$ 6,127	$ 16,956	$ 54,857	$ 254	$ 61	$ 139,443	$ 238,960	$ 212,378

See Notes to Financial Statements

STATE OF COLORADO
COLORADO SCHOOL OF MINES
BALANCE SHEET (CONTINUED)
JUNE 30, 2001 (In Thousands)
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Student Loan Fund	Endowment Fund	Plant Funds: Unexpended	Plant Funds: Renewals and Replacements	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment In Plant	Totals (Memorandum Only) 2001	Totals (Memorandum Only) 2000
LIABILITIES										
Vouchers payable	$ 1,731	$ 822	$	$	$ 850	$	$	$	$ 3,403	$ 4,620
Accrued liabilities	1,497		1,403		601		58		3,559	3,234
Deposits held for others	250	101							351	323
Deferred revenue - tuition and fee	1,393								1,393	981
Deferred revenue - development assistance and trademark license	5,875								5,875	
Accrued compensated absences	2,827								2,827	2,737
Due to other funds				5,875					5,875	
Life income payable				244					244	68
Construction - retainage					1,520				1,520	973
Lease obligation								737	737	937
Long-term debt					7,723			13,806	21,529	22,151
Total Liabilities	13,573	923	1,403	6,119	10,694		58	14,543	47,313	36,024
FUND BALANCES										
U.S. grants refundable			3,012						3,012	2,930
Restricted		3,903			44,163	254	3		48,323	36,453
Unrestricted	5,690								5,690	5,758
Designated:										
CSM Foundation			477						477	588
Loan funds			1,235						1,235	1,308
Endowments				10,837					10,837	11,286
Net investment in plant								124,900	124,900	120,768
Unfunded compensated absences	(2,827)								(2,827)	(2,737)
Total Fund Balances	2,863	3,903	4,724	10,837	44,163	254	3	124,900	191,647	176,354
Total Liabilities and Fund Balances	$ 16,436	$ 4,826	$ 6,127	$ 16,956	$ 54,857	$ 254	$ 61	$ 139,443	$ 238,960	$ 212,378

See Notes to Financial Statements

STATE OF COLORADO
COLORADO SCHOOL OF MINES
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2001 (In Thousands)
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Student Loan Fund	Endowment Fund	Plant Funds: Unexpended	Plant Funds: Renewals and Replacements	Plant Funds: Retirement of Indebtedness	Plant Funds: Investment In Plant	Totals (Memorandum Only) 2001	Totals (Memorandum Only) 2000
REVENUES AND OTHER ADDITIONS										
Unrestricted current fund revenues	$ 63,328	$	$	$	$	$	$	$	$ 63,328	$ 61,418
State appropriations - restricted		1,560			10,788				12,348	8,055
Federal grants and contracts restricted		14,063							14,063	13,021
State grants and contracts restricted		1,773							1,773	1,671
Private gifts, grants and contracts - restricted		18,866	23	14					18,903	16,121
Investment income (loss) - restricted		15	(57)	(634)	490	(7)	1		(192)	1,086
Income on loan receivable			204						204	229
U.S. Government advances			48						48	47
Additions to plant facilities (including $2,856 charged to current fund)								3,918	3,918	24,885
Retirement of indebtedness								865	865	585
Other revenue			12		715				727	3,008
Total Revenues and Other Additions	63,328	36,277	230	(620)	11,993	(7)	1	4,783	115,985	130,126
EXPENDITURES AND OTHER DEDUCTIONS										
Education and general expenditures	48,835	32,068							80,903	75,669
Auxiliary enterprise expenditures	10,772								10,772	11,405
Indirect costs	593	4,432							5,025	4,557
Life income distributions				255					255	76
Loan cancellations and write-offs			93						93	26
Administrative and collection costs			8						8	10
Refund to grantors			87						87	138
Expended for plant facilities					404				404	21,957
Retirement of indebtedness							865		865	585
Interest on indebtedness			135		733		800		1,668	1,129
Disposal of plant facilities								556	556	679
Other								56	56	62
Total Expenditures and Other Deductions	60,200	36,500	323	255	1,137	0	1,665	612	100,692	116,293
TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)										
Mandatory:										
Principal and interest	(1,628)		(24)	24			1,667	(39)		(94)
Renewal and replacement	(69)					69				69
Loan fund matching grant		(15)	15							25
Non-mandatory	(1,589)	96		402	1,091					
Total Transfers Among Funds	(3,286)	81	(9)	426	1,091	69	1,667	(39)	0	0
NET INCREASE (DECREASE) FOR THE YEAR	(158)	(142)	(102)	(449)	11,947	62	3	4,132	15,293	13,833
FUND BALANCE, BEGINNING OF YEAR	3,021	4,045	4,826	11,286	32,216	192	0	120,768	176,354	162,521
FUND BALANCE, END OF YEAR	$ 2,863	$ 3,903	$ 4,724	$10,837	$ 44,163	$ 254	$ 3	$ 124,900	$ 191,647	$ 176,354

See Notes to Financial Statements

STATE OF COLORADO
COLORADO SCHOOL OF MINES
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHARGES
YEAR ENDED JUNE 30, 2001 (In Thousands)
(With Comparative Totals at June 30, 2000)

	Current Unrestricted Fund	Current Restricted Fund	Totals (Memorandum Only) 2001	2000
REVENUES				
Tuition and fees	$ 27,697	$	$ 27,697	$26,941
State appropriations	19,370	1,560	20,930	20,024
Indirect cost recovery	5,025		5,025	4,557
Federal grants and contracts		11,779	11,779	11,224
State grants and contracts		1,485	1,485	1,441
Private gifts, grants and contracts	53	17,259	17,312	13,928
Investment income	469		469	
Sales and services of educational activities	656		656	526
Sales and services of auxiliary activities	7,824		7,824	8,137
Other revenue	2,234		2,234	2,696
Total Revenues	63,328	32,083	95,411	89,474
EXPENDITURES AND MANDATORY TRANSFERS				
Educational and general:				
Instruction	26,320	6,482	32,802	30,635
Research	595	18,819	19,414	17,874
Public service				14
Academic support	5,202	67	5,269	5,157
Student services	3,762	143	3,905	3,616
Institutional support	5,985	570	6,555	6,549
Operation and maintenance of plant	8,032	8	8,040	7,228
Scholarships and fellowships	2,871	5,979	8,850	8,525
Total Educational and General	52,767	32,068	84,835	79,598
Mandatory transfers for:				
Loan fund matching grant		15	15	16
Total Education and General Expenditures and Mandatory Transfers	52,767	32,083	84,850	79,614
AUXILIARY ENTERPRISES				
Expenditures	7,433		7,433	8,039
Mandatory transfers for:				
Principal and interest	1,628		1,628	1,592
Renewal and replacement	69		69	
Total Auxiliary Enterprises	9,130		9,130	9,631
Total Expenditures and Mandatory Transfers	61,897	32,083	93,980	89,245
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)				
Excess of restricted receipts over transfers to revenues		(238)	(238)	430
Non-mandatory transfers	(1,589)	96	(1,493)	(1,889)
Total Other Transfers and Additions (Deductions)	(1,589)	(142)	(1,731)	(1,459)
NET DECREASE IN FUND BALANCE	$ (158)	$ (142)	$ (300)	$ (1,230)

See Notes to Financial Statements

STATE OF COLORADO
COLORADO SCHOOL OF MINES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Colorado School of Mines (the University) is a public institution of higher education with a primary emphasis in engineering and science education and research. Operations are funded largely through student tuition and fees and through annual state appropriations. Funds are augmented by government and private sponsored research, private support from alumni, and support from industry and friends, through the Colorado School of Mines Foundation, Inc.

Basis of Presentation

The financial statements of the University are presented in accordance with generally accepted accounting principles as set forth in the pronouncements of the *Governmental Accounting Standards Board* and the American Institute of Certified Public Accountants' industry guide, *Audits of Colleges and Universities*.

In compliance with the aforementioned literature, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

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 transfers to revenues" in the statement of current funds revenues, expenditures and other changes.

Fund group classifications consist of the following:

Current Fund – funds 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 that support these functions. The current funds group has two basic subgroups, unrestricted and restricted.

Student Loan Fund - consists of loans to students and of resources available for such purposes.

Endowment Fund – funds 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 the governing board has established quasi-endowment funds 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, Inc. (Note 7).

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

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.

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.

In accordance with *generally accepted accounting principles* (GAAP), the combined financial statements present the University (primary government) and its component unit, the Colorado School of Mines Building Corporation (see Note 8). The component unit is included in the University's reporting entity because of the significance of its operational and financial relationships with the University in accordance with Government Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. Financial statements of the Colorado School of Mines Building Corporation can be obtained from its administrative office.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related Organizations

Colorado School of Mines Research Institute (CSMRI) and the Colorado School of Mines Foundation, Inc. (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 entity characteristics. They have no fiscal accountability to the University (see Note 7).

Plant Funds

Plant fund assets are recorded at acquisition cost or, if contributed, at estimated fair value at the date of the gift. Library books are being recorded at average cost. Land and land improvements and buildings and building improvements costing in excess of $50,000 as well as equipment costing $2,000 or more are capitalized if they have an estimated useful life of greater than one year.

The University capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowings. Total interest incurred in fiscal year ending June 30, 2001 was:

Interest costs charged to expense	$ 1,666,363
Interest costs capitalized	140,347
Total interest incurred	$ 1,806,710

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 and any related liability associated with that project are transferred to the investment in plant fund.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated at fair value.

Irrevocable Charitable Remainder Unitrusts

An irrevocable charitable remainder unitrust is an arrangement in which the donor establishes and funds a trust with specified distributions to be made to a designated beneficiary over the trust's term. The unitrusts are recorded in the endowment fund at the fair value of the assets less the present value of the estimated future cash payments to the beneficiaries.

Inventories

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

Government Contracts and Grants

Reimbursements associated with government contracts and grants are recognized as the related costs are incurred and are accounted for in the restricted current fund. The University records reimbursement of indirect costs relating to such contracts and grants at authorized rates for each year. The indirect cost reimbursement is accounted for in the restricted current fund.

Deferred Revenue - Tuition and fees

Summer 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.

Deferred Revenue - Development Assistance and trademark license

The University entered into a ten-year agreement to provide development assistance and other planning activities in connection with the development of a foreign University. Additionally, the University received a nonrefundable up front fee for non-exclusive license to use its trademarks for the term of the agreement. Development assistance fees and trademark license fees are recognized as revenue over term of the agreement.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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.

Accrued liabilities that 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 that 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 earned and are accounted for in the proper fund. Restricted gifts, grants, appropriations, endowment income and other restricted resources are considered revenue when earned. Restricted advances from sponsors are classified as additions to fund balance rather than payables, for financial statement purposes.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are amortized on a straight-line basis over the terms of the bond issues.

Cash and Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2001, cash equivalents consisted primarily of money market accounts.

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mandatory Transfers

Mandatory transfers include expenditures made in accordance with bond resolutions (for principal and interest, rebate of interest arbitrage, renewals and replacements and trust account management fees) and for amortization of deferred revenue.

Non-mandatory Transfers

Non-mandatory transfers are transfers among fund groups made at the discretion of the University and not arising out of binding legal agreements. Transfers were made for the purposes of providing funds for construction, removing interest earnings of reserve funds in excess of reserve requirements to operating funds and providing funds for renewals and replacements.

Prior Year Summarized Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by fund group. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2000 from which the summarized information was derived.

Reclassification

Certain reclassifications have been made to the 2000 summarized information to conform to the 2001 financial statement presentation. These reclassifications had no affect on the changes in fund balances.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

At June 30, 2001, the University had $17,015,093 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, cash and time deposits included petty cash and change funds of $12,521, certificates of deposits of $454,190, money market accounts of $3,017,761 and bank accounts of $1,823,683. At June 30, 2001, the University had bank balances as follows:

Insured or collateralized with securities held by the University or its agent in the University's name	$ 288,616
Collateralized with securities held by the pledging institution in the University's name	6,627,894
Total	$ 6,916,510
Carrying Value	$ 5,308,155

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of the collateral arrangements.

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.

STATE OF COLORADO
COLORADO SCHOOL OF MINES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The University's investments are categorized to give an indication of the level of custodial credit risk assumed by the University. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by dealer banks, trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the dealer bank's, trust department in other than the University's name, by the broker/dealer, by the dealer bank or by another bank that is a subsidiary of the same holding company as the dealer bank. The University's investments in mutual funds and investment pool funds are not classified by custodial credit risk category as they are not evidenced by securities that exist in physical or book entry form.

The University's investments consisted of:

	Category 1	Category 2	Category 3	Carrying Value	Fair Value
Corporate stocks	$ 169,898	$	$	$ 169,898	$ 169,898
Corporate bonds			51,143	51,143	51,143
U.S. Government Securities			786,220	786,220	786,220
	$ 169,898	$ 0	$ 837,363		
Investment pool				10,056,923	10,056,923
Mutual funds				161,585	161,585
				$11,225,769	$ 11,225,769

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

STATE OF COLORADO
COLORADO SCHOOL OF MINES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 3: ACCOUNTS AND LOANS RECEIVABLE ALLOWANCES

Accounts and loans receivable are recorded net of the related allowances for doubtful accounts as follows:

Accounts receivable	
Current unrestricted fund, less allowance of $163,965	$ 1,416,497
Current restricted fund, less allowance of $60,442	3,781,592
Unexpended plant fund, less allowance of $0	36,505
	$ 5,234,594
Loans receivable	
Student loan fund, less allowance of $203,750	$ 5,161,552

NOTE 4: COMPENSATED ABSENCES FOR ACCRUED ANNUAL AND SICK LEAVE

University employees may accrue annual leave and sick leave based on their length of service, subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability for compensated absences is estimated to be $2,827,239 at June 30, 2001.

The current unrestricted funds estimated compensated absence cost relating to the current restricted fund is $469,467 at June 30, 2001. Expenditures include $68,122 representing the increase 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.

NOTE 5: LEASES

Capital Leases

Capital lease obligations include leases for buildings and telecommunications equipment. These agreements provide that any obligation payable after the current fiscal year is contingent upon funds for that purpose being available.

Aggregate annual maturities on capital lease obligations at June 30, 2001 are:

2002	$ 238,443
2003	237,691
2004	228,256
2005	104,000
	808,390
Less amount representing interest	71,715
Present value of future minimum lease payments	$ 736,675

Operating Leases

The University leases property and equipment under noncancelable operating leases expiring in various years through 2006. Rental expenditures under these agreements totaled $256,305 for the year ended June 30, 2001. Future minimum lease payments at June 30, 2001 are:

2002	$ 234,718
2003	153,894
2004	132,673
2005	69,859
2006	10,448
Future minimum lease payments	$ 601,592

NOTE 6: LONG-TERM DEBT

Refunding and improvement revenue bonds, Series 1993 (A)	$ 7,390,000
Auxiliary facilities enterprise revenue bonds, Series 1996 (B)	1,475,000
Auxiliary facilities enterprise revenue bonds, Series 1997A and 1997B (C)	5,395,000
Auxiliary facilities enterprise revenue bonds, Series 1999 (D)	7,794,333
	22,054,333
Less unamortized discounts	524,837
	$ 21,529,496

(A) Serial obligations maturing in fiscal years ending June 30, 2001 to 2014; due in annual installments ranging from $405,000 to $750,000 with interest payable semi-annually ranging from 4.15% to 5%. The purpose of the issue was to refund the Series 1988 Bond; finance the construction, renovation, other acquisition and equipping of additional dining and recreational facilities at the Ben H. Parker Student Center; and improve and equip other auxiliary facilities.

(B) Serial obligations maturing in fiscal years ending June 30, 2001 to 2017; due in annual installments ranging from $55,000 to $140,000 with interest payable semi-annually ranging from 4.75% to 6%. 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.

(C) Series 1997A serial obligations mature in fiscal years ending June 30, 2001 to 2017; due in annual installments ranging from $205,000 to $435,000 with interest payable semi-annually ranging from 4.2% to 5%. Series 1997B serial obligation bonds mature December 1, 2017. Interest is payable annually through 2017 at 5.3%. The purpose of this issue was to finance the construction, acquisition and equipping of Mines Park residential housing complex.

NOTE 6: LONG-TERM DEBT (Continued)

(D) Serial obligations issued 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 H. Parker Student Center; acquisitions and construction of two fraternity housing facilities; and construction, acquisition and equipping of two additional buildings at the Mines Park residential housing complex. Obligations include the following:

(1) $2,785,000, 5% Series 1999 Current Interest Bonds. These obligations mature on December 1, 2028 and are subject to mandatory sinking fund redemption on December 1, 2027 of $1,300,000. Interest is payable semi-annually on December 1 and June 1.

(2) $5,009,333, Series 1999 Capital Appreciation Bonds. These bonds mature on December 1, 2014 to 2027. Interest accretes from the date of issuance, compounding semi-annually until maturity, ranging from 5.14% to 5.4%.

The auxiliary bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined. The auxiliary bonds are not secured by any encumbrance, mortgage, or other pledge of property, except the net pledged revenues, and do not constitute general obligations of the University.

The auxiliary bond resolutions allow the University the right, subject to certain conditions, to issue additional bonds which are payable from net pledged revenues of the auxiliary facilities. However, additional bonds, if any, may only have a lien on parity with, not superior to, the existing lien.

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. The minimum reserves for Series 1993, Series 1996, Series 1997 and Series 1999 auxiliary bonds are $773,411, $144,200, $473,296 and $779,433, respectively.

NOTE 6: LONG-TERM DEBT (Continued)

Annual debt service payments on long-term debt at June 30, 2001 are:

	Principal	Interest	Total
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	795,000	728,038	1,523,038
2006	835,000	689,602	1,524,602
2007-2011	4,820,000	2,777,972	7,597,972
2012-2016	5,284,734	2,334,244	7,618,978
2017-2021	3,119,664	4,498,231	7,617,895
2022-2026	1,895,666	5,715,584	7,611,250
2027-2029	3,129,269	1,433,854	4,563,123
	22,054,333	20,564,900	42,619,233
Less unamortized discounts	524,837		524,837
	$ 21,529,496	$ 20,564,900	$ 42,094,396

In connection with the auxiliary bond agreements, the University is required to meet minimum debt service requirements, along with additional covenants, as defined.

Defeased Bonds

During September 1984, Housing System Revenue Bond Series E was placed in trust 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, 2001 bonds in the amount of $3,350,0000 are outstanding.

NOTE 6: LONG-TERM DEBT (Continued)

Defeased Bonds (Continued)

During March 1988, Housing System Revenue Bond Series 1984 was placed in trust 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, 2001 bonds in the amount of $3,330,000 are outstanding.

During October 1993, Housing System Revenue Bond Series 1988 was placed in trust 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, 2001 bonds in the amount of $3,580,000 are outstanding.

NOTE 7: RELATED ORGANIZATIONS

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.

CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. As of December 31, 2000, CSMRI had net assets of $109,564. CSMRI once held a lease on property owned by the University. 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.

NOTE 7: RELATED ORGANIZATIONS (Continued)

Colorado School of Mines Foundation, Inc.

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 year ended June 30, 2001, the University received $9,227,972 from the Foundation, of which $8,969,501 was designated as restricted funds by the Foundation. The accumulated net assets of the Foundation at June 30, 2001 are $126,293,500. The Foundation owed the University $291,442 as of June 30, 2001.

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

NOTE 8: COLORADO SCHOOL OF MINES BUILDING CORPORATION

The Colorado School of Mines Building Corporation (the 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. The accumulated net assets of the Building Corporation at June 30, 2001 were $1,890,840. 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 building lease term, the title to the building will revert to the Colorado School of Mines.

NOTE 9: 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. The plan is a cost sharing multiple employer plan, administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

NOTE 9: PENSION PLAN (Continued)

Plan Description (Continued)

Plan members vest after five years of service and most 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. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of 5 years off service credit, and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and are eligible for retirement benefits at different ages and 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.

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full time student) are entitled to monthly benefit payments. If there is no eligible spouse, financially dependent parents will receive a survivor's benefit.

Funding Policy

Most employees contribute 8.0 percent of their gross covered wages to an individual account in the Plan.

During FY00-01, the State contributed 10.4 percent of the employee's gross covered wages, which was allocated by PERA before January 1, 2001, as follows:

- 1.1 percent was allocated to the Health Care Trust Fund.

- 9.3 percent was allocated to the defined benefit plan.

NOTE 9: PENSION PLAN (Continued)

Funding Policy (Continued)

After January 1, 2001, the state contribution was allocated to three separate programs by PERA according to a statutory change in funding policy.

- 1.42 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker program (see Note 10).
- The balance remaining after allocations to the Matchmaker program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The University's contributions to the three programs described above for the fiscal years ended June 30, 2001, 2000 and 1999 were $4,363,662, $4,443,171 and $4,065,198, respectively. These contributions met the contribution requirement for each year.

NOTE 10: VOLUNTARY TAX-DEFERRED RETIREMENT PLANS

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. The match was 100 percent of up to 3 percent of the employee's gross covered wages paid during the month. The PERA Board sets the level of the match annually, based on the actuarial funding of the defined benefit pension plan. Two percent of gross salary plus fifty percent of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403b plan. Members who contribute to any of these plans also receive the State match.

NOTE 11: POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

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 FY00-01, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65), and it was reduced by 5 percent for each year of service fewer than 20. Medicare eligibility also affects premium subsidy.

The Health Care Trust Fund is maintained by an employer's contribution (see Note 9).

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. 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, 1999 there were 31,266 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

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

NOTE 12: COMMITMENTS AND CONTINGENCIES

Litigation

At June 30, 2001, 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, of these cases, there is one case that merits mention:

In November of 1992, the University and 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. Negotiations with the EPA, the enforcement agency related to past costs for clean up, have been resolved. The University incurred costs of $565,169, which were covered by previously appropriated funds, as a result of these negotiations. The Colorado Department of Health and EPA have reserved their rights as to future costs of clean up. Management does not believe that any future liability that it may incur as a result of this matter will adversely affect the continued operation of the University.

Encumbrances

The University had encumbrances outstanding of $7,218,919 related to purchase orders issued prior to June 30, 2001. Encumbrances represent commitments related to unperformed contracts for goods or services.

NOTE 13: SIGNIFICANT ESTIMATES

Self Insurance

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 year ended June 30, 2001, the University paid approximately $304,000 to participate in these programs. Liability of state higher education institutions is limited by the Colorado Governmental Immunity Act. During the year ended June 30, 2001, no reductions occurred in coverage nor did any settlements exceed coverage.

NOTE 14: LEGISLATIVE APPROPRIATIONS

The Colorado State Legislature establishes spending authority to the University in its annual Long Appropriations Bill. The Long Bill appropriated funds may include an amount from the State of Colorado's General Fund, as well as certain cash funds. Cash funds include tuition, certain fees, and certain other revenue sources.

For the years ended June 30, 2001 and 2000, appropriated expenditures were within the authorized spending authority. The University had a total appropriation of $46,018,918. Actual appropriated revenues earned totaled $44,643,580. Actual appropriated expenditures and transfers totaled $44,344,038. The net increase in appropriated fund balances was $299,542.

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.

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.

NOTE 15: FUTURE CHANGE IN ACCOUNTING PRINCIPLE

The Governmental Accounting Standards Board adopted its Statement No. 34, *Basic Financial Statements - and Management's Discussion and analysis - for State and Local Governments,* as amended by its Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities.* These pronouncements establish new financial reporting requirements intended to make annual reports more comprehensive and easier to understand and use through use of a new financial reporting model.

The new financial reporting model differs from that currently used by the University in a number or respects including:

1. Presentation of a narrative management's discussion and analysis that objectively analyzes the University's financial performance and the facts, decisions and conditions expected to have a significant impact on future results.
2. Presentation using the accrual basis of accounting of the University's reporting entity as a business-type activity instead of as multiple separate funds.
3. Presentation of a statement of financial position, a statement of revenues, expenses and changes in net assets and a statement of cash flows as basic financial statements.
4. Recognition of depreciation for all plant assets.

The University expects to first apply the new standards during the year ending June 30, 2002 by retroactively restating beginning net assets (fund balances). Application of the new standards is expected to materially reduce the amount of net assets at July 1, 2001, from the amount of fund balances reported at June 30, 2001, principally as a result of recognition of accumulated depreciation on plant assets.

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the **COLORADO SCHOOL OF MINES** (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 2001 and have issued our report thereon dated September 7, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, 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 and 5.

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

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and management of the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 7, 2001

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Independent Accountants' Report on the Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs (the Statement) of the **COLORADO SCHOOL OF MINES** (the University), a component unit of the State of Colorado, for the year ended June 30, 2001. 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 the 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), 2001 version. 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 Statement of the state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the financial position or changes in fund balances of the University in conformity with generally accepted accounting principles.

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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 **COLORADO SCHOOL OF MINES** for the year ended June 30, 2001, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Assistance Programs,* as described in note 1 to the Statement.

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In accordance with *Government Auditing Standards,* we have also issued a report dated September 7, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BKD, LLP

September 7, 2001

COLORADO SCHOOL OF MINES

STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF THE STATE-FUNDED STUDENT ASSISTANCE PROGRAMS

YEAR ENDED JUNE 30, 2001

	CSIG Student Incentive Grants	CSG Student Grant Program	Governor's Opportunity Scholarship	CWS Work-Study Program	CGF Graduate Fellowship Program	UGM Under-Graduate Merit	Perkins Match	Total State-Funded Student Assistance
Appropriations:								
Original	$ 42,977	$ 644,977	$ 84,000	$ 267,554	$ 149,698	$ 358,721	$ 15,388	$ 1,563,315
Adjustments/ Transfers	8,000							8,000
Total	50,977	644,977	84,000	267,554	149,698	358,721	15,388	1,571,315
Expenditures	50,977	644,977	84,000	267,554	149,698	358,721	15,388	1,517,315
Reversions to State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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

STATE OF COLORADO
COLORADO SCHOOL OF MINES

NOTES TO STATEMENT OF APPROPRIATIONS, EXPENDITURES, TRANSFERS AND REVERSIONS OF THE STATE-FUNDED STUDENT ASSISTANCE PROGRAMS

JUNE 30, 2001

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Perkins Student Loan Direct Student Loan matching requirement from general funds, as approved by the Colorado Commission on Higher Education, is recorded as a transfer from general funds to loan funds, and not as a general fund expense and loan fund revenue.

All student aid is expended on a cash basis, except for Perkins Student Loan and the Colorado Work-Study Program (CWS). The Perkins Student Loans are recorded as loans receivable when the funds are disbursed. The CWS is on the accrual basis in that the expense is recognized when the services are performed.

NOTE 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 $852,952 in the Pell Grant Program, $171,873 in the Supplemental Educational Opportunity Grant Program and $129,062 in the College Work-Study Program. The University also received $41,163 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.

NOTE 3: STUDENT INCENTIVE GRANTS

Student Incentive Grants consist of $39,879 non-federal state funds and $11,098 of federal funds.

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Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the **COLORADO SCHOOL OF MINES** (the University) as of and for the year ended June 30, 2001, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgements. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

Allowance for doubtful accounts
Compensated Absences

Significant Audit Adjustments

During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates our proposals and records those adjustments, which in its judgement, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate. Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management and BKD,LLP to be immaterial, both individually and in the aggregate, to the financial statements as a whole include fringe rate allocations for grants and investment valuations. The effect of the uncorrected misstatements had they been recorded would have been to decrease fund balance as of June 30, 2000 by $237,700; decrease the change in fund balance by $125,000 for the year ended June 30, 2001 and decrease total assets and fund balance as of June 30, 2001 by $357,700.

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

BKD, LLP

September 7, 2001

State of Colorado
Colorado School of Mines

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Year Ended June 30, 2001

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