State of Colorado
Colorado School of Mines

Financial and Compliance Audit

Fiscal Year Ended June 30, 2003 and 2002

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State of Colorado
Colorado School of Mines
June 30, 2003 and 2002

Contents

State of Colorado
Colorado School of Mines
Report Summary
June 30, 2003 and 2002

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, 2003, 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 special purpose financial statements of the following auxiliary bond funds as of and for the year ended June 30, 2003, 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
  - Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 2002

(The report for the auxiliary bond funds is issued under a separate cover.)

- Express an opinion on the separately issued financial statements of Colorado School of Mines Development Corporation as of and for the year ended June 30, 2003, issued under 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, 2003.

- 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, 2003.

- Evaluate progress in implementing prior year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

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

- 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.
- Federal regulations require that the University document the close-out of federal contracts. The University did not maintain adequate documentation of close-out procedures.
- The University is required to submit student change status to the lenders and guarantors of student loans. The transmissions made did not contain all of the required information to reflect current graduation status.
- Accounting staff at The University perform incompatible duties including receipt of cash, adjusting the general ledger and reconciling the bank account. The University also has an accounting staff that performs all tasks related to payroll, including preparing and recording payroll, creating and editing employees file and reconciling the payroll bank accounts to the general ledger. The University should limit, to the extent possible, performance of duties incompatible from an internal control prospective by individuals in the University's accounting department.
- The University records letter of credit expense reimbursements for federal research and development grant programs administered by the National Science Foundation (NSF) in a contra receivable account instead of to the individual grant receivable balances. Additionally, the grant receivable balances are not reconciled until the project is closed out. The lack of reconciliation results in the inability to easily determine accurate grant receivable balances and assess the aging of the grant receivables. The University should apply expense reimbursements to the appropriate grant receivable account and periodically reconcile individual grant receivable balances, as well as monitor the aging of the grant receivables.
- The University has not reviewed donor agreements for the contributions reported in nonexpendable net assets. The University should closely evaluate all gifts for donor restrictions to ensure that donors' wishes are properly reflected and properly reported in nonexpendable net assets when appropriate.
- As part of the audit process, multiple journal entries were necessary to correct the University's accounting records. Management should review entries throughout the year so that correcting entries at year-end are kept to a minimum. We also found that the exhibits provided to the State were incorrect at the time of original submission and did not agree to the supporting detail. Exhibits should be reviewed by management to ensure they are complete and accurate prior to being submitted to the State.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2002, included nine recommendations. The disposition of these nine audit recommendations as of September 26, 2003, was as follows:

Status	Number
Implemented	4
Partially implemented	2
Not implemented	3
Total	9

Audit Opinions and Reports

The independent accountants' reports included herein expressed unqualified opinions on the University's financial statements, special purpose financial statements of the University's auxiliary bond funds (under a separate cover), financial statements of Colorado School of Mines Development Corporation (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, 2003.

Reportable conditions in internal controls over financial reporting, due to a lack of segregation of accounting duties and over journal entries and exhibits provided to the state, were identified, neither of which is considered a material weakness.

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 to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include fringe rate allocations for grants, depreciation on capital assets and classification of certain liabilities as current or long-term. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease beginning of the year net assets as of June 30, 2002 by $2,180,771, reduce the decrease in net assets by $578,566 for the year ended June 30, 2003, decrease current and long-term assets by $274,462 and $1,500,000, respectively, and increase current and decrease long-term liabilities by $82,567 and $254,824, respectively.

State of Colorado
Colorado School of Mines
Recommendation Locator
June 30, 2003 and 2002

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	6	Improve subrecipient monitoring.	Agrees	June 2004
2	8	Ensure that all grant close-out procedures are properly documented.	Agrees	Completed
3	9	Ensure that transmissions to the National Student Loan Data System (NSLDS) are complete and accurate.	Agrees	June 2004
4	10	Improve segregation of accounting duties.	Agrees	April 2004
5	12	Improve accounting process for grant receivables.	Agrees	April 2004
6	13	Separate endowment and non-endowment funds.	Agrees	May 2004
7	14	Review journal entries and exhibits provided to the State.	Agrees	May 2004

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
2001	2,251	864	3,115
2002	2,357	858	3,215
2003	2,485	846	3,331

Faculty and Staff FTE

	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
2001	211	356	567
2002	227	362	589
2003	225	369	594

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, 2003. During the year, the University had expenditures under these federal grants of $18.3 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.

Improve Subrecipient Monitoring

In the fiscal year ending June 30, 2003, the University reported on its Schedule of Federal Assistance funds passed through to subrecipients of $4,448,635 in nineteen 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.

The University designates a principal investigator for each grant, 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 returned, 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.

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

Recommendation No. 1

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

The University agrees.

Procedures were defined and documented in May 2003 for collecting the subrecipient financial information, outlining when letters to the subrecipients will be mailed and defining the response tracking requirements and instructions for the Controller to withhold and suspend payments to subrecipients who fail to respond. Full implementation of the recommendation will occur by the end of fiscal year 2004.

Implementation Date: June 2004

Proper Close-out Procedures

During the year ended June 30, 2003, the University completed approximately 100 projects for which it received federal research and development grants. To ensure compliance with applicable laws, regulations and provisions of each grant, the University documents "close-out" procedures for each project completed. Documentation of close-out procedures includes contractual and financial status checklists and conversation logs between the department receiving the grant and the grantor. Close-out procedures are in place to ensure that additional expenses are not charged to the project after it has been completed. In our testing, 2 of the 20 closed projects tested lacked written documentation of close-out procedures due to an oversight in the grant department. While we did not observe improper expenditures in this grant, there is risk to the University when the policies aren't followed.

Recommendation No. 2

The University should follow its policies and procedures to help ensure close-out procedures are documented for each project completed to prevent erroneous expenses being charged to these projects and help ensure compliance with applicable laws and regulations.

Colorado School of Mines Response

The University agrees.

The department director has reviewed the close out procedures with the staff and is confident that the procedures will be followed in the future.

Implementation Date: Completed

Transmissions to the National Student Loan Data System

The University has 1,842 students who received approximately $8,380,031 in loans under the Federal Family Education Loan (FFEL) program. Under the FFEL program, the University is required to communicate to lenders and guarantors changes in student status when students graduate, withdraw or drop out. The University performs the required communication through the National Student Loan Data System (NSLDS). The University transmits all required information to NSLDS which makes the information available to lenders and guarantors. The transmission to NSLDS for 360 spring graduates did not include final grades for the spring semester; as a result graduation dates were not included for students that graduated in May 2003. This was due to the transmission being sent to NSLDS prior to the final grades being entered into the system. The University did retransmit the information once the problem was detected. This is a violation of the provisions of the FFEL program. As a result of NSLDS not receiving this information, and therefore, the lenders not receiving graduation dates, students that graduated would not have gone into repayment status on their loans at the correct time. The University should determine the cause of the missing information and develop a report review system to ensure all required fields are communicated in the future.

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

Recommendation No. 3

The University should develop policies and procedures to help ensure that all communications with NSLDS are complete, accurate and timely.

Colorado School of Mines Response

The University agrees.

The office is currently under new management, following the hiring of a new Registrar, and controls have been added at the end of the Fall 2003 semester to avoid this problem in the future. These controls include requiring that the Registrar review and approve the file prior to submission. The Fall 2003 final file was sent on time, with the appropriate information, after grades and degrees were posted.

Implementation Date: June 2004

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal control, involving the separation of custody of assets from related recording and monitoring of transactions. We have identified three accounting department employees who can perform duties relating to custody of assets, recording of transactions and reconciling the transactions for cash receipts. These employees can receive cash payments when the regular cashiers are not available, adjust student accounts, reconcile student accounts receivable detail with the general ledger balances and reconcile the cash receipts to the bank account thereby giving these employees complete access to the accounting cycle and creating risk to the University that errors or intentional defalcations could be committed by these employees and go unnoticed. These duties should be changed so that the custody of assets (i.e. receiving cash) is separated from the recording and monitoring functions in order to decrease the risk of errors and irregularities.

We also identified one accounting department employee who can perform duties relating to custody of assets, recording of transactions and reconciling the transactions for payroll. This employee can generate payroll, add and edit an employee in the system, record payroll, authorize electronic fund transfers as well as reconcile the payroll accounts to the general ledger. This situation could result in this employee adding a fictitious employee, making unauthorized payroll adjustments or issuing a check without being detected. These duties should be separated so that the access to the assets (i.e. making payroll payments) is separated from the recording and monitoring functions of payroll in order to decrease the risk of fraud.

Recommendation No. 4

The University should limit, to the extent possible, performance of duties that are incompatible from an internal control prospective by individuals within the University's accounting department by implementing the following:

a) The position(s) that collects the cash receipts should not have access to change the student accounts or reconcile the accounts.

b) The position that has access to change payroll records should not have access to issue or reconcile payroll.

c) Management review procedures that monitor all functions. The performance of this management review should be documented.

Colorado School of Mines Response

The University agrees.

Due to the limited number of professional accountants and staff within Fiscal Services, optimal separation of duties is sometimes difficult to achieve. The organization replaced one professional accountant and added an assistant controller in 2003. With these changes, the new Controller is reviewing responsibilities and will be reorganizing duties and account reconciliation responsibilities.

Issue:

a) The new Accounts Receivable Manager and Controller will be reviewing the cash receipts operation to design a schedule that will minimize the ability of the accounts receivable staff to handle cash and make changes to the student account. The Accounts Receivable Manager no longer is in a position to handle cash.

b) The Payroll Manager no longer has the ability to change payroll records. The Payroll Manager will no longer reconcile the payroll bank account.

c) As part of the review described above, procedures will be developed to document the monitoring of accounting functions.

Implementation Date: April 2004

Improving Accounting Process for Grant Receivables

The University participates in a large number of federal research and development grant programs administered by the National Science Foundation (NSF). During 2003, the University received $3.4 million in grant revenue from the NSF. These grants are primarily funded through a letter of credit with NSF. As qualified expenses are incurred under each individual grant, the University records a grant specific receivable. All subsequent draws on the letter of credit for expense reimbursement are recorded in the general ledger as a credit to a contra receivable account. The grant specific receivable accounts are not reconciled until the project is closed out. The lack of reconciliation results in the inability to easily determine accurate grant receivable balances and to assess the aging of the grant receivables. We also noted that many balances of the grant receivables appear to have been inactive for many years. By not reconciling these accounts the University risks not timely collecting amounts due. The University should develop policies and procedures to ensure that reimbursements received are applied to the appropriate grant receivable account. Additionally, the University should periodically reconcile the activity in the individual accounts to reimbursement requests and individual grant summary schedules.

Recommendation No. 5

The University should develop policies and procedures to ensure that individual grant account receivable balances are reconciled periodically and that appropriate collection efforts occur when necessary.

Colorado School of Mines Response

The University agrees.

The Accounts Receivable Manager and two of the three billing staff were replaced in the fall of 2003. The change in personnel will provide the opportunity to review, document and implement the grants receivable reimbursement process.

Implementation Date: April 2004

Proper Accounting of Endowment Funds

A donor-restricted endowment fund or nonexpendable net assets are created by a contribution for which the donor stipulates that the original gift is to be invested in perpetuity or for a specified term. Restriction of the original gift in this manner does not restrict income, gains or losses on endowment fund investments. As of June 30, 2003, the University has $2,679,117 recorded in nonexpendable net assets. During the year, the University's management discovered that certain contributions originally designated as nonexpendable during the adoption of GASB 34 should have been recorded as expendable contributions. During the fiscal year ended June 30, 2003, management reclassified $992,410 previously reported as nonexpendable to expendable net assets. Management has not, to date, reviewed all related donor agreements to determine the proper classification of the remaining net assets. For proper reporting and for donor relationships it is important for all contributions to be closely evaluated for donor restriction and appropriately recorded. The University should review all donor agreements and reclassify net assets as appropriate.

Recommendation No. 6

The University should closely evaluate all gifts for restrictions to ensure that nonexpendable net assets are properly reported in the future and all current agreements should be reviewed for proper classification.

Colorado School of Mines Response

The University agrees.

The Controller will continue to work with the General Counsel to identify all documents relating to endowed gifts held by the University and will make the reclassifications as necessary.

Implementation Date: May 2004

Management Review of Accounting Records

Journal Entries

The accounting staff at the University has the ability to post entries to the general ledger without any review by management. Multiple journal entries were booked throughout the year to correct initial entries. These entries were not only to correct initial entries but to correct a previous "correcting" entry. These multiple journal entries make it difficult to determine the correct entries and to monitor the true activity in an account for the year. Because journal entries are not reviewed and approved, there is a risk of improper journal entries being posted to the general ledger. To reduce this risk and improve the accuracy of financial information, management should review and approve all journal entries.

Exhibits and Supporting Records

We had significant difficulty obtaining basic accounting information, including schedules supporting account balances and explanations of account variances and purpose. Additionally, exhibits submitted to the State Controller for various financial disclosures in the State's financial statements were either incomplete or incorrect. Keeping the accounting records current and reconciled throughout the year is essential for providing accurate information to management and for proper reporting to the State Controller.

Recommendation No. 7

The University should ensure that the accounting records are accurate and complete throughout the year and are appropriately monitored. This includes ensuring that all journal entries are reviewed by management and that schedules and exhibits are complete and accurate.

Colorado School of Mines Response

The University agrees.

The journal entry process is currently being reviewed and controls will be developed to ensure adequate management review of University accounting records.

The new fiscal services staff, having now experienced a year-end closing cycle, will document the improvements in processes needed to ensure a smoother close next year and will also implement a first-time, mid-year closing process in fiscal year 2004 to assist in training, preparation and oversight.

Implementation Date: May 2004

State of Colorado
Colorado School of Mines
Disposition of Prior Year Audit Recommendations
June 30, 2003 and 2002

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2002 included nine recommendations. The disposition of these audit recommendations, as of September 26, 2003, was as follows:

	Recommendation	Disposition
1	The University should develop subrecipient monitoring documentation policies and procedures to ensure subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.	Partially implemented See current Recommendation No. 1
2	The University should follow the policies and procedures to ensure close-out procedures are documented for each project completed to prevent erroneous expenses charged to projects and ensure compliance with applicable laws and regulations.	Partially implemented See current Recommendation No. 2
3	The University should develop a process for reviewing financial aid awards to ensure that Pell Grants are awarded in the correct amount.	Implemented
4	The University should develop policies and procedures to help ensure all communications with NSLDS are complete, accurate and timely.	Not implemented See current Recommendation No. 3
5	The University should have an arbitrage calculation performed on the 1993, 1996 and 1997 bond issues to determine if any tax liability exists and reimburse any amounts due to the Federal Government with arrangements for future calculations as needed.	Implemented Calculation completed as of October 7, 2003
6	The University should develop written policies and control procedures for monies received in other departments. A reconciliation process between the Accounting Department and other departments to ensure all funds received are deposited timely and properly recorded.	Implemented

Summary of Progress in Implementing Prior Audit Recommendations

	Recommendation	Disposition
7	The University should recognize depreciation on capital assets from the date the asset is placed into service and perform periodic physical inventory of equipment and adjustments to records.	Implemented
8	The University should segregate duties with the accounting department to improve internal control.	Not implemented See current Recommendation No. 4
9	The University should ensure that records are accurate and complete throughout the year and at year-end with entries recorded prior to closing and all accounts reconciled with complete and accurate exhibits and schedules.	Not implemented See current Recommendation No. 7

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado School of Mines (the University), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003 and 2002, as listed in the table of contents. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colorado School of Mines as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2003, on our consideration of the 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.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ **BKD, LLP**

September 26, 2003
Colorado Springs, Colorado

Management's Discussion and Analysis

This section of the Colorado School of Mines annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

Executive Summary

The 2002-03 fiscal year financial statements reported here reflect a decrease in net assets of $3.3 million or 2.8%. The decline in net assets was driven by a $3.6 million reduction in state funding ($2.4 million for general fund appropriation and $1.2 million for capital construction), as well as an increase in operating expenses of $12.1 million, which were partially offset by an increase in operating revenues of $4.5 million. Although the University reduced expenditures by $1.7 million through job eliminations and other cost reducing measures, reserves were used to meet part of the reduction in state appropriation.

The primary component of the increase in operating expense was a $5.2 million increase to wages and benefits. Non-cash expenditures for depreciation increased by $4.2 million over the prior year, $1.7 million of the increase in depreciation is the result of eliminating equipment worth more than $2,000 but less than $5,000 from the statements of net assets.

Assets continue to significantly exceed liabilities, reflecting that the University is well positioned to cover both its ongoing and long-term obligations.

Two of the major revenue sources are tuition and fees and state appropriations. Student admissions and enrollment trends reflect a stable flow of students. Reasonable tuition rate growth and the Colorado General Assembly's designation of the University as the State's only Exemplary Institution further supports this level of stability in enrollments.

Revenue from grants and contracts is another major revenue source. Research revenues of $27.0 million comprise 27.6% of the University's total revenues. The $4.0 million increase in revenue from grants and contracts in the 2002-03 fiscal year reflects the University's significant activity in research.

A source of concern for the near future is the State of Colorado's continuing revenue situation and the underlying state of the economy. Reductions in the level of state appropriations were significant during the 2002-03 fiscal year. State investment in capital projects has also had to be curtailed and will be limited in the near future.

Statements of Net Assets

The statements of net assets includes all assets and liabilities. It is prepared under the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service regardless of when cash is exchanged.

Assets and liabilities both experienced significant increases in 2003. Issuance of auxiliary housing bonds led to an increase in noncurrent liabilities. These same bonds increased noncurrent assets by a similar margin. The increase in current liabilities was primarily due to the State changing the disbursement day for payroll which resulted in the University not disbursing the June payroll prior to the end of the fiscal year.

Condensed Statements of Net Assets (in thousands)
Comparative Statements

	2003	2002
Assets		
Current assets	$ 28,576	$ 30,987
Noncurrent assets		
Capital	123,254	120,811
Other	48,613	19,717
Total assets	200,443	171,515
Liabilities		
Current liabilities	19,991	14,449
Noncurrent liabilities	66,056	39,350
Total liabilities	86,047	53,799
Net Assets		
Invested in capital assets, net of related debt	96,475	94,037
Restricted		
Nonexpendable	2,679	4,279
Expendable	9,838	10,325
Unrestricted	5,404	9,075
Total net assets	$ 114,396	$ 117,716

The Colorado School of Mines has a ratio of current assets to current liabilities of 1.4 and a ratio of total assets to total liabilities of 2.3. These ratios indicate that the University is positioned well for covering both ongoing and long-term obligations. The ratios have slipped from 2.1 and 3.2, respectively, primarily due to the state mandated changing of the disbursement day for payroll from June 30 to July 1 resulting in an increase of current payables by approximately $5.0 million and new bond indebtedness of $32.0 million ($26.9 million net of bonds defeased and bond issue costs).

The University's capital assets totaling $123.3 million at June 30, 2003, consist of land, buildings, equipment, library holdings and construction in progress. This amount is net of accumulated depreciation of $85.2 million. Construction in progress includes the building of several new residence facilities scheduled to be completed for the fall of 2004. Further detail regarding capital asset activity can be found in the footnotes to these financial statements.

During the 2003 fiscal year, the University issued $32.0 million in revenue bonds to construct and renovate several new residence halls, refund a portion of two prior bond issues and renovate the student cafeteria.

Net assets, which represent the difference between University assets and liabilities, total $114.4 million as of June 30, 2003. During the 2002-03 fiscal year, net assets decreased by $3.3 million or 2.8%.

Restricted nonexpendable net assets – 2.3% of net assets – consist of endowment gifts with specific restrictions on spending the principal. Restricted expendable net assets – 8.6% of all net assets – consist of income from endowment funds, gifts and pledges with specific restrictions, grants from third party agencies with expenditure restrictions and certain loan funds.

Unrestricted net assets – 4.7% of all net assets – represent balances not restricted by parties external to the University such as donors or grant agencies. This includes funds that have been designated by the Board of Trustees for specific purposes as well as amounts that have been contractually committed for goods and services not yet received.

Statements of Revenues, Expenditures and Changes in Net Assets

The statements of revenues, expenses and changes in net assets presents revenues earned and expenses incurred during the fiscal year. Activities are reported as either operating or nonoperating, in accordance with Governmental Accounting Standards Board (GASB) Statements 34 and 35. Under these guidelines, state appropriations and gifts are classified as nonoperating revenues. Because public universities depend so significantly on state appropriations this results in an operating loss. The use of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The increase in operating expenditures was driven by several factors. Wages and benefit increases account for over half of the annual operating expense increase. Construction in progress was placed into service and the related depreciation increased by approximately $2.0 million. Repair and maintenance expense associated with residence halls also contributed to the increase in operating expenses.

Condensed Statements of Revenues, Expenditures and Changes in Net Assets (in thousands)
Comparative Statements
June 30, 2003 and 2002

	2003	2002
Operating Revenues		
Tuition fee	$ 24,573	$ 22,377
Grants and contracts	36,548	32,579
Auxiliary enterprises	8,302	6,949
Other operation revenues	669	3,692
Total operating revenues	70,092	65,597
Operating Expenses	103,837	91,776
Operating Income (Loss)	(33,745)	(26,179)
Nonoperating Revenue		
State appropriations	16,953	19,308
Contribution from CSM Foundation, Inc.	8,922	8,627
Other nonoperating revenues (expenses)	1,916	(762)
Net operating revenues	27,791	27,173
Income (Loss) Before Other Revenues	(5,954)	994
Other Revenues		
State capital contributions	2,137	3,293
Capital grants and gifts	498	409
Net other revenues	2,635	3,702
Total Increase (Decrease) in Net Assets	(3,319)	4,696
Assets, Beginning of Year	117,715	113,019
Assets, End of Year	$ 114,396	$ 117,715

Total operating revenues for the 2002-03 fiscal year were $70.1 million, including $24.6 million from tuition and fees (35.1%) and $36.5 million from grants and contracts (52.1%). Tuition and fee revenues are net of a scholarship allowance of $7.9 million, representing a 24.3% tuition discount.

Operating revenues continued to show strong growth with an overall increase of 6.9%. The decrease in other operating revenue reflected the higher than normal revenue in 2002 related to several legal settlements.

Net nonoperating revenues of $27.8 million include state appropriations of $17.0 million, gifts, investment income and interest payments on capital debt. The state appropriation makes up a significant, but declining, portion of the University's revenues. Tuition revenues depend directly on student enrollment, additionally, state appropriations are also linked to resident enrollment levels. Recent enrollment has been stable, as shown below. The slight 2000-01 dip reflects a reduction in credit hour requirements for graduate students.

The overall trend in enrollment is positive, however the non-resident undergraduate population continues to decline. The University is seeking ways to increase the number of non-resident undergraduates. The 2002-03 increase in graduate enrollment reflects a modest growth in students and a new method of calculation as defined by the Exemplary Institution designation from the Colorado State Assembly.

	Undergraduates			Graduate Studies			Combined		
Fiscal Year	Resident	Nonresident	Total	Resident	Nonresident	Total	Resident	Nonresident	Total
2002-03	2,156	628	2,784	329	218	547	2,485	846	3,331
2001-02	2,123	661	2,784	234	197	431	2,357	858	3,215
2000-01	2,017	678	2,695	234	186	420	2,251	864	3,115
1999-00	2,015	675	2,690	328	258	586	2,344	933	3,277
1998-99	1,948	723	2,671	333	246	579	2,281	969	3,250

Tuition rates, shown below, support the University's tuition and fee revenues. Reasonable rates of growth, along with stable student enrollment levels, indicate the University's current and continued ability to attract students interested in the degree programs offered. Room and board charges, also shown below, contribute to the affordability of attendance at the Colorado School of Mines. Revenue from room and board charges, along with other specified student fees, support maintenance of student life facilities and bond payments outstanding for past, current and planned improvements and additions to these facilities.

Annual Full-time Tuition Rates			Annual Room and Board (avg.)		
Fiscal Year	Residents	Non residents	Double	Single	Board
2002-03	$5,700	$19,030	$3,343	$3,952	$2,912
2001-02	$5,246	$17,516	$3,200	$3,783	$2,800
2000-01	$4,940	$16,070	$2,996	$3,544	$2,632
1999-00	$4,750	$15,304	$2,913	$3,434	$2,519
1998-99	$4,616	$14,716	$2,775	$3,240	$2,421

Undergraduate admissions data, outlined below, show another aspect of the University's basis for student enrollment. The 2003 increasing applications reflect a new marketing program, which resulted in a higher-equality and larger entering freshman class.

Fall Semester Undergraduate Admissions

Fall of Year	Number of Applicants	Number Accepted	Percent Accepted	Number Committed	Percent Committed
2003	3,250	2,566	79.0%	771	30.1%
2002	2,910	1,960	67.4%	670	34.2%
2001	1,910	1,542	80.7%	695	45.1%
2000	2,176	1,721	79.1%	740	43.0%
1999	2,285	1,962	85.9%	681	34.7%

Another major source of revenues is grants and contracts. The School of Mines received research awards totaling about $27.0 million during the 2003-03 fiscal year. Of this award volume, 41% comes from the private sector, 9% from state government agencies and 50% from federal agencies. The School of Mines is encouraging future expansion of research programs conducted by its faculty, as well as partner industries and governmental agencies.

Operating expenses of $103.8 million include $35.6 million for instruction (34.3%) and $23.0 million for research (22.2%). A comparison by function and natural classification follows.

Operating Expenses by Function Compared with Operating Expenses by Natural Classification (in thousands) Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
Function		
Instruction	$ 35,604	$ 33,648
Research	23,004	20,547
Academic support	5,846	4,623
Student services	3,546	3,861
Institutional support	6,703	6,421
Operation and maintenance of plant	8,949	9,041
Scholarships and fellowships	872	1,158
Auxiliary enterprises	8,229	5,596
Depreciation	11,085	6,882
Total operating expenses	$ 103,838	$ 91,777
Classification		
Wages and benefits		
Facility wages	$ 39,389	$ 35,931
Nonexempt staff wages	14,231	13,108
Benefits	12,439	11,728
Subtotal wages and benefits	66,059	60,767
Scholarships and fellowships	872	1,158
Utilities	2,376	2,354
Supplies and other	23,446	20,616
Depreciation	11,085	6,882
Total operating expenses	$ 103,838	$ 91,777

Statements of Cash Flow

The statements of cash flows presents the University's ability to meet financial obligations as they mature. It portrays information related to cash inflows and outflows summarized by operation, capital and noncapital financing and investing activities.

The cash flow statements show cash receipts and cash payments during the year. This information helps analyze the stability of the institution's cash sources, as well as the University's ability to meet obligations as they come due.

Condensed Statements of Cash Flows (in thousands)
Fiscal Years Ended June 30, 2003 and 2002

	2003	2002
Cash and cash equivalents provided/(used) by		
Operating activities	$ (18,260)	$ (18,808)
Noncapital financing activities	27,614	28,420
Capital and related financing activities	14,018	(3,051)
Investing activities	2,268	2,643
Net increase in cash and cash equivalents	25,640	9,204
Cash and cash equivalents, beginning of year	31,528	22,324
Cash and cash equivalents, end of year	$ 57,168	$ 31,528

Major sources of cash from operating activities include tuition and fees ($24.3 million) and grants, contracts and gifts ($35.8 million). Major uses of funds go to employees for salaries and benefits ($61.3 million) and to suppliers of goods and services ($25.6 million). The state appropriation of $17.0 million is the major source of noncapital financing activities.

Capital and related financing activities reflect issuance of bonds for the purpose of renovating and constructing new residence halls and other student life projects, cash payments for construction related to the new research building, the new residence halls and acquisition of two properties adjacent to the campus.

Cash in-flows related to investing activities include proceeds from a trust payout and earnings on deposits with the State Treasurer and cash from that portion of the housing bond issue invested while not yet needed to pay for construction-related costs.

Factors Impacting Future Periods

The level of state support, compensation costs, student enrollment and resulting tuition and fee revenues and growing research volume are the major factors that impact the university's ability to maintain and improve the quality of academic programs, undertake new initiatives and meet its core mission and ongoing operational needs.

Tuition and fee revenues contribute 25.1% of all revenues and are therefore vital to the University's continuing ability to provide high quality academic programs that continue to attract students. The state appropriation declined from 20.0% last year to 17.3% of all revenues in 2002-03. Despite the decrease, the level of state support remains a critical factor influencing the University's ability to deliver its highly regarded academic programs.

A source of concern for the near future is the State of Colorado's own continuing revenue shortfall situation. Also because of these shortfalls, the state's planned investment in capital projects has been curtailed, reducing the University's ability to proceed with some planned building improvements and expansions.

State of Colorado
Colorado School of Mines
Statements of Net Assets
Years Ended June 30, 2003 and 2002

Assets

	2003	2002
Current Assets		
Cash and cash equivalents	$ 17,628,927	$ 24,589,496
Short-term investments	5,191,931	506,957
Accounts receivable, net of allowance; 2003 – $160,851, 2002 – $84,705	1,519,241	1,289,267
Federal and state grants receivable	1,544,764	1,825,267
Other receivables, net of allowance; 2003 – $44,500, 2002 - $44,450	2,809,014	1,895,438
Inventories	190,140	185,272
Loans to students, net of allowance; 2003 – $5,154, 2002 – $5,488	506,457	556,322
Prepaid expenses	132,516	138,510
Total current assets	29,522,990	30,986,529
Noncurrent Assets		
Restricted cash and cash equivalents	39,539,068	6,938,065
Endowment investments	2,679,117	8,075,250
Loans to students, net of allowance; 2003 – $174,735, 2002 – $163,269	4,452,038	4,465,441
Capital assets, net	123,253,959	120,811,790
Bond issuance costs, net	995,630	237,982
Total noncurrent assets	170,919,812	140,528,528
Total assets	200,442,802	171,515,057

Liabilities

	2003	2002
Current Liabilities		
Accounts payable and accrued liabilities	10,213,753	4,894,093
Deferred revenue	7,424,243	7,053,970
Capital leases payable – current portion	216,675	215,000
Bonds payable – current portion	665,275	725,000
Other current liabilities	1,470,991	1,560,708
Total current liabilities	19,990,937	14,448,771
Noncurrent Liabilities		
Accrued compensated absences	3,241,248	3,166,212
Accrued interest payable	1,217,632	901,033
Deferred revenue	3,458,333	3,958,333
Capital leases payable	100,000	316,675
Bonds payable	58,038,364	31,008,434
Total noncurrent liabilities	66,055,577	39,350,687
Total liabilities	86,046,514	53,799,458
Net Assets		
Invested in capital assets, net of related debt	96,474,691	94,036,604
Restricted		
Nonexpendable		
Scholarships and fellowships	2,679,117	4,279,047
Expendable		
Scholarships and fellowships	132,157	51,287
Research	221,064	485,033
Loans	5,053,989	4,817,423
Capital projects	4,405,901	4,969,094
Debt service	25,029	2,566
Unrestricted	5,404,340	9,074,545
Total net assets	$ 114,396,288	$ 117,715,599

State of Colorado
Colorado School of Mines
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Revenues		
Tuition and fees, net	$ 24,573,315	$ 22,376,741
Federal grants and contracts	18,345,884	15,005,226
State grants and contracts	3,415,624	3,587,024
Nongovernmental grants and contracts	14,786,616	13,987,478
Interest on student loans receivable	165,873	184,250
Auxiliary enterprises, net	8,301,705	6,948,616
Other operating revenues	503,452	3,508,009
Total operating revenues	70,092,469	65,597,344
Operating Expenses		
Instruction	35,603,607	33,647,750
Research	23,003,526	20,546,889
Academic support	5,846,365	4,623,094
Student services	3,545,514	3,860,810
Institutional support	6,703,367	6,421,595
Auxiliary enterprises	8,228,517	5,595,702
Operation and maintenance of plant	8,949,168	9,041,054
Scholarships and fellowships	872,294	1,158,010
Depreciation	11,085,395	6,881,637
Total operating expenses	103,837,753	91,776,541
Operating Loss	(33,745,284)	(26,179,197)
Nonoperating Revenues (Expenses)		
State appropriations	16,952,620	19,308,287
Contributions from Colorado School of Mines Foundation, Inc.	8,922,604	8,626,598
Contributions	1,548,070	385,000
Other nonoperating expenses	—	(463,395)
Investment income	1,554,817	221,882
Interest on capital asset-related debt	(1,377,244)	(1,004,728)
Other nonoperating revenues	190,298	99,645
Net nonoperating revenues	27,791,165	27,173,289
(Loss) Income Before Other Revenues, Expenses, Gains or Losses	(5,954,119)	994,092
Capital Appropriations – State	2,136,964	3,292,689
Capital Grants and Gifts	497,844	409,286
(Decrease) Increase in Net Assets	(3,319,311)	4,696,067
Net Assets Beginning of the Year – as Previously Reported	—	191,647,740
Cumulative effect of change in accounting principle	—	(78,628,208)
Net Assets, Beginning of Year	117,715,599	113,019,532
Net Assets, End of Year	$ 114,396,288	$ 117,715,599

State of Colorado
Colorado School of Mines
Statements of Cash Flows
Years Ended June 30, 2003 and 2002

	2003	2002
Operating Activities		
Tuition and fees	$ 24,343,340	$ 22,167,137
Grants and contracts	35,783,008	33,111,587
Payments to suppliers	(17,399,310)	(23,149,999)
Scholarships disbursed	(872,294)	(1,158,010)
Payments to employees	(61,285,839)	(55,121,541)
Loans issued to students	(1,040,120)	(726,709)
Collection of loans to students	1,269,261	1,260,523
Sales and services of auxiliary enterprises	8,325,482	6,896,791
Payments for auxiliary enterprises	(8,228,517)	(5,595,702)
Other receipts	845,192	3,508,009
Net cash used in operating activities	(18,259,797)	(18,807,914)
Noncapital Financing Activities		
State appropriations	16,952,620	19,308,287
Receipts from the Colorado School of Mines Foundation, Inc.	8,922,604	8,626,598
Gifts for other than capital purposes	1,548,070	385,000
Other receipts	190,299	99,645
Net cash provided by noncapital financing activities	27,613,593	28,419,530
Capital and Related Financing Activities		
Proceeds from issuance of revenue bonds payable	31,852,530	10,860,000
Cash paid for bond issuance costs	(723,798)	(244,956)
Capital appropriations-state	2,136,964	3,292,689
Capital grants, contracts and gifts received	497,844	409,288
Acquisition and construction of capital assets	(13,270,099)	(15,818,560)
Proceeds from sale of capital assets	485,819	—
Payment for bond defeasements	(4,191,175)	—
Principal paid on capital leases and revenue bonds payable	(940,000)	(900,000)
Interest paid on capital asset-related debt	(1,829,738)	(649,325)
Net cash provided by (used in) capital and related financing activities	14,018,347	(3,050,864)
Investing Activities		
Interest and dividends on investments	1,557,132	1,690,106
Proceeds from sales and maturities of investments	711,159	953,455
Net cash provided by investing activities	2,268,291	2,643,561
Increase in Cash and Cash Equivalents	25,640,434	9,204,313
Cash and Cash Equivalents, Beginning of Year	31,527,561	22,323,248
Cash and Cash Equivalents, End of Year	$ 57,167,995	$ 31,527,561

State of Colorado
Colorado School of Mines
Statements of Cash Flows (continued)
Years Ended June 30, 2003 and 2002

	2003	2002
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	$ 17,628,927	$ 24,589,496
Restricted cash and cash equivalents – noncurrent	39,539,068	6,938,065
Total cash and cash equivalents	$ 57,167,995	$ 31,527,561
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (33,745,284)	$ (26,179,197)
Depreciation expense	11,085,395	6,881,637
Loss on disposal of capital assets	341,740	—
Changes in operating assets and liabilities		
Receivables, net	(802,096)	370,687
Inventories	(4,868)	106,587
Prepaid expenses	5,994	23,613
Accounts payable and other liabilities	4,430,837	465,779
Deferred revenue	(129,727)	(816,993)
Accrued compensated absences	558,212	339,973
Net Cash Used in Operating Activities	$ (18,259,797)	$ (18,807,914)
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	$ 237,463	$ 324,512

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2003 and 2002

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. The University is an institution of the State of Colorado. 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. The University extends unsecured credit to its students.

As an Institution of the State of Colorado, the University's operations and activities are funded in part 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.

Basis of Accounting and Presentation

The financial statements of the University have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally certain federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The University has elected not to apply FASB pronouncements issued after the applicable date.

Reporting Entity and Blended Component Unit

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.

In accordance with accounting principles generally accepted in the United States of America, the combined financial statements present the University (primary government) and its component units, the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation (see Notes 6 and 7). The component units are included in the University's reporting entity because of the significance of their operational and financial relationships with the University in accordance with GASB Statement No. 14, *The Financial Reporting Entity.* Financial statements of the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation can be obtained from their administrative offices.

Use of Estimates

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

Cash Equivalents

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2003 and 2002, cash equivalents consisted primarily of money market funds with brokers and certificates of deposit.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include amounts restricted for project construction and bond debt service reserves.

Investments and Investment Income

Investments in equity and debt securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit and repurchase agreements are carried at cost.

Investment income consists of interest and dividend income and the net change for the year in the fair value of investments carried at fair value.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty and staff. Accounts receivable is recorded net of estimated uncollectible amounts.

Inventories

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

Loans to Students

The University makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts.

Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense for the years ended June 30, 2003 and 2002, was $23,732 and $6,974, respectively.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the University:

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

The University capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	2003	2002
Total interest expense incurred on borrowings for project	$ 1,034,958	$ 383,756
Interest income from investment of proceeds of borrowings for project	165,819	—
Net interest cost capitalized	$ 869,139	$ 383,756
Interest capitalized	$ 869,139	$ 383,756
Interest charged to expense	1,377,244	1,004,730
Total interest incurred	$ 2,246,383	$ 1,388,486

Compensated Absences

University policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Revenue – Tuition, Fees and Grants

Deferred revenue represents unearned student fees and advances on grants and contract awards for which the University has not met all of the applicable eligibility requirements. Deferred revenue for tuition, fees and grants totaled $5,090,910 and $4,720,637 at June 30, 2003 and 2002, respectively.

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 the term of the agreement. Deferred revenue for development assistance and trademark license totaled $5,791,666 and $6,291,666 at June 30, 2003 and 2002, respectively.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) contracts and grants for research activities and (4) interest on student loans.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition, fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. The scholarship allowances on tuition and fees and housing for the year ended June 30, 2003, were $8,106,948 and $143,155, respectively, and for the year ended June 30, 2002, were $7,724,863 and $55,594, respectively.

Income Taxes

As a state institution of higher education, the income of the University is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the University is subject to federal income tax on any unrelated business taxable income.

Foundation

The University is the beneficiary of a foundation that is a separate legal entity with its own Board of Trustees (see Note 5). The foundation has legal title to all of the foundation assets. The foundation is not a component unit of the University and thus, not reflected in the accompanying financial statements.

Reclassifications

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

Note 2: Deposits, Investments and Investment Return

Deposits

At June 30, the University had bank balances as follows:

	2003	2002
Insured (FDIC) or collateralized with securities held by the University or the University's agent in the University's name	$ 491,649	$ 347,881
Collateralized by securities held by the pledging financial institution's trust department or agent in the University's name	36,043,312	11,675,943
Total	$ 36,534,961	$ 12,023,824
Carrying value	$ 35,136,123	$ 7,473,688

At June 30, 2003 and 2002, the University had $21,489,607 and $17,115,808, respectively, on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Colorado; bonds of any city, county, school district or special road district of the state of Colorado bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

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. The University may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in equity securities.

The 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 bank's 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 are not classified by custodial risk category as they are not evidenced by securities in physical or book entry form. The University's 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.

Investments at June 30, 2003 consisted of the following:

	Category			Carrying	Fair
	1	2	3	Value	Value
Corporate stocks	$ 386,154	$ —	$ —	$ 386,154	$ 386,154
	$ 386,154	$ 0	$ 0	386,154	386,154
Mutual funds				542,265	542,265
Investment pool				7,484,894	7,484,894
				$ 8,413,313	$ 8,413,313

Investments at June 30, 2002 consisted of the following:

	Category			Carrying	Fair
	1	2	3	Value	Value
Corporate stocks	$ 506,957	$ —	$ —	$ 506,957	$ 506,957
	$ 506,957	$ 0	$ 0	506,957	506,957
Mutual funds				6,938,065	6,938,065
Investment pool				8,075,250	8,075,250
				$ 15,520,272	$ 15,520,272

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

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net assets as follows:

	2003	2002
Carrying value		
Deposits	$ 56,625,730	$ 24,589,496
Investments	8,413,313	15,520,272
Total	$ 65,039,043	$ 40,109,768
Included in the following statements of net assets captions		
Cash and cash equivalents	$ 17,628,927	$ 24,589,496
Short-term investments	5,191,931	506,957
Restricted cash and cash equivalents	39,539,068	6,938,065
Endowment investments	2,679,117	8,075,250
	$ 65,039,043	$ 40,109,768

Investment Income

Investment income for the year ended June 30 consisted of:

	2003	2002
Interest and dividend income	$ 1,292,657	$ 1,690,106
Net increase (decrease) in fair value of investments	262,160	(1,468,224)
	$ 1,554,817	$ 221,882

Note 3: Capital Assets

Capital assets activity for the year ended June 30 was:

	2003				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land	$ 2,775,254	$ 235,978	$ —	$ —	$ 3,011,232
Land improvements	5,656,759	—	—	1,652,289	7,309,048
Buildings and improvements	85,026,723	609,022	—	58,106,570	143,742,315
Equipment	39,330,717	1,374,173	10,515,564	1,627,033	31,816,359
Library materials	14,249,323	1,099,636	245,238	—	15,103,721
Construction in progress	58,338,258	11,036,314	546,221	(61,385,892)	7,442,459
	205,377,034	14,355,123	11,307,023	—	208,425,134
Less accumulated depreciation					
Land improvements	4,754,998	109,116	—	—	4,864,114
Buildings and improvements	38,577,317	6,016,611	—	—	44,593,928
Equipment	30,493,226	3,898,137	10,234,226	—	24,157,137
Library materials	10,739,703	1,061,531	245,238	—	11,555,996
	84,565,244	11,085,395	10,479,464	—	85,171,175
Net capital assets	$ 120,811,790	$ 3,269,728	$ 827,559	$ 0	$ 123,253,959

	2002				
	Beginning Balance	Cumulative Effect of Change in Accounting Principle (Note 14)	Additions	Disposals	Ending Balance
Land	$ 2,093,726	$ —	$ 681,528	$ —	$ 2,775,254
Land improvements	5,656,759	—	—	—	5,656,759
Buildings and improvements	84,183,531	—	843,192	—	85,026,723
Equipment	35,727,124	1,757,905	2,407,523	561,835	39,330,717
Library materials	13,126,133	—	1,146,102	22,912	14,249,323
Construction in progress	47,758,601	(485,070)	11,064,727	—	58,338,258
	188,545,874	1,272,835	16,143,072	584,747	205,377,034
Less accumulated depreciation					
Land improvements	—	4,687,189	67,809	—	4,754,998
Buildings and improvements	1,344,036	33,711,719	3,521,562	—	38,577,317
Equipment	—	27,988,990	2,504,236	—	30,493,226
Library materials	—	9,974,585	788,030	22,912	10,739,703
	1,344,036	76,362,483	6,881,637	22,912	84,565,244
Net capital assets	$ 187,201,838	$ (75,089,648)	$ 9,261,435	$ 561,835	$ 120,811,790

Note 4: Long-term Liabilities

The following is a summary of long-term obligation transactions for the University for the year ended June 30:

	2003				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases					
Revenue bonds payable					
Series 1993 (A)	$ 6,970,000	$ —	$ 3,045,000	$ 3,925,000	$ 460,000
Series 1996 (B)	1,415,000	—	65,000	1,350,000	65,000
Series 1997A (C)	4,720,000	—	1,550,000	3,170,000	230,000
Series 1997B (C)	460,000	—	—	460,000	—
Series 1999 (D)	7,794,333	—	—	7,794,333	—
Series 2001 (F)	10,860,000	—	—	10,860,000	—
Series 2002 (E)	—	32,040,000	—	32,040,000	—
	32,219,333	32,040,000	4,660,000	59,599,333	755,000
Less unamortized bond discounts	(485,899)	(187,470)	(191,270)	(482,099)	(29,438)
Less deferred call premium on defeased bonds	—	(420,686)	(7,091)	(413,595)	(60,283)
	31,733,434	31,431,844	4,461,639	58,703,639	665,279
Capital lease obligations	531,675	—	215,000	316,675	216,675
Total bonds and capital leases	32,265,109	31,431,844	4,676,639	59,020,314	881,954
Other noncurrent liabilities					
Accrued compensated absences	3,166,212	558,212	—	3,724,424	483,176
Accrued interest	901,033	1,153,916	670,897	1,384,052	166,420
Deferred revenue					
Tuition, fees and grants	5,621,670	—	530,760	5,090,910	5,090,910
Development assistance and trademark license	6,291,666	2,000,000	2,500,000	5,791,666	2,333,333
Total other noncurrent liabilities	15,980,581	3,712,128	3,701,657	15,991,052	8,073,839
Total noncurrent liabilities	$ 48,245,690	$ 35,143,972	$ 8,378,296	$ 75,011,366	$ 8,955,793

		2002				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases						
Revenue bonds payable						
Series 1993	(A)	$ 7,390,000	$ —	$ 420,000	$ 6,970,000	$ 440,000
Series 1996	(B)	1,475,000	—	60,000	1,415,000	65,000
Series 1997A	(C)	4,935,000	—	215,000	4,720,000	220,000
Series 1997B	(C)	460,000	—	—	460,000	—
Series 1999	(D)	7,794,333	—	—	7,794,333	—
Series 2001	(F)	—	10,860,000	—	10,860,000	—
		22,054,333	10,860,000	695,000	32,219,333	725,000
Less unamortized bond discounts		(524,837)	—	(38,938)	(485,899)	—
		21,529,496	10,860,000	656,062	31,733,434	725,000
Capital lease obligations		736,675	—	205,000	531,675	215,000
Total bonds and capital leases		22,266,171	10,860,000	861,062	32,265,109	940,000
Other noncurrent liabilities						
Accrued compensated absences		2,827,239	338,973	—	3,166,212	—
Deferred revenue						
Tuition, fees and grants		4,931,561	5,621,670	4,931,561	5,621,670	4,720,637
Development assistance and trademark license		5,875,000	916,666	500,000	6,291,666	2,333,333
Total other noncurrent liabilities		13,633,800	6,877,309	5,431,561	15,079,548	7,053,970
Total noncurrent liabilities		$ 35,899,971	$ 17,737,309	$ 6,292,623	$ 47,344,657	$ 7,993,970

Auxiliary Housing Services Revenue Bonds

The University had the following Auxiliary Housing Services Revenue Bonds outstanding at June 30:

(A) Refunding and improvement revenue bonds, Series 1993 – Serial obligations maturing in fiscal years ending June 30, 2004 to 2014; due in annual installments ranging from $460,000 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) Auxiliary facility enterprises revenue bonds, Series 1996 – Serial obligations maturing in fiscal years ending June 30, 2004 to 2017; due in annual installments ranging from $65,000 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) Auxiliary facility enterprises revenue bonds, Series 1997A and 1997B – Series 1997A, – Serial obligations mature in fiscal years ending June 30, 2004 to 2017; due in annual installments ranging from $230,000 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.

(D) Auxiliary facility enterprises revenue bonds, Series 1999 – 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%.

(E) Auxiliary facilities enterprise refunding and improvement revenue bonds – Series 2002 – Serial obligations maturing in fiscal years ending June 30, 2009 to 2038; due in annual installments ranging from $70,000 to $3,245,000 with interest payable semi-annually ranging from 3.25% to 5%. The bonds were issued for the purpose of refunding a portion of the Series 1993 and 1997A revenue bonds and to finance the construction, acquisition and equipping of student housing and dining facilities and improving and equipping other auxiliary facilities at the University.

The auxiliary bonds are secured by net pledged revenues. 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, Series 1999 and Series 2002 auxiliary bonds are $773,411, $144,200, $473,296, $779,433 and $2,737,397, respectively. The University is also required to maintain certain rate covenants related to the bonds. Management believes that they are in compliance with these covenants.

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.

Revenue Bonds issued by Colorado School of Mines Development Corporation (See Note 7)

(F) The Series 2001 – Serial obligations mature September 1, 2026. The purpose of the issue was to finance the construction and acquisition of educational facilities at the Colorado School of Mines.

Interest is payable at varying rates, not to exceed 10%. Interest rates and payment periods are determined, as elected by the Corporation, using either (i) weekly, one-month or three-month interest rates, with interest payable monthly or (ii) six-month, one-year, five-year, ten-year or fixed interest rates, with interest payable semi-annually. The interest rate on variable rate bonds is calculated using the weekly interest rate of 1.35% at June 30, 2002.

Bonds bearing interest at the five, ten or fixed interest rates are subject to mandatory sinking fund redemption commencing on the September 1 next succeeding the applicable interest rate adjustment date, as defined. Bonds are subject to early redemption at the option of the issuer under certain conditions as described in the trust agreement.

The bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined, a letter of credit with a bank totaling $10,961,162 and are guaranteed by the Colorado School of Mines Foundation. The letter of credit terminates on October 4, 2006. If the Corporation does not secure a substitute letter of credit, the bonds are subject to mandatory tender prior to the termination of the letter of credit.

The trust indenture allows the Corporation the right, subject to certain conditions, to issue additional bonds which are payable from net pledged revenues. However, additional bonds, if any, may only have a lien on parity with, not superior to, the existing lien.

Debt Service Requirements on Revenue Bonds

The debt service requirements as of June 30, 2003, are as follows:

Year Ending June 30, 2003	Total to be Paid	Principal	Interest
2004	$ 3,022,082	$ 755,000	$ 2,267,082
2005	2,586,939	345,000	2,241,939
2006	2,589,836	365,000	2,224,836
2007	2,581,564	375,000	2,206,564
2008	2,587,322	400,000	2,187,322
2009 – 2013	15,005,150	4,595,000	10,410,150
2014 – 2018	17,316,849	6,305,687	11,011,162
2019 – 2023	17,199,411	4,196,940	13,002,471
2024 – 2028	27,842,595	16,096,706	11,745,889
2029 – 2030	16,621,125	11,455,000	5,166,125
2031 – 2038	16,622,500	14,710,000	1,912,500
	$ 123,975,373	$ 59,599,333	$ 64,376,040

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 statements of net assets. At June 30, 2003, bonds in the amount of $2,795,020 are outstanding.

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 statements of net assets. At June 30, 2003, bonds in the amount of $2,725,000 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 statements of net assets. At June 30, 2003 bonds in the amount of $2,865,000 are outstanding.

In connection with the issuance of the Series 2002 bonds, $4,191,171 was placed in escrow with a paying agent for the payment of certain Series 1993 and 1997A bonds. Accordingly, certain Series 1993 and 1997A bonds were considered extinguished as of November 2002; and the escrow account and extinguished bonds are not recognized in the accompanying statements of net assets. At June 30, 2003, Series 1993 and 1997A bonds in the amounts of $2,605,000 and $1,330,000, respectively, are outstanding. The refunding of the bonds resulted in a call premium, the difference between the reacquisition price and the net carrying amount of the bonds, in the amount of $420,686. The call premium is reported in the accompanying statements of net assets as a reduction of revenue bonds payable and is being amortized on a straight-line basis over the remaining lives of the Series 1993 and 1997A bonds.

Capital Lease Obligations

The University is obligated under leases accounted for as capital leases. Assets under capital leases at June 30, 2003 and 2002 totaled $812,500 and $907,167, respectively, net of accumulated depreciation of $884,175 and $789,507, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at approximately 7.5% together with the present value of the future minimum lease payments as of June 30, 2003.

2004	$ 228,256
2005	104,000
Total minimum lease payments	332,256
Less amount representing interest	15,581
Present value of future minimum lease payments	$ 316,675

Operating Leases

The University leases property and equipment under noncancelable operating leases expiring in various years through 2006. Rental expense under these agreements totaled $246,711 for the year ended June 30, 2003. Future minimum lease payments at June 30, 2003 are:

2004	$ 227,732
2005	64,121
Future minimum lease payments	$ 291,853

Note 5: Related Party Transactions

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, 2002 and 2001, CSMRI had net assets of ($2,760) and $78,222, respectively. 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 School of Mines.

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, 2003 and 2002, the University received $8,922,604 and $8,626,598, respectively, from the Foundation which was designated as restricted funds by the Foundation on the University's statements of net assets. The net assets of the Foundation at June 30, 2003 and 2002 are $113,478,710 and $109,651,864, respectively. The Foundation owed the University $329,791 and $245,646 as of June 30, 2003 and 2002, respectively.

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

Note 6: 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 unaudited net assets of the Building Corporation at June 30, 2003 and 2002 were $3,625,095 and $2,788,256, respectively. Under GASB 14, the financial activity for the Building Corporation has been blended into the financial statements of the University.

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

Note 7: Colorado School of Mines Development Corporation

The Colorado School of Mines Development Corporation (the Corporation) was established in September 2001 as a separate corporation under the laws of the State of Colorado. The Corporation was formed for the purpose of issuing obligations for or assist in the financing of capital expenditures on behalf of or for the benefit of the Colorado School of Mines. The accumulated net assets of the Corporation at June 30, 2003 and 2002 were $765,661 and $70,285, respectively. Under GASB 14, the financial activity for the Corporation has been blended into the financial statements of the University.

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

Note 8: Pension Plan

Plan Description

Virtually all the University 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, or by calling PERA at 303-832-9550 or 1-800-729-PERA (7372).

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 of 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% of their gross covered wages to an individual account in the Plan. During FY02-03, the State contributed 10.04%of the employee's gross covered wages. Before January 1, 2003, 1.64% was allocated to the Health Care Trust Fund, and after January 1, 2003, 1.1% was allocated to the Health Care Trust Fund.

Throughout the fiscal year, amounts needed to meet the match requirement established by the PERA Board were allocated to the Matchmaker program (see Note 9). 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 are 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 contributions to the three programs described above for the fiscal years ended June 30, 2003, 2002 and 2001 were $4,247,392, $3,949,612 and $4,363,662, respectively, equal to its required contributions for those years.

Note 9: Volunteer 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% of up to 3% of the employee's gross covered wages paid during the month (7% for judges in the Judicial Branch). For Calendar year 2003, the match was 100%of up to 2% of 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. 2% of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan was available for the match. While the plan was not overfunded, the maximum one year change in match rate is statutorily limited to 1% and therefore, the match changed from 3% to 2%. 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 403(b) plan. Members who contribute to any of these plans also receive the State match.

Note 10: 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 fiscal year 2002-03, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65) and reduced by 5% 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 as discussed above in Note 8.

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, 2002 and 2001 there were 35,418 and 34,325 participants, respectively, 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 11: Commitments and Contingencies

Claims and Litigation

At June 30, 2002, 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 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 Colorado Department of Health and EPA have reserved their rights as to future costs of clean up. Management believes that any future liability that it may incur as a result of this matter will not adversely affect the continued operation of the University.

Government Grant

The University is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

Note 12: Risk Management

The University is subject to risks of loss from liability for accident, property damage and personal injury. These risks are managed by the State Division of Risk Management, an agency formed by statute and funded by the Long Appropriations Bill. Therefore, the University is not required to purchase insurance for such risk of loss. Commercial insurance coverage is purchased for employee health benefits. There has been no reduction in coverage nor have any settlements exceeded coverage in any of the three preceding years. The University does not retain risk of loss except for damage incurred to property belonging to the State, limited to a $1,000 deductible per incident.

The State Division of Risk Management is deemed to be a public entity risk pool; therefore, under the Governmental Immunity Act, the University is protected from suit by the Doctrine of Sovereign Immunity except under certain circumstances in which immunity is waived.

Note 13: 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 year ended June 30, 2003, appropriated expenses were within the authorized spending authority. The University had a total appropriation of $46,685,094. Actual appropriated revenues earned totaled $46,622,147. Actual appropriated expenses totaled $46,509,394. The net increase in appropriated net assets was $112,753.

For the year ended June 30, 2002, appropriated expenses were within the authorized spending authority. The University had a total appropriation of $46,721,221. Actual appropriated revenues earned totaled $46,650,606. Actual appropriated expenses totaled $46,638,360. The net increase in appropriated net assets was $12,246.

All other revenues and expenses 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 expenses from both appropriated and non-appropriated funds.

Note 14: Change in Accounting Principle

In 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

The changes in financial statement presentation provide a comprehensive look at the total governmental entity, require recording of deprecation on capital assets and include a narrative management's discussion and analysis (MD&A) of the government's financial activities. Prior to the adoption of GASB Nos. 34 and 35, the University did not maintain a complete set of detailed historical cost records on its capital assets nor did it record deprecation on its capital assets. To comply with the requirements of these statements, the University has prepared detail cost records on all of its capital assets and the related accumulated depreciation on those capital assets as of July 1, 2001. The cumulative effect of adoption at July 1, 2001, is as follows:

Adjustment to reduce capital assets carrying amounts to agree to detailed cost records	$ 1,272,835
Adjustment to record accumulated deprecation on capital assets	(76,362,483)
Adjustment to deferred revenue for summer tuition	209,892
Adjustment to deferred revenue for prior year restricted fund additions for grant funds received in advance of expenses incurred	(3,748,452)
Decrease to net assets at July 1, 2001	$ (78,628,208)

In addition to the changes described above, there was a significant change in the overall form and content of the University's financial statements.

Note 15: Future Change in Accounting Policies

The Governmental Accounting Standards Board recently adopted its Statement No. 39 (GASBS No. 39), *Determining Whether Certain Organizations Are Component Units*, which provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University. The statement generally requires reporting as a discretely presented component unit, each organization that raises and holds economic resources for the direct benefit of the University or a component unit of the University. The University expects to first apply GASBS No. 39 during the year ending June 30, 2004, by retroactively restating prior years' Organizations to be evaluated for inclusion in the University's reporting entity under GASBS No. 39 include the Colorado School of Mines Research Institute and the Colorado School of Mines Foundation, Inc.

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 blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 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 No. 4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also 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.

Members of the Legislative Audit Committee

This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees and the management of the University and 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.

/s/ **BKD, LLP**

September 26, 2003
Colorado Springs, Colorado

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 blended component unit of the State of Colorado, for the year ended June 30, 2003. 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 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), 2003 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, changes in financial position or cash flows of the University in conformity with accounting principles generally accepted in the United States of America.

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, 2003, 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 September 26, 2003, 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.

Members of the Legislative Committee

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

/s/ **BKD, LLP**

September 26, 2003
Colorado Springs, Colorado

Colorado School of Mines

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

Year Ended June 30, 2003

	CSIG Student Incentive Grants	CSG Student Grant Program	Governor's Opportunity Scholarship	CWS Work-Study Program	Graduate Fellowship Program	Under-Graduate Merit	Perkins Match	Total State-Funded Student Assistance
Appropriations								
Original	$ 48,352	$ 864,697	$ 215,974	$ 446,962	$ —	$ 508,419	$ 14,585	$ 2,098,989
Adjustments/transfers	—	—	—	—	65,020	(65,020)	—	—
Total	48,352	864,697	215,974	446,962	65,020	443,399	14,585	2,098,989
Expenditures	48,352	864,697	215,974	446,962	65,020	443,399	14,585	2,098,989
Reversions to State general fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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, 2003

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 Governmental Accounting Standards Board.

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 $1,028,293 in the Pell Grant Program, $133,144 in the Supplemental Educational Opportunity Grant Program and $178,416 in the College Work-Study Program. The University also received $43,756 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 $36,264 non-federal state funds and $12,088 of federal funds.

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Colorado School of Mines (the University), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2003, we wish to communicate the following to you.

Auditor's Responsibility under Generally Accepted Auditing Standards

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

Significant Accounting Policies

The University's significant accounting policies are described in Note 1 of the audited financial statements.

Management Judgments and Accounting Estimates

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

Allowance for doubtful accounts
Compensated absences
Depreciation on capital assets and useful life of assets

Audit Adjustments

During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates our proposals and records those adjustments, which in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate. Areas in which adjustments were proposed that management recorded include:

Capital assets
Depreciation on capital assets

Areas in which uncorrected misstatements were aggregated during the current engagement and were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole include the classification of grant revenue, fringe rate allocations for grants and depreciation and capitalization of capital assets. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease beginning of the year net assets as of June 30, 2002 by $2,180,771, decrease the change in net assets by $752,136 for the year ended June 30, 2003, decrease current and long-term assets by $274,462 and $1,500,000, respectively, and increase and decrease current and long-term liabilities by $82,567 and $254,824, respectively.

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.

/s/ **BKD, LLP**

September 26, 2003
Colorado Springs, Colorado

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