# Colorado School of Mines
## (A Component Unit of the State of Colorado)

Financial and Compliance Audit

Years Ended June 30, 2007 and 2006

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**Contract Auditors**

BKD LLP

February 5, 2008

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, 2007. 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.

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# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Years Ended June 30, 2007 and 2006

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## Years Ended June 30, 2007 and 2006

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# Colorado School of Mines
# (A Component Unit of the State of Colorado)
### Report Summary
### Years Ended June 30, 2007 and 2006

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## 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, 2007, 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, 2007, including consideration of compliance with certain bond indenture provisions.

  - 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, 2007, 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, 2007.

- 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, 2007.

- Express an opinion on compliance, and report on internal control over compliance, with requirements applicable to each state-funded student assistance program.

- Issue a report on our application of certain agreed-upon procedures to assist the School in complying with National Collegiate Athletic Association (NCAA) Bylaw 6.2.3.1 for the year ended June 30, 2007.

- Evaluate progress in implementing prior audit recommendations.

## Audit Opinions and Reports

The Independent Accountants' Reports 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, 2007.

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 Auditor's Findings and Recommendations section of this report and the most significant of these findings are summarized below.

## Summary of Major Audit Comments

*Audit Findings and Recommendations Section*

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

Exclusive of the finding with respect to our testing of expenditures of Federal awards discussed below, our findings and recommendations principally address the School's need to continue its prior year improvements over reconciling detail account balances to the general ledger, reconciling the School's amounts due to/due from the Foundation with those amounts recorded by the Foundation to assure consistency in reporting between the two entities and the need to increase its focus on preparation for the external audit by assuring that all requested information is provided timely and in the format requested.

## Expenditures of Federal Awards

There was one finding related to our testing of Federal expenditures. The finding related to the School's failure to always report timely a student status change to the National Student Loan Data System (NSLDS) as required by the U.S. Department of Education (See Recommendation No. 6).

## Summary of Progress in Implementing Prior Audit Recommendations

The audit for the year ended June 30, 2006, included seven recommendations. The disposition of those seven audit recommendations as of December 17, 2007, was as follows:

| Status | Number |
|---|---|
| Implemented | 5 |
| Partially implemented | 2 |
| Not implemented | 0 |
| Total | 7 |

The audit for the year ended June 30, 2006 also noted one recommendation from the audit for the year ended June 30, 2004 that was partially implemented. The disposition of that audit recommendation as of December 17, 2007, was as follows:

| Status | Number |
|---|---|
| Implemented | 1 |
| Partially implemented | 0 |
| Not implemented | 0 |
| Total | 1 |

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Recommendation Locator
## Years Ended June 30, 2007 and 2006

All recommendations are addressed to the Colorado School of Mines

| Recommendation Number | Page Number | Recommendation Summary | Response | Implementation Date |
|---|---|---|---|---|
| 1 | 7 | Assure that adequate review is performed for Governor's Opportunity Scholarship Program (GOS) grant awards to verify the School is following State requirements. | Agree | June 30, 2008 |
| 2 | 8 | Reconcile all capital asset general ledger accounts to supporting detail on a periodic basis to help ensure the accounts' accuracy, both in dollar amount and appropriate account classification. | Agree | March 31, 2007 |
| 3 | 9 | Reconcile all due to/from balances and activity between the Foundation's records and the School's records at least quarterly and resolve any differences timely. | Agree | January 1, 2008 |
| 4 | 10 | Implement school-wide policies and procedures for the collection of cash receipts and ensure all departments have proper segregation of duties in order to minimize the chance of an error or fraud occurring. | Agree | June 30, 2008 |

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Recommendation Locator (continued)
## Years Ended June 30, 2007 and 2006

| Recommendation Number | Page Number | Recommendation Summary | Response | Implementation Date |
|---|---|---|---|---|
| 5 | 11 | Perform a detailed review of financial statement drafts prior to commencement of the external audit process and require periodic training for all accounting personnel that would include a review of Governmental Accounting Standards Board (GASB) statements and implementation guidance. | Agree | June 30, 2008 |
| 6 | 12 | Ensure proper policies and procedures are in place to report all student status changes to NSLDS within the proper timeframe. | Agree | June 30, 2008 |
| 7 | 14 | Continue to focus on meeting all deadline items set forth in the calendar drafted during the planning phase of each year's audit. Ensure that items requested are provided timely and in the format requested by the contract auditors. | Partially agree | June 30, 2008 |

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 a fee-for-service contract and student stipends. Funds are augmented by government and privately sponsored research, private support from alumni and support from industry and friends through the Colorado School of Mines Foundation, Incorporated.

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

| | Student FTE Enrollment | | |
|---|---|---|---|
| | Resident Student FTE | Non-resident Student FTE | Total Student FTE |
| 2003 | 2,485 | 846 | 3,331 |
| 2004 | 2,615 | 830 | 3,445 |
| 2005 | 2,807 | 820 | 3,627 |
| 2006 | 3,009 | 849 | 3,858 |
| 2007 | 3,056 | 917 | 3,973 |

| | Faculty and Staff FTE | | |
|---|---|---|---|
| | Faculty FTE | Staff FTE | Total Faculty and Staff FTE |
| 2003 | 223 | 356 | 579 |
| 2004 | 227 | 338 | 565 |
| 2005 | 248 | 332 | 580 |
| 2006 | 259 | 343 | 602 |
| 2007 | 276 | 396 | 672 |

## State Student Financial Aid – Governor's Opportunity Scholarship Program

The Governor's Opportunity Scholarship Program (GOS) provides no cost of attendance assistance (grants and workstudy without loans to cover college cost of attendance) and academic support to a limited number of low-income students. The intent of the program is to change enrollment and graduation patterns of low-income students. Eligible recipients receive both academic and financial assistance for a specified amount of time. Per the 2006-2007 Colorado Commission on Higher Education (CCHE) audit guide, the Governor's Opportunity Scholarship Program is designed to limit the loan burden of these low-income students. Therefore, the students must agree **not** to take a student loan while receiving the Governor's Opportunity Scholarship. In fiscal year 2007 the School awarded $211,164 in Governor's Opportunity Scholarships to 21 students. CCHE has approved changes to the state grant program which eliminates the GOS program effective 2007-2008. Therefore, no new GOS awards will be made beginning with the 2007-2008 academic year. Current GOS recipients will continue to be funded for their requisite ten semesters, provided renewal criteria are met.

In our state compliance testing, we tested four GOS students who received a total of $39,750 of scholarship awards. It was noted that one out of the four students tested, whose GOS award was $7,427 for the year, was awarded and disbursed an Unsubsidized Stafford Loan in the amount of $5,500. Student Financial Aid guidelines require that if an aid administrator uses professional judgment in making data adjustments, then the reason for the adjustment must be documented in the student's file, and must relate to the special circumstances that differentiate that student. We noted there was no supporting documentation maintained in the file as to why the loan was given and whether the awarding of the loan was approved by the CCHE. While a senior CCHE staff approved this exception in August 2007, the School did not meet the documentation standards required by Student Financial Aid guidelines. Documentation of the student's understanding of the prohibition against taking student loans while receiving a GOS grant should also be maintained in the student's file. Such documentation could be in the form of a certification from the student that they have received no student loans.

Noncompliance with Student Financial Aid documentation requirements could impact future funding under state student financial aid programs.

## Recommendation No. 1

The School should assure that adequate review is performed for GOS grant awards to verify that it is following State requirements. In instances when requirements are not followed due to certain circumstances or when requirements are waived by CCHE, the School should obtain proper documentation or approval from the governing authority and maintain the information in the student's file. Additionally, to ensure that students are aware of the student loan prohibition, the School should obtain certification from the students that they have received no student loans. Such documentation should also be maintained in the student's file.

## Colorado School of Mines Response

Agree. Implementation Date: June 30, 2008

Additional training will be done with all staff to ensure that all CCHE rules and regulations are followed, and for any decision made outside of existing rules and regulations, adequate documentation will be maintained in the student's file. In addition, training will be done with staff so everyone is aware of the special rules pertaining to the Governor's Opportunity Scholarship (GOS). To ensure that students are aware of the student loan prohibition, we will attach a notification to the award that specifically informs students that by accepting the award they are prohibited from taking any student loans.

## Reconciliation of Capital Asset General Ledger Accounts to Detail of Accounts

The accounting personnel of the School are responsible for ensuring the existence of capital assets and properly removing items from the general ledger that are disposed of during the year. Procedures used to help ensure the proper recording of capital assets include performance of an annual inventory of capital assets and reconciling capital asset amounts in the general ledger to capital asset sub-ledgers. In 2005, a School building was demolished and removed from the general ledger. However, during Fiscal Year 2007, the School determined that Construction in Progress (CIP) related to the construction of the building had never been removed from the general ledger. To correct this prior year error, the School recorded an adjusting journal entry during Fiscal Year 2007 that resulted in a current year increase in loss on disposal of assets and decrease in the increase in net assets of approximately $356 thousand. Construction in Progress as of June 30, 2007, after adjustment, was approximately $1.2 million and the final change in net assets for the year then ended was approximately $6.7 million. Not properly removing the asset from CIP in the proper accounting period resulted in an overstatement of assets and net assets for Fiscal Years 2005 and 2006. A passed adjustment was proposed and accepted by the School for Fiscal Year 2007 to record the effect on the prior year.

While the School has made significant progress in reconciling a majority of its balance sheet accounts and the error noted above was detected through the School's reconciliation process, the effects of not performing sufficient analysis of all balance sheet accounts include the possible recognition of income or expense in the incorrect accounting period, the possible misstatement of changes in net assets for the period and the possible understatement/overstatement of net asset balances at the end of a reporting period.

## Recommendation No. 2

The School should reconcile all capital asset general ledger accounts to supporting detail on a periodic basis to help ensure the accounts' accuracy, both in dollar amount and appropriate account classification.

## Colorado School of Mines Response

Agree. Implementation Date: March 31, 2007

The School understands the importance of reconciliations and as a result of improving our processes, the School discovered and resolved this problem during fiscal year 2007. The School will continue to reconcile all General Ledger Accounts.

## Reconciliation of Financial Activity/Transactions with the Foundation

As of June 30, 2007, the School's statement of net assets includes approximately $13.0 million in amounts due from the Foundation in the form of investments held on the School's behalf, approximately $850 thousand in other receivables and a note payable to the Foundation on the Colorado School of Mines Student Recreation Center for approximately $2.4 million. The School also administers approximately $1.8 million in loan funds 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, 2007 of approximately $10.2 million. The financial statement reporting by the School and by the Foundation differs for certain of these items. For example, investments held by the Foundation on the School's behalf as of June 30, 2007 are reported as $12,963,912 on the School's financial statements and as $12,977,952 on the Foundation's financial statements. Also, the loan from the Foundation to the School for the Colorado School of Mines Student Recreation Center is reported in the footnotes to the Foundation's financial statements as having a balance due of $2,411,177 as of June 30, 2007, exclusive of any gifts pledged that would reduce the amount due, and is carried at $2,427,310 on the School's financial statements as of June 30, 2007. The cause of these amounts being reported differently by the two entities is the lack of timely and complete reconciliations between the Foundation's records and the School's records on a regular basis and adjusting for any changes that would be determined through the reconciliation process. Failure to reconcile and resolve 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. Furthermore, failure to reconcile increases the risk of occurrence of errors or irregularities.

## Recommendation No. 3

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. Implementation Date: January 1, 2008

In order to meet state fiscal year-end cut off dates, interest on investments held by the Foundation for the month of June was recorded based on the best estimate available at the time of the recording deadline. Once the actual amount was available, the difference of less than $14K was considered immaterial to the financial statements and the School determined to pass on the adjustment.

Additionally, the loan from the Foundation to the School for the Student Recreation Center has a reconciled difference which represents gifts received by the Foundation but not provided to the School yet. These will be recorded by the School when received.

Since the differences were appropriately reconciled, known and identified as of June 30, 2007, the School believes that the risk of errors or irregularities mentioned above is minimal.

## Cash Receipts

Most departments at the School have the ability to collect cash receipts. In our performance of cash receipt walkthroughs for the purpose of testing internal controls for the Special Programs and Continuing Education (SPACE) and Student Life departments, we noted no formal policies and procedures existed relating to the cash receipt process in some instances or, if existent, they sometimes were outdated. We also noted segregation of duties issues where one person receives the money, prepares the deposit slip, and takes the money to the Cashier's office for deposit. A lack of segregation of duties in performing these functions increases the chance of an error or fraud occurring and going undetected.

## Recommendation No. 4

The School should implement school-wide policies and procedures for the collection of cash receipts and ensure all departments have proper segregation of duties in order to minimize the chance of an error or fraud occurring.

## Colorado School of Mines Response

Agree. Implementation Date: June 30, 2008

The School has updated related policies and procedures during the last quarter of fiscal year 2007. The School has already started working with its departments to implement a school-wide policy for our departmental cash receipts to ensure proper internal control measures, segregation of duties, and compensatory controls are employed.

### Financial Statement Preparation

The accurate and timely preparation of the School's financial statements is an important element of its overall financial reporting process. In order to prepare financial statements accurately and timely, a good understanding of all governmental accounting pronouncements is necessary, the financial statements must be checked for mathematical accuracy, amounts that are included in both the School's financial statements and in other financial statements of component units or funds of the School must be cross-checked for consistency and a thorough independent review of the financial statements needs to be performed by someone other than the preparer. This process should be completed prior to commencement of the external audit process. In performing audit procedures on the financial statement drafts prepared by the School, we noted several issues in financial statement presentation and reporting that resulted in revisions to the Auxiliary Bonds Special Purpose financial statements, the Development Corporation financial statements, and the financial statements of the School. While we noted certain improvements in the financial statement reporting process over prior years, several revisions were still necessary due to amounts not agreeing between the various financial statements; however, other revisions were due to a lack of detailed review by an individual independent of the financial statement preparer. Failure to prepare financial statement drafts accurately and timely increases the amount of time it takes to complete the audit, delays completion of the audit and could result in erroneous amounts in the draft financial statements going undetected both at year-end and for interim periods.

### Recommendation No. 5

The School's management should perform a detailed review of financial statement drafts prior to commencement of the external audit process, which includes agreeing amounts between the various financial statements. Additionally, periodic training should be required for all accounting personnel of the School that would include a review of Governmental Accounting Standards Board (GASB) statements, including GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* GASB 35, *Basic Financial Statements-and Management's Discussion and Analysis, for Public Colleges and Universities-an Amendment of GASB Statement No. 34* and GASB's *Comprehensive Implementation Guide.*

### Colorado School of Mines Response

Agree. Implementation Date: June 30, 2008

During the last quarter of fiscal year 2007, the School made significant improvements to the internal controls of financial reporting by creating a new financial reporting tool that follows applicable Accounting Standards. In the process of financial statement preparation, the School revised several line items which were considered immaterial to the financial statements; some items were related to the presentation in previous fiscal years.

The School will continue to improve its financial reporting and review processes which will include the use of a financial statement disclosure checklist. The School will also ensure that accounting personnel will have periodic training that will include GASB 34 and 35 training.

### Student Status Change Testing (FFEL) (CFDA # 84.032)

Per the U.S. Department of Education's (ED) Audit Guide, an institution must submit Federal Family Education Loans (FFEL) Roster File Reports periodically to the National Student Loan Data System (NSLDS). Information from the report is needed by the lender in order to determine student status for billing and other purposes. The institution must report a change in a student's enrollment status directly to ED, the lender, or the guarantee agency within 30 days if a student has ceased to be enrolled at least half-time, withdrew, or has graduated from the institution if the institution does not expect to complete its next Roster File Report within the next 60 days. Of the thirty students we tested who had status changes, fifteen did not have their status change reported in the required timeframe by the School. Failure to report the status change within 30 days results in noncompliance with Federal Regulations.

### Recommendation No. 6

The School should ensure proper policies and procedures are in place to report all student status changes to NSLDS within the proper timeframe.

### Colorado School of Mines Response

Agree. Implementation Date: June 30, 2008

This was a direct result of the implementation of a new student computer system. The School will monitor and verify the file sent to the Clearinghouse to ensure proper procedures are in place to report all student status changes to NSLDS within the proper timeframe.

## Timely Completion of the Financial and Compliance Audit

The Colorado School of Mines (School) is an institution of the State of Colorado and its financial statements are included in the state's basic financial statements. Per contract with the Office of the State Auditor (OSA), the contract auditor is required to issue the School's financial and compliance audit report by November 15, which includes an opinion on the School's basic financial statements as well as any findings and recommendations resulting from the audit. Therefore, it is important that the School's audit be completed on time to provide necessary information about the School's financial activities for the OSA's audit of the statewide financial statements. As part of the audit planning process, an entrance conference is held so that the School, the external auditor and the OSA can agree to critical dates that need to be met in order to complete the audit by November 15. The calendar of critical dates includes dates that interim fieldwork is scheduled to commence, draft financial statements are to be provided to the external auditors, year-end fieldwork is to be completed, etc. Also, a listing of school-prepared documents necessary to commence year-end fieldwork is provided to the School during planning so that certain accounts can be analyzed and items selected for testing in an efficient and effective manner. The completion of this year's financial and compliance audit of Colorado School of Mines, while substantially ahead of the prior year's audit, was delayed in part by the following:

- Certain items requested by the auditors were not provided by the School at the initiation of the audit or in the format requested
- Delays in the auditors receiving the draft financial statements beyond the mutually agreed to date
- Receipt of certain responses from management to information requests after the scheduled date for completion of fieldwork

The Sarbanes-Oxley Act and other events have dramatically affected the setting of auditing standards and the focus of the audit process, primarily for public companies. Not surprisingly, the focus has been extended to nonpublic entities. In 2006, the Auditing Standards Board of the American Institute of Certified Public Accountants, the standard setting body for audits of nonpublic entities, issued 11 new auditing standards. These auditing standards include a documentation standard, a suite of eight risk assessment standards, a standard that defines professional requirements in statements on auditing standards and a standard that provides guidance on communicating matters related to an entity's internal control over financial reporting. While Statements on Auditing Standards Numbers 103 and 112 were effective for the School's Year Ended June 30, 2007, eight additional significant new auditing standards will be effective for the School's Year Ending June 30, 2008. Such additional new auditing standards are summarized as follows:

***Risk Assessment Standards (SAS 104-111)***

Statement on Auditing Standards (SAS) Nos. 104-111 relate to the assessment of risk in an audit of financial statements. These statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Additionally, the statements establish standards and provide guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit.

The primary objective of these statements is to enhance an auditors' application of the audit risk model in practice by specifying, among other things:

- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them.

- More rigorous assessment of the risks of material misstatement in the financial statements based on that understanding.

- Improved linkage between the assessed risks and the nature, timing and extent of audit procedures performed in response to those risks.

The implementation of these additional eight standards will require management to provide information and responses timely, particularly in the planning phase of the audit.

Failure to complete all aspects of the financial and compliance audit of the Colorado School of Mines on time could result in a delay issuing the Statewide Audit opinion and the incurrence of additional time by both the contract auditors and the OSA's Statewide Audit Team.

## Recommendation No. 7

The School, in cooperation with its contract auditors, should continue to focus on meeting all deadline items set forth in the calendar drafted during the planning phase of each year's audit. The School should also ensure that items requested are provided timely and in the format requested by the contract auditors.

## Colorado School of Mines Response

Partially agree. Implementation Date: June 30, 2008

Timely completion of the audit is of utmost importance to the School. An effective and efficient audit is beneficial to the School, the contract auditor and the state. Management believes that the timing of the audit should be adjusted to align with the financial reporting deadlines set forth by the State Controller's Office. The School met all State Controller deadlines for fiscal year end 2007. Additionally, the School will work with the contract auditors to plan an audit without significant breaks in proceedings as occurred for this audit. Breaks in proceedings can create considerable inefficiencies for both the School and the contract auditors.

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Disposition of Prior Audit Recommendations
## Years Ended June 30, 2007 and 2006

### Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2006 included seven recommendations. The disposition of those audit recommendations, as of December 17, 2007, was as follows:

| Recommendation Number | Recommendation | Disposition |
|---|---|---|
| 1 | Reconcile all general ledger accounts to supporting detail on a periodic basis to help assure each account's accuracy, both in dollar amount and appropriate account classification. | Partially implemented. See current year Recommendation No. 2. |
| 2 | Monitor the assignment of duties of School personnel to assure that incompatible duties are not created. | Implemented. |
| 3 | Assure that adequate review is performed of Colorado Student Grant (CSG) awards to verify that its procedures for awarding CSG assistance are being followed in all instances. | Implemented. |
| 4 | Assure that adequate review procedures are in place to verify that its policies are adhered to with respect to disbursing Federal Family Education Loans (FFEL) program funds within the federally mandated time frame. | Implemented. |
| 5 | Review all costs charged to federal programs to assure that they are allowable under federal regulations and specific grant provisions. | Implemented. |
| 6 | Assure that the School's expanded procedures for the monitoring of subrecipients to include review of the Federal Audit Clearinghouse (FAC) database and the monitoring of for-profit subrecipients are consistently followed and documented. | Implemented. |
| 7 | Focus on meeting all deadline items set forth in the calendar drafted during the planning phase of each year's audit to help assure that the financial and compliance audit is completed by October 31. | Partially implemented. See current year Recommendation No. 7. |

### Summary of Progress in Implementing Prior Audit Recommendations

Comments from June 30, 2004 audit that were not fully implemented during Fiscal Year Ended June 30, 2005 or 2006:

| Recommendation Number | Recommendation Summary | Status |
|---|---|---|
| 4 | 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. | Implemented |

BKD LLP

## Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Colorado School of Mines (the School), a blended component unit of the State of Colorado, as of and for the years ended June 30, 2007 and 2006, 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 audits. 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 statements were audited by other accountants whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other accountants.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Colorado School of Mines Foundation, Incorporated, the discretely presented component unit of the School, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Colorado School of Mines, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 17, 2007, on our consideration of the Colorado School of Mines' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BKD, LLP

December 17, 2007

## 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 years ended June 30, 2007 and 2006, 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*

Fiscal Year 2007 represented the first full year of Mines' 16th President leading the institution. This year also marked the fourth year of the School's implementation of its Strategic Plan: *to optimize, consolidate, and align institutional resources in support of key programmatic areas such as earth, energy, materials and environment.* The School has been successful in its progress towards achieving many of the initiatives outlined in the strategic plan and a recalibration of "the Plan" has begun in order to confirm strategic direction.

The School's total operating revenues increased over 6% for Fiscal Year 2007 compared to Fiscal Year 2006. Tuition remains a major source of revenue to the School representing 43% of total operating revenues. The School implemented the fourth year of a five year plan to increase full time undergraduate resident tuition to fifteen credit hours. The School experienced a strong freshman class along with an increase in resident graduate enrollment which with an increase in tuition rates contributed to the increase in overall tuition revenue.

Fiscal Year 2007 represented the second year of the School's Fee-for-Service agreement with the Department of Higher Education; funding from that agreement increased 4% over the prior year. Funding of the School's research enterprise was flat from the prior year with funding from federal agencies reflecting a decline while funding from the private industry showed a positive increase.

Operating expenses increased a little over 4% from the prior year with the majority of that increase coming from a 26% increase in depreciation expense which primarily was due to several large buildings coming on line during the year. The Student Recreation Center opened in May 2007; this new building will be an important recreational resource for the School's students, faculty and staff. The addition to the Center for Technology and Learning Media building was also completed in May 2007; this building will serve as an important technological resource for our administration and students.

Funding from the School's Foundation remained strong in 2007 with a little over $10 million in gifts coming to the School. This is a decrease from the prior year due to a large construction gift given in 2006, however, in previous years, the School had been realizing $8 - $9 million in gifts each year. The state also provided strong support to the School for capital and deferred maintenance funds in 2007 at a little over $5 million compared to approximately $1.7 million in the prior year.

Overall, total net assets increased over 5% for the year with over a 52% increase to the School's unrestricted net assets.

## Statement of Net Assets

The statement of net assets includes all assets and liabilities of the School as of the end 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)**

**June 30, 2007, 2006 and 2005**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | $ 38,037 | $ 37,428 | $ 39,305 |
| Noncurrent assets | | | |
| Capital | 162,944 | 152,268 | 142,332 |
| Other | 31,361 | 32,290 | 31,694 |
| Total assets | 232,342 | 221,986 | 213,331 |
| **Liabilities** | | | |
| Current liabilities | 26,976 | 23,653 | 19,915 |
| Noncurrent liabilities | 78,373 | 78,067 | 79,481 |
| Total liabilities | 105,349 | 101,720 | 99,396 |
| **Net Assets** | | | |
| Invested in capital assets, net of related debt | 91,248 | 94,003 | 85,132 |
| Restricted | | | |
| Nonexpendable | 1,878 | 1,640 | 1,685 |
| Expendable | 8,947 | 8,270 | 7,594 |
| Unrestricted | 24,920 | 16,353 | 19,524 |
| Total net assets | $ 126,993 | $ 120,266 | $ 113,935 |

The Colorado School of Mines has the following general ratios as of June 30;

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Current Assets to Current Liabilities | 1.41:1 | 1.58:1 | 1.97:1 |
| Total Assets to Total Liabilities | 2.21:1 | 2.18:1 | 2.15:1 |

These ratios continue to remain strong and indicate that the School is positioned well for covering both current and long-term obligations.

2007

The School's net capital assets consist of land, land improvements, buildings and improvements, equipment, library materials and construction in progress collectively totaling $162.9 million at June 30, 2007. This amount is net of accumulated depreciation of $102.5 million. New construction and capital projects accounted for the addition of $12.6 million in net capital assets. Two construction projects capitalized this year include the Student Recreation Center and the addition to the Center for Technology and Learning Media building which were completed in May 2007. Financing for the Student Recreation Center came from various sources; primarily revenue bonds issued in November 2002 and in October 2004 and private donations. Additionally, the state appropriated funding to support the addition to the Center for Technology and Learning Media building. Further detail regarding capital asset activity can be found in Footnote 3 to the financial statements.

The School's long-term obligations are comprised principally of various revenue bonds payable issued to finance construction of capital assets. As of June 30, 2007 net revenue bonds payable of $71.1 million were outstanding. Further detail regarding long-term liabilities can be found in Footnotes 4 and 5 to the financial statements.

The decrease in short-term investments and restricted cash and cash equivalents is due primarily to the construction of the capital projects referenced above.

2006

The School's net capital assets consist of land, land improvements, buildings and improvements, equipment, library materials and construction in progress collectively totaling $152.3 million at June 30, 2006. This amount is net of accumulated depreciation of $95.6 million. New construction and capital projects accounted for the addition of slightly under $10 million in net capital assets. Construction in progress includes construction projects; the construction for the Student Recreation Center scheduled to be completed in 2007, and the addition to the Center for Technology and Learning Media building. Financing for the Student Recreation Center came from various sources; primarily bonds issued in November 2002 and in October 2004, and private donations. The state appropriated funding to support the addition to the Center for Technology and Learning Media building. Further detail regarding capital asset activity can be found in Footnote 3 to the financial statements.

The School's long-term obligations are comprised principally of various revenue bonds payable issued to finance constitution of capital assets. As of June 30, 2006 net revenue bonds payable of $72.2 million were outstanding. Further detail regarding long-term liabilities can be found in footnote 4 to the financial statements.

Restricted cash balances included funds from the 2002 and 2004 bond proceeds. The decrease in cash, short-term investments and restricted cash and cash equivalents is due primarily to the construction of the capital projects referenced above.

## 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 the School depends so significantly on contributions from the Foundation, a nonoperating revenue, this results in an operating loss. The use of capital assets is reflected in the financial statements as depreciation expense, which amortizes the cost of an asset over its expected useful life.

The Fiscal Year 2007 financial statements reported herein reflect an increase in net assets of $6.7 million over the prior year.

### Condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands) Years Ended June 30, 2007, 2006 and 2005

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Tuition and fees, net | $ 47,213 | $ 41,628 | $ 30,736 |
| Grants and contracts | 50,099 | 49,534 | 34,793 |
| Auxiliary enterprises | 10,885 | 10,429 | 9,417 |
| Other operating revenues | 644 | 677 | 606 |
| Total operating revenues | 108,841 | 102,268 | 75,552 |
| **Operating Expenses** | 118,735 | 113,686 | 99,816 |
| **Operating Loss** | (9,894) | (11,418) | (24,264) |
| **Nonoperating Revenues (Expenses)** | | | |
| State appropriations | — | — | 17,188 |
| Contributions from the Foundation | 10,237 | 13,682 | 7,926 |
| Other nonoperating revenues (expenses) | 1,154 | 2,380 | (3,219) |
| Net nonoperating revenues | 11,391 | 16,062 | 21,895 |
| **Income (Loss) Before Contributions** | 1,497 | 4,644 | (2,369) |
| **Capital Contributions** | | | |
| State appropriations | 5,230 | 1,687 | 2,716 |
| **Increase in Net Assets** | 6,727 | 6,331 | 347 |
| **Net Assets, Beginning of Year** | 120,266 | 113,935 | 113,588 |
| **Net Assets, End of Year** | $ 126,993 | $ 120,266 | $ 113,935 |

Operating revenues increased over 6% for Fiscal Year 2007 compared to Fiscal Year 2006. Funding from the state under the School's Fee-for-Service agreement increased by 4% over the prior year, net tuition and fees increased over 13% over the prior year and research contracts and grants stayed consistent compared to previous year.

The large increase in operating revenues for 2006 compared to 2005 is due to the shift in the delivery of funds from the state which shifted the nature of the revenue from nonoperating to operating. Previous to 2006, the primary funding from the state came in the form of appropriations; in 2006, the primary funding from the state came in the form of a fee-for-service contract and student stipends.

Tuition revenue in 2006 increased by $10.9 million, or 35% over the prior year. The primary factor was $6 million in College Opportunity Fund (COF) stipends passed along to resident undergraduate students by the state. The remaining increase was due to a large freshman class in the fall of 2005, an increase in part-time graduate students combined with an average 14.3% increase in tuition rates (including the COF stipend).

Operating expenses in 2007 increased a little over 4% from the prior year. Depreciation expense increased over 26% mainly due to several large buildings coming on line during the year. Funding from the School's Foundation in 2007 was a little over $10 million in gifts coming to the School.

Overall, total net assets show an increase of over 5% for the year with over a 52% increase to the School's unrestricted net assets.

The following chart presents undergraduates, graduate studies and combined enrollments for each of the last six years. As can be seen from the chart, total combined enrollments have increased over the prior year in each of the periods presented.

| | Undergraduates | | | Graduate Studies | | | Combined | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Residents | Non-residents | Total | Residents | Non-residents | Total | Residents | Non-residents | Total |
| 2006-07 | 2,686 | 745 | 3,431 | 370 | 172 | 542 | 3,056 | 917 | 3,973 |
| 2005-06 | 2,656 | 679 | 3,335 | 353 | 170 | 523 | 3,009 | 849 | 3,858 |
| 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 |

Tuition rates, shown below, support the School's tuition and fee revenues. Annual tuition rate increases, 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 |
| 2006-07 | $8,047 | $20,340 | $3,695 | $4,375 | $3,290 |
| 2005-06 | $7,248 | $19,830 | $3,520 | $4,170 | $3,132 |
| 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 |

Undergraduate admissions data, outlined below, show another aspect of the School's basis for student enrollment. The 2005, 2006, and 2007 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 * |
|---|---|---|---|---|---|
| 2007 | 6,063 | 3,692 | 60.9% | 899 | 24.3% |
| 2006 | 3,931 | 2,791 | 71.0% | 898 | 32.2% |
| 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% |

* "Committed" refers to students who committed to attend the School once their application had been accepted by the School.

2007

Revenue received from sponsored grants and contracts was flat from the prior year with funding from federal agencies reflecting a decline while funding from private sponsors reflected an increase. The School experienced a 4% increase in its revenue from the state Fee-for-Service agreement.

Net nonoperating revenues (expenses) of $11.4 million include $10.2 million of gifts from the Colorado School of Mines Foundation, Incorporated, $3.4 million of investment income, $(1.4) million of interest expense on capital debt, $(2.0) million of loss on disposal of assets and $1.2 million of other items, net.

2006

Grants and Contracts revenue increased by $14.7 million, or 42%. The primary factor was the new fee-for-service agreement. Revenue received under that contract accounted for $12.7 million of the increase or 36.5%.

Revenue from Federally sponsored contracts and grants increased 14% and State of Colorado sponsored contracts and grants increased 41% primarily due to state funds received for the Colorado Energy Research Institute. Revenue from privately sponsored contracts and grants decreased 14.2%; the School continues to receive funds from the Petroleum Institute pursuant to a long-term contract whereby the School provides services to support the Institute; $2 million was received in 2006.

Net nonoperating revenues (expenses) of $16 million include $13.7 million of gifts from the Colorado School of Mines Foundation, Incorporated, $2.6 million of investment income, $(1.7) million of interest expense on capital debt, and $1.4 million of other items, net. The increase in gifts from the Foundation includes a large gift made to support the funding of the construction of the Student Recreation Center. Additionally, the School received two pieces of real property from the Foundation.

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

### Years Ended June 30, 2007, 2006 and 2005

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| **Function** | | | | | | |
| Instruction | $ 37,798 | 31.8% | $ 38,093 | 33.5% | $ 34,815 | 34.9% |
| Research | 26,502 | 22.3% | 24,674 | 21.7% | 21,461 | 21.5% |
| Academic support | 8,319 | 7.0% | 6,585 | 5.8% | 6,561 | 6.5% |
| Student services | 2,926 | 2.5% | 3,433 | 3.0% | 3,601 | 3.6% |
| Institutional support | 7,251 | 6.1% | 8,667 | 7.6% | 6,567 | 6.6% |
| Operation and maintenance of plant | 10,570 | 8.9% | 10,093 | 8.9% | 8,698 | 8.7% |
| Scholarships and fellowships | 1,537 | 1.3% | 966 | 0.9% | 902 | 0.9% |
| Auxiliary enterprises | 13,481 | 11.4% | 12,967 | 11.4% | 11,841 | 11.9% |
| Depreciation | 10,351 | 8.7% | 8,208 | 7.2% | 5,370 | 5.4% |
| Total operating expenses | $ 118,735 | 100.0% | $ 113,686 | 100.0% | $ 99,816 | 100.0% |
| **Classification** | | | | | | |
| Wages and benefits | | | | | | |
| Faculty wages | $ 42,319 | 54.6% | $ 41,591 | 56.8% | $ 38,445 | 56.2% |
| Classified wages | 12,570 | 16.2% | 12,000 | 16.4% | 11,320 | 16.5% |
| Student wages | 2,207 | 2.9% | 2,218 | 3.0% | 1,821 | 2.7% |
| Benefits | 17,096 | 22.1% | 14,881 | 20.4% | 13,976 | 20.4% |
| | 74,192 | 95.8% | 70,690 | 96.6% | 65,562 | 95.8% |
| Personal service contracts | 3,256 | 4.2% | 2,517 | 3.4% | 2,861 | 4.2% |
| | $ 77,448 | 100.0% | $ 73,207 | 100.0% | $ 68,423 | 100.0% |
| Total wages and benefits | $ 77,448 | 65.2% | $ 73,207 | 64.4% | $ 68,423 | 68.6% |
| Scholarships and fellowships | 889 | 0.8% | 966 | 0.9% | 902 | 0.9% |
| Utilities | 2,772 | 2.3% | 3,196 | 2.8% | 3,243 | 3.2% |
| Supplies and other | 27,625 | 23.2% | 28,109 | 24.7% | 21,878 | 21.9% |
| Depreciation | 10,001 | 8.5% | 8,208 | 7.2% | 5,370 | 5.4% |
| Total operating expenses | $ 118,735 | 100.0% | $ 113,686 | 100.0% | $ 99,816 | 100.0% |

Operating expenses increased by 4.4% from 2006 to 2007 and 13.9% from 2005 to 2006. Part of the increase from 2006 to 2007 is due to increases in wages and benefits over the same time period. Also, expenses related to campus infrastructure, maintenance, and depreciation increased over 25% from the prior year. This is mainly due to the addition of new buildings this fiscal year. Much of the increase for 2005 to 2006 is due to a 15% increase in research expenses over the same time period. Additionally, the 9.4% increase in instruction expenses from 2005 to 2006 was in response to the growth in student enrollment.

## Factors Impacting Future Periods

The level of state support, employee 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. With the School continuing to keep its TABOR-exempt Enterprise status comes implied flexibility in setting tuition rates. It will be vital for the School to have the ability to set tuition at a level which will support the cost of educating a Colorado School of Mines' student. As the state continues to analyze further funding mechanisms, it will be important for the School to assess the implications deriving from state support on the long-term health and maintenance of the School and its continued ability to provide high quality academic programs that continue to attract a high quality of students. The School's goal is to develop its own strategy for how to strengthen the School's financial position and obtain more operating and financial flexibility.

As enrollment is planned to continue to grow pursuant to the Strategic Plan, the School must ensure that the physical infrastructure can not only accommodate the growth but also is utilized to optimize the academic and social life of the student, foster growth in research and support a world-class institution. The ability to obtain and devote resources to support the physical infrastructure will be a high priority of the School. Previously, the School was limited in its ability to pledge certain revenues to issue debt which has reduced the School's ability to proceed with some planned building improvements and expansions. With the status of a TABOR-exempt Enterprise, the School now has the ability to pledge a portion of its tuition revenue to issue debt which can provide additional capacity and flexibility. This ability will be a key coupled with continued funding from the state to meet our capital needs.

The School continues to position itself to fully implement the Strategic Plan and in doing so must work to secure the financial and human resources needed to fulfill the mission.

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Statements of Net Assets
## June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 23,422,183 | $ 12,621,892 |
| Short-term investments | 80,780 | 12,785,822 |
| Accounts receivable, net of allowance; 2007 – $589,978; 2006 – $479,887 | 2,899,617 | 1,936,341 |
| Federal and state grants receivable, net of allowance; 2007 – $132,629; 2006 – $184,717 | 4,928,143 | 5,529,081 |
| Other receivables (includes amounts due from the Foundation; 2007 – $851,857; 2006 – $1,362,459) | 6,129,935 | 4,417,932 |
| Inventories | 114,358 | 77,934 |
| Loans to students, net of allowance; 2007 – $5,154; 2006 – $5,309 | 444,872 | 40,900 |
| Prepaid expenses | 17,025 | 17,940 |
| Total current assets | 38,036,913 | 37,427,842 |
| **Noncurrent Assets** | | |
| Restricted cash and cash equivalents | 13,055,230 | 14,884,855 |
| Restricted investments | 6,148,408 | 5,692,594 |
| Other noncurrent investments | 6,815,504 | 5,935,636 |
| Loans to students, net of allowance; 2007 – $181,485; 2006 – $188,397 | 4,273,698 | 4,671,524 |
| Capital assets, net | 162,944,406 | 152,268,378 |
| Bond issuance costs, net | 1,067,665 | 1,105,587 |
| Total noncurrent assets | 194,304,911 | 184,558,574 |
| Total assets | 232,341,824 | 221,986,416 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 13,137,429 | 11,682,116 |
| Deferred revenue | 11,581,004 | 9,881,596 |
| Bonds payable – current portion | 1,415,000 | 1,380,000 |
| Other current liabilities | 842,269 | 709,600 |
| Total current liabilities | 26,975,702 | 23,653,312 |
| **Noncurrent Liabilities** | | |
| Accrued compensated absences | 3,137,283 | 3,263,643 |
| Deferred revenue | 1,458,333 | 1,958,333 |
| Student loan funds administered for the Foundation | 1,858,896 | 2,035,874 |
| Note payable | 2,222,336 | — |
| Bonds payable, net | 69,696,606 | 70,809,136 |
| Total noncurrent liabilities | 78,373,454 | 78,066,986 |
| Total liabilities | 105,349,156 | 101,720,298 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | 91,248,042 | 94,003,487 |
| Restricted | | |
| Nonexpendable | | |
| Scholarships and fellowships | 1,150,776 | 987,982 |
| Other | 726,829 | 652,283 |
| Expendable | | |
| Scholarships and fellowships | 2,285,772 | 1,993,846 |
| Loans | 4,474,277 | 4,348,009 |
| Other | 1,689,522 | 1,494,187 |
| Capital projects | 497,889 | 433,613 |
| Unrestricted | 24,919,561 | 16,352,711 |
| Total net assets | $ 126,992,668 | $ 120,266,118 |

# Colorado School of Mines Foundation, Incorporated
# (A Component Unit of Colorado School of Mines)
## Statements of Financial Position
## June 30, 2007 and 2006

| | June 30, 2007 | June 30, 2006 |
|---|---|---|
| **Assets** | | |
| **Assets** | | |
| Cash and cash equivalents | $ 1,119,844 | $ 1,283,958 |
| Restricted cash | 1,440,473 | 714,662 |
| Intermediate-term investments | 306,746 | 484,994 |
| Contributions receivable | 4,972,974 | 4,281,974 |
| Student loans receivable | | |
| Revolving loan fund - Colorado School of Mines | 913,300 | 893,257 |
| Direct student loans | 994,722 | 1,049,804 |
| Loan Receivable – Recreation Center | 1,331,177 | — |
| Contributions receivable from trusts held by others | 3,674,940 | 3,306,804 |
| Assets held under split-interest agreements | 18,479,269 | 16,903,756 |
| Beneficial interest in endowments held by others | 8,972,462 | 8,006,028 |
| Beneficial interest in long-term trusts held by others | 2,014,594 | 1,921,231 |
| Long-term investment pool | 159,200,921 | 142,517,514 |
| Real estate held for future use | 290,481 | 321,455 |
| Equipment, net of accumulated depreciation of $638,618 – 2007; $622,138 – 2006 | 30,251 | 37,645 |
| Other assets | 285,791 | 264,636 |
| Restricted net assets held by Property Management Corp. | 72,772 | 172,412 |
| Total assets | $ 204,100,717 | $ 182,160,130 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | $ 549,363 | $ 1,047,047 |
| Obligations under split-interest agreements | 6,590,368 | 6,641,680 |
| Obligations under gift annuity agreements | 3,635,014 | 3,464,485 |
| Assets held for others | 13,684,572 | 12,214,332 |
| Refundable advances | 714,822 | — |
| Other liabilities | 83,992 | 86,244 |
| Total liabilities | 25,258,131 | 23,453,788 |
| **Net assets** | | |
| Unrestricted | | |
| Undesignated | 3,320,689 | 3,312,050 |
| Board designated | 16,415,043 | 13,615,483 |
| Total unrestricted | 19,735,732 | 16,927,533 |
| Temporarily restricted | 52,624,582 | 43,207,821 |
| Permanently restricted | 106,482,272 | 98,570,988 |
| Total net assets | 178,842,586 | 158,706,342 |
| Total liabilities and net assets | $ 204,100,717 | $ 182,160,130 |

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Statements of Revenues, Expenses and Changes in Net Assets
## Years Ended June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Operating Revenues** | | |
| Tuition and fees, net | $ 47,212,605 | $ 41,627,871 |
| Federal grants and contracts | 20,636,967 | 23,023,250 |
| State grants and contracts | 3,426,058 | 3,411,181 |
| State Fee-For-Service contract | 13,194,321 | 12,690,425 |
| Nongovernmental grants and contracts | 12,842,377 | 10,409,083 |
| Interest on student loans receivable | 59,184 | 52,984 |
| Auxiliary enterprises, net | 10,885,164 | 10,429,298 |
| Other operating revenues | 584,339 | 623,798 |
| Total operating revenues | 108,841,015 | 102,267,890 |
| **Operating Expenses** | | |
| Instruction | 37,797,796 | 38,092,631 |
| Research | 26,501,823 | 24,673,764 |
| Academic support | 8,318,592 | 6,584,527 |
| Student services | 2,926,378 | 3,432,845 |
| Institutional support | 7,251,419 | 8,667,194 |
| Auxiliary enterprises | 13,481,593 | 12,966,841 |
| Operation and maintenance of plant | 10,569,740 | 10,093,178 |
| Scholarships and fellowships | 1,536,874 | 966,395 |
| Depreciation | 10,351,076 | 8,208,546 |
| Total operating expenses | 118,735,291 | 113,685,921 |
| **Operating Loss** | (9,894,276) | (11,418,031) |
| **Nonoperating Revenues (Expenses)** | | |
| Contributions from Colorado School of Mines Foundation, Incorporated | 10,236,810 | 13,682,472 |
| Contributions - other | 247,297 | 101,430 |
| Investment income | 3,356,032 | 2,603,941 |
| Rental income | 799,756 | 1,389,212 |
| Interest on capital asset-related debt | (1,473,960) | (1,707,823) |
| Amortization of bond issuance cost | (37,922) | (37,913) |
| Loss on disposal of assets | (1,950,737) | (32,202) |
| Other nonoperating revenues | 213,434 | 62,779 |
| Net nonoperating revenues | 11,390,710 | 16,061,896 |
| **Income Before Contributions** | 1,496,434 | 4,643,865 |
| **Capital Contributions – State Appropriations** | 5,230,116 | 1,686,868 |
| **Increase in Net Assets** | 6,726,550 | 6,330,733 |
| **Total Net Assets, Beginning of Year** | 120,266,118 | 113,935,385 |
| **Total Net Assets, End of Year** | $ 126,992,668 | $ 120,266,118 |

# Colorado School of Mines Foundation, Incorporated
# (A Component Unit of Colorado School of Mines)
## Statement of Activities
## Year Ended June 30, 2007

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues, Gains and Support** | | | | |
| Contributions | $ 1,693,009 | $ 6,458,482 | $ 2,191,843 | $ 10,343,334 |
| Interest and dividends | 572,225 | 1,321,332 | 239,681 | 2,133,238 |
| Net realized and unrealized gains | 4,214,877 | 18,116,340 | 650,723 | 22,981,940 |
| Changes in net present values of split-interest agreements | (346,177) | (435,376) | (270,774) | (1,052,327) |
| Changes in interest in net assets of Property Management Corp. | — | 4,360 | (104,000) | (99,640) |
| Other income (loss) | 116,552 | 35,797 | 56,717 | 209,066 |
| Total revenues, gains and support | 6,250,486 | 25,500,935 | 2,764,190 | 34,515,611 |
| **Net Assets Released from Restrictions** | | | | |
| Satisfaction of program restrictions | 9,976,633 | (9,976,633) | — | — |
| Administration fees | 886,309 | (886,309) | — | — |
| Realization of promises to give | 29,601 | (29,601) | — | — |
| Cancellation of pledges | 52,734 | (32,234) | (20,500) | — |
| Other reclassifications | (8,197) | (5,159,397) | 5,167,594 | — |
| Total net assets released | 10,937,080 | (16,084,174) | 5,147,094 | — |
| **Expenses** | | | | |
| School support | 11,860,486 | — | — | 11,860,486 |
| Fundraising | 1,879,807 | — | — | 1,879,807 |
| Alumni Association | 120,000 | — | — | 120,000 |
| Management and general | 461,558 | — | — | 461,558 |
| Presidential search | 4,782 | — | — | 4,782 |
| Cancellation of pledges | 52,734 | — | — | 52,734 |
| Total expenses | 14,379,367 | — | — | 14,379,367 |
| **Change in Net Assets** | 2,808,199 | 9,416,761 | 7,911,284 | 20,136,244 |
| **Net Assets at Beginning of Year** | 16,927,533 | 43,207,821 | 98,570,988 | 158,706,342 |
| **Net Assets at End of Year** | $ 19,735,732 | $ 52,624,582 | $ 106,482,272 | $ 178,842,586 |

# Colorado School of Mines Foundation, Incorporated
# (A Component Unit of Colorado School of Mines)
## Statement of Activities
## Year Ended June 30, 2006

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Revenues, Gains and Support** | | | | |
| Contributions | $ 1,367,025 | $ 7,781,715 | $ 6,657,293 | $ 15,806,033 |
| Interest and dividends | 530,781 | 1,320,668 | 227,930 | 2,079,379 |
| Net realized and unrealized gains | 2,341,030 | 12,619,739 | 269,547 | 15,230,316 |
| Changes in net present values of split-interest agreements | (349,205) | (103,320) | (169,099) | (621,624) |
| Changes in interest in net assets of Property Management Corp. | — | (4,284) | 104,000 | 99,716 |
| Other income (loss) | (184,379) | 31,675 | 5,630 | (147,074) |
| Total revenues, gains and support | 3,705,252 | 21,646,193 | 7,095,301 | 32,446,746 |
| **Net Assets Released from Restrictions** | | | | |
| Satisfaction of program restrictions | 12,120,658 | (12,120,658) | — | — |
| Administration fees | 831,768 | (831,768) | — | — |
| Realization of promises to give | 79,708 | (79,708) | — | — |
| Cancellation of pledges | 56,405 | (55,405) | (1,000) | — |
| Other reclassifications | 380,089 | (3,983,690) | 3,603,601 | — |
| Total net assets released | 13,468,628 | (17,071,229) | 3,602,601 | — |
| **Expenses** | | | | |
| School support | 12,969,451 | — | — | 12,969,451 |
| Fundraising | 1,924,144 | — | — | 1,924,144 |
| Alumni Association | 100,000 | — | — | 100,000 |
| Management and general | 387,873 | — | — | 387,873 |
| Presidential search | 84,141 | — | — | 84,141 |
| Cancellation of pledges | 56,405 | — | — | 56,405 |
| Total expenses | 15,522,014 | — | — | 15,522,014 |
| **Change in Net Assets** | 1,651,866 | 4,574,964 | 10,697,902 | 16,924,732 |
| **Net Assets at Beginning of Year** | 15,275,667 | 38,632,857 | 87,873,086 | 141,781,610 |
| **Net Assets at End of Year** | $ 16,927,533 | $ 43,207,821 | $ 98,570,988 | $ 158,706,342 |

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Statements of Cash Flows
## Years Ended June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Tuition and fees | $ 46,559,428 | $ 41,136,271 |
| Grants and contracts | 49,877,967 | 45,452,407 |
| Payments to suppliers | (22,235,136) | (24,416,296) |
| Scholarships disbursed | (1,536,874) | (966,395) |
| Payments to employees | (69,390,344) | (66,662,647) |
| Loans issued to students | (1,171,250) | (1,172,205) |
| Collection of loans from students | 1,224,288 | 1,231,163 |
| Sales and services of auxiliary enterprises | 10,885,164 | 10,429,298 |
| Payments for auxiliary enterprises | (13,797,120) | (12,740,984) |
| Other receipts | 584,339 | 644,579 |
| Net cash provided by (used in) operating activities | 1,000,462 | (7,064,809) |
| **Cash Flows from Noncapital Financing Activities** | | |
| Receipts from the Colorado School of Mines Foundation, Incorporated | 10,236,810 | 13,682,472 |
| Student loan funds administered for the Foundation | (176,978) | (77,685) |
| Gifts and grants for other than capital purposes | 247,297 | 101,430 |
| Rental income | 799,756 | 1,389,212 |
| Other receipts | 213,434 | 51,076 |
| Net cash provided by noncapital financing activities | 11,320,319 | 15,146,505 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Capital appropriations – state | 5,230,116 | 1,686,868 |
| Acquisition and construction of capital assets | (19,334,476) | (14,659,759) |
| Principal paid on revenue bonds payable | (1,545,000) | (845,000) |
| Note payable proceeds | 2,427,310 | — |
| Interest paid on capital asset-related debt | (2,916,372) | (2,855,748) |
| Payment of prior year payables for capital assets | (1,937,084) | (638,668) |
| Net cash used in capital and related financing activities | (18,075,506) | (17,312,307) |
| **Cash Flows from Investing Activities** | | |
| Interest and dividends on investments | 3,356,032 | 2,615,644 |
| Purchase of investments | (1,335,683) | (1,878,990) |
| Proceeds from sales and maturities of investments | 12,705,042 | 3,522,908 |
| Net cash provided by investing activities | 14,725,391 | 4,259,562 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 8,970,666 | (4,971,049) |
| **Cash and Cash Equivalents, Beginning of Year** | 27,506,747 | 32,477,796 |
| **Cash and Cash Equivalents, End of Year** | $ 36,477,413 | $ 27,506,747 |

(continued)

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Statements of Cash Flows (continued)
## Years Ended June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| **Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets** | | |
| Cash and cash equivalents | $ 23,422,183 | $ 12,621,892 |
| Restricted cash and cash equivalents – noncurrent | 13,055,230 | 14,884,855 |
| Total cash and cash equivalents | $ 36,477,413 | $ 27,506,747 |
| **Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating loss | $ (9,894,276) | $ (11,418,031) |
| Depreciation expense | 10,351,076 | 8,208,546 |
| Allowance for doubtful accounts | 58,003 | (443,755) |
| Changes in operating assets and liabilities | | |
| Receivables | (2,132,344) | (5,032,823) |
| Inventories | (36,424) | 12,606 |
| Prepaid expenses | 915 | 33,304 |
| Loans to students | (6,146) | 58,958 |
| Accounts payable and other liabilities | 1,689,952 | 107,450 |
| Deferred revenue | 1,199,408 | 1,090,971 |
| Accrued compensated absences | 85,825 | 92,108 |
| Other current liabilities | (315,527) | 225,857 |
| **Net Cash Provided By (Used In) Operating Activities** | $ 1,000,462 | $ (7,064,809) |
| **Supplemental Cash Flows Information** | | |
| **Noncash Capital and Related Financing Activities** | | |
| Accounts payable incurred for capital asset purchases | $ 1,711,666 | $ 1,917,168 |
| Amortization of bond discounts | $ 65,514 | $ 69,692 |
| Amortization of bond issuance costs | $ 37,922 | $ 37,913 |
| Accretion of interest on deep discount debt | $ 390,254 | $ 370,372 |
| Amortization of deferred amount from refunding | $ 11,702 | $ 11,702 |

# Colorado School of Mines Foundation, Incorporated
# A Component Unit of Colorado School of Mines
## Statements of Cash Flows
## Years Ended June 30, 2007 and 2006

| | June 30, | |
|---|---|---|
| | 2007 | 2006 |
| **Cash Flows from Operating Activities** | | |
| Change in net assets | $ 20,136,244 | $ 16,924,732 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Change in net assets held by property management corporation | 99,640 | (99,716) |
| Depreciation and amortization | 28,097 | 46,022 |
| Net realized and unrealized gains | (22,981,940) | (15,230,316) |
| Cancellation of pledges | 52,734 | 56,405 |
| Loss on the sale of real estate held for future use | — | 334,420 |
| Changes in net present values of split-interest agreements | 1,052,327 | 621,624 |
| Contributions restricted for long-term investment | (2,191,843) | (6,657,293) |
| Split-interest trust agreements | — | (416,000) |
| Accrued interest on loan receivable | (24,067) | — |
| Changes in assets and liabilities | | |
| Contributions receivable | (743,734) | (1,481,194) |
| Receivables from trust | (2,049,159) | 137,281 |
| Other assets | (21,155) | (14,254) |
| Accounts payable and other liabilities | (499,936) | 315,115 |
| Assets held for others | 1,470,240 | 1,330,655 |
| Refundable advances | 714,822 | — |
| Net cash used in operating activities | (4,957,730) | (4,132,519) |
| **Cash Flows from Investing Activities** | | |
| Change in restricted cash | (725,811) | (714,662) |
| Purchases of investments | (41,282,504) | (33,573,960) |
| Sales of investments | 46,875,756 | 33,335,530 |
| Net student loan activity | 35,039 | 219,809 |
| Net recreation center loan activity | (1,307,110) | — |
| Purchase of property and equipment | (12,342) | (10,006) |
| Proceeds from the sale of real estate held for future use | 22,613 | — |
| Net cash provided by (used in) investing activities | 3,605,641 | (743,289) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from contributions restricted for long-term investment | 2,191,843 | 6,657,293 |
| Payment of split-interest agreement and gift annuity obligations | (1,003,868) | (938,889) |
| Net cash provided by financing activities | 1,187,975 | 5,718,404 |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (164,114) | 842,596 |
| **Cash and Cash Equivalents at Beginning of Year** | 1,283,958 | 441,362 |
| **Cash and Cash Equivalents at End of Year** | $ 1,119,844 | $ 1,283,958 |

## 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 revenues under a fee-for-service agreement with the Department of Higher Education. 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.

### *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 7), and its blended component units – the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation (see Note 8). 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 generally accepted accounting principles (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 Statement No. 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, 2007 and 2006, 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.

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 cost, 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 $186,639 and $193,706 at June 30, 2007 and 2006, 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, 2007 and 2006, was $37,922 and $37,913, respectively.

### *Capital Assets*

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

| | 2007 | 2006 |
|---|---|---|
| Interest capitalized | $ 1,931,699 | $ 1,599,693 |
| Interest charged to expense | 1,473,960 | 1,707,823 |
| Total interest incurred | $ 3,405,659 | $ 3,307,516 |

Interest charged to expense includes $65,514, $11,702 and $390,254 for 2007 and $69,692, $11,702 and $370,372 for 2006 for amortization of bond discounts, amortization of deferred amounts from refundings and accretion of deep discount debt, respectively.

### *Accounts Payable and Accrued Liabilities*

Accounts payable and accrued liabilities at June 30, 2007 and 2006 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Accounts payable | $ 4,038,584 | $ 3,308,199 |
| Accrued interest payable | 228,928 | 207,111 |
| Salaries and benefits payable | 8,869,917 | 8,166,806 |
| Total | $ 13,137,429 | $ 11,682,116 |

### *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 $9,247,671 and $7,548,263 at June 30, 2007 and 2006, 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 $3,791,666 and $4,291,666 at June 30, 2007 and 2006, 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, 2007 were $10,132,020 and $195,986, respectively, and for the year ended June 30, 2006, were $9,416,291 and $195,179, 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, 2007 and 2006.

### *Reclassifications*

Certain 2006 balances have been reclassified to conform with the 2007 presentation.

## Note 2: Deposits, Investments and Investment Return

### *Deposits*

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

| | 2007 | 2006 |
|---|---|---|
| Insured (FDIC insured) | $ 155,479 | $ 190,276 |
| Collateralized by securities held by the pledging financial institution's trust department or agent in the School's name | 2,510,338 | 10,783,990 |
| Total | $ 2,665,817 | $ 10,974,266 |
| Carrying amount | $ 1,571,282 | $ 8,030,261 |

Additionally, the School had $12,139 and $13,349 respectively at June 30, 2007 and 2006 in cash on hand.

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, 2007 are deemed to be exposed to custodial credit risk.

Additionally, at June 30, 2007 and 2006, the School had $34,893,992 (net of $198,608 unrealized loss) and $19,463,137 (net of $236,463 unrealized loss) 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 and 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 2005, 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 recognized 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, 2007 and 2006 consisted of the following:

| Investment | Fair Value 2007 | Fair Value 2006 | Maturity | Credit Rating | Rating Agency |
|---|---|---|---|---|---|
| Money Market Mutual Fund | $ — | $ 12,705,041 | 21 days | AAA | Standard & Poor's |
| Corporate Equities | 80,780 | 80,780 | N/A | Not rated | |
| Investment Pool | | | | | |
| Corporate Bonds | 1,496,705 | 1,400,538 | 2.5 – 7 years | AA + | Standard & Poor's |
| Corporate Equities | 11,467,207 | 10,227,693 | N/A | Not Rated | |
| Total | $ 13,044,692 | $ 24,414,052 | | | |

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:

| | 2007 | 2006 |
|---|---|---|
| Cash and cash equivalents | $ 23,422,183 | $ 12,621,892 |
| Short-term investments | 80,780 | 12,785,822 |
| Restricted cash and cash equivalents | 13,055,230 | 14,884,855 |
| Restricted investments | 6,148,408 | 5,692,594 |
| Other noncurrent investments | 6,815,504 | 5,935,636 |
| | $ 49,522,105 | $ 51,920,799 |

### *Investment Income*

Investment income for the year ended June 30 consisted of:

| | 2007 | 2006 |
|---|---|---|
| Interest and dividend income | $ 1,639,596 | $ 1,432,814 |
| Net increase in fair value of investments | 1,716,436 | 1,171,127 |
| | $ 3,356,032 | $ 2,603,941 |

## Note 3: Capital Assets

Capital assets activity for the year ended June 30 was:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers from Construction in Progress | Ending Balance |
| Land | $ 3,224,144 | $ — | $ — | $ — | $ 3,224,144 |
| Land improvements | 8,604,014 | 899,204 | — | 53,966 | 9,557,184 |
| Buildings and Improvements | 174,467,813 | 18,303,718 | 2,008,737 | 18,556,810 | 209,319,604 |
| Equipment | 30,898,359 | 2,222,682 | 2,898,271 | — | 30,222,770 |
| Library materials | 11,679,117 | 302,887 | 62,415 | — | 11,919,589 |
| Construction in progress | 18,996,359 | 1,249,350 | 385,582 | (18,610,776) | 1,249,351 |
| | 247,869,806 | 22,977,841 | 5,355,005 | — | 265,492,642 |
| Less accumulated depreciation | | | | | |
| Land improvements | 5,352,769 | 239,001 | — | — | 5,591,770 |
| Buildings and improvements | 57,688,159 | 7,693,315 | 582,442 | — | 64,799,032 |
| Equipment | 22,547,467 | 2,082,038 | 2,759,411 | — | 21,870,094 |
| Library materials | 10,013,033 | 336,722 | 62,415 | — | 10,287,340 |
| | 95,601,428 | 10,351,076 | 3,404,268 | — | 102,548,236 |
| Net capital assets | $ 152,268,378 | $ 12,626,765 | $ 1,950,737 | $ — | $ 162,944,406 |

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers from Construction in Progress | Ending Balance |
| Land | $ 3,224,144 | $ — | $ — | $ — | $ 3,224,144 |
| Land improvements | 7,385,839 | — | — | 1,218,175 | 8,604,014 |
| Buildings and improvements | 172,706,287 | 695,000 | — | 1,066,526 | 174,467,813 |
| Equipment | 29,622,281 | 2,417,112 | 1,907,588 | 766,554 | 30,898,359 |
| Library materials | 11,598,687 | 171,492 | 91,062 | — | 11,679,117 |
| Construction in progress | 7,154,600 | 14,893,014 | — | (3,051,255) | 18,996,359 |
| | 231,691,838 | 18,176,618 | 1,998,650 | — | 247,869,806 |
| Less accumulated depreciation | | | | | |
| Land improvements | 5,168,793 | 183,976 | — | — | 5,352,769 |
| Buildings and improvements | 52,077,461 | 5,610,698 | — | — | 57,688,159 |
| Equipment | 22,242,018 | 2,180,835 | 1,875,386 | — | 22,547,467 |
| Library materials | 9,871,058 | 233,037 | 91,062 | — | 10,013,033 |
| | 89,359,330 | 8,208,546 | 1,966,448 | — | 95,601,428 |
| Net capital assets | $ 142,332,508 | $ 9,968,072 | $ 32,202 | $ — | $ 152,268,378 |

## Note 4: Long-term Liabilities

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

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Amounts Due Within One Year | |
| **Bonds** | | | | | | |
| Revenue bonds payable | | | | | | |
| Series 1997A (A) | $ 2,940,000 | $ — | $ — | $ 2,940,000 | $ — | |
| Series 1997B (A) | 460,000 | — | — | 460,000 | — | |
| Series 1999 (B) | 10,067,433 | 390,254 | — | 10,457,687 | — | |
| Series 2002 (C) | 32,040,000 | — | — | 32,040,000 | — | |
| Series 2004 (D) | 16,605,000 | — | 1,380,000 | 15,225,000 | 1,415,000 | |
| Series 2005 (E) | 10,555,000 | — | 165,000 | 10,390,000 | — | |
| | 72,667,433 | 390,254 | 1,545,000 | 71,512,687 | 1,415,000 | |
| Unamortized bond discounts | (242,315) | — | (65,514) | (176,801) | — | |
| Deferred amount from refunding | (235,982) | — | (11,702) | (224,280) | — | |
| Total bonds | 72,189,136 | 390,254 | 1,467,784 | 71,111,606 | 1,415,000 | |
| **Other Noncurrent Liabilities** | | | | | | |
| Accrued compensated absences | 3,386,401 | 85,825 | — | 3,472,226 | 334,943 | (1) |
| Deferred revenue | | | | | | |
| Tuition, fees and grants | 7,548,263 | 1,699,408 | — | 9,247,671 | 9,247,671 | (2) |
| Development assistance and trademark license | 4,291,666 | — | 500,000 | 3,791,666 | 2,333,333 | (2) |
| Student loan funds administered for the Foundation | 2,035,874 | — | 176,978 | 1,858,896 | — | |
| Note payable | — | 2,427,310 | — | 2,427,310 | 204,974 | (1) |
| Total other noncurrent liabilities | 17,262,204 | 4,212,543 | 676,978 | 20,797,769 | 12,120,921 | |
| Total noncurrent liabilities | $ 89,451,340 | $ 4,602,797 | $ 2,144,762 | $ 91,909,375 | $ 13,535,921 | |

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

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

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Amounts Due Within One Year | |
| **Bonds** | | | | | | |
| Revenue bonds payable | | | | | | |
| Series 1997A (A) | $ 2,940,000 | $ — | $ — | $ 2,940,000 | $ — | |
| Series 1997B (A) | 460,000 | — | — | 460,000 | — | |
| Series 1999 (B) | 9,697,061 | 370,372 | — | 10,067,433 | — | |
| Series 2002 (C) | 32,040,000 | — | — | 32,040,000 | — | |
| Series 2004 (D) | 17,450,000 | — | 845,000 | 16,605,000 | 1,380,000 | |
| Series 2005 (E) | 10,555,000 | — | — | 10,555,000 | — | |
| | 73,142,061 | 370,372 | 845,000 | 72,667,433 | 1,380,000 | |
| Unamortized bond (discounts) premium | (312,007) | — | (69,692) | (242,315) | — | |
| Deferred amount from refunding | (247,684) | — | (11,702) | (235,982) | — | |
| Total bonds | 72,582,370 | 370,372 | 763,606 | 72,189,136 | 1,380,000 | |
| **Other Noncurrent Liabilities** | | | | | | |
| Accrued compensated absences | 3,348,547 | 37,854 | — | 3,386,401 | 122,758 | (1) |
| Deferred revenue | | | | | | |
| Tuition, fees and grants | 5,816,364 | 1,731,899 | — | 7,548,263 | 7,548,263 | (2) |
| Development assistance and trademark license | 4,791,666 | — | 500,000 | 4,291,666 | 2,333,333 | (2) |
| Student loan funds administered for the Foundation | 2,113,559 | — | 77,685 | 2,035,874 | — | |
| Total other noncurrent liabilities | 16,070,136 | 1,769,753 | 577,685 | 17,262,204 | 10,004,354 | |
| Total noncurrent liabilities | $ 88,652,506 | $ 2,140,125 | $ 1,341,291 | $ 89,451,340 | $ 11,384,354 | |

(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, 2007 and/or 2006:

A. Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B. Series 1997A – Serial and Term obligations mature in fiscal years ending June 30, 2010 to 2017; due in annual installments ranging from $305,000 to $435,000 with interest payable semi-annually ranging from 4.875% to 5.125%. Series 1997B – Term 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.

B. 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 (original principal amount), 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%.

C. Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2002 – Serial and Term 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.

D. 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 in amounts ranging up to $1,415,000 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 and term 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 1997, Series 1999, Series 2002 and Series 2004 auxiliary bonds are $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 8)*

E. 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.

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, 2007 was 3.9%.

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, 2007, are as follows:

| Year Ending June 30 | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2008 | $ 4,276,469 | $ 1,415,000 | $ 2,861,469 |
| 2009 | 4,275,037 | 1,450,000 | 2,825,037 |
| 2010 | 4,275,868 | 1,495,000 | 2,780,868 |
| 2011 | 4,273,701 | 1,545,000 | 2,728,701 |
| 2012 | 4,275,822 | 1,605,000 | 2,670,822 |
| 2013 – 2017 | 21,370,598 | 8,920,000 | 12,450,598 |
| 2018 – 2022 | 21,367,661 | 10,065,000 | 11,302,661 |
| 2023 – 2027 | 31,425,599 | 21,365,000 | 10,060,599 |
| 2028 – 2032 | 19,347,619 | 13,010,000 | 6,337,619 |
| 2033 – 2037 | 18,260,216 | 15,520,000 | 2,740,216 |
| 2038 – 2041 | 3,326,125 | 3,245,000 | 81,125 |
| | $ 136,474,715 | 79,635,000 | $ 56,839,715 |
| Unaccreted interest on 1999 Bonds | | (8,122,313) | |
| | | $ 71,512,687 | |

### *Defeased Bonds*

The School has in prior years in-substance defeased certain of its debt issuances by placing assets in irrevocable escrow to be used solely for the purpose of making principal and interest payments on the debt. While the chance of the School being required to make any additional future payments is remote, it remains contingently liable as the primary obligor for amounts outstanding. Because the debt is deemed to be in-substance defeased, it has been removed from the financial statements of the School. Principal amounts outstanding as of June 30, 2007 for debt in-substance defeased are for the Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A at $570,000.

### *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: Note Payable

On April 10, 2007, the Foundation and the State of Colorado, Department of Higher Education, acting by and through the Colorado School of Mines (CSM) Board of Trustees, entered into an agreement whereby the Foundation loaned CSM funds for the construction of the CSM Student Recreation Center in the amount of $2,427,310. CSM will repay the loan amount to the Foundation with interest of 4.5%, with payments on July 1 and December 1 each year beginning December 1, 2007 until the last payment is made on April 10, 2012. The amount due shall also be reduced by the amounts of any restricted gifts made by donors for the benefit of or use by CSM Student Recreation Center during the term of the agreement. The agreement is unsecured. Transactions for the note payable for 2007 are as follows:

| Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|---|---|---|---|---|
| $ — | $ 2,427,310 | $ — | $ 2,427,310 | $ 204,974 |

The note is due as follows, excluding any reductions for restricted gifts, as of June 30, 2007:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2008 | $ 308,849 | $ 204,974 | $ 103,875 |
| 2009 | 538,131 | 454,086 | 84,045 |
| 2010 | 537,594 | 474,745 | 62,849 |
| 2011 | 537,027 | 496,341 | 40,686 |
| 2012 | 811,555 | 797,164 | 14,391 |
| | $ 2,733,156 | $ 2,427,310 | $ 305,846 |

## Note 6: 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, 2006 and 2005, its year end, 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 7: 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, 2007 and 2006, the Foundation had advanced $913,300 and $893,257, respectively, to the School, which is included in student loan funds administered for the Foundation on the School's statement of net assets of $1,858,896 and $2,035,874 as of June 30, 2007 and 2006, respectively. The outstanding loan balance bears interest at 9% per annum.

During the fiscal year ended June 30, 2007, the Foundation entered into a loan agreement with the School, whereby the Foundation agreed to loan the School funds for the construction of the Student Recreation Center (Note 5). The loan accrues interest at 4.5% per annum and payments are due from the School beginning December 1, 2007, with payments due July 1st and December 1st of every year thereafter until the loan is paid off on April 10, 2012. Additionally, the loan will be reduced by any restricted gifts made by donors for the benefit or use of the Student Recreation Center during the term of the agreement.

### *Contributions Receivable*

Contributions receivable as of June 30 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Due in less than one year | $ 3,204,651 | $ 2,326,545 |
| Due in one to five years | 2,252,853 | 2,404,640 |
| | 5,457,504 | 4,731,185 |
| Less: Allowance for uncollectible contributions | (117,000) | (114,000) |
| Unamortized discount | (367,530) | (335,211) |
| | $ 4,972,974 | $ 4,281,974 |

Discount rates were 5% and 4% for the years ended June 30, 2007 and 2006, respectively.

Approximately 45% and 47% of the Foundation's contributions receivable as of June 30, 2007 and 2006, respectively, consist of pledges from two donors in 2007 and three donors in 2006.

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 $3,674,940 and $3,306,804 at June 30, 2007 and 2006, respectively.

### *Investments*

Intermediate-term investments consisted of certificates of deposit and cash equivalents of $306,746 and $484,994 at June 30, 2007 and 2006, 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:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Split-interest Agreements | Long-term Investment Pool | Split-interest Agreements | Long-term Investment Pool |
| Cash equivalents | $ 371,464 | $ 4,604,822 | $ 514,660 | $ 2,068,902 |
| Bonds and bond mutual funds | 9,319,229 | 18,279,397 | 9,236,008 | 17,085,697 |
| Stocks and stock mutual funds | 8,568,887 | 79,517,071 | 6,512,099 | 77,790,967 |
| Investments in limited partnerships and real estate | 219,689 | 56,799,631 | 640,989 | 45,571,948 |
| | $ 18,479,269 | $ 159,200,921 | $ 16,903,756 | $ 142,517,514 |

### *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 $59,082 and $259,097 under split-interest agreements during the years ended June 30, 2007 and 2006, respectively.

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

| | 2007 | 2006 |
|---|---|---|
| Assets held in trust | $ 18,479,269 | $ 16,903,756 |
| Less associated liabilities | (6,590,368) | (6,641,680) |
| Net present value of annuity trust agreements | $ 11,888,901 | $ 10,262,076 |

### *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, 2007 and 2006, of $3,635,014 and $3,464,485, respectively, which represents the present value of the future annuity obligations. During the years ended June 30, 2007 and 2006, the Foundation received gifts under charitable gift annuity contracts valued at $326,388 and $300,811, 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:

| | 2007 | 2006 |
|---|---|---|
| School funds | $ 12,977,952 | $ 11,628,297 |
| Trust funds | 706,620 | 586,035 |
| | $ 13,684,572 | $ 12,214,332 |

### *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, 2007, $10,390,000 of these bonds was outstanding.

### *Significant Estimates and Concentrations – Investments*

As of June 30, 2007 and 2006, 36% and 32%, 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 8: 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, 2007 and 2006 were $2,353,218 and $2,408,807 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, 2007 and 2006 were $691,476 and $340,523, respectively.

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

## Note 9: Invested in Capital Assets, Net

Invested in capital assets, net, is comprised of the following as of June 30, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Capital assets, net | $ 162,944,406 | $ 152,268,378 |
| Bond issuance costs, net | 1,067,665 | 1,105,587 |
| Unspent bond proceeds | — | 12,705,041 |
| Note payable – current portion | (204,974) | — |
| Accounts payable incurred for capital asset purchases | (1,711,666) | (1,917,168) |
| Bonds payable – current portion | (1,415,000) | (1,380,000) |
| Note payable – noncurrent portion | (2,222,336) | — |
| Bonds payable, net noncurrent | (69,696,606) | (70,809,136) |
| Accreted interest on deep discount debt | 2,663,354 | 2,273,100 |
| Unamortized (discounts) premiums | (176,801) | (242,315) |
| | $ 91,248,042 | $ 94,003,487 |

## Note 10: 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/expense is based on Development Corporation's debt services plus a fixed amount; rental income/expense for Years Ended June 30, 2007 and 2006 was $1,086,000 and $595,568, respectively. Rental income and related expense have been eliminated in the Statement of Revenues, Expenses and Changes in Net Assets.

## Note 11: 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.

Prior to legislation passed during the 2006 session, higher education employees may have participated in social security, PERA's defined benefit plan, or the institution's optional retirement plan. Based on the 2006 legislation, higher education employees hired on or after January 1, 2008, have the additional option of participating in the state's defined contribution plan or PERA's defined contribution plan, which are discussed below, as well as the plans available to other employees in their institution.

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

Defined benefit plan members vest after five years of service and are eligible for full retirement based on their original hire date as follows:

- Hired before July 1, 2005 - age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with five years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of services, or age 65 with 5 years of service.
- Hired on or after January 1, 2007 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire data as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired on or after January 1, 2007 – age 55 with a minimum of 5 years of services credit and age plus years of services equals 85 ore 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.

Members automatically receive the higher of the defined retirement benefit or money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods. For retirements after January 1, 2009 or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.

Retiree benefits are increased annually based on their original hire data as follows:

- Hired before July 1, 2005 – 3.5 percent, compounded annually
- Hired between July 1, 2005 and December 31, 2006 – the lesser of 3 percent or the actual increase in the national Consumer Price Index.
- Hired on or after January 1, 2007 – the lesser of 3 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction I a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percent of the employer contributions for this population.)

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*

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. Salary subject to PERA contribution is gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

Most employees contribute 8.0% of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. From July 1, 2006, to December 31, 2006, the state contributed 10.15% and in 2006 they contributed 10.65% of the employee's salary. From January 1, 2007, through June 30, 2007, the state contributed 11.15%. During all Fiscal Year 2006-07, 1.02% of the employees' total salary was allocated to the Health Care Trust Fund.

Per Colorado Revised Statutes, an amortization period of 30 years is deemed actuarially sound. At December 31, 2005, the division of PERA in which the state participates was under funded with an infinite amortization period, which means that the unfunded actuarially accrued liability would never be fully funded at the current contribution rate.

In the 2004 legislative session, the general assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one half percentage point of total salaries paid beginning January 1, 2008. The SAED is scheduled to increase by one half percentage points through 2013 resulting in a cumulative increase of three percentage points. For state employers, each year's one half percentage point increase in the SAED will be deducted from the amount of changes to state employees' salaries, and used by the employer to pay the SAED. Both the AED and SAED will terminate when funding levels reach 100%.

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

The School contributions to the three programs described above for the fiscal years ended June 30, 2007, 2006 and 2005 were $5,404,265, $4,874,491 and $4,252,844, respectively, equal to its required contributions for those years.

## Note 12: Volunteer Tax-Deferred Retirement Plans

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 13: Post Retirement Health Care and Life Insurance Benefits

### *Health Care Program*

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund; the program was converted to a trust fund in 1999. 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. Effective July 1, 2000, the maximum monthly subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5% for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 11.

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, 2006 there were 42,433 enrollees in the plan.

### *Life Insurance Program*

During Fiscal Year 2005-06, PERA provided its members access to a group decreasing term life insurance plan offered by UmumProvident in which 41,101 members participated. Active members may join UnumProvident Plan and continue coverage into retirement. Premiums are collected by monthly payroll deduction or other means. In addition, PERA maintained coverage for 12,790 members under closed group plans underwritten by Anthem Life, Prudential , and New York Life.

### *Colorado Higher Education Insurance Benefits Alliance (CHEIBA)*

Retired faculty and exempt-administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post employment health coverage until the retiree is eligible for Medicare. As of June 30, 2007 there were 41 participants in post retirement coverage from the eight member higher education institutions. For fiscal year 2007, CSM has 12 retired faculty administrative participants under CHEIBA.

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

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

In addition, CSM has a Health Insurance Assistance Program for tenured faculty. This program was initiated in 1993 and was stopped July 1, 2004. The program was provided in conjunction with a Retirement Agreement negotiated between eligible faculty members and CSM. During fiscal year 2006-07, CSM had 19 faculty members under this program with a total payment of $44,661. The number of faculty members will drop to 12 members during fiscal year 2007-08 with an approximate total annual payment of $8,615, as seven of these agreements have a termination date of mid 2007 calendar year.

## Note 14: 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 Public Health and Environment 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.

The State of Colorado Department of Public Health and Environment (CDPHE) issued Radioactive Materials License Number 617-01 Amendment Number 7 (Amendment No. 7) to CSMRI. Amendment No. 7 contains a provision requiring an enforceable financial instrument be provided to CDPHE within sixty days of issuance of the license. The financial instrument must allow CDPHE access to a School bank account and/or other financial assets necessary to complete decommissioning of the site discussed above in an amount not less than $2,780,000. On January 12, 2007, the School filed a notice of appeal and request for hearing which objects to the issuance of Amendment No. 7. The ultimate outcome of this appeal cannot be determined at this time.

### *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 15: Risk Management

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

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

## Note 16: Legislative Appropriations

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

For the years ended June 30, 2007 and 2006, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2007 and 2006, the School had a total appropriation of $62,145,318 and $55,275,033, 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 17: Subsequent Event

In September 2007, the School issued $43,800,000, The Board of Trustees of the Colorado School of Mines Enterprise Refunding and Improvement Revenue Bonds, Series 2007, Auction Rate Bonds. The proceeds from the bonds will be used to defray the costs of (a) refunding all or a portion of certain outstanding obligations of the Board; (b) financing certain capital improvements and (c) paying the costs of issuing the bonds. Annual principal repayments range from $200,000 to $3,050,000 beginning in Fiscal Year 2008 with final maturity in Fiscal Year 2038.

BKD LLP

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

Members of the Legislative Audit Committee:

We have audited the financial statements of the business-type activities and the discretely presented component unit of Colorado School of Mines (the School), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2007, which collectively comprise its basic financial statements and have issued our report thereon dated December 17, 2007, which contained a reference to the report of other accountants. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of the Colorado School of Mines Foundation, Incorporated (Foundation), the discretely presented component unit of the School, were not audited in accordance with *Government Auditing Standards.*

## Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of deficiencies, that results in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the School's internal control.

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

## 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 matters that we reported in the Auditor's Findings and Recommendations section of this document.

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

BKD, LLP

December 17, 2007

### 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, 2007, was directed toward the objectives and criteria set forth in the *2006-07 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, 2007.

### STATE-FUNDED ASSISTANCE PROGRAMS

The various state-funded student assistance programs at the School include the Colorado Leveraging Educational Assistance Partnership (CLEAP) Grant Program, Colorado Student Grant Program, Colorado Merit Program, Colorado Work-Study Program, Governor's Opportunity Scholarship Program and the Colorado Academic Competitive Grant.

The state-funded student assistance awards made by the School were $1,702,329 during the fiscal year ended June 30, 2007.

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 $1,329,472 in the Pell Grant Program, $137,330 in the Supplemental Educational Opportunity Grant Program, $137,183 in the College Work-Study Program and $1,043,046 in the Perkins Student Loan Program.

During the year ended June 30, 2007, the School was authorized to award Colorado student financial aid funds of $982,995 in the Colorado Student Grant Program; $51,265 in the Colorado Merit Award Program; $368,232 in the Colorado Work-Study Program; $215,974 in the Governor's Opportunity Scholarship Program; $48,315 in CLEAP Grant Program and $35,548 in Colorado Academic Competitive Grant.

BKD LLP

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

Members of the Legislative Audit Committee:

We have audited the accompanying statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of Colorado School of Mines (the School), a blended component unit of the State of Colorado, for the year ended June 30, 2007. This statement is the responsibility of the School's management. Our responsibility is to express an opinion on this statement based on our audit.

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

As described in the notes to the statement of appropriations, expenditures, transfers and reversions of the State-Funded Student Assistance Programs of Colorado School of Mines (the Statement), the Statement was prepared in accordance with the format as set forth in the *2006-07 Audit Guide, Colorado Funded Student Aid* issued by the Colorado Commission on Higher Education (CCHE), and in conformity with the provisions of the CCHE State-Funded Student Financial Aid Policy. The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Perkins Student Loan and the 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, and does not, present the financial position, changes in financial position or cash flows of the School in conformity with accounting principles generally accepted in the United States of America.

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, 2007, pursuant to the *2006-07 Audit Guide, Colorado Funded Student Aid* issued by the Colorado Commission on Higher Education, and in conformity with the provisions of the CCHE State-Funded Student Financial Aid Policy.

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

BKD, LLP

December 17, 2007

# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs
### Year Ended June 30, 2007

| | Colorado Leveraging Education Assistance Partnership Grant Program | CSG Student Grant Program | Governor's Opportunity Scholarship | CWS Work-Study Program | Colorado Merit Award Merit | Co ACG Colorado Academic Competitive Grant | Total State-Funded Student Assistance |
|---|---|---|---|---|---|---|---|
| Appropriations | | | | | | | |
| Original | $ 48,315 | $ 982,995 | $ 215,974 | $ 368,232 | $ 51,265 | $ 35,548 | $ 1,702,329 |
| Adjustments/transfers | — | — | — | — | — | — | — |
| Total | 48,315 | 982,995 | 215,974 | 368,232 | 51,265 | 35,548 | 1,702,329 |
| Expenditures | 48,315 | 982,995 | 215,974 | 368,232 | 51,265 | 35,548 | 1,702,329 |
| 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
# (A Component Unit of the State of Colorado)
## Notes to Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs
## Year Ended June 30, 2007

### Note 1: Summary of Significant Accounting Policies

The School's accounting system is structured and administered in accordance with the accounting principles promulgated by the National Association of College and University Business Officers in their revised publication, *College & University Business Administration*, as supplemented by the American Institute of Certified Public Accountants Audit and Accounting Guide, *Not-for-Profit Organizations*.

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: Student Incentive Grants

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

### Note 3: Other – Required Statements, Comments and Recommendations

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

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

# Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Each State-Funded Student Assistance Program

Members of the Legislative Audit Committee:

## *Compliance*

We have audited the compliance of Colorado School of Mines (the School), a blended component unit of the State of Colorado with the types of compliance requirements described in the *2006-07 Audit Guide, Colorado-Funded Student Aid,* issued by the Colorado Commission on Higher Education (CCHE) that are applicable to each of its state-funded student assistance programs for the year ended June 30, 2007. The School's state-funded student assistance programs are identified in the accompanying statement of appropriations, expenditures, transfers and reversions. Compliance with the requirements of laws, regulations, terms of agreements and CCHE directives applicable to each of its state-funded student assistance programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2006-07 Audit Guide, Colorado Funded Student Aid,* issued by the CCHE. Those standards and audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a state-funded student assistance program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, Colorado School of Mines complied, in all material respects, with the requirements referred to above that are applicable to each of its state-funded student assistance programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is described in the Auditor's Findings and Recommendations section of this document.

### ***Internal Control Over Compliance***

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, terms of agreements and CCHE directives applicable to state-funded student assistance programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements are could have a direct and material effect on a state-funded student assistance program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the audit requirements of the CCHE.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state-funded student assistance program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to administer a state-funded student assistance program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state-funded student assistance program that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a state-funded student assistance program will not be prevented or detected by the School's internal control.

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

This report is intended solely for the information and use of the Members of the Legislative Audit Committee and management of the 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.

BKD, LLP

December 17, 2007

BKD LLP

## Independent Accountants' Report on Application of Agreed-Upon Procedures

Members of the Legislative Audit Committee:

We have performed the procedures enumerated below as mandated under the provisions of National Collegiate Athletic Association (NCAA) Constitution 6.2.3, which were agreed to by the Legislative Audit Committee and the management of the Colorado School of Mines (the School), a blended component unit of the State of Colorado, solely to assist you in evaluating whether the accompanying statement of revenues and expenses of the Colorado School of Mines Intercollegiate Athletics Department is in compliance with NCAA Bylaw 6.2.3.1 for the year ended June 30, 2007. The School's management is responsible for the statement of revenues and expenses (the Statement) and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**Agreed-Upon Procedures Related to the Statement of Revenues and Expenses**

Our procedures and findings are as follows:

***Statement of Revenues and Expenses***

1. We obtained the Intercollegiate Athletics Department's Statement of Revenues and Expenses for the year ended June 30, 2007, as prepared by the School's management. We recalculated the total amounts on the Statement, traced the amounts on the Statement to management's worksheets and agreed the amounts to the accounts on the School's general ledger.

   We noted no differences between the amounts in the general ledger and the amounts on the worksheets.

2. We compared revenues and expenses for the years ended June 30, 2006 and June 30, 2007. We also compared revenues and expenses to the current year budget. For all variations greater than $10,500 and 10%, we discussed the fluctuations with management and obtained explanations for the changes.

   There were no unexplained fluctuations.

3. We confirmed with the Colorado School of Mines Foundation, Inc. (the Foundation) the total amount of cash contributions received by the School's Intercollegiate Athletic Department from the Foundation during the year ended June 30, 2007.

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We noted a variance of $34,542 between the Foundation's confirmed amount and the School's cash contributions included in the School's Statement of Revenues and Expenses. The Foundation confirmed $34,542 more than the amount reported by the School on its Statement of Revenues and Expenses.

4. We obtained the audited financial statements of the Colorado School of Mines Foundation, Inc. (the Foundation) for the year ended June 30, 2007. The audit report thereon dated September 19, 2007, expressed an unqualified opinion on those statements.

   No material weaknesses in internal control structures were noted in this audit report.

***Internal Control Related to Intercollegiate Athletics***

The management of the School is responsible for establishing and maintaining effective internal control over financial reporting and compliance. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control activities. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and that the School complies with applicable requirements of laws, regulations, contracts and grants.

5. We inquired of management regarding the accounting systems and procedures related to the Intercollegiate Athletics Programs.

   Based on our inquiries, no material weakness in internal control structure came to our attention.

6. We obtained cash receipts worksheets related to the School's Intercollegiate Athletics Programs for the year ended June 30, 2007, as prepared by management. From these worksheets, we judgmentally selected 25 cash receipts and performed the following procedures:

   - We agreed each cash receipt to a deposit ticket.
   - We traced each cash receipt to the general ledger.
   - For all cash receipts, we obtained supporting documents (billing invoices, contracts and other agreements) and agreed the unit price.

   No exceptions were noted.

7. We obtained cash disbursements worksheets related to the School's Intercollegiate Athletics Programs for the year ended June 30, 2007, as prepared by management. From these worksheets, we judgmentally selected 25 cash disbursements and performed the following procedures:

   - We traced each cash disbursement to the general ledger.

   - For general procurements and expenditures, we agreed each disbursement amount to the amount on the vendor invoice, inspected the invoice for proper approval and agreed the name of the employee that approved the invoice to the list provided by management of personnel authorized to make such approvals.

   - For payroll disbursements, we agreed each disbursement to the payroll register, agreed hours worked per the payroll register to approved time cards and agreed hourly or salary rate per payroll register entry to approved pay authorization forms.

   No exceptions were noted.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying statement of revenues and expenses of the School with NCAA Bylaw 6.2.3.1 for the year ended June 30, 2007. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 11, 2008

# Colorado School of Mines
## (A Component Unit of the State of Colorado)
### Intercollegiate Athletics Department
### Statement of Revenues and Expenses
### For the Year Ended June 30, 2007 (unaudited)

| | Football | Men's Basketball | Women's Basketball | Other Sports | Non-program Specific | Total |
|---|---|---|---|---|---|---|
| **REVENUES** | | | | | | |
| Ticket sales | $ - | $ - | $ - | $ 5,161 | $ 50,933 | $ 56,094 |
| Student fees | - | - | - | - | 392,773 | 392,773 |
| Guarantees | 2,612 | 8,000 | 2,750 | 300 | - | 13,662 |
| Contributions | 33,139 | 6,313 | 3,825 | 86,069 | 141,404 | 270,750 |
| Direct Institutional Support | 337,462 | 121,475 | 119,757 | 568,550 | 987,707 | 2,134,951 |
| Indirect Facilities and Administrative Support | 22,776 | 6,490 | 4,649 | 43,219 | 241,544 | 318,678 |
| NCAA/Conference Distributions Including All Tournament Revenues | - | - | - | 16,493 | 982 | 17,475 |
| Program Sales, Concessions, Novelty Sales & Parking | - | - | - | 1,224 | 5,558 | 6,782 |
| Royalties, Licensing, Advertisements and Sponsorship | - | - | - | - | 13,080 | 13,080 |
| Sports Camp Revenues | - | - | - | - | 336,263 | 336,263 |
| Endowment and Investment Income | 4,588 | - | - | 191,748 | 224,194 | 420,530 |
| Other | 595 | - | - | 13,094 | 30,633 | 44,322 |
| Total Revenues | 401,172 | 142,278 | 130,981 | 925,858 | 2,425,071 | 4,025,360 |
| **EXPENSES** | | | | | | |
| Athletics Student Aid | - | - | - | - | 165,277 | 165,277 |
| Coaching Salaries, Benefits and Bonuses Paid by the School and Related Entities | 353,395 | 120,234 | 119,757 | 548,500 | 492,855 | 1,634,741 |
| Support Staff/Administrative Salaries, Benefits and Bonuses Paid by the School and Related Entities | - | 1,242 | - | 29,065 | 200,545 | 230,852 |
| Recruiting | 26,215 | 10,101 | 5,284 | 25,227 | 2,632 | 69,459 |
| Team Travel | 63,276 | 24,386 | 21,851 | 210,677 | 25,889 | 346,079 |
| Equipment, Uniforms and Supplies | 47,311 | 5,036 | 6,002 | 63,342 | 9,860 | 131,551 |
| Game Expenses | 60,830 | 8,579 | 7,510 | 33,077 | 44,029 | 154,025 |
| Fund Raising, Marketing and Promotion | 44,079 | 12,633 | 9,831 | 67,362 | 25,222 | 159,127 |
| Sports Camp Expenses | - | - | - | 306 | 418,658 | 418,964 |
| Direct Facilities, Maintenance and Rental | 11,113 | - | - | 188,562 | 69,959 | 269,634 |
| Indirect Facilities and Administrative Support | 22,776 | 6,490 | 4,649 | 43,219 | 241,544 | 318,678 |
| Memberships and Dues | 420 | 499 | 820 | 3,679 | 17,910 | 23,328 |
| Other Operating Expenses | 128 | 14,915 | 3,180 | 48,861 | 222,327 | 289,411 |
| Total Operating Expenses | 629,543 | 204,115 | 178,884 | 1,261,877 | 1,936,707 | 4,211,126 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES** | $ (228,371) | $ (61,837) | $ (47,903) | $ (336,019) | $ 488,364 | $ (185,766) |

# Colorado School of Mines
## (A Component Unit of the State of Colorado)
### Intercollegiate Athletics Department
### Notes to Statement of Revenues and Expenses
### For the Year Ended June 30, 2007 (unaudited)

## Note 1: Summary of Significant Accounting Policies

### *Capital Assets*

An asset will be classified as a capital asset (capitalized under generally accepted accounting principles, GAAP), if it is a non-consumable, tangible item, valued at a single amount greater than $5,000 and with a life expectancy of at least two years. Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 - 40 years for buildings and improvements, 20 years for land improvements and 3 to 10 years for equipment.

### *Significant Estimates and Concentrations*

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Contributions**

All contributions were received from the Colorado School of Mines Foundation, Inc.

## Note 2: Capital Assets

Capital assets activity for the year ended June 30, 2007 was:

| | Beginning Balance | Additions | Disposals | Transfers from Construction in Process | Ending Balance |
|---|---|---|---|---|---|
| Land improvements | $ - | $ 797,086 | $ - | $ - | $ 797,086 |
| Buildings and improvements | 5,875,955 | - | - | - | 5,875,955 |
| Equipment | 44,122 | - | - | - | 44,122 |
| | 5,920,077 | 797,086 | - | - | 6,717,163 |
| **Less Accumulated Depreciation** | | | | | |
| Land improvements | - | 19,927 | - | - | 19,927 |
| Buildings and improvements | 2,833,041 | 362,855 | - | - | 3,195,896 |
| Equipment | 22,785 | 3,601 | - | - | 26,386 |
| | 2,855,826 | 386,383 | - | - | 3,242,209 |
| Net capital assets | $ 3,064,251 | $ 410,703 | $ - | $ - | $ 3,474,954 |

Depreciation expense for the year ended June 30, 2007 was $386,383.

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of Colorado School of Mines as of and for the year ended June 30, 2007, we wish to communicate the following to you.

**Auditor's Responsibility under Auditing Standards Generally Accepted in the United States of America**

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

**Significant Accounting Policies**

The School's significant accounting policies are described in Footnote 1 of the audited financial statements. We noted no unusual accounting policies or accounting methods used by the School for unusual transactions.

**Management Judgments and Accounting Estimates**

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

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

## Audit Adjustments

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

Areas in which adjustments were proposed including those which management recorded include:

Capital assets
Student loan funds administered for the Foundation
Accounts payable

There was one audit adjustment recorded by management that increased expenses and reduced increase in net assets for Fiscal Year 2007 by approximately $143,400 and increased liabilities by approximately $143,400 as of June 30, 2007. Unrecorded misstatements, had they been recorded by management, could have increased liabilities as of June 30, 2007 by approximately $40,500, reduced expenses and increased increase in net assets for Fiscal Year 2007 by approximately $345,100 and increased beginning net assets as of July 1, 2006 by approximately $385,600.

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

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

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

- There were no new, or changes to existing, accounting policies adopted during the year

- There were no unusual transactions noted during the year

## Other Information in Documents Containing Audited Financial Statements

The audited financial statements are included in the School's annual financial and compliance audit report. As part of our procedures, we read the entire report to determine if financial information discussed in sections outside the financial statements materially contradicts the audited financial statements. We noted no such matters.

## Disagreements with Management

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

No matters are reportable.

## Consultation with Other Accountants

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

No matters are reportable.

**Major Issues Discussed with Management Prior to Retention**

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

No matters are reportable.

**Difficulties Encountered in Performing the Audit**

Difficulties encountered in performing the audit are discussed in the Auditors' Findings and Recommendations section of this document.

This letter is intended solely for the information and use of the Legislative Audit Committee, the 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.

BKD, LLP

December 17, 2007

**Colorado School of Mines**
**ATTACHMENT**

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

## QUANTITATIVE ANALYSIS

| | Before Misstatements | Misstatements | Adjusted for Misstatements | % Change |
|---|---|---|---|---|
| Current Assets | 38,036,913 | | 38,036,913 | |
| Non-Current Assets | 194,304,911 | | 194,304,911 | |
| Current Liabilities | (26,975,702) | (40,479) | (27,016,181) | 0.15% |
| Non-Current Liabilities | (78,373,454) | | (78,373,454) | |
| Current Ratio | 1.410 | | 1.408 | -0.14% |
| | | | | |
| Total Assets | 232,341,824 | | 232,341,824 | |
| Net Assets | (126,992,668) | 40,479 | (126,952,189) | -0.03% |
| Total Equity | (126,992,668) | 40,479 | (126,952,189) | -0.03% |
| | | | | |
| Revenues & Income | (125,461,841) | | (125,461,841) | |
| Costs & Expenses | 118,735,291 | (345,103) | 118,390,188 | -0.29% |
| Change in Net Assets | (6,726,550) | (345,103) | (7,071,653) | 5.13% |
| Net Income - Three-Year Average | (4,468,334) | (345,103) | (4,813,437) | 7.72% |

**Client: Colorado School of Mines**

**Period Ending: June 30, 2007**

*SCHEDULE OF UNCORRECTED MISSTATEMENTS*

| Description | Assets – *Current* DR (CR) | Assets – *Non-Current* DR (CR) | Liabilities – *Current* DR (CR) | Liabilities – *Non-Current* DR (CR) | (X) Non Tax | Revenues & Income DR (CR) | Costs & Expenses DR (CR) | Net Assets *(Beg. of year)* DR (CR) | Net Assets DR (CR) | Net Effect on Following Year – *hange in Net Asse* DR (CR) | Net Effect on Following Year – *Equity* DR (CR) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CY | | | | | | | | | | | |
| 1. To book PY effect of CIP not removed | | | | | x | | (385,582) | 385,582 | | | |
| 2 To remove A/R balance from loan funds administered for Foundation so amounts agree between stmts. | | | (40,479) | | x | | 40,479 | | | | |
| Taxable passed adjustments | [redacted] | [redacted] | [redacted] | [redacted] | | | | | | | |
| Times (1 - estimated tax rate of 00%) | [redacted] | [redacted] | [redacted] | [redacted] | | 100% | 100% | 100% | | | |
| Taxable passed adjustments net of tax impact | [redacted] | [redacted] | | [redacted] | | | | | | | |
| Nontaxable passed adjustments | | | (40,479) | | | | (345,103) | 385,582 | | | |
| **Total passad adjustments, net of tax impact (if any)** | | | (40,479) | | | | (345,103) | 385,582 | | | |

| | |
|---|---|
| **Impact on Change in Net Assets** | **(345,103)** |
| **Impact on Equity** | **40,479** |

BKD
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# Colorado School of Mines
# (A Component Unit of the State of Colorado)
## Audit Report Distribution Summary
## Years Ended June 30, 2007 and 2006

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

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

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

**Report Control Number 1851**