Colorado School of Mines

Financial and Compliance Audit

Years Ended June 30, 2005 and 2004

LEGISLATIVE AUDIT COMMITTEE
2006 MEMBERS

Senator Jack Taylor
Chair

Senator Stephanie Takis
Vice-Chair

Representative Fran Coleman
Senator Deanna Hanna
Representative David Schultheis
Senator Nancy Spence
Representative Val Vigil
Representative Al White

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

Lou Skull
Legislative Auditor

Grant Thornton LLP
Contract Auditors

THIS PAGE LEFT BLANK INTENTIONALLY

Grant Thornton

Accountants and Business Advisors

December 20, 2005

Members of the Legislative Audit Committee:

We have completed the financial statement audit of the Colorado School of Mines as of and for the year ended June 30, 2005. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.

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

Grant Thornton LLP

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

Colorado School of Mines

Years Ended June 30, 2005 and 2004

TABLE OF CONTENTS

Colorado School of Mines

Report Summary

Years Ended June 30, 2005 and 2004

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 School) as of and for the year ended June 30, 2005, 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, 2005, including consideration of compliance with certain bond indenture provisions.

  - Auxiliary Facilities 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 Revenue Bonds, Series 2002
  - Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2004

  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, 2005, issued under separate cover.

- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditures of Federal and state funds for the year ended June 30, 2005.

- Issue a report on the School's internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters based on our audit of the financial statements performed in accordance with *Government Auditing Standards*.

- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs of the School for the year ended June 30, 2005.

- Evaluate progress in implementing prior audit recommendations.

Audit Opinions and Reports

The reports of independent certified public accountants expressed unqualified opinions on the School's financial statements, special-purpose financial statements of the School'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, 2005.

Three reportable conditions in internal control over financial reporting were noted, all of which are considered material weaknesses.

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

We did note certain areas in which the School could improve its internal controls and compliance procedures. These areas are discussed in the Auditors' Findings and Recommendations section of this report and the most significant of these findings are summarized below.

Significant Audit Adjustments and Waived Adjustments

Fifteen audit adjusting entries were proposed by Grant Thornton LLP and were accepted and recorded by the School. The most significant of these adjustments were to: increase the allowance for uncollectible grants and other receivables by approximately $497,000; decrease grants deferred revenue to actual by approximately $1.8 million; decrease grants accounts receivable to actual by approximately $1.0 million; increase beginning net assets to actual by approximately $517,000; reclassify federal grant revenue recorded as private grant revenue by approximately $2.4 million and decrease library capital assets to actual by approximately $5.8 million (less a reduction of accumulated depreciation of $3.5 million).

The net effect of these entries was to reduce the change in net assets for the Year Ended June 30, 2005 by approximately $2.28 million.

Ten uncorrected financial statement misstatements were waived because management believes the amounts to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The waived adjustments, had they been made, would have decreased net assets as of July 1, 2004 by approximately $1,358,000, increased total assets as of June 30, 2005 by approximately $105,000 and increased the change in net assets for the year ended June 30, 2005 by approximately $1,463,000.

Colorado School of Mines

Report Summary (continued)

Years Ended June 30, 2005 and 2004

Summary of Major Audit Comments

Audit Findings and Financial Statements Audit Report Section

Several of the audit findings discussed below are considered reportable conditions and all of the reportable conditions are considered material weaknesses. 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 School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable 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 caused by error or fraud 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.

The Auditors' Findings and Recommendations Section includes, in part, the following:

- As of June 30, 2005, the School had $2.1 million in net Federal, state and private grants receivable, after audit adjustments of approximately $1.0 million to decrease the grants receivable to actual and approximately $319,000 to increase the allowance for uncollectible grants. Additionally, as of June 30, 2005, the School had approximately $4.4 million in deferred revenue related to Federal, state and private grants, after an audit adjustment of approximately $1.8 million to decrease deferred revenues to actual. For the Year Ended June 30, 2005, grants revenue was approximately $20.2 million. Grants receivable is comprised of accounts receivable from approximately 470 separate grants evidenced by individual general ledger accounts. A subsidiary detail was not being maintained for either Federal, state and private grant accounts receivable or Federal, state and private grant deferred revenue sufficient to evaluate the allowance for doubtful accounts, to facilitate a roll forward of activity (beginning balance, grant revenue, collections/write-offs and ending balance), or to differentiate the source of the grant (Federal, state, private, etc.). We believe this matter to be a material weakness.

- When the School began preparation of its Fiscal Year Ended June 30, 2005 financial statements, it noted that there was an unresolved difference in net assets as of June 30, 2004 of approximately $517,000 compared to its beginning net assets as of July 1, 2004. Disposition of the difference was not resolved until December 2005.

Colorado School of Mines

Report Summary (continued)

Years Ended June 30, 2005 and 2004

Summary of Major Audit Comments (continued)

Audit Findings and Financial Statements Audit Report Section (continued)

- The School purchased approximately $1.8 million for 2005 and $1.7 million for 2004 and 2003 in goods and services using procurement cards (P-cards), a form of credit card. Currently the School has approximately 400 P-cards issued on an organization-wide basis. No formal assessment has been made by the School as to whether or not it is appropriate to have 400 P-cards outstanding or whether this number of cards could be reduced to improve controls over the cards. Also, no formal training other than that conducted at the date of card issuance has been conducted for holders of the cards to assure that all current procedures surrounding their use are understood by the holders of the cards.

- The School experienced a significant transition of accounting personnel after June 30, 2005. Principally due to that transition, the School's preliminary financial statements, before significant revision prior to issuance, contained a number of financial reporting and disclosure errors (principally footnote detail that did not tie to the basic financial statements, ending balances not equaling beginning balances and lack of adequate deposit and investment disclosures in the footnotes). We believe this matter to be a material weakness.

- During the Fiscal Year Ended June 30, 2005, the School capitalized items that had acquisition costs below the School's $5,000 capitalization threshold or had useful lives of one year or less. Additionally, the School has not conducted a physical inventory of capital assets in recent years. The last physical inventory of capital assets was conducted by the School in Fiscal Year 2003. At the request of Grant Thornton LLP, the School reviewed its detail of capital assets for items that should not be included therein and, as a result, removed approximately $5.8 million of its library capital assets. Total capital assets, net of accumulated depreciation, as of June 30, 2005 was approximately $142.3 million, of which approximately $1.7 million was library materials, after adjustment. We believe this matter to be a material weakness.

Colorado School of Mines

Report Summary (continued)

Years Ended June 30, 2005 and 2004

Summary of Major Audit Comments (continued)

Audit Findings and Financial Statements Audit Report Section (continued)

- Much of the School's detail information in its general ledger, particularly information supporting its statement of net asset accounts, is modified each time entries are made to the general ledger and thus the detail in the general ledger as of the last day prior to modification is lost. In order to capture that information at a certain point in time, such as at the end of a fiscal year, the School needs to print the required detail as of that date. Various detail listings of general ledger accounts (e.g. accounts payable detail) necessary to support and detail test such balances at June 30, 2005 were not printed as of that date. While the School was able to recreate much of the necessary detail for audit testing, the failure to print the detail at June 30, 2005 created additional work for its staff and delayed the audit process.

EXPENDITURES OF FEDERAL AWARDS

- There were five findings related to testing of Federal expenditures under the Student Financial Aid Program Cluster and two findings related to testing of the Federal expenditures under the Research and Development Grants Cluster. The findings related principally to lack of required documentation, timeliness of reporting and accuracy of reporting in certain items tested and lack of subrecipient monitoring.

  A summary of the recommendations for the above findings, as well as other findings in the report, is included in the Recommendation Locator beginning on the next page.

Summary of Progress in Implementing Prior Audit Recommendations

The audit for the year ended June 30, 2004, included four recommendations. The disposition of these four audit recommendations as of December 20, 2005, was as follows:

Status	Number
Implemented	1
Partially implemented	3
Not implemented	0
Total	4

Colorado School of Mines

Recommendation Locator

Years Ended June 30, 2005 and 2004

All recommendations are addressed to the Colorado School of Mines

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	11	Maintain Federal, state and private grant accounts receivable and deferred revenue subsidiary ledgers in sufficient detail to allow aging of the receivables and preparation of roll forwards for the accounts.	Agree	June 30, 2006
2	12	Compare net assets at the beginning of each fiscal year to net assets at the end of the immediately preceding year to determine if there are any discrepancies between ending and beginning net assets and timely resolve any such discrepancies.	Agree	May 1, 2006
3	12	Conduct periodic training with respect to the School's policies over P-cards for card holders and make an evaluation as to whether or not a lesser number of issued P-cards would be feasible.	Agree	June 30, 2006
4	14	Modify the financial reporting process so that financial statements are prepared by one or more people within the Finance and Operations Department, other than the Controller, with a detail review of the financial statements performed by the Controller.	Agree	March 31, 2006
5	15	Review entries to capitalize costs as capital assets for compliance with the School's capitalization policy and approve the entries prior to their being posted to the general ledger. Perform a physical inventory of capital assets at least annually.	Agree	June 30, 2006

Colorado School of Mines

Recommendation Locator (continued)

Years Ended June 30, 2005 and 2004

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
6	15	Perform reconciliations of all bank accounts on a timely basis, with proper review and approval by someone other than the preparer. Periodically review and reconcile petty cash accounts.	Agree	March 31, 2006
7	16	Research for any donor restrictions that might have been placed on the $230,000 of investments, held by the Foundation on the School's behalf, that currently do not have documentation of the existence of donor restrictions, if any.	Agree	June 30, 2006
8	17	Capture a detail of balances at year end supporting general ledger balances necessary to facilitate the audit process and for School file maintenance purposes.	Agree	June 30, 2006
9	18	Perform reconciliations of all amounts due to/from the Foundation at least quarterly and resolve any differences timely.	Agree	May 31, 2006
10	18	Include in the respective student's file documentation supporting professional judgment changes when professional judgment is used to adjust the cost of attendance.	Agree	April 1, 2006

Colorado School of Mines

Recommendation Locator (continued)

Years Ended June 30, 2005 and 2004

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
11	19	Implement a procedure to assure that Title IV funds are not being credited to a student's account prior to ten calendar days before the first day of classes of a payment period.	Agree	April 1, 2006
12	20	Implement a procedure to assure that the School reports Federal Pell Grant disbursements to the U.S. Department of Education's Common Origination and Disbursement (COD) System within the 30-day required reporting period.	Agree	April 1, 2006
13	20	Perform a detailed review and approval of the FISAP to assure its accuracy. Include separate accounts in the general ledger to track Perkins activity.	Agree	June 30, 2006
14	21	Expand procedures for the monitoring of subrecipients to include review of the FAC database and the monitoring of for-profit subrecipients in order to be in compliance with Federal requirements.	Agree	June 30, 2006
15	22	Establish and implement procedures to review Federal SF 272 reports prior to submission to ensure the reports are accurate and that supporting documentation agrees with the reported amounts.	Agree	March 31, 2006
16	22	Implement procedures to assure that the requirements for determining Federal awards expended as defined under OMB Circular A-133 be reviewed and followed in reporting Federal awards to the State Controller's Office.	Agree	June 30, 2006

Colorado School of Mines

Description of Colorado School of Mines

Years Ended June 30, 2005 and 2004

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

The Board of Trustees is the governing body of the School and is composed of seven members appointed by the Governor, with consent of the Senate, for four-year terms and 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, Incorporated.

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

	Student FTE Enrollment		
	Resident Student FTE	Non-resident Student FTE	Total Student FTE
2002	2,357	858	3,215
2003	2,485	846	3,331
2004	2,615	830	3,445
2005	2,807	820	3,627

	Faculty and Staff FTE		
	Faculty FTE	Staff FTE	Total Faculty and Staff FTE
2002	227	362	589
2003	223	356	579
2004	227	338	565
2005	231	333	564

Accounting for Grants Revenue, Receivables and Deferred Revenue

As of June 30, 2005, the School had $2.1 million in net Federal, state and private grants receivable, after audit adjustments of approximately $1.0 million to decrease the grants receivable to actual and approximately $319,000 to increase the allowance for uncollectible grants. Additionally, as of June 30, 2005, the School had approximately $4.4 million in deferred revenue related to Federal, state and private grants, after an audit adjustment of approximately $1.8 million to decrease deferred revenues to actual. For the Year Ended June 30, 2005, grants revenue was approximately $20.2 million. Grants receivable is comprised of accounts receivable from approximately 470 separate grants evidenced by individual general ledger accounts. The School had not been maintaining subsidiary ledgers of these accounts sufficient to properly age the receivables to assist in assessing the collectability of these accounts or to provide management with sufficient information to perform follow-up collection procedures. Additionally, a roll forward (beginning balance, grant revenue, collections, write-offs, ending balance) of deferred revenue could not be completed due to a lack of sufficient grant information in these accounts. Such roll forwards are a valuable tool in determining that revenue is being recorded properly in the School's accounts and that ending balances are accurate and supportable with sufficient data by grant.

Upon our request, School personnel analyzed the detail of these accounts and the adjustments cited above, plus a $2.4 million adjustment to record a reclassification of federal grant revenue erroneously recorded as private grant revenue, resulted from that analysis.

The effects of not maintaining subsidiary ledgers sufficient to properly age receivables, or to determine specific amounts outstanding, include the potential for inaccurate estimates of uncollectible amounts and the inability to identify balances requiring collection efforts which negatively impacts the cash flows of the School. The effect of not performing roll-forwards of balances by grant include the possibility of recording grant revenues in the wrong revenue accounts and misstating year-end balances in deferred revenue and accounts receivable.

As noted in our "Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards",* this matter is believed to be a material weakness. A material weakness is a reportable 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 caused by error or fraud 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. A reportable condition is a matter 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 School's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation No.1

The School should maintain Federal, state and private grant accounts receivable and deferred revenue subsidiary ledgers in sufficient detail to allow aging of the receivables in order to assess the collectability of the receivables and aide the School in its collection efforts. The School should also prepare a roll forward of Federal, state and private grant accounts receivable and deferred revenue to assure that revenues are being properly recorded both in amount and by classification.

Colorado School of Mines Response

Agree. In November of 2004, the School's Board of Trustees committed to purchase and implement an Enterprise Resource Planning system, SCT Banner. A component of the system is an integrated research administration module, which incorporates proposal, award, and financial administration. The research module, which was implemented February 24, 2006, effectively converted approximately 650 active awards. This new system will enhance the School's management of the grants portfolio which includes the ability to age sponsored receivables as well as facilitate the School's ability to provide reporting. Effective March, 2006, the School will produce monthly agings which will be utilized as a tool to administer collections as well as a management decision making tool. Additionally, given that a grants roll forward is not a standard report, the School will develop this report by April 30, 2006 and then will produce this report on a quarterly basis beginning with the year end June 30, 2006.

Agree Prior Year Ending Net Assets with Beginning Net Assets of Current Year

When the School began preparation of its Fiscal Year Ended June 30, 2005 financial statements, it noted that there was an unresolved difference in net assets as of June 30, 2004 of approximately $517,000 compared to its beginning net assets as of July 1, 2004. Net assets of the School as of June 30, 2004 were approximately $113.6 million. Disposition of the difference was not resolved until December 2005. After extensive research by the School, it was determined that a majority of this difference was caused by certain adjustments for Fiscal Year Ended June 30, 2004 that were recorded by the School for its stand-alone financial statements not being recorded on its general ledger.

In the financial reporting process, one key procedure in helping assure the financial statements are fairly presented is to reconcile, at the beginning of the fiscal year, ending net assets of the prior fiscal year with the related beginning net assets of the current fiscal year and to immediately research and remediate any noted discrepancies. By not having such a process in place, differences can go unresolved for extended periods of time and interim financial data can be misstated.

Recommendation No. 2

The School should compare net assets at the beginning of each fiscal year to net assets reported at the end of the immediately preceding year to determine if there are any discrepancies between ending and beginning net assets and timely resolve any such discrepancies.

Colorado School of Mines Response

Agree. Effective with the finalization of the June 30, 2005 year end close process which will incorporate all audit adjustments, accounting personnel will reconcile the ending net asset balances with the beginning net asset balances and ensure reconciliation. This task will be done by May 1, 2006. To ensure continued reconciliation, the School will produce a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows for the quarter ending March 31, 2006. Beginning with Fiscal Year 2007, accounting personnel will produce monthly a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and Statement of Cash Flows in order to ensure reconciliation as well as utilize as a management review and decision making tool.

Internal Controls Over Procurement Cards

The School purchased approximately $1.8 million for 2005 and $1.7 million for 2004 and 2003 in goods and services using procurement cards (P-cards), a form of credit card. Currently the School has approximately 400 P-cards issued on an organization-wide basis. No formal assessment has been made by the School as to whether or not it is appropriate to have 400 P-cards outstanding or whether this number of cards could be reduced to improve controls over the cards. Also, no formal training other than that conducted at the date of card issuance has been conducted for holders of the cards to assure that all current procedures surrounding their use are understood by the holders of the cards.

By not having periodic training for P-card holders, the likelihood of unapproved or inappropriate expenditures occurring increases significantly. Additionally, by not periodically evaluating the need for the number of P-cards outstanding and assessing the appropriateness of the need for current card holders to have a P-card, the time required for administrative oversight of P-card activity may be in excess of that which is necessary.

Recommendation No. 3

The School should conduct periodic training with respect to the School's policies over P-cards for card holders and evaluate whether or not a lesser number of issued P-cards would be feasible.

Colorado School of Mines Response

Agree. The School has formalized, documented policies and procedures over Procurement cards which includes training for all cardholders. The School maintains two versions of documented policies and procedures; a condensed version which is primarily used for cardholder reference (a copy is available on the web at: http://www.is.mines.edu/mmgmt/PCard%20Docs%20and%20PDFs/ProCardBooklet_98.doc) and an extended version which is also available in hard copy to cardholders and used primarily for approving officials.

Although all cardholders received training, management will enhance the training program and mandate training for cardholders on a more routine basis in alignment with the reissuance of cards (once every two years).

Management agrees that the School should evaluate whether or not a lesser number of issued P-cards is feasible. By June 30, 2006, the School will assess and evaluate the use of the P-card for small dollar purchases and determine what processes or policies need to be into place to mitigate risk as well as ensuring compliance with State Fiscal Rule 2-10 which requires the use of the procurement card for all small dollar transactions. Any resultant process or policy will then be implemented by September 1, 2006.

Financial Reporting Process

The School experienced a significant transition of key accounting personnel after June 30, 2005. Key positions that had turnover at or near June 30, 2005 included the Vice-President for Finance, Controller, Associate Director Fiscal Services, Bursar, Payroll Manager, Payroll Associate, Accounts Payable Associate and Research Associate. As a result, the financial reporting process was severely disrupted, particularly as it related to the School's financial statement preparation process for the Fiscal Year Ended June 30, 2005. Specifically, several series of revisions were necessary to modify the preliminary financial statements so that the basic financial statements were materially correct, that footnote detail supported the basic financial statements and was mathematically accurate and that the Management's Discussion and Analysis (MD&A) detail matched the basic financial statement information and was mathematically accurate. Without having a formalized financial reporting process that includes review and approval of the School's financial statements prior to the external audit being performed, the potential for inaccurate reporting or inadequate disclosures is significantly increased. We believe this matter to be a material weakness.

Recommendation No. 4

The School should modify its financial reporting process so that financial statements are prepared by one or more people within the Finance and Operations Department, other than the Controller, and a detail review of the financial statements should be performed by the Controller prior to the external auditors beginning their year-end fieldwork.

Colorado School of Mines Response

Agree. The School has hired key accounting personnel along with reorganized responsibilities and duties to better coordinate processes. A result of one of the reorganizations was the creation of a Financial Reporting and Accounting position with full responsibility for financial reporting and general accounting procedures. Routinely, financial statements will be produced in accordance with Governmental Accounting Standards Board (GASB) reporting standards beginning with the quarter end March 31, 2006 and then monthly beginning in Fiscal Year 2007. Year end financial statements presented to the auditors will be reconciled to the general ledger, will include complete substantiation of footnote data, will be compliant with GASB reporting standards, and will include an in-depth management level review.

Recording of Capital Assets

During the Fiscal Year Ended June 30, 2005, the School capitalized items that had acquisition costs below the School's $5,000 capitalization threshold or had useful lives of one year or less. Additionally, the School has not conducted a physical inventory of capital assets in recent years. The last physical inventory of capital assets was conducted by the School in Fiscal Year 2003. At the request of Grant Thornton LLP, the School reviewed its detail of capital assets for items that should not be included therein and, as a result, removed approximately $5.8 million of its library capital assets. Total capital assets, net of accumulated depreciation, as of June 30, 2005 was approximately $142.3 million, of which approximately $1.7 million was library materials, after adjustment.

The effect of not reviewing entries to capitalize costs of capital assets for accuracy and compliance with capitalization policies is that items may be capitalized rather than expensed and that such amounts might be material to the financial statements. Failure to conduct a physical inventory of capital assets at least annually could result in assets being carried on the books that no longer exist. Additionally, periodic physical inventories of capital assets reduce the possibility of theft of such assets. Also, State Fiscal Procedures Manual (Chapter 3, Section 3.11) states that "Furniture and equipment having a useful life of more than one year and an acquisition price of $5,000 or more per unit should be inventoried annually".

We believe this matter to be a material weakness.

Recommendation No. 5

The School should review entries to capitalize costs as capital assets for compliance with the School's capitalization policy and such entries should be approved prior to being posted to the general ledger. Additionally, the School should conduct a physical inventory of capital assets at least annually and items not located should be researched for proper disposition.

Colorado School of Mines Response

Agree. The process review of current year additions highlighted two isolated instances of incorrect categorization of capital assets; purchases incurred for the Banner system and purchases incurred for the Library. Management has drafted comprehensive procedures for the School's property, plant and equipment assets. These procedures include processes to ensure appropriate capitalization of assets, review of the capitalization process, as well as procedures to annually perform a physical inventory. The procedures will be finalized by March 1, 2006 and a physical inventory will be performed before June 30, 2006.

Performance of Bank Reconciliations

The School did not perform timely bank reconciliations of all cash accounts, particularly dormant accounts during the Fiscal Year Ended June 30, 2005. Additionally, bank reconciliations were not being reviewed and approved by someone other than the preparer to help assure that the reconciliations are being properly prepared and that reconciling items have proper support. Also, petty cash was not being reconciled or monitored on a regular basis. The School maintains seven cash accounts. Strong internal controls over cash dictate that reconciliations of all cash accounts be performed timely and that such reconciliations be reviewed and approved by someone other than the preparer. Without timely reconciliations of cash accounts, the possibility of errors in such accounts going undetected for long periods of time and the risk of fraud is significantly increased. Additionally, while petty cash funds may be immaterial to the total assets of the School, periodic reviews and reconciliations of petty cash on an unannounced basis helps to reduce the possibility of unlocated differences arising, either through error or theft. Petty cash maintained at different locations at the School as of June 30, 2005 totaled $26,523.

Recommendation No. 6

The School should prepare bank reconciliations for all deposit accounts on a timely basis. Additionally, bank reconciliations should be reviewed and approved by someone other than the preparer and such review and approval should be documented. Petty cash accounts should be periodically reviewed and reconciled.

Colorado School of Mines Response

Agree. Reconciliations of all bank accounts were performed for fiscal year end; the reconciliations, however, were performed at the end of the fiscal year rather than on a monthly basis. Bank reconciliations will be performed and reviewed on a monthly basis. On a consolidated basis, the School has seven bank accounts. As of February 27, 2006, four accounts are reconciled through January 2006, and the remaining three are in the process of being reconciled. All bank accounts will be reconciled by March 31, 2006 through the month of February. Subsequent bank reconciliations will continue to be performed on a monthly basis.

Investments Held on Behalf of the School by the Foundation

The Colorado School of Mines Foundation, Incorporated (Foundation) held approximately $10.3 million of investments on behalf of the School as of June 30, 2005. Certain gifts, particularly larger gifts, have been directed to the School, rather than the Foundation. Proceeds from these gifts, as well as certain significant revenues (e.g. proceeds from the sale of Supernet stock) are invested with the Foundation because of its investment expertise. The School has, in recent years, adopted and implemented controls over the tracking of donor restricted gifts. However, of the $10.3 million, the School lacked supporting documentation to distinguish the types of donor or other restrictions, if any, for approximately $230,000. These gifts were received prior to implementation of the School's current policies. Because the School is restricted on how it can use certain investments and the net appreciation on those investments, it is important to track all investments by the nature of restrictions, so that investments are not used contrary to such restrictions, if any. Failure to maintain a detail of restrictions on the investments could result in inaccurate reporting of the investments and/or improper use of the resources.

Recommendation No. 7

The School should attempt to determine if any donor or other type of restriction exists on these older donations and if it is unable to determine if such restrictions exist, document in the donor's file that fact and also include a description of the efforts it made in attempting to determine if any restrictions exist.

Colorado School of Mines Response

Agree. The School does maintain substantiation for the gifts received which are managed by the Foundation. Of the five gifts totaling $230,000 which substantiation could not be located; four were received in 1993 and prior and one was received in 1995. The School will continue to try to locate substantiation for these gifts. All subsequent gifts are substantiated. The School has a process in place to obtain and maintain substantiation which includes restrictions placed on the gifts by the donor. Implementation date of June 30, 2006.

Capture Detail Balances at Year End

Much of the School's detail information in its general ledger, particularly information supporting its statement of net asset accounts, is modified each time entries are made to the general ledger and thus the detail in the general ledger as of the last day prior to modification is lost. In order to capture that information at a certain point in time, such as at the end of a fiscal year, the School needs to print the required detail as of that date. Various detail listings of general ledger accounts (e.g. accounts payable detail) necessary to support and detail test such balances at June 30, 2005 were not printed as of that date. While the School was able to recreate much of the necessary detail for audit testing, the failure to print the detail at June 30, 2005 created additional work for its staff and delayed the audit process. Failure to print the required information at year end results in the loss of certain detail to support financial statement amounts.

Recommendation No. 8

The School should capture a detail of balances at year end supporting general ledger balances necessary to facilitate the audit process and for School file maintenance purposes.

Colorado School of Mines Response

Agree. The School's new SCT Banner system, with its effective date processing capability, does not lose the detail necessary to support the running of detail reports as of any given date. In particular, we have tested the ability to run the Accounts Payable Open Invoice Detail report as of a given prior date. Implementation date of June 30, 2006.

Reconciliation of Financial Activity/Transactions with the Foundation

As of June 30, 2005, the School's statement of net assets included approximately $10.3 million in amounts due from the Foundation in the form of investments held by the Foundation on its behalf and approximately $2.1 million of student loan funds administered for the Foundation. Additionally, the School's Statement of Revenues, Expenses and Changes in Net Assets reported contributions from the Foundation for the Year Ended June 30, 2005 of approximately $7.9 million. The School does not currently reconcile between the Foundation's records and the School's records all amounts due to/from or received from the Foundation on a regular basis. Failure to reconcile such amounts could result in differences between the amounts recorded on the books of the respective entities going undetected for long periods of time, thereby making the reconciliation at year end more difficult. Further, failure to reconcile increases the risk of errors or irregularities.

Recommendation No.9

The School should reconcile all due to/from balances and activity between the Foundation's records and the School's records at least quarterly and any differences should be resolved timely.

Colorado School of Mines Response

Agree. Procedures are currently being developed to record and reconcile all due to/from balances and activity between the Foundation records and the School. The School is working in collaboration with the Foundation in this process which will result in reconciling on a monthly basis beginning with the month ending March 31, 2006; this initial reconciliation will be done by May 31, 2006.

Receipt and Use of Federal Funds

The Colorado School of Mines (the School) participates in numerous federal grant programs throughout the year. These grants are largely for research and development programs within the School 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, 2005. During the year, the School had expenditures under these federal grants of $9,454,741 for the student financial aid cluster and $15,260,139 for the research and development grant cluster. Our testing noted instances of noncompliance with the requirements of Federal grants or OMB Circular A-133 as follows in Recommendations Nos. 10 through 16.

Cost of Attendance

Per the Federal Student Aid Handbook, Volume 3 – Chapter 2, "Calculating Awards and Packaging," Financial Aid Administrators of Title IV funds may use professional judgment under special circumstances to adjust the cost of attendance on a case-by-case basis to allow for special circumstances. However, the reason for the adjustment must be documented in the student's file. One case, out of a sample of thirty items tested, was noted where no documentation was included in the student's file supporting the professional judgment change to include transportation costs in an undergraduate's budget. The amount of the adjustment was $1,100. Failure to document professional judgment in the student's file for such adjustments could result in overpayment to the student.

Recommendation No. 10

The School should maintain documentation supporting any professional judgment changes in the respective student's file.

Colorado School of Mines Response

Agree. Management agrees that this student did not have adequate documentation in the file for the professional judgment decision to add a transportation allowance to the student expense budget. However, in this student's case, when the budget was updated to remove the transportation allowance, there was no overaward and no change to the student's financial aid awards. Additional training will be done by April 1, 2006 with all Financial Aid staff members to insure that they understand the requirements for having adequate documentation to support a professional judgment decision.

Timing of Crediting Student's Accounts

Per Cash Management Regulations 34 CFR 668.164, an institution makes a disbursement of Title IV funds on the date that the institution credits the student's account at the institution or pays a student/parent directly. An institution may, however, credit a student's account with the institutional funds in advance of receiving student financial assistance program funds no earlier than ten calendar days before the first day of classes of a payment period. In nine cases out of a sample size of thirty, funds were requested and applied prior to the tenth day before the first day of classes. In each of the cases, the School credited the student accounts on December 13, 2004, thirty days before classes began on January 12, 2005, and received deposit of funds on December 27, 2004. The total amount credited prior to the ten-day period was $34,309 (Pell $15,200; Perkins $3,600; FSEOG $1,700; Sub Stafford $7,798; Unsub Stafford $4,091; Stafford Plus $1,920). The result of advancing these funds prior to the ten-day limitation is that student's accounts are being credited prior to the time provided for under Federal regulations.

Recommendation No.11

The School should implement a procedure to assure that Title IV funds are not being credited to a student's account prior to ten calendar days before the first day of classes of a payment period.

Colorado School of Mines Response

Agree. In conjunction with the School's conversion to SCT Banner is the conversion to the Banner Financial Aid system. This conversion is in the process of implementation and will be finalized by April 1, 2006. The new system has already been programmed to not apply any funds to a student's account until a maximum of ten days prior to the beginning of an academic term.

Submission of Disbursement Records

Per Federal Register/Vol. 70, No. 70/Wednesday, April 13, 2005/Notices, an institution is required to submit Federal Pell Grant disbursement records to the U.S. Department of Education's (USDOE) Common Origination and Disbursement (COD) System no later than 30 days after disbursing the funds. Ten instances, out of thirty tested, were noted where the School did not report disbursement of funds within the 30-day period. For the ten instances noted, $16,500 was reported 35 days from the date the School received the funds for the disbursements. By reporting disbursement information after the 30-day requirement, the School is not in compliance with Federal guidelines.

Recommendation No. 12

The School should implement a procedure to assure timely reporting of Federal Pell Grant disbursements.

Colorado School of Mines Response

Agree. With the implementation of the new Banner Financial Aid system on April 1, 2006, reporting of changes to Federal Pell Grant disbursements will be automatically scheduled within the 30 day reporting period so that full compliance is maintained.

Review of FISAP

The School does not have a process in place for performing a detail review of its U.S. Department of Education "Financial Operation Report and Application to Participate" (FISAP) for the Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant and Federal Work Study Program. Additionally the School's general ledger does not have separate accounts to track Perkins financial information. The School's FISAP report, as originally submitted, contained incorrect student data and the financial data contained in the FISAP did not agree to the accounts in the general ledger. Once the errors were brought to the School's attention during the audit, the School corrected the student data information on the FISAP and submitted a corrected report. Failure to properly review the information on the FISAP prior to submission could result in inaccurate reporting of information.

Recommendation No. 13

The School should implement a review process such that the FISAP is reviewed and approved by someone other than the preparer. Additionally, separate accounts should be included in the general ledger to track Perkins activity and thus assist in the accurate completion of the FISAP.

Colorado School of Mines Response

Agree. The data for the FISAP is developed directly from individual student payment records, therefore resulting in a full detailed review by the preparer. The School will implement a secondary review process for the report which will take place with the development of the upcoming FISAP report.

Additionally, the School is in the process of creating separate general ledger accounts in order to track Perkins activity. This will be finalized by June 30, 2006.

Monitoring Subrecipients

U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* requires monitoring a subrecipient's "use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are met". The School's procedures to monitor subrecipients after the initial authorization of the grant agreement are comprised principally of sending an "audit letter" to the subrecipient asking verification of the status of the subrecipient's audit compliance. If the subrecipient indicates that its audit is complete and no material instances of non-compliance, material weaknesses and/or reportable conditions were found related to any sub-awards for the School, then no follow-up is required by the School. Additionally, if the subrecipient indicates it is not subject to OMB Circular A-133 because it is a for-profit organization, then no follow-up is required by the School. The OMB Circular A-133 compliance supplement states the following: "For subrecipients that are not required to submit a copy of the reporting package to a pass-through entity because there were "no audit findings" (i.e., because the schedule of findings and questioned costs did not disclose audit findings relating to the Federal awards that the pass-through entity provided and the summary schedule of prior audit findings did not report the status of audit findings relating to Federal awards that the pass-through entity provided, as prescribed in OMB Circular A-133 §.320(e)), the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on the Internet at http://harvester.census.gov/sac) as evidence to verify that the subrecipient had "no audit findings" and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to the pass-through entity when there are no audit findings". Additionally, OMB Circular A-133, §.210(e), requires establishing requirements to ensure compliance by for-profit subrecipients and that such requirements "may include pre-award audits, monitoring during the contract, and post-award audits". The School does not perform FAC verification procedures and its policies do not provide for for-profit subrecipient monitoring. Funds passed through to subrecipients by the School totaled $3,106,652 for the Year Ended June 30, 2005. Failure to monitor subrecipients in compliance with Federal guidelines could result in the misuse of funds by subrecipients or the subrecipients' failure to comply with compliance requirements going undetected and unreported.

Recommendation No.14

The School should expand its procedures for the monitoring of subrecipients to include review of the FAC database and the monitoring of for-profit subrecipients in order to be in compliance with Federal requirements.

Colorado School of Mines Response

Agree. In Fiscal Year 2005, the School established and implemented procedures to monitor subrecipients, however, we will expand those procedures to incorporate the current year recommendation. Implementation date of June 30, 2006.

Reporting

The School is required to make quarterly reporting of grant activity to the Federal government using Federal Cash Transaction Reports (SF 272) for each grant. Two reports out of thirty tested were submitted with information that did not agree to supporting documents. Specifically, net disbursements per the reports did not agree to the supporting documents and, as a result, intervening computations were incorrect. Failure to properly review such reports for accuracy and adequate documentation supporting amounts reported, could result in inaccurate reporting of such transactions.

Recommendation No. 15

The School should establish and implement procedures to review Federal SF 272 reports prior to submission to ensure the reports are accurate and that supporting documentation agrees with the reported amounts.

Colorado School of Mines Response

Agree. The School will put into place a process to review all Federal reports, not just SF 272, as well as non Federal reports and billing to ensure accuracy and completeness. The move away from a non-integrated manual reporting and billing process to an integrated, automated process with the new research administration module of SCT Banner, will facilitate the consistency and accuracy of the reporting and billing process. Procedures will be documented by March 31, 2006 which will encompass the processing and review of all reports and bills.

Determining Expenditures of Federal Awards

OMB Circular A-133 §.205 requires that, among other things, the use of loan proceeds under loan and loan guarantee programs be reported as Federal awards expended. For the Year Ended June 30, 2005, Federal Stafford loans of $7,737,162 ($4,634,109 subsidized and $3,103,053 unsubsidized) made during the year were omitted from reporting to the State Controller's Office for inclusion in its Schedule of Expenditures of Federal Awards. Failure to report Stafford loans as Federal expenditures results in the State underreporting its Federal expenditures and could result in the wrong number of programs being tested as major programs.

Recommendation No. 16

The School should implement procedures to assure that the requirements for determining Federal awards expended as defined under OMB Circular A-133 be reviewed and followed in reporting Federal expenditures to the State Controller's Office.

Colorado School of Mines Response

Agree. Although the School is not a direct lender of the Stafford Loan program, these loans are considered non cash awards expended. The School will develop a process to track these loans by June 30, 2006 and report them as federal expenditures.

Colorado School of Mines

Disposition of Prior Audit Recommendations

Years Ended June 30, 2005 and 2004

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2004 included four recommendations. The disposition of these audit recommendations, as of December 20, 2005, was as follows:

Recommendation Number	Recommendation	Disposition
1	The School should ensure that the accounting records and accounts are properly reconciled throughout the year and are appropriately monitored. This includes evaluating thresholds for review of journal entries and ensuring that all reconciliations and journal entries are adequately reviewed by management as prescribed by accounting policies.	Partially implemented. See current year Recommendations No. 1, No. 2, No. 6, and No. 9 for recommendations to improve the reconciliation process.
2	The School should closely evaluate all gifts for restrictions to ensure that nonexpendable net assets are properly reported in the future.	Partially implemented. See current year Recommendation No. 7.
3	The School should develop policies and procedures to ensure all financial data submitted to the State are complete and accurate. These procedures should include batch submission verification, check totals and monthly reconciliations of the FRS balances to the COFRS balances.	Implemented
4	The School should develop an accounting policies and procedures manual tailored to the School's specific transaction flows and accounts to ensure financial information is reported in an accurate, consistent and timely manner.	Partially implemented. The School has a Fiscal Office Procedures Manual but the Manual requires additional updating for such areas as the financial reporting process, etc. To be implemented by June 30, 2006.

Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Colorado School of Mines (the School), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Colorado School of Mines' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Colorado School of Mines Foundation, Incorporated, (the Foundation), the discretely presented component unit of the School. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors. The financial statements of Colorado School of Mines as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 15, 2004 (except for Note 16 as to which the date is October 27, 2004), expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the 2005 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Colorado School of Mines, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

As discussed in Note 15, the School adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005 on our consideration of the Colorado School of Mines internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 26 through 33 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

Denver, Colorado
December 20, 2005

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 School during the fiscal year ended June 30, 2005, with prior year data presented for comparative purposes. The activities of the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation, blended component units, have also been incorporated. The financial statements focus on the financial position and changes in financial position for the School as a whole.

In 2004, the School adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and as a result, the financial statements for the Colorado School of Mines Foundation, Incorporated (the Foundation), a legally separate organization whose operations benefit the School, is discretely presented within the School's financial statements.

Unless otherwise noted, the information and financial data included in management's discussion and analysis relate solely to the School. 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 fiscal year 2005 financial statements reported herein reflect an increase in net assets of $537,612. The performance marked several important activities during the year.

Tuition is a major source of revenue to the School representing 41% of total operating revenues for the Fiscal Year Ended June 30, 2005. Tuition revenue grew due to an increase in resident undergraduate student population combined with a 12% increase in tuition rates. Revenue from research increased slightly, due to increased levels of funding from the Federal government, however, State of Colorado funding for student financial aid as well as grants and contracts declined and funding from private entities also declined. State funding for operations was flat from 2004 to 2005.

While the financial position appears stable, the fiscal policy and economic conditions in Colorado continue to be of major concern. Reductions in the level of state appropriations were significant during fiscal year 2003 and they did not return to the pre-2003 levels in either fiscal year 2005 or 2006. State investment in capital projects may continue to be limited in the near future. Changes in the funding mechanism for higher education, through the implementation of the College Opportunity Fund enacted under Senate Bill 04-189 and clarified in Senate Bill 05-132, will present untold challenges in the next several years. It is anticipated that the passage of Referendum C by Colorado voters in November 2005 will prevent further reductions in higher education funding, and may present new opportunities for additional state support.

Statement of Net Assets

The statement of net assets includes all assets and liabilities of the School as of the fiscal year. 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.

Condensed Statements of Net Assets (in thousands)

Comparative Statements
June 30, 2005, 2004 and 2003

	2005	2004	2003
Assets			
Current assets	$ 39,391	$ 33,568	$ 30,883
Noncurrent assets			
Capital	142,333	137,193	123,254
Other	31,694	29,998	46,306
Total assets	213,418	200,759	200,443
Liabilities			
Current liabilities	20,079	20,650	19,991
Noncurrent liabilities	79,214	66,521	67,286
Total liabilities	99,293	87,171	87,277
Net Assets			
Invested in capital assets, net of related debt	85,132	87,261	91,232
Restricted			
Nonexpendable	1,685	1,319	1,319
Expendable	7,594	8,511	6,475
Unrestricted	19,714	16,497	14,140
Total net assets	$ 114,125	$ 113,588	$ 113,166

The Colorado School of Mines has a ratio of current assets to current liabilities of 2.0 at June 30, 2005, 1.6:1 at June 30, 2004 and 1.5:1 at June 30, 2003 and a ratio of total assets to total liabilities of 2.1:1 at June 30, 2005 compared to 2.3:1 at June 30, 2004 and 2.0:1 at June 30, 2003. These ratios continue to remain strong and indicate that the School is positioned well for covering both current and long-term obligations.

The School's capital assets consist of land, land improvements, buildings and improvements, equipment, library materials and construction in progress totaling $142.3 million at June 30, 2005. This amount is net of accumulated depreciation of $89.4 million. Construction in progress includes the building of several new projects, including a recreation center, scheduled to be completed in January 2007. Financing for this activity came from various sources including bonds issued in November 2002 and the bonds issued in October 2004. Further detail regarding capital asset activity can be found in the footnotes to these financial statements.

Net assets, which represent the difference between School assets and liabilities, total $114.1 million at June 30, 2005. During the fiscal year 2005, net assets increased by $537,612.

The primary changes during fiscal year 2005 on the statement of net assets are attributed to activity related to the construction projects funded by the issuance of revenue bonds in November 2002 and October 2004. New construction and capital projects accounted for the addition of slightly over $5 million in net capital assets. The projects included the start up of construction for the recreation center and the campus one-card system.

Restricted cash balances included funds from the 2002 and 2004 bond proceeds. The slight increase in restricted cash and cash equivalents was due to the proceeds from the issuance of the 2004 bonds reduced by the above referenced capital expenditures. Current cash and short-term investments grew by approximately $6 million. Increased tuition revenues in the amount of $4.3 million, $2 million of capital funding and gifts and a $3 million receipt from the Petroleum Institute contributed to this increase in cash and cash equivalents.

Statements of Revenues, Expenses and Changes in Net Assets

The statement 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.

Condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands)
Comparative Statements
Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2003
Operating Revenues			
Tuition and fees, net	$ 30,736	$ 26,395	$ 24,573
Grants and contracts	34,793	33,849	36,548
Auxiliary enterprises	9,417	9,568	8,302
Other operating revenues	606	865	670
Total operating revenues	75,552	70,677	70,093
Operating Expenses	99,816	98,835	103,838
Operating Loss	(24,264)	(28,158)	(33,745)
Nonoperating Revenues (Expenses)			
State appropriations	17,188	17,188	16,953
Contributions from the Foundation	7,926	8,137	8,723
Other nonoperating revenues (expenses)	(3,029)	1,260	1,916
Net nonoperating revenues	22,085	26,585	27,592
Loss Before Contributions	(2,179)	(1,573)	(6,153)
Contributions			
State capital contributions	2,716	1,574	2,137
Capital grants and gifts	-	421	498
Increase (Decrease) in Net Assets	537	422	(3,518)
Net Assets, Beginning of Year	113,588	113,166	116,684
Net Assets, End of Year	$ 114,125	$ 113,588	$ 113,166

Total operating revenues for fiscal year 2005 were $75.5 million compared to $70.7 million in fiscal year 2004 and $70.1 million in fiscal year 2003. A large freshman class in the fall of 2004 led to a 3.4% increase in the student body. The increase in student population combined with a tuition increase of 12% for resident undergraduate students led to an increase in net tuition revenues of $4.3 million in fiscal year 2005.

Although the School's research revenues increased slightly, the number of awards increased by 8.3% in fiscal year 2005. Federal awards increased by 15.3% and state research awards increased by 40%. The School had 22 state-funded grants in Fiscal Year 2005, a slight increase over Fiscal Year 2004. Non-governmental grants remained steady in terms of the number of grants and contracts but the revenues were down by approximately 7.6%.

Net nonoperating revenues (expenses) of $22.1 million include state appropriations of $17.2 million, $8.0 million of gifts, $2.0 million of investment income, $(3.3) million of interest payments on capital debt, a $(3.5) million loss on removal of library capital assets and $1.7 million of other items, net.

Tuition revenues depend directly on student enrollment; recent enrollment has been increasing, 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, with the non-resident undergraduate population regaining enrollment in fiscal year 2004-2005 and graduate non-resident enrollments experiencing a continued decline. The School is seeking ways to increase the number of non-resident graduate students.

	Undergraduates			Graduate Studies			Combined		
Fiscal Year	Residents	Non-residents	Total	Residents	Non-residents	Total	Residents	Non-residents	Total
2004-05	2,468	638	3,106	339	182	521	2,807	820	3,627
2003-04	2,303	626	2,929	312	204	516	2,615	830	3,445
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	2,016	675	2,691	328	258	586	2,344	933	3,277

Tuition rates, shown below, support the School's tuition and fee revenues. Reasonable rates of growth, along with stable student enrollment levels, indicate the School'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
2004-05	$6,336	$19,240	$3,420	$4,050	$3,028
2003-04	$5,700	$19,030	$3,300	$3,925	$2,912
2002-03	$5,246	$17,516	$3,200	$3,783	$2,800
2001-02	$4,940	$16,070	$2,996	$3,544	$2,632
2000-01	$4,750	$15,304	$2,913	$3,434	$2,519
1999-00	$4,616	$14,716	$2,775	$3,246	$2,421

Undergraduate admissions data, outlined below, show another aspect of the School's basis for student enrollment. The 2003, 2004, and 2005 increases in applications reflect a new marketing program, which resulted in a higher quality and larger entering freshman class for each year.

Fall Semester Undergraduate Admissions

Fall of Year	Number of Applicants	Number Accepted	Percent Accepted	Number Committed	Percent Committed
2005	3,444	2,722	79.0%	971	35.7%
2004	3,323	2,802	84.3%	868	31.0%
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	1,692	74.0%	681	40.2%

Operating Expenses by Function Compared with Operating Expenses by Natural Classification (in thousands)

Years Ended June 30, 2005, 2004 and 2003

	2005		2004		2003	
Function						
Instruction	$ 34,815	34.9%	$ 35,005	35.4%	$ 35,604	34.3%
Research	21,461	21.5%	20,365	20.6%	23,004	22.2%
Academic support	6,561	6.6%	5,680	5.8%	5,846	5.6%
Student services	3,601	3.6%	4,289	4.3%	3,546	3.4%
Institutional support	6,567	6.6%	6,973	7.1%	6,703	6.5%
Operation and maintenance of plant	8,698	8.7%	9,782	9.9%	8,949	8.6%
Scholarships and fellowships	902	0.9%	818	0.8%	872	0.8%
Auxiliary enterprises	11,841	11.8%	7,980	8.1%	8,229	7.9%
Depreciation	5,370	5.4%	7,943	8.0%	11,085	10.7%
Total operating expenses	$ 99,816	100.0%	$ 98,835	100.0%	$ 103,838	100.0%
Classification						
Wages and benefits						
Faculty wages	$ 38,445	56.2%	$ 30,914	50.6%	$ 31,983	51.0%
Classified wages	11,320	16.5%	10,614	17.4%	11,098	17.6%
Student wages	1,821	2.7%	6,997	11.5%	6,970	11.1%
Benefits	13,976	20.4%	9,532	15.6%	9,589	15.3%
	65,562	95.8%	58,057	95.1%	59,640	95.0%
Personal service contracts	2,861	4.2%	2,980	4.9%	3,113	5.0%
	$ 68,423	100.0%	$ 61,037	100.0%	$ 62,753	100.0%
Total wages and benefits	$ 68,423	68.5%	$ 61,037	61.8%	$ 62,753	60.4%
Scholarships and fellowships	902	0.9%	3,659	3.7%	4,177	4.0%
Utilities	3,243	3.2%	3,018	3.1%	2,376	2.3%
Supplies and other	21,878	22.0%	23,178	23.4%	23,447	22.6%
Depreciation	5,370	5.4%	7,943	8.0%	11,085	10.7%
Total operating expenses	$ 99,816	100.0%	$ 98,835	100.0%	$ 103,838	100.0%

Statements of Cash Flow

The statement of cash flows presents the School's major sources and uses of cash. It portrays information related to cash in-flows and out-flows summarized by operating, capital and related financing, noncapital financing and investing activities.

Condensed Statements of Cash Flows (in thousands)

Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2003
Cash and cash equivalents provided/(used) by			
Operating activities	$ (16,658)	$ (21,997)	$ (18,260)
Noncapital financing activities	27,905	26,686	27,614
Capital and related financing activities	(2,841)	(20,211)	14,018
Investing activities	(3,065)	6,578	2,268
Net (decrease) increase in cash and cash equivalents	5,341	(8,944)	25,640
Cash and cash equivalents, beginning of year	27,223	36,167	10,527
Cash and cash equivalents, end of year	$ 32,564	$ 27,223	$ 36,167

Major sources of cash from operating activities include tuition and fees ($39.4 million) and grants, contracts and gifts ($32.9 million). Major uses of funds go to employees for salaries and benefits ($60.1 million) and to suppliers of goods and services ($17.3 million). The state appropriation of $17.2 million is the major source of noncapital financing activities.

Capital and related financing activities reflect the construction of the campus projects related to the 2002 and 2004 Revenue Bonds, as stated elsewhere in this report.

Cash in-flows related to investment activities include proceeds from a trust payout and earnings on deposits with the State Treasurer, and cash from investment income on 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 School'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 41% of all operating revenues and are therefore vital to the School's continuing ability to provide high quality academic programs that continue to attract students. The state appropriation continued at approximately 17% of all revenues in fiscal year 2005. The level of state support remains a critical factor influencing the School's ability to deliver its highly regarded academic programs.

New legislation under Senate Bill 04-189, shifting state support for undergraduate education from the institution to the student, will impact the School in fiscal year 2006. The result of the College Opportunity Fund (COF) will be to redirect state support to the School by awarding the student a stipend that can be redeemed by the School for tuition assistance. Another key ingredient of this shift will be the fee-for-service contracts, under which the Colorado Commission on Higher Education (CCHE) will pay the School for specialized engineering support and graduate education services.

One impact of this shift in the delivery of state funds was to lower the level of state support, allowing the School to achieve TABOR exempt enterprise status more easily. Enterprise status would allow the institution to have more freedom in establishing tuition rates in the future and to pledge tuition revenues for bond payments. The School believes it will qualify for enterprise status for fiscal 2006, but final determination will not be made until the end of the fiscal year.

Colorado voters passed Referendum C in November 2005, which will allow the State to keep all revenues collected for five years beginning in fiscal year 2006. The additional revenue will eliminate the need for further cuts, but it is not clear if higher education and the School will receive increased State support. In addition, the State's planned investment in capital projects has been severely limited. The School did obtain funding for two projects in fiscal year 2005, but reduced levels of state capital funding has reduced the School's ability to proceed with some planned building improvements and expansions.

Colorado School of Mines
Statements of Net Assets
June 30, 2005 and 2004

	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	$ 16,791,809	$ 12,196,219
Short-term investments	15,535,901	14,094,901
Accounts receivable, net of allowance; 2005 – $292,361; 2004 – $189,851	1,632,266	2,183,729
Federal and state grants receivable, net of allowance; 2005 - $318,657; 2004 - $0	2,120,708	2,656,615
Other receivables, net of allowance; 2005 – $497,341, 2004 – $32,055	2,653,802	1,677,962
Inventories	90,540	190,140
Loans to students, net of allowance; 2005 – $5,309; 2004 – $6,154	514,540	519,446
Prepaid expenses	51,244	49,250
Total current assets	39,390,810	33,568,262
Noncurrent Assets		
Restricted cash and cash equivalents	15,772,063	15,026,395
Restricted investments	5,276,461	4,877,509
Other noncurrent investments	5,245,608	4,939,063
Loans to students, net of allowance; 2005 – $166,240; 2004 – $192,541	4,256,842	4,188,098
Capital assets, net	142,332,508	137,192,634
Bond issuance costs, net	1,143,500	967,033
Total noncurrent assets	174,026,982	167,190,732
Total assets	213,417,792	200,758,994
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	10,223,185	9,619,315
Deferred revenue	8,149,697	9,064,902
Capital leases payable – current portion	-	100,000
Bonds payable – current portion	845,000	255,278
Other current liabilities	861,282	1,610,999
Total current liabilities	20,079,164	20,650,494
Noncurrent Liabilities		
Accrued compensated absences	3,171,535	3,029,360
Accrued interest payable	1,387,596	1,551,226
Deferred revenue	2,458,333	2,958,333
Student loan funds administered for the Foundation	2,113,559	1,174,903
Bonds payable	70,082,326	57,807,011
Total noncurrent liabilities	79,213,349	66,520,833
Total liabilities	99,292,513	87,171,327
Net Assets		
Invested in capital assets, net of related debt	85,132,053	87,261,726
Restricted		
Nonexpendable		
Scholarships and fellowships	762,192	1,318,644
Other	922,438	-
Expendable		
Scholarships and fellowships	1,754,975	1,910,566
Loans	4,190,748	5,495,739
Other	1,648,918	1,104,316
Unrestricted	19,713,955	16,496,676
Total net assets	$114,125,279	$ 113,587,667

The accompanying notes are an integral part of the financial statements

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statements of Financial Position
June 30, 2005 and 2004

	June 30, 2005	June 30, 2004
Assets		
Assets		
Cash and cash equivalents	$ 441,362	$ 998,100
Intermediate-term investments	4,921,191	590,915
Contributions receivable	2,857,185	4,719,861
Student loans receivable		
Revolving loan fund - Colorado School of Mines	1,044,886	1,089,930
Direct student loans	1,117,984	1,174,903
Contributions receivable from trusts held by others	3,031,031	2,514,433
Assets held under split-interest agreements	16,273,236	15,721,139
Beneficial interest in endowments held by others	7,722,255	7,761,610
Beneficial interest in long-term trusts held by others	1,942,549	1,842,998
Long-term investment pool	122,995,253	112,875,018
Real estate held for future use	680,469	1,335,845
Equipment, net of accumulated depreciation of $620,166 and $643,957	49,067	61,334
Other assets	250,382	219,573
Restricted net assets held by Property Management Corp.	72,696	77,899
Total assets	$ 163,399,546	$ 150,983,558
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 745,008	$ 349,176
Obligations under split-interest agreements	6,783,346	7,555,295
Obligations under gift annuity agreements	3,132,737	3,311,204
Assets held for others	10,883,677	10,366,742
Other liabilities	73,168	91,703
Total liabilities	21,617,936	21,674,120
Net assets		
Unrestricted		
Undesignated	2,770,617	1,575,735
Board designated	12,505,050	12,422,886
Total unrestricted	15,275,667	13,998,621
Temporarily restricted	38,632,857	32,302,346
Permanently restricted	87,873,086	83,008,471
Total net assets	141,781,610	129,309,438
Total liabilities and net assets	$ 163,399,546	$ 150,983,558

The accompanying notes are an integral part of the financial statements

Colorado School of Mines
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Revenues		
Tuition and fees, net	$ 30,735,523	$ 26,395,448
Federal grants and contracts	20,237,858	18,232,614
State grants and contracts	2,418,243	2,482,126
Nongovernmental grants and contracts	12,136,204	13,133,501
Interest on student loans receivable	43,109	133,594
Auxiliary enterprises, net	9,417,488	9,568,127
Other operating revenues	563,894	731,399
Total operating revenues	75,552,319	70,676,809
Operating Expenses		
Instruction	34,814,780	35,005,273
Research	21,461,072	20,364,453
Academic support	6,560,714	5,680,391
Student services	3,601,066	4,289,401
Institutional support	6,566,573	6,972,773
Auxiliary enterprises	11,841,301	7,979,811
Operation and maintenance of plant	8,698,767	9,782,190
Scholarships and fellowships	901,978	817,710
Depreciation	5,370,321	7,942,562
Total operating expenses	99,816,572	98,834,564
Operating Loss	(24,264,253)	(28,157,755)
Nonoperating Revenues (Expenses)		
State appropriations	17,187,980	17,187,980
Contributions from Colorado School of Mines Foundation, Incorporated	7,926,440	8,137,377
Contributions - other	125,329	1,327,915
Investment income	1,954,854	1,620,920
Rental income	1,442,967	-
Interest on capital asset-related debt	(3,327,292)	(1,777,531)
Loss on disposal of assets	(3,509,009)	-
Other nonoperating revenues	284,315	88,237
Net nonoperating revenues	22,085,584	26,584,898
Loss Before Contributions	(2,178,669)	(1,572,857)
Capital Appropriations – State	2,716,281	1,574,090
Capital Grants and Gifts	-	420,354
Increase in Net Assets	537,612	421,587
Total Net Assets, Beginning of Year	113,587,667	113,166,080
Total Net Assets, End of Year	$ 114,125,279	$ 113,587,667

The accompanying notes are an integral part of the financial statements

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statement of Activities
Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and support				
Contributions	$ 1,439,367	$ 7,732,610	$ 2,371,011	$ 11,542,988
Interest and dividends	337,057	1,055,586	219,698	1,612,341
Net realized and unrealized gains	1,675,786	6,956,990	480,719	9,113,495
Changes in net present values of split-interest agreements	100,320	662,132	315,834	1,078,286
Changes in interest in net assets of Property Management Corp.	-	7,957	(13,160)	(5,203)
Other income (loss)	(523,351)	42,246	5,003	(476,102)
Total revenues, gains and support	3,029,179	16,457,521	3,379,105	22,865,805
Net assets released from restrictions				
Satisfaction of program restrictions	6,947,625	(6,947,625)	-	-
Administration fees	736,923	(736,923)	-	-
Realization of promises to give	623,285	(623,285)	-	-
Cancellation of pledges	56,241	(49,450)	(6,791)	-
Other reclassifications	277,426	(1,769,727)	1,492,301	-
Total net assets released	8,641,500	(10,127,010)	1,485,510	-
Expenses				
School support	8,036,513	-	-	8,036,513
Fundraising	1,828,486	-	-	1,828,486
Alumni Association	100,000	-	-	100,000
Management and general	372,393	-	-	372,393
Cancellation of pledges	56,241	-	-	56,241
Total expenses	10,393,633	-	-	10,393,633
Change in net assets	1,277,046	6,330,511	4,864,615	12,472,172
Net assets at beginning of year	13,998,621	32,302,346	83,008,471	129,309,438
Net assets at end of year	$ 15,275,667	$ 38,632,857	$ 87,873,086	$ 141,781,610

The accompanying notes are an integral part of the financial statements

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statement of Activities
Year Ended June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and support				
Contributions	$ 1,159,442	$ 4,909,502	$ 4,705,620	$ 10,774,564
Interest and dividends	376,021	852,898	195,065	1,423,984
Net realized and unrealized gains	3,056,066	14,145,458	553,528	17,755,052
Changes in net present values of split-interest agreements	(223,193)	(974,153)	(373,352)	(1,570,698)
Changes in interest in net assets of Property Management Corp.	-	(2,670)	13,160	10,490
Other income (loss)	79,643	13,058	6,233	98,934
Total revenues, gains and support	4,447,979	18,944,093	5,100,254	28,492,326
Net assets released from restrictions				
Satisfaction of program restrictions	7,395,747	(7,395,747)	-	-
Administration fees	639,485	(639,485)	-	-
Realization of promises to give	172,731	(172,731)	-	-
Cancellation of pledges	26,425	(23,675)	(2,750)	-
Other reclassifications	3,458,283	(6,571,429)	3,113,146	-
Total net assets released	11,692,671	(14,803,067)	3,110,396	-
Expenses				
School support	8,252,081	-	-	8,252,081
Fundraising	1,786,808	-	-	1,786,808
Alumni Association	92,000	-	-	92,000
Management and general	359,385	-	-	359,385
Cancellation of pledges	26,425	-	-	26,425
Total expenses	10,516,699	-	-	10,516,699
Change in net assets	5,623,951	4,141,026	8,210,650	17,975,627
Net assets at beginning of year	8,374,670	28,161,320	74,797,821	111,333,811
Net assets at end of year	$ 13,998,621	$ 32,302,346	$ 83,008,471	$ 129,309,438

The accompanying notes are an integral part of the financial statements

Colorado School of Mines
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities		
Tuition and fees	$ 39,415,892	$ 25,730,961
Grants and contracts	32,937,167	33,771,514
Payments to suppliers	(17,319,060)	(21,501,002)
Scholarships disbursed	(9,030,884)	(817,710)
Payments to employees	(60,115,793)	(62,105,047)
Loans issued to students	(63,838)	(891,174)
Collection of loans to students	84,541	1,275,721
Sales and services of auxiliary enterprises	9,719,220	9,787,964
Payments for auxiliary enterprises	(12,892,750)	(7,979,812)
Other receipts	607,003	731,399
Net cash used by operating activities	(16,658,502)	(21,997,186)
Cash Flows from Noncapital Financing Activities		
State appropriations	17,187,980	17,187,980
Receipts from the Colorado School of Mines Foundation, Incorporated	7,926,440	8,082,072
Student loan funds administered by the Foundation	938,656	—
Gifts & grants for other than capital purposes	125,329	1,327,915
Rental income	1,442,967	—
Other receipts	284,315	88,237
Net cash provided by noncapital financing activities	27,905,687	26,686,204
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of revenue bonds payable	28,056,558	—
Cash paid for bond issuance costs	(388,896)	28,595
Capital appropriations – state	2,716,281	1,574,090
Capital grants, contracts and gifts received	—	420,356
Acquisition and construction of capital assets	(14,019,202)	(19,911,073)
Payment for bond defeasements	(4,410,102)	—
Refinance of debt	(10,555,000)	—
Principal paid on capital leases and revenue bonds payable	(750,000)	(858,025)
Interest paid on capital asset-related debt	(3,490,922)	(1,464,875)
Net cash used in capital and related financing activities	(2,841,283)	(20,210,932)
Cash Flows from Investing Activities		
Interest and dividends on investments	1,954,854	1,616,958
Purchase of investments	(15,477,788)	—
Proceeds from sales and maturities of investments	10,458,290	4,960,817
Net cash provided by (used in) investing activities	(3,064,644)	6,577,775
Increase (decrease) in Cash and Cash Equivalents	5,341,258	(8,944,139)
Cash and Cash Equivalents, Beginning of Year	27,222,614	36,166,753
Cash and Cash Equivalents, End of Year	$ 32,563,872	$ 27,222,614

(continued)

The accompanying notes are an integral part of the financial statements

Colorado School of Mines
Statements of Cash Flows (continued)
Years Ended June 30, 2005 and 2004

	2005	2004
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	$ 16,791,809	$ 12,196,219
Restricted cash and cash equivalents – non current	15,772,063	15,026,395
Total cash and cash equivalents	$ 32,563,872	$ 27,222,614
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (24,264,253)	$ (28,157,755)
Depreciation expense	5,370,321	7,942,562
Loss on disposal of capital assets	3,509,009	—
Allowance for doubtful accounts	859,307	420,601
Changes in operating assets and liabilities		
Receivables, net	(747,777)	(810,972)
Inventories	99,600	—
Prepaid expenses	(1,994)	83,264
Loans to students	(63,838)	—
Accounts payable and other liabilities	603,870	(1,433,551)
Deferred revenue	(1,415,205)	(99,890)
Accrued compensated absences	142,175	—
Other current liabilities	(749,717)	58,555
Net Cash Used in Operating Activities	$ (16,658,502)	$ (21,997,186)
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	$ 638,668	$ 708,541

The accompanying notes are an integral part of the financial statements

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statements of Cash Flows
Year Ended June 30, 2005 and 2004

	For the Years Ended June 30, 2005	For the Years Ended June 30, 2004
Cash flows from operating activities		
Change in net assets	$ 12,472,172	$ 17,975,627
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in net assets held by property management corporation	5,203	(10,490)
Depreciation and amortization	64,143	99,289
Net realized and unrealized gains	(9,113,495)	(17,755,052)
Cancellation of pledges	56,241	26,425
Loss on the sale of real estate held for future use	622,367	-
Changes in net present values of split-interest agreements	(1,078,286)	1,570,698
Contributions restricted for long-term investment	(2,371,011)	(4,705,620)
Split-interest trust agreements	-	(53,845)
Gift of beneficial interest in long-term trust	(403,599)	(801,870)
Changes in assets and liabilities		
Contributions receivable	1,806,435	967,072
Receivables from trust	(272,349)	453,986
Other assets	(30,809)	(901)
Accounts payable and other liabilities	377,297	(42,751)
Assets held for others	516,935	2,312,305
	(9,820,928)	(17,940,754)
Net cash provided by operating activities	2,651,244	34,873
Cash flows from investing activities		
Purchases of investments	(12,352,907)	(27,309,938)
Sales of investments	7,567,656	24,326,159
Net student loan activity	101,963	133,526
Purchase of property and equipment	(18,869)	(34,134)
Proceeds from the sale of real estate held for future use	2	276,346
Net cash used in investing activities	(4,702,155)	(2,608,041)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term investment	2,371,011	4,705,620
Payment of split-interest agreement and gift annuity obligations	(876,838)	(1,462,401)
Net cash provided by financing activities	1,494,173	3,243,219
Net (decrease) increase in cash and cash equivalents	(556,738)	670,051
Cash and cash equivalents at beginning of year	998,100	328,049
Cash and cash equivalents at end of year	$ 441,362	$ 998,100

The accompanying notes are an integral part of the financial statements

Colorado School of Mines
Notes to Financial Statements
June 30, 2005 and 2004

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Colorado School of Mines (the School) is a public institution of higher education with a primary emphasis in engineering and science education and research. The School is 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, Incorporated (the Foundation). The School extends unsecured credit to its students.

As an institution of the State of Colorado, the School'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 School in excess of appropriated amounts are retained by the School for future use.

Reporting Entity and Component Units

The financial statements of the School include all of the integral parts of the School's operations. The School applied various criteria to determine if it is financially accountable for any organization that would require that organization to be included in the School'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 financial statements present the School (primary government), its discretely presented component unit – the Colorado School of Mines Foundation, Incorporated (see Note 6), and its blended component units – the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation (see Note 7). The blended component units are included in the School's reporting entity because they provide services entirely, or almost entirely, to the School or otherwise exclusively, or almost exclusively, benefit the School, in accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The discretely presented component unit is included because it meets all three of the criteria included in Statement No. 39 of the Governmental Accounting Standards Board -*Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement No. 14*. Financial statements of the Colorado School of Mines Foundation, Incorporated and the Colorado School of Mines Development Corporation can be obtained from their administrative offices. Separate financial statements of the Colorado School of Mines Building Corporation are not prepared.

Basis of Accounting and Presentation

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

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

The Colorado School of Mines Foundation, Incorporated (the Foundation) reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the School's financial reporting entity for these differences. Because the Foundation uses a GAAP reporting model that is different from the School's reporting model, the School has chosen to report the Foundation's financial statements on separate pages as permitted by GASB 39.

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 School considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of funds invested through the State Treasurer's Cash Management Program, funds managed by the Foundation on behalf of the School, 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, charges for auxiliary enterprise services provided to students, faculty and staff and reimbursements outstanding on research contracts and grants. 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 School makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible loans netted against loans to students was $171,549 and $198,695 at June 30, 2005 and 2004, respectively.

Bond Issuance Costs

Bond issuance 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, 2005 and 2004, was approximately $438,000 and $26,000, respectively, and is included in interest on capital asset-related debt. Included in the $438,000 is approximately $389,000 of bond issuance costs written-off in 2005 for bonds refunded during the year.

Capital Assets

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

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

The School 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. Due to the minimal amount of construction related to the bonds in 2005, the School did not capitalize interest.

Total interest expense for the years ended June 30, 2005 and 2004 was $3,327,292 and $1,777,531, respectively, which includes $171,215 and $26,000, respectively, of amortization of discounts and deferred gains on refundings.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2005 and 2004 are as follows:

	2005	2004
Accounts payable	$ 2,996,667	$ 3,688,068
Salaries and benefits payable	7,226,518	5,931,247
Total	$ 10,223,185	$ 9,619,315

Compensated Absences

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

Deferred Revenue – Tuition, Fees and Grants

Deferred revenue represents unearned student tuition, fees and advances on grants and contract awards for which the School has not met all of the applicable eligibility requirements. Deferred revenue for tuition, fees and grants totaled $5,816,364 and $6,731,570 at June 30, 2005 and 2004, respectively.

Deferred Revenue – Development Assistance and Trademark License

The School entered into a ten-year agreement to provide development assistance and other planning activities in connection with the development of a foreign school. Additionally, the School received a nonrefundable up-front fee for a non-exclusive license to use its trademarks for the term of the agreement. Development assistance fees and trademark license fees are recognized as revenue over the term of the agreement. Deferred revenue for development assistance and the trademark license totaled $4,791,666 and $5,291,665 at June 30, 2005 and 2004, respectively.

Debt

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

Classification of Revenues

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

> Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions or program specific, government mandated nonexchange 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 not deemed operating revenues.

Scholarship Discounts and Allowances

Student tuition, fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the School and the amount that is paid by students and/or third-parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state or nongovernmental programs are recorded as either operating or nonoperating revenues in the School's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the School has recorded a scholarship allowance. The scholarship allowances on tuition and fees and on housing for the year ended June 30, 2005 were $8,128,906 and $301,732, respectively, and for the year ended June 30, 2004, were $8,817,280 and $55,397, respectively.

Income Taxes

As a state institution of higher education, the income of the School is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the School is subject to federal income tax on any unrelated business taxable income. The School had no material unrelated business income for the years ended June 30, 2005 and 2004.

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 financial statement presentation. Certain investments were reclassified to cash and cash equivalents. These reclassifications had no effect on the change in net assets.

Note 2: Deposits, Investments and Investment Return

Deposits

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

	2005	2004
Insured (FDIC insured)	$ 286,351	$ 242,416
Collateralized by securities held by the pledging financial institution's trust department or agent in the School's name	7,904,418	13,823,284
Total	$ 8,190,769	$ 14,065,700
Carrying amount	$10,700,304	$ 17,231,998

Additionally, the School had $26,523 at June 30, 2005 and 2004 in cash on hand (petty cash).

Deposits are exposed to custodial credit risk (the risk that, in the event of the failure of a depository financial institution, the government would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party), if they are not covered by depository insurance and are collateralized with securities held by the pledging financial institution, except for deposits collateralized by certain types of collateral pools including a single financial institution collateral pool where the fair value of the pool is equal to or exceeds all uninsured public deposits held by the financial institution ((e.g. deposits insured by The Public Deposit Protection Act (PDPA)). Accordingly, none of the School's deposits as of June 30, 2005 are deemed to be exposed to custodial credit risk.

Additionally, at June 30, 2005 and 2004, the School had $21,837,045 and $9,964,093 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

In Fiscal Year 2004-05, the School implemented Governmental Accounting Standards Board Statement No. 40 – *Deposit and Investment Risk Disclosures*. The standard primarily changes the required disclosures of investment custodial risk and adds disclosures of credit quality risk and interest rate risk.

The School has authority to invest institutional funds in any investment deemed advisable by the governing board per section 15-1-1106, C.R.S. The School may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in equity securities.

Credit and Interest Rate Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally statistical rating organization (NRSRO). Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the School's investments is measured by monitoring the modified duration of the overall investments portfolio. Modified duration estimates the sensitivity of the School's investments to changes in the interest rates. The following table presents the applicable investment type by rating and the modified duration.

Investments at June 30, 2005 and 2004 consisted of the following:

Investment	Fair Value 2005	Fair Value 2004	Maturity	Credit Rating	Rating Agency
Money Market Mutual Funds	$15,660,573	$13,530,292	21 days	AAA	Standard & Poor's
Corporate Equities	80,780	80,780	N/A	Not rated	
Investment Pool:					
Corporate Bonds	1,565,202	400,135	2.5-7 years	AA+	Standard & Poor's
Corporate Equities	8,751,415	9,900,266	N/A	Not rated	
Total	$26,057,970	$23,911,473			

The investment pool consists of investments managed by the Colorado School of Mines Foundation, Incorporated, on behalf of the School and is reflected in Long-Term Investment Pool on the Foundation's Statement of Financial Position.

Summary of Carrying Values

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

	2005	2004
Cash and cash equivalents	$ 16,791,809	$ 12,196,219
Short-term investments	15,535,901	14,094,901
Restricted cash and cash equivalents	15,772,063	15,026,395
Restricted investments	5,276,461	4,877,509
Other noncurrent investments	5,245,608	4,939,063
	$ 58,621,842	$ 51,134,087

Investment Income

Investment income for the year ended June 30 consisted of:

	2005	2004
Interest and dividend income	$ 1,300,154	$ 1,553,932
Net increase in fair value of investments	654,700	66,988
	$ 1,954,854	$ 1,620,920

Colorado School of Mines
Notes to Financial Statements
June 30, 2005 and 2004

Note 3: Capital Assets

Capital assets activity for the year ended June 30 was:

	2005				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land	$ 3,134,144	$ 90,000	$ —	$ —	$ 3,224,144
Land improvements	7,362,138	—	—	23,701	7,385,839
Buildings and improvements	148,933,537	213,010	2,180,154	25,739,894	172,706,287
Equipment	28,216,112	1,960,083	553,914	—	29,622,281
Library materials	16,014,155	286,598	4,702,066	—	11,598,687
Construction in progress	21,689,235	11,228,960	—	(25,763,595)	7,154,600
	225,349,321	13,778,651	7,436,134	—	231,691,838
Less accumulated depreciation					
Land improvements	5,024,741	144,052	—	—	5,168,793
Buildings and improvements	49,769,666	2,486,944	179,149	—	52,077,461
Equipment	20,946,293	1,754,889	459,164	—	22,242,018
Library materials	12,415,987	984,436	3,529,365	—	9,871,058
	88,156,687	5,370,321	4,167,678	—	89,359,330
Net capital assets	$ 137,192,634	$ 8,408,330	$ 3,268,456	$ —	$ 142,332,508

	2004				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land	$ 3,011,232	$ 122,912	$ —	$ —	$ 3,134,144
Land improvements	7,309,048	—	—	53,090	7,362,138
Buildings and improvements	143,742,315	299,214	386	4,892,394	148,933,537
Equipment	31,816,359	1,489,516	5,089,763	—	28,216,112
Library materials	15,103,721	1,061,312	150,878	—	16,014,155
Construction in progress	7,442,459	19,192,260	—	(4,945,484)	21,689,235
	208,425,134	22,165,214	5,241,027	—	225,349,321
Less accumulated depreciation					
Land improvements	4,864,114	160,627	—	—	5,024,741
Buildings and improvements	44,593,928	5,175,738	—	—	49,769,666
Equipment	24,157,137	1,630,768	4,841,612	—	20,946,293
Library materials	11,555,996	975,429	115,438	—	12,415,987
	85,171,175	7,942,562	4,957,050	—	88,156,687
Net capital assets	$ 123,253,959	$ 14,222,652	$ 283,977	$ —	$ 137,192,634

Colorado School of Mines
Notes to Financial Statements
June 30, 2005 and 2004

Note 4: Long-term Liabilities

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

		2005				
		Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Bonds and capital leases						
Revenue bonds payable						
Series 1993	(A)	$ 3,465,000	$ —	$ 3,465,000	$ —	$ —
Series 1996	(B)	1,285,000	—	1,285,000	—	—
Series 1997A	(C)	2,940,000	—	—	2,940,000	—
Series 1997B	(C)	460,000	—	—	460,000	—
Series 1999	(D)	7,794,333	—	—	7,794,333	—
Series 2001	(G)	10,860,000	—	10,860,000	—	—
Series 2002	(E)	32,040,000	—	—	32,040,000	—
Series 2004	(F)	—	17,450,000	—	17,450,000	845,000
Series 2005	(G)	—	10,555,000	—	10,555,000	—
		58,844,333	28,005,000	15,610,000	71,239,333	845,000
Unamortized bond (discounts) premium		(452,583)	156,004	15,428	(312,007)	—
Less deferred call premium on defeased bonds		(329,461)	—	(329,461)	—	—
		58,062,289	28,161,004	15,295,967	70,927,326	845,000
Capital lease obligations		100,000	—	100,000	—	—
Total bonds and capital leases		58,162,289	28,161,004	15,395,967	70,927,326	845,000
Other noncurrent Liabilities						
Accrued compensated absences		3,198,437	150,110	—	3,348,547	177,012 (1)
Accrued interest		1,717,784	333,594	500,152	1,551,226	163,630 (1)
Deferred revenue:						
Tuition, fees and grants		6,731,570	—	915,206	5,816,364	5,816,364
Development assistance and trademark license		5,291,666	—	500,000	4,791,666	2,333,333 (2)
Student loan funds administered for the Foundation		1,174,903	938,656	—	2,113,559	—
Total other noncurrent liabilities		18,114,360	1,422,360	1,915,358	17,621,362	8,490,339
Total noncurrent liabilities		$76,276,649	$29,583,364	$ 17,311,325	$ 88,548,688	$ 9,335,339

(1) Included in other current liabilities
(2) Included in current deferred revenue

		2004					
		Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year	
Bonds and capital leases							
Revenue bonds payable							
Series 1993	(A)	$ 3,925,000	$ —	$ 460,000	$ 3,465,000	$ 275,000	
Series 1996	(B)	1,350,000	—	65,000	1,285,000	70,000	
Series 1997A	(C)	3,170,000	—	230,000	2,940,000	—	
Series 1997B	(C)	460,000	—	—	460,000	—	
Series 1999	(D)	7,794,333	—	—	7,794,333	—	
Series 2001	(G)	10,860,000	—	—	10,860,000	—	
Series 2002	(E)	32,040,000	—	—	32,040,000	—	
		59,599,333	—	755,000	58,844,333	345,000	
Less unamortized bond discounts		(482,099)	—	(29,516)	(452,583)	(29,438)	
Less deferred call premium on defeased bonds		(413,595)	—	(84,134)	(329,461)	(60,284)	
		58,703,639	—	641,350	58,062,289	255,278	
Capital lease obligations		316,675	—	216,675	100,000	100,000	
Total bonds and capital leases		59,020,314	—	858,025	58,162,289	355,278	
Other noncurrent liabilities							
Accrued compensated absences		3,724,424	—	525,987	3,198,437	169,077	(1)
Accrued interest		1,384,052	2,634,993	2,301,261	1,717,784	166,558	(1)
Deferred revenue							
Tuition, fees and grants		5,090,910	1,640,660	—	6,731,570	6,731,570	
Development assistance and trademark license		5,791,666	2,000,000	2,500,000	5,291,666	2,333,333	(2)
Student loan funds administered for the Foundation		1,230,208	—	55,305	1,174,903	—	
Total other noncurrent Liabilities		17,221,260	6,275,653	5,382,553	18,114,360	9,400,538	
Total noncurrent Liabilities		$ 76,241,574	$ 6,275,653	$ 6,240,578	$ 76,276,649	$ 9,755,816	

(1) Included in other current liabilities
(2) Included in current deferred revenue

Auxiliary Housing Services Revenue Bonds

The School had the following Auxiliary Housing Services Revenue Bonds outstanding at June 30 2005 and/or 2004:

(A) Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1993 – The purpose of the issue was to refund the Series 1988 Bonds; 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. The 1993 revenue bonds were in-substance defeased with the issuance of the 2004 Series Bonds.

(B) Auxiliary Facilities Enterprise Revenue Bonds, Series 1996 – 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. The 1996 revenue bonds were in-substance defeased with the issuance of the 2004 Series Bonds.

(C) Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B. Series 1997A – Serial obligations mature in fiscal years ending June 30, 2010 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 Facilities Enterprise 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 5.25%. 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 School.

(F) On October 27, 2004, the School issued $17,450,000 in Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2004. Proceeds from the bonds were used to in-substance defease the Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1993 and the Auxiliary Facilities Enterprise Revenue Bonds, Series 1996 and for constructing and equipping recreational and health facilities at the School. Principal is paid annually and interest on the bonds is payable semi-annually on June 1 and December 1 of each year through maturity in 2035 with interest rates on the serial obligations ranging from 2.5% to 5.0%. The bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined, and a financial guaranty insurance policy.

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, Series 2002 and Series 2004 auxiliary bonds are $773,411, $144,200, $473,296, $779,433, $2,737,397 and $1,100,454, respectively. The School 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 School 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)

(G) On January 20, 2005, the Corporation issued $10,555,000 in Refunding Variable Rate Demand Bonds, Series 2005. The proceeds from the bonds were used to refund the Series 2001 revenue bonds.

The purpose of the Series 2001 issue was to finance the construction and acquisition of educational facilities at the Colorado School of Mines. Interest was payable at varying rates, not to exceed 10%. The bonds were secured by net pledged revenues, a letter of credit and a guarantee by the Colorado School of Mines Foundation, Inc. The debt service pursuant to the 2001 issue was $18,251,158; the debt service pursuant to the refunding is $16,505,182, a net savings of $1,644,976. The economic net present value gain to the School was $1,253,739.

Principal and interest on the Series 2005 bonds are payable semi-annually through maturity in 2026 with interest rates on the obligations at variable rates. The bonds are secured by a non-exclusive first lien upon net pledged revenues, a standby bond purchase agreement and are guaranteed by the Colorado School of Mines Foundation, Incorporated.

The bonds mature on September 1, 2026 with interest payable at varying rates, not to exceed 10%. Interest rates and payment periods are determined, as elected by the Corporation, using either (i) weekly, one month or three month interest rates, with interest payable monthly or (ii) six month, one year, five year, ten year or fixed interest rates, with interest payable semi-annually. The interest rate on variable rate bonds is adjusted weekly and the interest rate at June 30, 2005 was 2.71%.

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

Debt Service Requirements on Revenue Bonds

The debt service requirements as of June 30, 2005, are as follows:

Year Ending June 30	Total to be Paid	Principal	Interest
2006	$ 3,644,184	$ 845,000	$ 2,799,184
2007	4,151,371	1,380,000	2,771,371
2008	4,151,434	1,415,000	2,736,434
2009	4,150,002	1,450,000	2,700,002
2010	4,156,698	1,495,000	2,661,698
2011 – 2015	20,771,269	7,914,635	12,856,634
2016 – 2020	20,779,014	6,416,632	14,362,382
2021 – 2025	20,774,878	5,676,373	15,098,505
2026 – 2030	30,236,687	20,291,693	9,944,994
2031 – 2035	19,348,534	15,090,000	4,258,534
2036 – 2038	9,975,375	9,265,000	710,375
	$ 142,139,446	$ 71,239,333	$ 70,900,113

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 Bonds are considered to be in-substance defeased in 1984 and do not appear as a liability in the accompanying statements of net assets. At June 30, 2005, bonds in the amount of $2,450,000 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 in-substance defeased as of November 2002; the escrow account and in-substance defeased bonds are not recognized in the accompanying statements of net assets. At June 30, 2005, Series 1997A bonds in the amount of $2,940,000 are outstanding.

In connection with the issuance of the Series 2004 bonds, $4,410,102 was placed in escrow with a paying agent for the payment of the remainder of the Series 1993 bonds and the 1996 bonds. Accordingly, the Series 1993 and 1996 bonds were considered in-substance defeased as of October 2004; the escrow account and in-substance defeased bonds are not recognized in the accompanying statements of net assets. The debt service pursuant to the 1993 and 1996 issues was $5,768,216 collectively; the debt service pursuant to the refunding is $5,302,270, a net savings of $465,946. The economic net present value gain to the School was $360,666.

Student Loan Funds Administered for the Foundation

The School administers student loans on behalf of the Foundation that revert back to the Foundation when repaid by the student. The student loans administered by the School are recorded as a receivable from the student, included with school loans to students in the statement of net assets, and a liability to the Foundation.

Note 5: Related Party Transactions

Colorado School of Mines Research Institute

The Colorado School of Mines Research Institute (CSMRI), a not-for-profit corporation, was established in 1949 as a separate corporation under the laws of the State of Colorado. The purpose of CSMRI is to promote, encourage and aid scientific and technological investigation and research.

CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. As of December 31, 2004 and 2003, CSMRI had net assets of $74,598. CSMRI once held a lease on property owned by the School. Funds remaining from the proceeds of the sales and satisfaction of indebtedness are to be applied to rehabilitation costs of the property leased to CSMRI and the remaining property owned by CSMRI. Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the Colorado School of Mines.

Note 6: Colorado School of Mines Foundation, Incorporated

The Colorado School of Mines Foundation, Incorporated is a legally separate, tax-exempt component unit of the School incorporated under Article 40, Title 7 of the Colorado Revised Statutes of 1973. The Foundation was established in 1928 to promote the welfare, development and growth of the School and also to permit the Foundation to engage in activities as may be beyond the scope of the Trustees of the School. Although the School does not control the timing of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the School by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the School, the Foundation is considered a component unit of the School and is discretely presented in the School's financial statements.

In 1992, the Foundation's Board of Directors approved a $1,915,000 revolving loan to the School for funding student loan needs. As of June 30, 2005 and 2004, the Foundation had advanced $1,044,886 and $1,089,930, respectively, to the School, which is included in student loan funds administered for the Foundation on the School's statement of net assets. The outstanding loan balance bears interest at 9% per annum.

Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2005	2004
Due in less than one year	$ 1,552,038	$ 1,880,785
Due in one to five years	1,635,413	3,369,789
	3,187,451	5,250,574
Less: Allowance for uncollectible contributions	(76,000)	(141,000)
Unamortized discount	(254,266)	(389,713)
	$ 2,857,185	$ 4,719,861

Discount rates ranged were 4% for both 2005 and 2004.

Approximately 45% and 60% of the Foundation's contributions receivable as of June 30, 2005 and 2004, respectively, consist of pledges from three donors in 2005 and five donors in 2004.

The Foundation is the beneficiary of certain irrevocable remainder trusts administered by others. The net present value of the Foundation's beneficial interest has been included in the statement of financial position as contributions receivable from trusts held by others in the amount of $3,031,031 and $2,514,433 at June 30, 2005 and 2004, respectively.

Investments

Intermediate-term investments consisted of certificates of deposit and cash equivalents of $4,921,191 and $590,915 at June 30, 2005 and 2004, respectively.

Assets Held Under Split-interest Agreements and Long-term Investment Pool

Assets held under split-interest agreements and the long-term investment pool at June 30 consisted of the following:

	2005		2004	
	Split-interest Agreements	Long-term Investment Pool	Split-interest Agreements	Long-term Investment Pool
Cash equivalents	$ 487,209	$ 2,871,664	$ 480,640	$ 4,555,391
Bonds and bond mutual funds	9,160,493	18,660,428	8,999,544	18,333,741
Stocks and stock mutual funds	6,431,802	63,923,389	6,065,362	61,778,888
Investments in limited partnerships and limited liability companies	193,732	37,539,772	175,593	28,206,998
	$ 16,273,236	$ 122,995,253	$ 15,721,139	$ 112,875,018

Split-interest Agreements

The Foundation is the trustee for various split-interest arrangements including charitable remainder trusts, charitable gift annuity contracts and a pooled income fund. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). The terms of certain trusts and the pooled income fund specify that payments to the beneficiaries are limited to total trust income. Other trusts require that the Foundation make fixed payments or payments based on a fixed percentage of the fair market value of the trusts' assets to designated beneficiaries for their lifetimes.

At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. Assets held under these various split-interest arrangements are recorded at fair value in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using the IRS discount rate and applicable mortality tables. The Foundation recorded contributions totaling $0 and $53,846 under split-interest agreements during the years ended June 30, 2005 and 2004, respectively.

Assets held in trust by the Foundation, and their associated liabilities, at June 30 are as follows:

	2005	2004
Assets held in trust	$ 16,273,236	$ 15,721,139
Less associated liabilities	(6,783,346)	(7,555,295)
Net present value of annuity trust agreements	$ 9,489,890	$ 8,165,844

Gift Annuity Agreements

The Foundation has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at June 30, 2005 and 2004, of $3,132,737 and $3,311,204, respectively, which represents the present value of the future annuity obligations. During the years ended June 30, 2005 and 2004, the Foundation received gifts under charitable gift annuity contracts valued at $196,725 and $44,521, respectively, which are included in contributions in the statements of activities.

Assets Held for Others

Assets held in trust for others represent various trusts that revert to other parties in the future as stipulated in the respective trust documents and certain School assets held for long-term investment purposes. The fair market value of these assets as of June 30, are as follows:

	2005	2004
School funds	$ 10,316,683	$ 9,822,996
Trust funds	566,994	543,746
	$ 10,883,677	$ 10,366,742

Commitments

The Foundation has guaranteed the debt of the Colorado School of Mines Development Corporation, an affiliate of the Colorado School of Mines, formed for the purpose of purchasing, constructing, otherwise acquiring, extending or improving educational facilities for the benefit of the Colorado School of Mines. Under the terms of the guarantee, the Foundation may be called upon to repay principal, not to exceed $10,860,000, in the event of default of the Development Corporation. At June 30, 2005, $10,555,000 of these bonds was outstanding.

Significant Estimates and Concentrations – Investments

As of June 30, 2005 and 2004, 24% and 21%, respectively, of the Foundation's investment portfolio is invested in limited partnerships and venture capital organizations, some of which are offshore entities and some of which include derivative investments. There is no ready market value for these investments. The values reported in the Foundations' financial statements are the market values reported by the entities in audited financial statements, federal tax Form K-1 or other internal valuations. These values could be volatile and could be significantly different on a subsequent valuation date.

Note 7: Blended Component Units

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 net assets of the Building Corporation at June 30, 2005 and 2004 were $3,261,729 and $2,594,838, respectively.

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

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 assisting in the financing of capital expenditures on behalf of or for the benefit of the Colorado School of Mines. The net assets of the Corporation at June 30, 2005 and 2004 were $250,757 and $424,030, respectively.

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

Note 8: Operating Leases

The Colorado School of Mines Building Corporation, a blended component unit, leases 50,000 square feet of office space to an unrelated single tenant. The lease term is 10 years, from August 1998 to July 2008, at an annual rent of $765,500. Additionally, the Colorado School of Mines Development Corporation, a blended component unit, leases a building to the Colorado School of Mines. Annual rental income is based on actual expenses incurred by the Development Corporation to operate the building; rental income for Year End June 30, 2005 was $658,916. Total rental income was $1,442,967 for the Year Ended June 30, 2005 and rental expense was $658,916.

Note 9: Pension Plan

Plan Description

Virtually all the School employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability. The plan is a cost sharing multiple employer plan, administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931. Responsibility for the organization and administration of the plan is placed with the Board of Trustees of PERA. Changes to the plan require legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203 or by calling PERA at 303-832-9550 or 800-729-PERA (7372), or by visiting www.copera.org.

Plan members vest after five years of service and 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 five 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 five 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 state troopers 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 fiscal years 2004 and 2005, the State contributed 10.15% of the employee's gross covered wages. Effective January 1, 2004, 1.02% of the total contribution was allocated to the Health Care Trust Fund.

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 School contributions to the three programs described above for the fiscal years ended June 30, 2005, 2004 and 2003 were $4,252,844, $4,077,821, and $4,247,392, respectively, equal to its required contributions for those years.

Note 10: 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 PERA Board sets the level of the match annually based on the actuarial funding of the defined benefit pension plan. The match is only available when the actuarial value of the defined benefit plan asset is 110 percent of actuarially accrued plan liabilities. This condition was not met during Fiscal Year 2004-05.

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 11: Post Retirement Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known as 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 years 2004 and 2005, the premium subsidy was $115 for those with 20 years of service credit ($230 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 9.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans and with health maintenance organizations providing services within Colorado. As of December 31, 2004 there were 39,668 enrollees in the plan.

Life Insurance Program

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

Note 12: Commitments and Contingencies

Claims and Litigation

In November 1992, the School and numerous other potentially responsible parties (PRP's) were notified by the United States Environmental Protection Agency (EPA) of potential liability pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Such potential liability results from costs associated with the cleanup of hazardous substances at a site owned by the School 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 cleanup, have been resolved. The Colorado Department of Health and EPA have reserved their rights as to future costs of cleanup. Investigation and remediation of the site is continuing. A claim filed by a remediation contractor in 2004 has been settled.

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

Government Grants

The School is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed. Management believes that any future liability that it may incur as a result of audits by the granting department or agency will not have a material effect on the School's financial statements.

Note 13: Risk Management

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

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

Note 14: Legislative Appropriations

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

For the years ended June 30, 2005 and 2004, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2005 and 2004, the School had a total appropriation of $51,982,603 and $49,951,668, respectively. All other revenues and expenses reported by the School represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include certain grants and contracts, gifts, indirect cost recoveries, certain auxiliary revenues and other revenue sources.

The accompanying financial statements contain revenues and expenses from both appropriated and non-appropriated funds.

Note 15: Changes in Accounting Principles

During 2004, the School retroactively changed its method of determining its financial reporting entity by adopting the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This standard requires certain organizations be reported as component units of a primary government based on the nature and significance of that organization's relationship to the primary government. Application of this statement resulted in presenting the Foundation as a discretely presented component unit of the School.

Effective July 1, 2004, the School adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures.* GASB 40 establishes and modifies disclosure requirements related to investments risks: credit risk, interest rate risk, and foreign currency risk and establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. Adoption of GASB 40 had no effect on net assets as of July 1, 2004 or change in net assets for the year ended June 30, 2005.

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed 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 School), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 20, 2005 which contained a reference to the report of other accountants and an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of the Colorado School of Mines Foundation, Incorporated (Foundation), the discretely presented component unit of the School, were not required to be audited in accordance with *Government Auditing Standards.* Accordingly, the Foundation's financial statements were audited in accordance with US GAAS only.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we express no such opinion. 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 School'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 Auditors' Findings and Recommendations section of this report as Recommendations No. 1, No. 4 and No. 5.

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

A material weakness is a reportable 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 caused by error or fraud 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, of the reportable conditions described above, we consider all to be material weaknesses.

Compliance and Other Matters

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

We noted certain additional matters that we reported in the Auditors' Findings and Recommendations section of this report.

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

Grant Thornton LLP

Denver, Colorado
December 20, 2005

Grant Thornton

Accountants and Business Advisors

December 20, 2005

Members of the Legislative Audit Committee:

We have completed our audit of the financial statements of the Colorado School of Mines (the School), a blended component unit of the State of Colorado, as of and for the Year Ended June 30, 2005. Professional standards require that we advise you of the following matters relating to our recently concluded audit. The matters discussed herein are those that we have noted as of December 20, 2005, and we have not updated our procedures regarding these matters since that date.

Responsibilities under generally accepted auditing standards

We are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America ("US GAAS") established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (GAGAS). Our responsibility, as prescribed by US GAAS and GAGAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, there is some risk that a material misstatement of the financial statements would remain undetected. Although not absolute assurance, reasonable assurance is, nevertheless, a high level of assurance. However, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

US GAAS and GAGAS also requires that we obtain a sufficient understanding of the School's internal control over financial reporting. However, such understanding is required for the purpose of planning the audit and determining our audit procedures and not to provide any assurance concerning such internal control or to identify internal control deficiencies. As required by US GAAS and GAGAS, we communicated to you, in our report dated December 20, 2005, identified internal control deficiencies that we consider to be significant deficiencies and material weaknesses under such professional standards.

Significant accounting policies

The significant accounting policies used by the School are described in Note 1 to the financial statements. During the year, the School adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures,* as disclosed in the Notes to Financial Statements. We noted no significant unusual transactions, or other significant transactions in controversial or emerging areas for which there is a lack of authoritative accounting guidance or consensus.

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

Particularly sensitive accounting estimates

Accounting estimates, based upon management's judgments, are an integral part of an entity's financial statements. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

We believe that the following items represent such particularly sensitive accounting estimates:

> Allowance for doubtful accounts for accounts receivable, federal and state grants receivable, other receivables and loans to students.
>
> Accrued compensated absences.
>
> Estimated useful lives of capital assets.

Management has informed us that in determining the appropriateness of the School's allowance for doubtful accounts, it reviewed all significant receivables, including past due accounts, historical collection results and subsequent collections.

Management has also informed us that it reviewed the criteria and methodologies set forth in GASB No. 16, *Accounting for Compensated Absences*, in determining the liability for compensated absences.

Additionally, management has informed us that in assigning useful lives to capital assets its took into consideration historical information, the condition of the capital assets and planned maintenance programs and ranges customarily used by institutions of higher education.

We are satisfied as to the reasonableness of management's current judgments, after certain audit adjustments, regarding such estimates in the context of the financial statements taken as a whole, based on our knowledge of management's process for making such judgments, inquiries of management and others regarding such matters, and other audit procedures applied during our engagement.

Significant audit adjustments

For purposes of this letter, *(US GAAS)* defines a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The definition includes adjustments that were not recorded by the School because they are not material to the current financial statements but might be potentially material to future financial statements.

We brought to management's attention fifteen audit adjustments as discussed under "Significant Audit Adjustments and Waived Adjustments" in the Report Summary section of this report. Management recorded these proposed adjustments.

Further, management has represented to us that they believe the uncorrected financial statement misstatements as also discussed under "Significant Audit Adjustments and Waived Adjustments" in the Report Summary section of this report are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with management

For purposes of this letter, *(US GAAS)* defines a disagreement with management as a disagreement, whether or not satisfactorily resolved, concerning a financial accounting, reporting, or auditing matter that could be significant to a company's financial statements or the auditors' report thereon. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation by management with other accountants

We are not aware of any consultations by management with other accountants during the year about auditing or accounting matters.

Major issues discussed with management prior to our retention

No major issues were discussed with management prior to our being retained as auditors for the current fiscal year, including the application of generally accepted accounting principles or *US GAAS*.

Difficulties encountered in performing the audit

Because of the significant turnover, shortly after the Year Ended June 30, 2005, in key accounting positions at the School, our audit completion was significantly delayed. Additionally, there were sixteen findings and recommendations for the Year Ended June 30, 2005, many of which caused both additional time to address by the School and additional audit hours in completing the audit.

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

Very truly yours,

Grant Thornton LLP

Colorado School of Mines

State-Funded Student Assistance Programs

Years Ended June 30, 2005

INTRODUCTION

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

The financial and compliance audit of the various state-funded student assistance programs at the School for the year ended June 30, 2005, was directed toward the objectives and criteria set forth in the *2004-05 Audit Guide, Colorado Funded Student Aid*, issued by the Colorado Commission on Higher Education (CCHE). The state-funded student assistance programs were audited simultaneously with the federal financial aid programs for the year ended June 30, 2005.

STATE-FUNDED ASSISTANCE PROGRAMS

The various state-funded student assistance programs at the School include the Colorado Student Incentive Grant Program, Colorado Student Grant Program, Colorado Merit Award Program, Colorado Work-Study Program, Governor's Opportunity Scholarship Program and the Perkins Loan Matching Program.

The state-funded student assistance awards made by the School were $1,539,124 during the fiscal year ended June 30, 2005. In addition, total state matching funds of $14,585 during the fiscal year ended June 30, 2005 were transferred to the Federal Perkins Loan Fund.

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

In addition to the student assistance awards made during the period, the School obtained authorizations to award federal student financial aid of $1,336,738 in the Pell Grant Program, $113,469 in the Supplemental Educational Opportunity Grant Program and $148,877 in the College Work-Study Program. The School also received $43,756 in capital contributions for the Perkins Loan program.

During the year ended June 30, 2005, the School was authorized to award Colorado student financial aid funds of $631,056 in the Colorado Student Grant Program; $225,265 in the Colorado Merit Award Program; $366,501 in the Colorado Work-Study Program; $229,646 in the Governor's Opportunity Scholarship Program; $14,585 in the Perkins Loan Matching Program and $86,656 in Student Incentive Grants.

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of Colorado School of Mines (the School), a blended component unit of the State of Colorado, for the year ended June 30, 2005. This statement is the responsibility of the School's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of appropriations, expenditures, transfers and reversions is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of appropriations, expenditures and reversions. We believe that our audit provides a reasonable basis for our opinion.

As described in the notes to the Statement, the Statement was prepared in the format as set forth in the *Colorado Handbook for State-funded Student Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 2004-2005 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 School in conformity with accounting principles generally accepted in the United States of America.

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

In our opinion, the accompanying statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of Colorado School of Mines presents fairly, in all material respects, the appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of Colorado School of Mines for the year ended June 30, 2005, pursuant to the *2004-05 Audit Guide, Colorado Funded Student Aid* issued by the CCHE, 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 December 20, 2005 on our consideration of the Colorado School of Mines internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Grant Thornton LLP

Denver, Colorado
December 20, 2005

Colorado School of Mines

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

Year Ended June 30, 2005

	CSIG Student Incentive Grants	CSG Student Grant Program	Governor's Opportunity Scholarship	CWS Work-Study Program	Under-Graduate Merit	Perkins Match	Total State-Funded Student Assistance
Appropriations							
Original	$ 86,656	$ 631,056	$ 229,646	$ 366,501	$ 225,265	$ 14,585	$ 1,553,709
Adjustments/transfers	—	—	—	—	—	—	—
Total	86,656	631,056	229,646	366,501	225,265	14,585	1,553,709
Expenditures	86,656	631,056	229,646	366,501	225,265	14,585	1,553,709
Reversions to State general fund	$ —	$ —	$ —	$ —	$ —	$ —	$ —

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

Colorado School of Mines
Notes to Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs
Year Ended June 30, 2005

Note 1: Summary of Significant Accounting Policies

The School's accounting system is structured and administered in accordance with the accounting principles promulgated by the Governmental Accounting Standards Board.

The Perkins 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 expensed 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 School obtained authorizations to award federal student financial aid of $1,336,738 in the Pell Grant Program, $113,469 in the Supplemental Educational Opportunity Grant Program and $148,877 in the College Work-Study Program. The School 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 School in federal and state financial aid programs. The School's Controller is responsible for the programs' financial management, general ledger accounting, payments and collections.

Note 3: Student Incentive Grants

Student Incentive Grants consist of $86,656 state funds.

Note 4: Other

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

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

Colorado School of Mines
Audit Report Distribution Summary
Years Ended June 30, 2005 and 2004

The electronic version of this report is available on the Website of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303-869-2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1728