State of Colorado
Colorado School of Mines

Financial and Compliance Audit

Years Ended June 30, 2004 and 2003

LEGISLATIVE AUDIT COMMITTEE

2005 MEMBERS

Representative Val Vigil
Chairman

Senator Norma Anderson
Vice-Chairman

Representative Fran Coleman
Senator Deanna Hanna
Representative David Schultheis
Senator Stephanie Takis
Senator Jack Taylor
Representative Al White

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

Lou Skull
Legislative Auditor

BKD, LLP
Contract Auditor

State of Colorado
Colorado School of Mines
Years Ended June 30, 2004 and 2003

Contents

State of Colorado
Colorado School of Mines
Report Summary
Years Ended June 30, 2004 and 2003

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, 2004, 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, 2004, including consideration of compliance with certain bond indenture provisions.

  - Refunding and Improvement Revenue Bonds, Series 1993
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1996
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B
  - Auxiliary Facilities Enterprise Revenue Bonds, Series 1999
  - Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 2002

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

- Express an opinion on the separately issued financial statements of Colorado School of Mines Development Corporation as of and for the year ended June 30, 2004, issued under separate cover.

- Evaluate compliance with certain provisions of laws, regulations, contracts and grants governing the expenditure of federal and state funds for the year ended June 30, 2004.

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

- Express an opinion on the Statement of Appropriations, Expenditures, Transfers and Reversions of State-Funded Student Assistance Programs of the School for the year ended June 30, 2004.

- Evaluate progress in implementing prior year audit recommendations.

Summary of Major Audit Comments

Audit Findings and Financial Statement Audit Report Section

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

- Journal entries and account reconciliations were not properly reviewed by management. Also, support and descriptions of journal entries posted were insufficient. The School should ensure that all reconciliations and journal entries are adequately reviewed by management as prescribed by accounting policies to prevent and detect possible defalcations or financial statement errors.
- The School completed a review of all donor agreements during fiscal year 2004; however, during audit testing of these agreements, two of the 13 items selected for testing were improperly reported as unrestricted instead of restricted expendable. The School should continue to evaluate all gifts for donor restrictions to ensure that donors' wishes are properly reported in nonexpendable or restricted expendable net assets, when appropriate.
- The School is required to periodically transmit financial data to update the State's reporting system for the School's financial activity. Several transmissions during the year were either incomplete or the transmission was not received by the State's reporting system. As a result, there were delays in closing the accounting records at year-end. The School should develop policies and procedures to ensure that all financial data submitted to the State are complete, accurate and timely.
- The School should develop an accounting policies and procedures manual tailored to the School's specific transaction flows and accounts to ensure financial information is reported in an accurate, consistent and timely manner.

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2003, included seven recommendations. The disposition of these seven audit recommendations as of June 30, 2004, was as follows:

Status	Number
Implemented	6
Not implemented	1
Total	7

Audit Opinions and Reports

The independent accountants' reports, included herein, 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, 2004.

A reportable condition in internal controls over financial reporting, due to the insufficient review of journal entries and account reconciliations was identified, which is considered a material weakness.

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

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

Significant Audit Adjustments

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole. These areas include unreconciled differences in accounts receivable and current liabilities, depreciation on capital assets and understatement of allowance for doubtful accounts. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease net assets as of July 1, 2003 by $159,029, increase the decrease in net assets by $88,275 for the year ended June 30, 2004, decrease current assets by $406,900, increase long-term assets by $244,828 and increase current liabilities by $85,232.

State of Colorado
Colorado School of Mines
Recommendation Locator
Years Ended June 30, 2004 and 2003

Recommendation Number	Page Number	Recommendation Summary	Response	Implementation Date
1	7	Review journal entries and account reconciliations.	Agree	June 2005
2	8	Ensure proper accounting treatment of contributions.	Agree	April 2005
3	9	Ensure complete, accurate and timely transmission of financial data to the State.	Agree	July 2005
4	10	Develop an accounting policies and procedures manual.	Agree	June 2006

State of Colorado
Colorado School of Mines
Description of Colorado School of Mines
Years Ended June 30, 2004 and 2003

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 non-voting student member elected by the student body.

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

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

	Student FTE Enrollment		
	Resident Student FTE	**Non-Resident Student FTE**	**Total Student FTE**
2002	2,357	858	3,215
2003	2,485	846	3,331
2004	2,615	830	3,445

	Faculty and Staff FTE		
	Faculty FTE	**Staff FTE**	**Total Faculty and Staff FTE**
2002	227	362	589
2003	223	356	579
2004	227	338	565

Management Review and Maintenance of Accounting Records

The Colorado School of Mines, as of and for the fiscal year ended June 30, 2004, had total revenues and expenditures of approximately $95.5 million and $100.6 million, respectively, and total assets and liabilities of approximately $200.8 million and $87.2 million, respectively. The School currently has an accounting staff of 14, which is responsible for the recording, reconciliation and monitoring of accounting records.

In last year's audit, we recommended that the School ensure that accounting records are accurate, complete and appropriately monitored, that exhibits submitted to the State Controller for various disclosures in the State's financial statements were complete and accurate and that management review and approve journal entries. During the current audit engagement, it was noted that the School developed a policy for management's review of journal entries and exhibits submitted by the School were complete and accurate, with minor exceptions due to late adjusting entries. However, we continued to find problems with account reconciliations and insufficient review of journal entries by management.

Certain general ledger account balances, including cash accounts and student accounts receivable, are not properly reconciled to their supporting detail and as a result many carryforward variances exist. Additionally, reconciliations include insufficient explanations for reconciling items and in certain cases included journal entries as the reconciling item. Upon initial inquiry, management was unable to provide timely explanations for the unreconciled difference and reconciling journal entry items due to lack of understanding and insufficient support for the journal entries. Although these inquiries were ultimately resolved or deemed to be immaterial to the financial statements, it required additional reconciliation and review by management to support these items. Additionally, it was noted that multiple journal entries were booked throughout the year to correct initial entries. These multiple correcting journal entries indicate a lack of adequate review to identify inaccurate entries and make it difficult to determine the correct entries and to monitor the true activity in an account for the year.

Because journal entries are not properly reviewed and sufficiently supported, there is a risk of improper journal entries being posted to the general ledger. We have reported this finding as a material weakness in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The School's accounting policies dictate management's review of all journal entries greater than $50,000 and review of account reconciliations. By establishing such a high dollar value for journal entry review and applying the same policy or threshold for all journal entries, management has not taken into consideration the risks associated with specific accounts or classes of transactions involved in the journal entry. For example, it may be more appropriate to use a lower threshold when reviewing journal entries involving cash or credits against accounts receivable than entries that involve capital asset capitalization.

Management's proper review and understanding of reconciliations and journal entries is a critical element to prevent and detect possible defalcation through collusion or financial statement error. Additionally, management should reevaluate thresholds established for review of journal entries and revise policies for review as necessary to consider the risks associated with the accounts or classes of transactions involved in the journal entry.

Recommendation No. 1

The School should ensure that the accounting records and accounts are properly reconciled throughout the year and are appropriately monitored. This includes evaluating the thresholds for review of journal entries and ensuring that all reconciliations and journal entries are adequately reviewed by management as prescribed by accounting policies.

Colorado School of Mines Response

The Colorado School of Mines agrees.

The School recognizes the shortcomings of the current accounting system and procedures and has embarked on a process to upgrade the accounting system. Staff issues are being addressed this fiscal year and a new accounting system will be placed into service on July 1, 2005.

After a business processes analysis, the new accounting system will be designed to provide less complicated feeds to the State's Colorado Financial Reporting System (COFRS), have embedded accounting controls, and appropriate user documentation.

The staff has been aggressively focusing on procedural deficiencies. Processes to review exhibits submitted to the State Controller to ensure accurate and timely data have been put into place. New cash reconcilement formats are being used.

In February 2005, the accounting staff will analyze asset classes and establish lower management review limits where appropriate. Management will retroactively review all journal entries for fiscal year 2005 using the new limits.

Proper Accounting of Endowment Funds

As of June 30, 2004, the School reported approximately $1.3 million of restricted nonexpendable net assets and approximately $8.5 million of total restricted expendable net assets. Restricted expendable net assets are those whose use by the School has been limited by donors, contract, law or by other means to a specific time period or purpose. Restricted nonexpendable net assets have been restricted to be maintained by the School in perpetuity. In last year's audit, we recommended that the School evaluate gifts to ensure nonexpendable net assets are properly reported.

During fiscal year 2004, the accounting staff of the School completed a project that included a complete review of the restricted net assets. It was determined through the review process that a number of donor contributions that were previously recorded as nonexpendable were expendable for a specific purpose. As a result, approximately $1.4 million in net assets, previously reported as nonexpendable, were reclassified as restricted expendable. During our audit testing of the classifications of net assets, we noted 2 of the 13 items selected for testing totaling approximately $1.3 million, were improperly classified by management. These errors were related to new contributions received during fiscal year 2004 and were subsequently corrected for financial statement reporting purposes. For proper reporting and for donor relationships it is important for all contributions to be closely evaluated for donor restriction and appropriately recorded. The School should continue to review all donor agreements and reclassify net assets as appropriate.

Recommendation No. 2

The School should closely evaluate all gifts for restrictions to ensure that nonexpendable net assets are properly reported in the future.

Colorado School of Mines Response

The Colorado School of Mines agrees.

All current gifts have been reviewed and properly classified. Written procedures will be developed by April 30, 2005 to guide the accounting staff in the proper handling and classification of any future gifts received by the School.

Electronic Transmissions of Financial Activities to the State

Financial information is transmitted electronically from the School's Financial Reporting System (FRS) to the State's Colorado Financial Reporting System (COFRS). This information is transmitted by the School to the State every Tuesday and on the last day of the month. The purpose of this transmission is to update the State's reporting system for financial activities of the School. During the audit we noted that there were balances maintained within COFRS, which were inconsistent with FRS account balances. These errors were due to either incomplete or non-transmission of financial feeds from FRS to COFRS on April 6, 2004, April 30, 2004 and July 20, 2004. The transmission errors were discovered by the School during closing in July 2004.

As a result of the errors in the financial updates of COFRS, there were delays in closing the School's accounting records at year-end and 17 adjustments, which included several hundred lines of transactions, were submitted by the School because the account balances on COFRS were not correct at closing. Reviewing and reconciling differences between FRS and COFRS monthly is essential for proper reporting to the State and to ensure timely and accurate information to management.

Recommendation No. 3

The School should develop policies and procedures to ensure all financial data submitted to the State are complete and accurate. These procedures should include batch submission verification, check totals and monthly reconciliations of the FRS balances to the COFRS balances.

Colorado School of Mines Response

The Colorado School of Mines agrees.

A process has been identified to validate all mechanized feeds from FRS (the current accounting system) to COFRS (the state accounting system). The process will be documented by February 28, 2005 and will contain control reports for management review on a monthly basis. A new accounting system will be in place July 1, 2005. The data architecture is being designed to make the FRS-COFRS feed less complicated and to allow for timely reconciliation of the entries.

Accounting Policies and Procedures

During the past few years, the School has experienced a high turnover rate within its accounting department positions. While the State provides policies and procedures for statewide reporting, the School has not established well-defined accounting duties or policies and procedures tailored to the specific needs of the School or to the specific accounting positions. As a result, many review and reconciliation policies and procedures have not been consistently or continuously maintained and there were numerous instances when input was duplicated and journal entries between accounts were incorrect.

Recommendation No. 4

The School should develop an accounting policies and procedures manual tailored to the School's specific transaction flows and accounts to ensure financial information is reported in an accurate, consistent and timely manner.

Colorado School of Mines Response

The Colorado School of Mines agrees.

An outline of daily, weekly and monthly duties of the three accounting managers has been completed. The accounting procedure manual is being developed. A process and procedure manual will be completed by June 30, 2006, twelve months after the new system becomes operational.

State of Colorado
Colorado School of Mines
Disposition of Prior Year Audit Recommendations
Years Ended June 30, 2004 and 2003

Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2003 included seven recommendations. The disposition of these audit recommendations, as of June 30, 2004, was as follows:

	Recommendation	Disposition
1	The School should develop subrecipient monitoring documentation policies and procedures to ensure subrecipient files are properly maintained and provide documentation for the monitoring that has occurred.	Implemented
2	The School should follow its policies and procedures to help ensure close-out procedures are documented for each project completed to prevent erroneous expenses charged to projects and help ensure compliance with applicable laws and regulations.	Implemented
3	The School should develop policies and procedures to help ensure all communications with NSLDS are complete, accurate and timely.	Implemented
4	The School should limit, to the extent possible, performance of duties that are incompatible from an internal control perspective by individuals with the School's accounting department by implementing the following: a) The position(s) that collects the cash receipts should not have access to change the student accounts or reconcile the accounts. b) The position that has access to change payroll records should not have access to issue or reconcile payroll. c) Management should review procedures that monitor all functions. The performance of this management review should be documented.	Implemented

State of Colorado
Colorado School of Mines
Disposition of Prior Year Audit Recommendations (Continued)
Years Ended June 30, 2004 and 2003

	Recommendation	Disposition
5	The School should develop policies and procedures to ensure individual grant account receivable balances are reconciled periodically and that appropriate collection efforts occur when necessary.	Implemented
6	The School should closely evaluate all gifts for restrictions to ensure that nonexpendable net assets are properly reported in the future and all current agreements should be reviewed for proper classification.	Implemented
7	The School should ensure that the accounting records are accurate and complete throughout the year and are appropriately monitored. This includes ensuring that all journal entries are reviewed by management and that schedules and exhibits are complete and accurate.	Not Implemented See current Recommendation No. 1

Independent Accountants' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado School of Mines (the School), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Colorado School of Mines Foundation, Incorporated (the "Foundation"), the discretely presented component unit of the School, as of and for the year ended June 30, 2003. Those financial statements, before they were retroactively restated for the matter discussed in Note 6, were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to amounts included for the Foundation for 2003, other than with respect to the restatement for the matter discussed in Note 6, is based 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 the Foundation 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 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 Colorado School of Mines and of its discretely presented component unit as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows, where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, in 2004 the School changed its method of accounting for student loans administered on behalf of the Colorado School of Mines Foundation, Incorporated and retroactively restated prior years' financial statements for the change.

As discussed in Note 15, in 2004 the School changed its method of determining its financial reporting entity by adopting the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This resulted in including the Foundation as a discretely presented component unit for 2004 and retroactively restating prior year's financial statements to include the Foundation.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the School's 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

October 15, 2004, except for Note 16 as to which the date is October 27, 2004

Management's Discussion and Analysis

This section of the Colorado School of Mines annual financial report presents management's discussion and analysis of the financial performance of the School during the fiscal year ended June 30, 2004, with prior year data 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 statements focus on the financial condition and results of operation for the School as a whole.

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

Unless otherwise noted, the information and financial data included in management's discussion and analysis relate solely to the School. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

Executive Summary

The fiscal year 2004 financial statements reported herein reflect a modest increase in net assets of $421,587. The flat performance masked several important activities during the year.

Tuition is a major source of revenue to the School. Tuition revenue grew due to an increase in student population as well as an increase in tuition rates. Revenue from research was down primarily due to decreased levels of funding by the State of Colorado for both student financial aid as well as grants and contracts, and within the area of private grants and contracts. These two trends offset each other to present a small increase in revenue for the year. State funding was virtually flat from 2003 to 2004.

Enrollment continues to be strong and the School continued to benefit from fiscal year 2003 cost reduction initiatives, although increases in utility and risk management expenses offset some of the savings.

While the financial position appears stable, the fiscal policy and economic conditions in Colorado continue to be of major concern. Reductions in the level of state appropriations were significant during fiscal year 2003 and they did not return to the previous levels in either fiscal year 2004 or 2005. State investment in capital projects will continue to be limited in the near future. Changes in the funding mechanism for higher education, through the implementation of the College Opportunity Fund enacted under Senate Bill 04-189, will present untold challenges in the next several years.

Statements of Net Assets

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

Condensed Statements of Net Assets (in thousands)
Comparative Statements
June 30, 2004, 2003 and 2002

	2004	2003	2002
Assets			
Current assets	$ 42,253	$ 30,883	$ 30,987
Noncurrent assets			
Capital	137,193	123,254	120,811
Other	21,313	46,306	19,717
Total assets	200,759	200,443	171,515
Liabilities			
Current liabilities	20,650	19,991	14,449
Noncurrent liabilities	66,521	67,286	39,350
Total liabilities	87,171	87,277	53,799
Net Assets			
Invested in capital assets, net of related debt	87,262	91,232	94,037
Restricted			
Nonexpendable	1,319	1,319	1,319
Expendable	8,510	6,475	10,325
Unrestricted	16,497	14,140	12,035
Total net assets	$ 113,588	$ 113,166	$ 117,716

The Colorado School of Mines has a ratio of current assets to current liabilities of 2:1 at June 30, 2004, compared to 1.5:1 at June 30, 2003 and a ratio of total assets to total liabilities of 2.3:1 at June 30, 2004 compared to 2.3:1 at June 30, 2003. These ratios continue to remain strong and indicate that the School is positioned well for covering both current and long-term obligations.

The School's capital assets consist of land, buildings, equipment, library holdings and construction in progress totaling $137.2 million at June 30, 2004. This amount is net of accumulated depreciation of $88.1 million. Construction in progress includes the building of several new residence facilities, scheduled to be completed for the fall of 2004. Financing for this activity came from the bonds issued in November 2002. Further detail regarding capital asset activity can be found in the footnotes to these financial statements.

Net assets, which represent the difference between School assets and liabilities, total $113.6 million. During the fiscal year 2004, net assets increased by approximately $422,000.

The primary changes during fiscal years 2003 and 2004 on the statement of net assets are attributed to activity related to the construction projects funded by the issuance of revenue bonds in November of 2002. New construction and capital projects accounted for the addition of slightly over $22 million in capital assets. The projects included expansion of the Mines Park Housing Complex, adding 225 beds to the campus housing system, renovations to two existing student residence halls, the construction of three new sorority houses, renovation of the cafeteria and start-up funding for the campus one-card system.

Restricted cash balances included funds from the 2002 bond proceeds. The decline in restricted cash and cash equivalents was driven by the above referenced capital expenditures. Current cash and short-term investments grew by approximately $11 million. Increased tuition revenues in the amount of $1.8 million, $2 million of capital funding and gifts and a $3 million receipt from the Petroleum Institute contributed to this increase in cash and cash equivalents.

With the financial statement presentation changes required by GASB 34 and 35 in 2002, the School was required to present net assets on the statement of net assets as invested in capital assets, net of related debt, restricted nonexpendable and expendable and as unrestricted. During fiscal year 2004, the accounting staff undertook a project to complete a detailed review of the endowed and restricted net assets. As a result of this review, a number of reclassifications to the fiscal year 2003 net assets have been made to conform to the fiscal year 2004 financial statement presentation. These reclassifications had no effect on total net assets or the change in net assets. A number of donor contributions that had been previously recorded as nonexpendable were determined to be restricted, but expendable. As a result, net assets identified as endowed or restricted nonexpendable were reduced by over 50%.

Statements of Revenues, Expenditures and Changes in Net Assets

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

The institution showed a modest gain in net assets for the year ended June 30, 2004. A significant decrease in operating expenses of over $5 million contributed to the improved financial performance over the prior year.

Condensed Statements of Revenues, Expenditures and Changes in Net Assets (in thousands)
Comparative Statements
June 30, 2004, 2003 and 2002

	2004	2003	2002
Operating Revenues			
Tuition fee	$ 26,395	$ 24,573	$ 22,377
Grants and contracts	33,983	36,713	32,579
Auxiliary enterprises	9,568	8,302	6,949
Other operation revenues	731	504	3,692
Total operating revenues	70,677	70,092	65,597
Operating Expenses	98,835	103,837	91,776
Operating Loss	(28,158)	(33,745)	(26,179)
Nonoperating Revenue			
State appropriations	17,188	16,953	19,308
Contribution from the Foundation	8,137	8,723	8,627
Other nonoperating revenues (expenses)	1,260	1,916	(762)
Net operating revenues	26,585	27,592	27,173
(Loss) Income Before Other Revenues	(1,573)	(6,153)	994
Other Revenues			
State capital contributions	1,574	2,137	3,293
Capital grants and gifts	421	498	409
Increase (Decrease) in Net Assets	422	(3,518)	4,696
Net Assets, Beginning of Year	113,166	116,684	113,019
Net Assets, End of Year	$ 113,588	$ 113,166	$ 117,715

Total operating revenues for fiscal year 2004 was $70.7 million compared to $70.1 million in fiscal year 2003. A large freshman class in the fall of 2003 led to a 3.4% increase in the student body. The increase in student population combined with a tuition increase of 8.6% led to an increase in net tuition revenues of $1.8 million. The increased revenue from tuition was offset by a decrease in grants and contracts. While federal grants remained steady, Colorado state funding of student financial aid decreased by 25% and state funding of research was significantly scaled back. The School completed 24 Colorado funded grants in fiscal year 2003, while only adding eight new grants in fiscal year 2004.

Non-government grants remained steady in terms of the number of grants and contracts but the dollar volume was down by approximately $1.65 million in fiscal year 2004. Lower funding for reimbursements of expenditures from the Foundation accounted for $800,000 of the decrease in nongovernmental grants and contracts.

Net nonoperating revenues and expenses of $26.6 million include state appropriations of $17.2 million, gifts, investment income and interest payments on capital debt. The state appropriation makes up a significant portion of the School's revenues. Tuition revenues depend directly on student enrollment and Colorado state appropriations are also linked to resident enrollment levels. Recent enrollment has been stable, as shown below. The slight 2000-01 dip reflects a reduction in credit hour requirements for graduate students.

The overall trend in enrollment is positive, however the non-resident undergraduate population continued to decline. The School is seeking ways to increase the number of non-resident undergraduates.

	Undergraduates			Graduate Studies			Combined		
Fiscal Year	Residents	Non-residents	Total	Residents	Non-residents	Total	Residents	Non-residents	Total
2003-04	2,303	626	2,929	312	204	516	2,615	830	3,445
2002-03	2,156	628	2,784	329	218	547	2,485	846	3,331
2001-02	2,123	661	2,784	234	197	431	2,357	858	3,215
2000-01	2,017	678	2,695	234	186	420	2,251	864	3,115
1999-00	2,016	675	2,691	328	258	586	2,344	933	3,277

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

	Annual Full-time Tuition Rates		Annual Room and Board (avg.)		
Fiscal Year	Residents	Non-residents	Double	Single	Board
2003-04	$5,700	$19,030	$3,343	$3,952	$2,912
2002-03	$5,246	$17,516	$3,200	$3,783	$2,800
2001-02	$4,940	$16,070	$2,996	$3,544	$2,632
2000-01	$4,750	$15,304	$2,913	$3,434	$2,519
1999-00	$4,616	$14,716	$2,775	$3,246	$2,421

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

Fall Semester Undergraduate Admissions

Fall of Year	Number of Applicants	Number Accepted	Percent Accepted	Number Committed	Percent Committed
2004	3,323	2,802	84.3%	868	31.0%
2003	3,250	2,566	79.0%	771	30.1%
2002	2,910	1,960	67.4%	670	34.2%
2001	1,910	1,542	80.7%	695	45.1%
2000	2,176	1,721	79.1%	740	43.0%
1999	2,285	1,962	85.9%	681	34.7%

While revenues remained constant due primarily to strong enrollment growth and a tuition increase, a decline in operating expenses of $5.0 million contributed to the smaller operating loss in fiscal year 2004. Three primary factors drove the decline in expenses.

1. Wage and benefit expense savings of $2.0 million was the result staff eliminations of $0.5 million, open faculty searches of $1.0 million, decreased graduate enrollment driving a decrease in graduate assistant positions of $0.3 million and a decline in Personal Services contracts of $0.2 million.
2. Operational savings of approximately $0.5 million were offset by increases in utilities and risk management expenses.
3. Over 50% of the decrease in expenses was attributed to a decrease of $3.0 million in depreciation expense.

Operating Expenses by Function Compared with Operating Expenses by Natural Classification (in thousands) Fiscal Years Ended June 30, 2004 and 2003

	2004		2003	
Function				
Instruction	$ 35,005	35.4%	$ 35,604	34.3%
Research	20,365	20.6%	23,004	22.2%
Academic support	5,680	5.8%	5,846	5.6%
Student services	4,289	4.3%	3,546	3.4%
Institutional support	6,973	7.1%	6,703	6.5%
O & M of plant	9,782	9.9%	8,949	8.6%
Scholarships and fellowships	818	0.8%	872	0.8%
Auxiliary enterprises	7,980	8.1%	8,229	7.9%
Depreciation	7,943	8.0%	11,085	10.7%
Total operating expenses	$ 98,835	100.0%	$ 103,838	100.0%
Classification				
Wages and benefits				
Faculty wages	$ 30,914	50.6%	$ 31,983	51.0%
Classified wages	10,614	17.4%	11,098	17.6%
Student wages	6,997	11.5%	6,970	11.1%
Benefits	9,532	15.6%	9,589	15.3%
	58,057	95.1%	59,640	95.0%
Personal service contracts	2,980	4.9%	3,113	5.0%
	$ 61,037	100.0%	$ 62,753	100.0%
Total wages and benefits	$ 61,037	61.8%	$ 62,753	60.5%
Scholarships and fellowships	3,659	3.7%	4,177	4.0%
Utilities	3,018	3.1%	2,376	2.3%
Supplies and other	23,178	23.4%	23,445	22.6%
Depreciation	7,943	8.0%	11,086	10.6%
Total operating expenses	$ 98,835	100.0%	$ 103,837	100.0%

Statements of Cash Flow

The statement of cash flows presents the School's ability to meet financial obligations as they mature. It portrays information related to cash in-flows and out-flows summarized by operation, capital and noncapital financing and investing activities.

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

Condensed Statements of Cash Flows (in thousands)
Fiscal Years Ended June 30, 2004, 2003 and 2002

	2004	2003	2002
Cash and cash equivalents provided/(used) by			
Operating activities	$ (21,997)	$ (18,260)	$ (18,808)
Noncapital financing activities	26,686	27,614	28,420
Capital and related financing activities	(20,211)	14,018	(3,051)
Investing activities	6,578	2,268	2,643
Net (decrease) increase in cash and cash equivalents	(8,944)	25,640	9,204
Cash and cash equivalents, beginning of year	57,168	31,528	22,324
Cash and cash equivalents, end of year	$ 48,224	$ 57,168	$ 31,528

Major sources of cash from operating activities include tuition and fees ($25.7 million) and grants, contracts and gifts ($33.8 million). Major uses of funds go to employees for salaries and benefits ($62.1 million) and to suppliers of goods and services ($21.5 million). The state appropriation of $17.2 million is the major source of non-capital financing activities.

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

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

Factors Impacting Future Periods

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

Tuition and fee revenues contribute 27.1% of all revenues and are therefore vital to the School's continuing ability to provide high quality academic programs that continue to attract students. The state appropriation continued at approximately 17% of all revenues in fiscal year 2004. The level of state support remains a critical factor influencing the School's ability to deliver its highly regarded academic programs.

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

One impact of this shift in the delivery of state funds will be to lower the level of state support, thus making the option of establishing the School as a TABOR exempt enterprise more likely. Enterprise status would allow the institution to have more freedom in establishing tuition rates in the future and to pledge tuition revenues for bond payments.

A continued source of concern for the near future is the State of Colorado's revenue and spending constraints. These constraints may impact the institution by setting the stipend awards to a lower than optimal price or by reducing the amount awarded for fee-for-service contracts. In addition, the State's planned investment in capital projects has been severely limited. The School did obtain funding for two projects in fiscal year 2005, but reduced levels of state capital funding has reduced the School's ability to proceed with some planned building improvements and expansions.

State of Colorado
Colorado School of Mines
Statements of Net Assets
June 30, 2004 and 2003

	2004	2003 (Restated – Note 14)
Assets		
Current Assets		
Cash and cash equivalents	$ 33,384,208	$ 17,628,927
Short-term investments	1,591,587	6,552,404
Accounts receivable, net of allowance; 2004 – $189,851, 2003 – $160,851	2,183,729	1,519,241
Federal and state grants receivable	2,656,615	1,544,764
Other receivables, net of allowance; 2004 – $32,055, 2003 – $44,500	1,677,962	2,809,014
Inventories	190,140	190,140
Loans to students, net of allowance; 2004 – $6,154, 2003 – $5,154	519,446	506,457
Prepaid expenses	49,250	132,516
Total current assets	42,252,937	30,883,463
Noncurrent Assets		
Restricted cash and cash equivalents	14,839,648	39,539,068
Endowment investments	1,318,644	1,318,644
Loans to students, net of allowance; 2004 – $192,541, 2003 – $174,735	4,188,098	4,452,038
Capital assets, net	137,192,634	123,253,959
Bond issuance costs, net	967,033	995,630
Total noncurrent assets	158,506,057	169,559,339
Total assets	200,758,994	200,442,802
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	9,619,315	10,213,753
Deferred revenue	9,064,902	7,424,243
Capital leases payable – current portion	100,000	216,675
Bonds payable – current portion	255,278	665,279
Other current liabilities	1,610,999	1,470,991
Total current liabilities	20,650,494	19,990,941
Noncurrent Liabilities		
Accrued compensated absences	3,029,360	3,241,248
Accrued interest payable	1,551,226	1,217,632
Deferred revenue	2,958,333	3,458,333
Student loan funds administered for the Foundation	1,174,903	1,230,208
Capital leases payable	—	100,000
Bonds payable	57,807,011	58,038,360
Total noncurrent liabilities	66,520,833	67,285,781
Total liabilities	87,171,327	87,276,722
Net Assets		
Invested in capital assets, net of related debt	87,261,726	91,232,205
Restricted		
Nonexpendable		
Scholarships and fellowships	1,318,644	1,318,644
Expendable		
Scholarships and fellowships	956,943	453,058
Research	203,823	295,895
Loans	5,495,739	5,153,859
Debt service	480,210	400,000
Capital projects	269,590	172,195
Other	1,104,316	—
Unrestricted	16,496,676	14,140,224
Total net assets	$ 113,587,667	$ 113,166,080

See Notes to Financial Statements

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003 (Restated – Note 6)
Assets		
Cash and cash equivalents	$ 998,100	$ 328,049
Intermediate-term investments	590,915	156,376
Contributions receivable	4,719,861	5,713,358
Student loans receivable		
Revolving loan fund – Colorado School of Mines	1,089,930	1,168,151
Direct student loans	1,174,903	1,230,208
Contributions receivable from trusts held by others	2,514,433	2,207,207
Assets held under split-interest agreements	15,721,139	11,283,218
Beneficial interest in endowments held by others	7,761,610	6,980,937
Beneficial interest in long-term trusts held by others	1,842,998	1,426,047
Long-term investment pool	112,875,018	98,190,053
Real estate held for future use	1,335,845	1,646,006
Equipment	61,334	68,234
Other assets	219,573	218,672
Restricted net assets held by property management corporation	77,899	67,409
Total assets	$ 150,983,558	$ 130,683,925
Liabilities		
Accounts payable and accrued liabilities	$ 349,176	$ 413,741
Obligations under split-interest agreements	7,555,295	7,456,825
Obligations under gift annuity agreements	3,311,204	3,355,222
Assets held for others	10,366,742	8,054,437
Other liabilities	91,703	69,889
Total liabilities	21,674,120	19,350,114
Net Assets		
Unrestricted		
Undesignated	1,575,735	1,417,476
Board designated	10,847,271	6,957,194
Total unrestricted	12,423,006	8,374,670
Temporarily restricted	35,601,569	26,682,564
Permanently restricted	81,284,863	76,276,577
Total net assets	129,309,438	111,333,811
Total liabilities and net assets	$ 150,983,558	$ 130,683,925

State of Colorado
Colorado School of Mines
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003 (Restated – Note 14)
Operating Revenues		
Tuition and fees, net	$ 26,395,448	$ 24,573,315
Federal grants and contracts	18,232,614	18,345,884
State grants and contracts	2,482,126	3,415,624
Nongovernmental grants and contracts	13,133,501	14,786,616
Interest on student loans receivable	133,594	165,873
Auxiliary enterprises, net	9,568,127	8,301,705
Other operating revenues	731,399	503,452
Total operating revenues	70,676,809	70,092,469
Operating Expenses		
Instruction	35,005,273	35,603,607
Research	20,364,453	23,003,526
Academic support	5,680,391	5,846,365
Student services	4,289,401	3,545,514
Institutional support	6,972,773	6,703,367
Auxiliary enterprises	7,979,811	8,228,517
Operation and maintenance of plant	9,782,190	8,949,168
Scholarships and fellowships	817,710	872,294
Depreciation	7,942,562	11,085,395
Total operating expenses	98,834,564	103,837,753
Operating Loss	(28,157,755)	(33,745,284)
Nonoperating Revenues (Expenses)		
State appropriations	17,187,980	16,952,620
Contributions from Colorado School of Mines Foundation, Incorporated	8,137,377	8,723,416
Contributions	1,327,915	1,548,070
Investment income	1,620,920	1,554,817
Interest on capital asset-related debt	(1,777,531)	(1,377,244)
Other nonoperating revenues	88,237	190,298
Net nonoperating revenues	26,584,898	27,591,977
Loss Before Other Revenues, Expenses, Gains or Losses	(1,572,857)	(6,153,307)
Capital Appropriations – State	1,574,090	2,136,964
Capital Grants and Gifts	420,354	497,844
Increase (Decrease) in Net Assets	421,587	(3,518,499)
Net Assets, Beginning of Year, As Previously Reported	113,166,080	117,715,599
Adjustments Applicable to Prior Years	—	(1,031,020)
Net Assets, Beginning of Year, As Restated	113,166,080	116,684,579
Net Assets, End of Year	$ 113,587,667	$ 113,166,080

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Support				
Contributions	$ 1,159,442	$ 4,909,502	$ 4,705,620	$ 10,774,564
Interest and dividends net of related fees	376,021	852,898	195,065	1,423,984
Net realized and unrealized gains	3,056,066	14,145,458	553,528	17,755,052
Changes in net present values of split interest agreements	(223,193)	(974,153)	(373,352)	(1,570,698)
Change in interest in net assets of property management corporation	—	(2,670)	13,160	10,490
Other income	79,643	13,058	6,233	98,934
Total revenue, gains and support	4,447,979	18,944,093	5,100,254	28,492,326
Expenses				
School support	8,252,081	—	—	8,252,081
Fundraising	1,786,808	—	—	1,786,808
Alumni Association	92,000	—	—	92,000
Management and general	359,385	—	—	359,385
Cancellation of pledges	26,425	—	—	26,425
Total expenses	10,516,699	—	—	10,516,699
Changes in Net Asset Classification				
Satisfaction of program restrictions	7,395,747	(7,395,747)	—	0
Administration fees	639,485	(639,485)	—	0
Realization of promises to give	172,731	(172,731)	—	0
Termination of trusts	26,425	(23,675)	(2,750)	0
Other reclassifications	1,882,668	(1,793,450)	(89,218)	0
Total net assets released from restrictions	10,117,056	(10,025,088)	(91,968)	0
Change in Net Assets	4,048,336	8,919,005	5,008,286	17,975,627
Net Assets, Beginning of Year	8,374,670	26,682,564	76,276,577	111,333,811
Net Assets, End of Year	$ 12,423,006	$ 35,601,569	$ 81,284,863	$ 129,309,438

Colorado School of Mines Foundation, Incorporated
A Component Unit of Colorado School of Mines
Statement of Activities
Year Ended June 30, 2003 (Restated – Note 6)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Support				
Contributions	$ 1,221,375	$ 4,548,854	$ 6,477,908	$ 12,248,137
Interest and dividends net of related fees	371,884	975,945	14,043	1,361,872
Net realized and unrealized gains	559,582	1,721,724	858,418	3,139,724
Changes in net present values of split interest agreements	(314,495)	(137,231)	(355,441)	(807,167)
Change in interest in net assets of property management corporation	—	67,409	—	67,409
Other income	137,972	18,181	2,883	159,036
Total revenue, gains and support	1,976,318	7,194,882	6,997,811	16,169,011
Expenses				
School support	9,736,480	—	—	9,736,480
Fundraising	2,180,517	—	—	2,180,517
Alumni Association	92,000	—	—	92,000
Management and general	404,740	—	—	404,740
Cancellation of pledges	4,573	—	—	4,573
Total expenses	12,418,310	—	—	12,418,310
Changes in Net Asset Classification				
Satisfaction of program restrictions	8,145,693	(8,145,693)	—	0
Administration fees	1,365,633	(1,365,633)	—	0
Realization of promises to give	398,848	(398,848)	—	0
Termination of trusts	189,633	(189,633)	—	0
Other reclassifications	4,552	(4,152)	(400)	0
Total net assets released from restrictions	10,104,359	(10,103,959)	(400)	0
Change in Net Assets	(337,633)	(2,909,077)	6,997,411	3,750,701
Net Assets, Beginning of Year, As Previously Reported	9,174,096	30,206,150	70,271,618	109,651,864
Adjustments Applicable to Prior Periods	(461,793)	(614,509)	(992,452)	(2,068,754)
Net Assets, Beginning of Year, As Restated	8,712,303	29,591,641	69,279,166	107,583,110
Net Assets, End of Year	$ 8,374,670	$ 26,682,564	$ 76,276,577	$ 111,333,811

State of Colorado
Colorado School of Mines
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Operating Activities		
Tuition and fees	$ 25,730,961	$ 24,343,340
Grants and contracts	33,771,514	35,783,008
Payments to suppliers	(21,501,002)	(17,399,310)
Scholarships disbursed	(817,710)	(872,294)
Payments to employees	(62,105,047)	(61,285,839)
Loans issued to students	(891,174)	(1,040,120)
Collection of loans to students	1,275,721	1,269,261
Sales and services of auxiliary enterprises	9,787,964	8,325,482
Payments for auxiliary enterprises	(7,979,812)	(8,228,517)
Other receipts	731,399	845,192
Net cash used in operating activities	(21,997,186)	(18,259,797)
Noncapital Financing Activities		
State appropriations	17,187,980	16,952,620
Receipts from the Colorado School of Mines Foundation, Incorporated	8,082,072	8,922,604
Gifts for other than capital purposes	1,327,915	1,548,070
Other receipts	88,237	190,299
Net cash provided by noncapital financing activities	26,686,204	27,613,593
Capital and Related Financing Activities		
Proceeds from issuance of revenue bonds payable	—	31,852,530
Cash paid for bond issuance costs	28,595	(723,798)
Capital appropriations – state	1,574,090	2,136,964
Capital grants, contracts and gifts received	420,356	497,844
Acquisition and construction of capital assets	(19,911,073)	(13,270,099)
Proceeds from sale of capital assets	—	485,819
Payment for bond defeasements	—	(4,191,175)
Principal paid on capital leases and revenue bonds payable	(858,025)	(940,000)
Interest paid on capital asset-related debt	(1,464,875)	(1,829,738)
Net cash provided by (used in) capital and related financing activities	(20,210,932)	14,018,347
Investing Activities		
Interest and dividends on investments	1,616,958	1,557,132
Proceeds from sales and maturities of investments	4,960,817	711,159
Net cash provided by investing activities	6,577,775	2,268,291
Increase in Cash and Cash Equivalents	(8,944,139)	25,640,434
Cash and Cash Equivalents, Beginning of Year	57,167,995	31,527,561
Cash and Cash Equivalents, End of Year	$ 48,223,856	$ 57,167,995

State of Colorado
Colorado School of Mines
Statements of Cash Flows (continued)
Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	$ 33,384,208	$ 17,628,927
Restricted cash and cash equivalents – noncurrent	14,839,648	39,539,068
Total cash and cash equivalents	$ 48,223,856	$ 57,167,995
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (28,157,755)	$ (33,745,284)
Depreciation expense	7,942,562	11,085,395
Loss on disposal of capital assets	—	341,740
Changes in operating assets and liabilities		
Receivables, net	(390,371)	(802,096)
Inventories	—	(4,868)
Prepaid expenses	83,264	5,994
Accounts payable and other liabilities	(1,433,551)	4,430,837
Deferred revenue	(99,890)	(129,727)
Accrued compensated absences	—	558,212
Deposits held for others	58,555	—
Net Cash Used in Operating Activities	$ (21,997,186)	$ (18,259,797)
Supplemental Cash Flows Information		
Accounts payable incurred for capital asset purchases	$ 708,541	$ 237,463

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

Nature of Operations

Colorado School of Mines (the School) is a public institution of higher education with a primary emphasis in engineering and science education and research. The School is an institution of the State of Colorado. Operations are funded largely through student tuition and fees and through annual state appropriations. Funds are augmented by government and private sponsored research, private support from alumni and support from industry and friends, through the Colorado School of Mines Foundation, Incorporated. The School extends unsecured credit to its students.

As an institution of the State of Colorado, the School's operations and activities are funded in part through state appropriations. In accordance with Section 23-1-104, C.R.S., unspent revenues earned by the School in excess of appropriated amounts are retained by the School for future use.

Reporting Entity and Component Units

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

In accordance with accounting principles generally accepted in the United States of America, the financial statements present the School (primary government), its discretely presented component unit – the Colorado School of Mines Foundation, Incorporated (see Note 6), and its blended component units – the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation (see Note 7). The component units are included in the School's reporting entity because of the significance of their operational and financial relationships with the School in accordance with Statement No. 39 of the Governmental Accounting Standards Board *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14.* Financial statements of the Colorado School of Mines Foundation, Incorporated, the Colorado School of Mines Building Corporation and the Colorado School of Mines Development Corporation can be obtained from their administrative offices.

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.

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 liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of funds invested through the State Treasurer's Cash Management Program, funds managed by the Foundation on behalf of the School, money market funds with brokers and certificates of deposit.

Restricted Cash and Cash Equivalents

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

Investments and Investment Income

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

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

Accounts Receivable

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

Inventories

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

Loans to Students

The 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 $197,695 and $179,889 at June 30, 2004 and 2003, respectively.

Bond Issue Costs

Bond issue costs incurred on the revenue bond issues have been deferred and are being amortized on a straight-line basis over the life of the bonds. Total amortization expense for the years ended June 30, 2004 and 2003, was approximately $26,000 and $24,000, 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. Total interest capitalized was:

	2004	2003
Total interest expense incurred on borrowings for project	$ 1,359,018	$ 1,034,958
Less: Interest income from investment of proceeds of borrowings for project	97,395	165,819
Net interest cost capitalized	$ 1,261,623	$ 869,139
Interest capitalized	$ 1,261,623	$ 869,139
Interest charged to expense	1,777,531	1,377,244
Total interest incurred	$ 3,039,154	$ 2,246,383

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 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 $6,731,570 and $5,090,910 at June 30, 2004 and 2003, 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 $5,291,665 and $5,791,666 at June 30, 2004 and 2003, respectively.

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, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, (3) contracts and grants for research activities and (4) interest on student loans.

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

Scholarship Discounts and Allowances

Student tuition, fee revenues and certain other revenues from students are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the 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 years ended June 30, 2004 were $8,817,280 and $55,397, respectively, and for the year ended June 30, 2003, were $8,106,948 and $143,155, 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.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Deposits, Investments and Investment Return

Deposits

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

	2004	2003
Insured (FDIC) or collateralized with securities held by the School or the School's agent in the School's name	$ 242,416	$ 491,649
Collateralized by securities held by the pledging financial institution's trust department or agent in the School's name	13,823,284	36,043,312
Total	$ 14,065,700	$ 36,534,961
Carrying value	$ 23,420,115	$ 35,136,123

At June 30, 2004 and 2003, the School had $9,964,093 and $21,489,607, respectively, on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

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

Investments

The 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.

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

Investments at June 30, 2004 consisted of the following:

	Category			Carrying	Fair
	1	2	3	Value	Value
Corporate stocks	$ 400,135	$ —	$ —	$ 400,135	$ 400,135
	$ 400,135	$ 0	$ 0	400,135	400,135
Mutual funds				13,530,292	13,530,292
Investment pool				9,816,572	9,816,572
				$ 23,746,999	$ 23,746,999

Investments at June 30, 2003 consisted of the following:

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

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

Summary of Carrying Values

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

	2004	2003
Carrying value		
Deposits	$ 33,384,208	$ 56,625,730
Investments	17,749,879	8,413,313
Total	$ 51,134,087	$ 65,039,043
Included in the following statements of net assets captions		
Cash and cash equivalents	$ 33,384,208	$ 17,628,927
Short-term investments	1,591,587	6,552,404
Restricted cash and cash equivalents	14,839,648	39,539,068
Endowment investments	1,318,644	1,318,644
	$ 51,134,087	$ 65,039,043

Investment Income

Investment income for the year ended June 30 consisted of:

	2004	2003
Interest and dividend income	$ 1,553,932	$ 1,292,657
Net increase in fair value of investments	66,988	262,160
	$ 1,620,920	$ 1,554,817

Note 3: Capital Assets

Capital assets activity for the year ended June 30 was:

2004	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land	$ 3,011,232	$ 122,912	$ —	$ —	$ 3,134,144
Land improvements	7,309,048	—	—	53,090	7,362,138
Buildings and improvements	143,742,315	299,214	386	4,892,394	148,933,537
Equipment	31,816,359	1,489,516	5,089,763	—	28,216,112
Library materials	15,103,721	1,061,312	150,878	—	16,014,155
Construction in progress	7,442,459	19,192,260	—	(4,945,484)	21,689,235
	208,425,134	22,165,214	5,241,027	—	225,349,321
Less accumulated depreciation					
Land improvements	4,864,114	160,627	—	—	5,024,741
Buildings and improvements	44,593,928	5,175,738	—	—	49,769,666
Equipment	24,157,137	1,630,768	4,841,612	—	20,946,293
Library materials	11,555,996	975,429	115,438	—	12,415,987
	85,171,175	7,942,562	4,957,050	—	88,156,687
Net capital assets	$ 123,253,959	$ 14,222,652	$ 283,977	$ 0	$ 137,192,634

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

Note 4: Long-term Liabilities

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

	2004				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases					
Revenue bonds payable					
Series 1993 (A)	$ 3,925,000	$ —	$ 460,000	$ 3,465,000	$ 275,000
Series 1996 (B)	1,350,000	—	65,000	1,285,000	70,000
Series 1997A (C)	3,170,000	—	230,000	2,940,000	0
Series 1997B (C)	460,000	—	—	460,000	0
Series 1999 (D)	7,794,333	—	—	7,794,333	0
Series 2001 (F)	10,860,000	—	—	10,860,000	0
Series 2002 (E)	32,040,000	—	—	32,040,000	0
	59,599,333	—	755,000	58,844,333	345,000
Less unamortized bond discounts	(482,099)	—	(29,516)	(452,583)	(29,438)
Less deferred call premium on defeased bonds	(413,595)	—	(84,134)	(329,461)	(60,284)
	58,703,639	—	641,350	58,062,289	255,278
Capital lease obligations	316,675	—	216,675	100,000	100,000
Total bonds and capital leases	59,020,314	—	858,025	58,162,289	355,278
Other noncurrent liabilities					
Accrued compensated absences	3,724,424	—	525,987	3,198,437	169,077
Accrued interest	1,384,052	2,634,993	2,301,261	1,717,784	166,558
Deferred revenue					
Tuition, fees and grants	5,090,910	1,640,660	—	6,731,570	6,731,570
Development assistance and trademark license	5,791,666	2,000,000	2,500,000	5,291,666	2,333,333
Student loan funds administered for the Foundation	1,230,208	—	55,305	1,174,903	0
Total other noncurrent liabilities	17,221,260	6,275,653	5,382,553	18,114,360	9,400,538
Total noncurrent liabilities	$ 76,241,574	$ 6,275,653	$ 6,240,578	$ 76,276,649	$ 9,755,816

State of Colorado
Colorado School of Mines
Notes to Financial Statements
June 30, 2004 and 2003

	2003				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases					
Revenue bonds payable					
Series 1993 (A)	$ 6,970,000	$ —	$ 3,045,000	$ 3,925,000	$ 460,000
Series 1996 (B)	1,415,000	—	65,000	1,350,000	65,000
Series 1997A (C)	4,720,000	—	1,550,000	3,170,000	230,000
Series 1997B (C)	460,000	—	—	460,000	0
Series 1999 (D)	7,794,333	—	—	7,794,333	0
Series 2001 (F)	10,860,000	—	—	10,860,000	0
Series 2002 (E)	—	32,040,000	—	32,040,000	0
	32,219,333	32,040,000	4,660,000	59,599,333	755,000
Less unamortized bond discounts	(485,899)	(187,470)	(191,270)	(482,099)	(29,438)
Less deferred call premium on defeased bonds	—	(420,686)	(7,091)	(413,595)	(60,283)
	31,733,434	31,431,844	4,461,639	58,703,639	665,279
Capital lease obligations	531,675	—	215,000	316,675	216,675
Total bonds and capital leases	32,265,109	31,431,844	4,676,639	59,020,314	881,954
Other noncurrent liabilities					
Accrued compensated absences	3,166,212	558,212	—	3,724,424	483,176
Accrued interest	901,033	1,153,916	670,897	1,384,052	166,420
Deferred revenue					
Tuition, fees and grants	5,621,670	—	530,760	5,090,910	5,090,910
Development assistance and trademark license	6,291,666	2,000,000	2,500,000	5,791,666	2,333,333
Student loan funds administered for the Foundation	1,031,020	199,188	—	1,230,208	0
Total other noncurrent liabilities	17,011,601	3,911,316	3,701,657	17,221,260	8,073,839
Total noncurrent liabilities	$ 49,276,710	$ 35,343,160	$ 8,378,296	$ 76,241,574	$ 8,955,793

Auxiliary Housing Services Revenue Bonds

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

(A) Refunding and improvement revenue bonds, Series 1993 – Serial obligations maturing in fiscal years ending June 30, 2005 to 2014; due in annual installments ranging from $275,000 to $750,000 with interest payable semi-annually ranging from 4.15% to 5%. The purpose of the issue was to refund the Series 1988 Bond; finance the construction, renovation, other acquisition and equipping of additional dining and recreational facilities at the Ben H. Parker Student Center and improve and equip other auxiliary facilities.

(B) Auxiliary facility enterprises revenue bonds, Series 1996 – Serial obligations maturing in fiscal years ending June 30, 2005 to 2017; due in annual installments ranging from $70,000 to $140,000 with interest payable semi-annually ranging from 4.75% to 6%. The purpose of the issue was to finance the installation of a new telephone system along with the replacement of and additions to the television, data, telephone and electrical cabling for the residence halls.

(C) Auxiliary facility enterprises revenue bonds, Series 1997A and 1997B. Series 1997A – Serial obligations mature in fiscal years ending June 30, 2005 to 2017; due in annual installments ranging from $230,000 to $435,000 with interest payable semi-annually ranging from 4.2% to 5%. Series 1997B – Serial obligation bonds mature December 1, 2017. Interest is payable annually through 2017 at 5.3%. The purpose of this issue was to finance the construction, acquisition and equipping of Mines Park residential housing complex.

(D) Auxiliary facility enterprises revenue bonds, Series 1999 – Serial obligations issued to finance major renovations to four of the existing residence halls; construction, other acquisitions and equipping of an approximately 13,000 square foot addition to the Ben H. Parker Student Center; acquisitions and construction of two fraternity housing facilities; and construction, acquisition and equipping of two additional buildings at the Mines Park residential housing complex. Obligations include the following:

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

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

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

The auxiliary bonds are secured by net pledged revenues. Bond provisions require the establishment of a reserve fund. The reserve fund is funded with a surety bond provided by the bond insurer, as required. The minimum reserves for Series 1993, Series 1996, Series 1997, Series 1999 and Series 2002 auxiliary bonds are $773,411, $144,200, $473,296, $779,433 and $2,737,397, respectively. The School is also required to maintain certain rate covenants related to the bonds. Management believes that they are in compliance with these covenants.

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

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

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

Interest is payable at varying rates, not to exceed 10%. Interest rates and payment periods are determined, as elected by the Corporation, using either (i) weekly, one-month or three-month interest rates, with interest payable monthly or (ii) six-month, one-year, five-year, ten-year or fixed interest rates, with interest payable semi-annually. The interest rate on variable rate bonds is calculated using the weekly interest rate of 1.35% at June 30, 2004.

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

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

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

Debt Service Requirements on Revenue Bonds

The debt service requirements as of June 30, 2004, are as follows:

Year Ending June 30, 2004	Total to be Paid	Principal	Interest
2005	$ 2,597,797	$ 345,000	$ 2,252,797
2006	2,600,696	365,000	2,235,696
2007	2,592,424	375,000	2,217,424
2008	2,598,182	400,000	2,198,182
2009	2,759,829	585,000	2,174,829
2010 – 2014	15,677,304	5,455,000	10,222,304
2015 – 2019	17,443,694	5,712,140	11,731,554
2020 – 2024	17,251,248	4,177,503	13,073,745
2025 – 2029	27,753,910	17,334,690	10,419,220
2030 – 2034	16,618,750	12,040,000	4,578,750
2035 – 2038	13,298,375	12,055,000	1,243,375
	$ 121,192,209	$ 58,844,333	$ 62,347,876

Defeased Bonds

During September 1984, Housing System Revenue Bond Series E was placed in trust with a paying agent. Income received by the trust will be used solely for the purpose of making the required interest payments. Accordingly, the Series E Bond is considered to be extinguished in 1984 and does not appear as a liability in the accompanying statements of net assets. At June 30, 2004, bonds in the amount of $2,450,000 are outstanding.

In connection with the issuance of the Series 2002 bonds, $4,191,171 was placed in escrow with a paying agent for the payment of certain Series 1993 and 1997A bonds. Accordingly, certain Series 1993 and 1997A bonds were considered extinguished as of November 2002; and the escrow account and extinguished bonds are not recognized in the accompanying statements of net assets. At June 30, 2004, Series 1997A bonds in the amount of $1,330,000 are outstanding. The Series 1993 bonds were paid in full during 2003. The refunding of the bonds resulted in a call premium, the difference between the reacquisition price and the net carrying amount of the bonds, in the amount of $420,686. The call premium is reported in the accompanying statements of net assets as a reduction of revenue bonds payable and is being amortized on a straight-line basis over the remaining lives of the Series 1993 and 1997A bonds.

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.

Capital Lease Obligations

The School is obligated under leases for equipment accounted for as capital leases. Assets under capital leases at June 30, 2004 and 2003 totaled $787,500 and $812,500, respectively, net of accumulated depreciation of $212,500 and $884,175, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at approximately 4.0% together with the present value of the future minimum lease payments as of June 30, 2004:

2005 lease payments	$ 104,000
Less amount representing interest	4,000
Present value of future minimum lease payments	$ 100,000

Note 5: Related Party Transactions

Colorado School of Mines Research Institute

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

CSMRI ceased active operations during 1987 and sold most of its real estate in 1988. As of December 31, 2003 and 2002, CSMRI had net assets of $74,598 and ($2,760), respectively. CSMRI once held a lease on property owned by the School. Funds remaining from the proceeds of the sales and satisfaction of indebtedness are to be applied to rehabilitation costs of the property leased to CSMRI and the remaining property owned by CSMRI. Upon dissolution, subject to certain provisions, any assets remaining shall be transferred to the Colorado School of Mines.

Note 6: Colorado School of Mines Foundation, Incorporated

The Colorado School of Mines Foundation, Incorporated (the Foundation) 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, 2004 and 2003, the Foundation had advanced $1,089,930 and $1,168,151, respectively, to the School, which is included in other current liabilities on the School's statement of net assets. The outstanding loan balance bears interest at 9% per annum.

Restatement of Prior Years' Financial Statements

The Foundation has historically recorded liabilities relating to certain Charitable Remainder Trusts at the net present values of expected payments to the beneficiaries of the trusts less estimated future earnings. The Foundation has retroactively changed its accounting method to record liabilities without regard to future earnings. This change decreased the change in net assets for 2003 by $109,331. Adjustments of $160,532 applicable to 2002 and prior years have been included in the restated 2003 beginning net asset balance.

In prior years, calculations for dual-life split interest and gift annuity obligations were made using single-life rather than dual-life mortality tables. During 2004, the Foundation retroactively changed its method of calculation to use dual-life mortality tables. This change increased the change in net assets for 2003 by $33,186. Adjustments of $1,908,232 reducing net assets in 2002 and prior years have been included in the restated 2003 beginning net asset balance.

Contributions Receivable

Contributions receivable as of June 30 are as follows:

	2004	2003
Due in less than one year	$ 1,880,785	$ 2,773,282
Due in one to five years	3,369,789	3,523,779
	5,250,574	6,297,061
Less: Allowance for uncollectible contributions	(141,000)	(158,000)
Unamortized discount	(389,713)	(425,703)
	$ 4,719,861	$ 5,713,358

Discount rates ranged were 4% for both 2004 and 2003.

Approximately 60% and 80% of the Foundation's contributions receivable as of June 30, 2004 and 2003, respectively, consist of pledges from five donors.

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 $2,514,433 and $2,207,207 at June 30, 2004 and 2003, respectively.

Investments

Intermediate-term investments at June 30 consisted of the following:

	2004	2003
Certificates of deposit and cash equivalents	$ 590,915	$ 64,209
Stocks and stock mutual funds	—	92,167
	$ 590,915	$ 156,376

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

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

	2004		2003	
	Split-interest Agreements	Long-term Investment Pool	Split-interest Agreements	Long-term Investment Pool
Cash equivalents	$ 480,640	$ 4,555,391	$ 15,238	$ 2,652,709
Bonds and bond mutual funds	8,999,544	18,333,741	8,939,650	22,257,717
Stocks and stock mutual funds	6,065,362	61,778,888	2,328,330	52,652,876
Investments in limited partnerships and limited liability companies	175,593	28,206,998	—	20,626,751
	$ 15,721,139	$ 112,875,018	$ 11,283,218	$ 98,190,053

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 $53,846 and $207,662 under split-interest agreements during the years ended June 30, 2004 and 2003, respectively.

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

	2004	2003
Assets held in trust	$ 15,721,139	$ 11,283,218
Less associated liabilities	(7,555,295)	(7,456,825)
Net present value of annuity trust agreements	$ 8,165,844	$ 3,826,393

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, 2004 and 2003, of $3,311,204 and $3,355,222, respectively, which represents the present value of the future annuity obligations. During the years ended June 30, 2004 and 2003, the Foundation received gifts under charitable gift annuity contracts valued at $44,521 and $96,621, 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:

	2004	2003
School funds	$ 9,822,996	$ 7,484,961
Trust funds	543,746	569,476
	$ 10,366,742	$ 8,054,437

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, 2004, $10,860,000 of these bonds were outstanding.

Significant Estimates and Concentrations – Investments

As of June 30, 2004 and 2003, 21% and 18%, respectively, of the Foundation's investment portfolio is invested in limited partnerships and venture capital organizations, some of which are offshore entities and some of which include derivative investments. There is no ready market value for these investments. The values reported in the Foundations' financial statements are the market values reported by the entities in audited financial statements, federal tax Form K-1 or other internal valuations. These values could be volatile and could be significantly different on a subsequent valuation date.

Note 7: Blended Component Units

Colorado School of Mines Building Corporation

The Colorado School of Mines Building Corporation (the Building Corporation) was established in June of 1976 as a separate corporation under the laws of the State of Colorado. The purpose of the corporation was to build a facility that would house the United States Geological Survey. The accumulated net assets of the Building Corporation at June 30, 2004 and 2003 were $2,594,838 and $3,625,095, 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 accumulated net assets of the Corporation at June 30, 2004 and 2003 were $424,030 and $750,764, respectively.

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

Note 8: Pension Plan

Plan Description

Virtually all the 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).

Plan members vest after five years of service and are eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with five years of service. Members are also eligible for retirement benefits without a reduction for early retirement if they are at least 55 and have a minimum of five years of service credit and their age plus years of service equals 80 or more. State troopers and judges comprise a small percentage of plan members but have higher contribution rates and state troopers are eligible for retirement benefits at different ages and years of service. Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit.

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

Funding Policy

Most employees contribute 8.0% (10.0% for state troopers) of their gross covered wages to an individual account in the plan. During fiscal years 2003 and 2004, the State contributed 10.15% (12.85% for state troopers and 12.66% for the Judicial Branch) of the employee's gross covered wages. Effective January 1, 2003, 1.1% of the total contribution was allocated to the Health Care Trust Fund.

Through May 31, 2004, the amount needed to meet the match requirement established by the PERA Board was allocated to the Matchmaker Program (See Note 9). The balance remaining after allocations to the Matchmaker Program and the Health Care Trust Fund was allocated to the defined benefit plan.

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

The School contributions to the three programs described above for the fiscal years ended June 30, 2004, 2003 and 2002 were $4,077,821, $4,247,392 and $3,949,612, respectively, equal to its required contributions for those years.

Note 9: Volunteer Tax-Deferred Retirement Plans

Beginning on January 1, 2001, the Matchmaker Program established a state match for PERA member's voluntary contributions to tax-deferred retirement plans. For calendar years 2001 and 2002, the match was 100% of up to 3% of the employee's gross covered wages paid during the month (7% for judges in the Judicial Branch). For calendar year 2003, the match was 100% of up to 2% of employee's gross covered wages paid during the month (6% for judges in the Judicial Branch). For calendar year 2004 through May 31, 2004, the match was 100% of up to 1% of employee's gross covered wages paid during the month (5% for judges in the Judicial Branch). The PERA Board sets the level of the match with 2% of gross salary plus 50% of any reduction in the overall contribution rate due to overfunding of the pension plan available for the match. While the plan was not overfunded in the current year, the maximum one year change in match rate is statutorily limited to 1%, and therefore, the match changed from 2% to 1% on January 1, 2004. Legislation passed in 2004 session of the General Assembly terminated the match for pay periods ending after May 31, 2004. The match will resume when the actuarial value of the defined benefit plan assets are 110% of the actuarially accrued plan liabilities.

PERA offers a voluntary 401(k) plan entirely separate from the defined benefit pension plan. The State offers a 457 deferred compensation plan and certain agencies and institutions of the State offer a 403(b) plan. Members who contribute to any of these plans also receive the State match.

Note 10: Post Retirement Health Care and Life Insurance Benefits

Health Care Program

PERACare (formerly known as the PERA Health Care Program) began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During fiscal years 2003 and 2004, the premium subsidy was $115.00 for those with 20 years of service credit ($230.00 for members under age 65 and not eligible for Medicare), and it was reduced by 5% for each year of service fewer than 20.

The Health Care Trust Fund is maintained by an employer's contribution as discussed above in Note 8.

Monthly premium costs for participants depend on the health care plan selected, the number of persons covered, Medicare eligibility and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured medical and prescription benefit plans and with health maintenance organizations providing services within Colorado. As of December 31, 2003 there were 37,067 enrollees in the plan.

Life Insurance Program

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

Note 11: Commitments and Contingencies

Claims and Litigation

In November 1992, the School and numerous other potentially responsible parties (PRP's) were notified by the United States Environmental Protection Agency (EPA) of potential liability pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Such potential liability results from costs associated with the cleanup of hazardous substances at a site owned by the School and leased to the Colorado School of Mines Research Institute (CSMRI), which performed research for a variety of private and governmental entities. Negotiations with the EPA, the enforcement agency related to past costs for cleanup, have been resolved. The Colorado Department of Health and EPA have reserved their rights as to future costs of cleanup. Management believes that any future liability that it may incur as a result of this matter will not adversely affect the continued operation of the School.

As of June 30, 2004, a significant portion of the Site has been cleaned up. A site investigation was completed by the School's contractor in early 2004 and a cleanup plan was selected. However, during the implementation of the cleanup during the spring of 2004, it was learned that the nature and extent of the contamination, as described in the site investigation report, was not accurate. The cleanup was suspended in May 2004. As a result, the School is in a contract dispute with its contractor who seeks compensation for alleged prior work, while the School seeks compensation from the contractor for damages. The claim against the School is approximately $1,300,000. Management believes that any future liability that it may incur as a result of this matter will not adversely affect the continued operation of the School.

Government Grant

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.

Note 12: 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 13: 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, 2004 and 2003, appropriated expenses were within the authorized spending authority. For the years ended June 30, 2004 and 2003, the School had a total appropriation of $49,951,668 and $46,685,094, respectively. Actual appropriated revenues earned totaled $48,671,050 and $46,622,147, respectively. Actual appropriated expenses totaled $48,667,762 and $46,509,394, respectively. The net increase in appropriated net assets was $3,288 and $112,753, 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 14: Restatement of Prior Years' Financial Statements

During 2004, the School changed its method of accounting for student loans administered on behalf of the Foundation to record monies received from the Foundation for the student loans as a liability to the Foundation. The change increased the 2003 decrease in net assets by $199,188. Adjustments of $1,031,020 applicable to 2002 and prior have been included in the 2003 beginning net assets.

Note 15: Change in Accounting Principle

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

Note 16: Subsequent Event

Bond Issue

On October 27, 2004, the School issued $17,450,000 in refunding and improvement bonds. Proceeds from the bonds are to be used to refund 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 and interest on the bonds are payable semi-annually on June 1 and December 1 of each year through maturity in 2025 with interest rates on the serial obligations ranging from 2.5% to 5.0%. The bonds are secured by a non-exclusive first lien upon the net pledged revenues, as defined, and a financial guaranty insurance policy.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on the 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 Colorado School of Mines (the School), a blended component unit of the State of Colorado, and its discretely presented component unit, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004, except for note 15 as to which the date is October 27, 2004, which contained a reference to the report of other accountants and explanatory paragraphs regarding two changes in accounting principles. 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 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Auditor's Findings and Recommendations section of this report as Recommendation No. 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider reportable conditions described above, as Recommendation No. 1 to be material weaknesses.

We also noted certain additional matters that are described in the Auditor's Findings and Recommendation section of this report as Recommendations No. 2, 3 and 4.

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*.

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

October 15, 2004

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

Members of the Legislative Audit Committee:

We have audited the accompanying Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs (the Statement) of the Colorado School of Mines (the School), a blended component unit of the State of Colorado, for the year ended June 30, 2004. 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 assurance about whether the Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in notes to the Statement, the Statement was prepared in the format as set forth in the *Colorado Handbook for State-Funded Student Assistance Programs* issued by the Colorado Commission on Higher Education (CCHE), 2004 version. The Statement is a summary of cash activity of the state-funded financial assistance programs with the exception of the Perkins Loan and Colorado Work-Study Programs and does not present certain transactions that would be included in the Statement of the state-funded student assistance programs if it was presented on the accrual basis of accounting, as prescribed by generally accepted accounting principles. Accordingly, the accompanying Statement is not intended to present the financial position, changes in financial position or cash flows of the School in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the appropriations, expenditures, transfers and reversions of the state-funded student assistance programs of the Colorado School of Mines for the year ended June 30, 2004, in conformity with the provisions of the CCHE *Colorado Handbook for State-Funded Student Assistance Programs,* as described in Note 1 to the Statement.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2004, on our consideration of the School's 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 and 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.

Members of the Legislative Committee

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

BKD, LLP

October 15, 2004

Colorado School of Mines

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

Year Ended June 30, 2004

	CSIG Student Incentive Grants	CSG Student Grant Program	Governor's Opportunity Scholarship	CWS Work-Study Program	Under-Graduate Merit	Perkins Match	Total State-Funded Student Assistance
Appropriations							
Original	$ 48,352	$ 668,804	$ 224,174	$ 372,991	$ 235,048	$ 14,585	$ 1,563,954
Adjustments/transfers	—	—	—	—	—	—	0
Total	48,352	668,804	224,174	372,991	235,048	14,585	1,563,954
Expenditures	48,352	668,804	224,174	372,991	235,048	14,585	1,563,954
Reversions to State general fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

State of Colorado
Colorado School of Mines
Notes to Statement of Appropriations, Expenditures, Transfers and Reversions of the State-Funded Student Assistance Programs
June 30, 2004

Note 1: Summary of Significant Accounting Policies

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

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

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

Note 2: Description of Programs

In addition to the student assistance awards made during the period, the School obtained authorizations to award federal student financial aid of $1,226,404 in the Pell Grant Program, $122,287 in the Supplemental Educational Opportunity Grant Program and $149,597 in the College Work-Study Program. The School also received $43,756 in capital contributions for the Perkins Loan program.

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

Note 3: Student Incentive Grants

Student Incentive Grants consist of $36,264 state funds and $12,088 of federal funds.

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Colorado School of Mines (the School), a component unit of the State of Colorado, as of and for the year ended June 30, 2004, we wish to communicate the following to you.

Auditor's Responsibility Under Generally Accepted Auditing Standards

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

Significant Accounting Policies

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

Management Judgments and Accounting Estimates

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

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

Audit Adjustments

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

Net Assets
Deferred Revenue

Members of the Legislative Audit Committee

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include unreconciled differences in accounts receivable and current liabilities, depreciation on capital assets and understatement of allowance for doubtful accounts. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease net assets as of July 1, 2003 by $159,029, increase the decrease in net assets by $88,275 for the year ended June 30, 2004, decrease current assets by $406,900, increase long-term assets by $244,828 and increase current liabilities by $85,232.

This letter is intended 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

October 15, 2004

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

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

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

Report Control Number 1625