Colorado School of Mines
Auxiliary Bonds

Independent Accountants' Report
and Financial Statements

Years Ended June 30, 2006 and 2005

LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS

Senator Stephanie Takis
Chair

Representative Dorothy Butcher
Senator Jim Isgar
Representative James Kerr
Representative Rosemary Marshall
Representative Victor Mitchell
Senator Nancy Spence
Senator Jack Taylor

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Lou Skull
Legislative Auditor

BKD, LLP
Contract Auditors

Colorado School of Mines
Auxiliary Bonds

Years Ended June 30, 2006 and 2005

TABLE OF CONTENTS

BKD LLP

Independent Accountants' Report on Financial Statements

Members of the Legislative Audit Committee:

We have audited the accompanying special-purpose financial statements of the Auxiliary Bonds of the Colorado School of Mines (the School), a blended component unit of the State of Colorado, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Colorado School of Mines' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Auxiliary Bonds of the Colorado School of Mines as of and for the year ended June 30, 2005, before they were retroactively restated for the matter discussed in Note 6, were audited by other accountants whose report dated December 20, 2005, expressed an unqualified opinion on those statements.

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

The accompanying special-purpose financial statements were prepared for the purpose of complying with the provisions of certain bond indentures as described in Note 5 and are not intended to be a complete presentation of the School's assets, liabilities, revenues and expenses.

In our opinion, the 2006 special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Auxiliary Bonds of the Colorado School of Mines as of June 30, 2006 and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

BKD, LLP

September 29, 2006

Colorado School of Mines
Auxiliary Bonds
Statements of Net Assets
June 30, 2006 and 2005

Assets

	2006	2005 (as restated)
Current Assets		
Cash and cash equivalents	$ 2,055,576	$ 2,807,952
Accounts receivable	262,153	304,260
Total current assets	2,317,729	3,112,212
Noncurrent Assets		
Restricted cash	12,705,041	15,455,086
Bond issuance costs, net of accumulated amortization; 2006 – $100,193 and 2005 – $65,940	1,034,015	1,068,268
Capital assets, net	54,388,272	43,314,463
Total noncurrent assets	68,127,328	59,837,817
Total assets	70,445,057	62,950,029

Liabilities

	2006	2005 (as restated)
Current Liabilities		
Accounts payable	1,226,784	570,652
Accrued interest payable	207,111	209,918
Deferred revenue	26,676	35,281
Bonds payable, current portion	1,380,000	845,000
Other liabilities	1,155,102	188,412
Total current liabilities	3,995,673	1,849,263
Noncurrent Liabilities		
Bonds payable	60,490,118	61,430,054
Total noncurrent liabilities	60,490,118	61,430,054
Total liabilities	64,485,791	63,279,317

Net Assets

	2006	2005 (as restated)
Invested in capital assets, net of related debt	8,530,310	(534,509)
Unrestricted (deficit)	(2,571,044)	205,221
Total net assets (deficit)	$ 5,959,266	$ (329,288)

See Notes to Financial Statements

Colorado School of Mines
Auxiliary Bonds
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005 (as restated)
Operating Revenues		
Tuition and fees	$ 1,623,153	$ 958,169
Rent	7,809,512	7,451,960
Other operating revenues	299,359	132,283
Total operating revenues	9,732,024	8,542,412
Operating Expenses		
Depreciation	1,444,553	1,105,951
Auxiliary enterprises	6,301,242	5,360,809
Total operating expenses	7,745,795	6,466,760
Operating Income	1,986,229	2,075,652
Nonoperating Revenues (Expenses)		
Investment income	726,917	506,886
Amortization of bond issuance costs	(34,253)	(34,253)
Interest on capital asset-related debt	(1,359,380)	(3,107,062)
Other nonoperating revenues	24,294	927,479
Net nonoperating expenses	(642,422)	(1,706,950)
Income Before Transfers	1,343,807	368,702
Transfers	4,944,747	(28,765)
Increase in Net Assets	6,288,554	339,937
Net Assets (Deficit), Beginning of Year	(329,288)	(669,225)
Net Assets (Deficit), End of Year	$ 5,959,266	$ (329,288)

See Notes to Financial Statements

Colorado School of Mines
Auxiliary Bonds
Notes to Financial Statements
June 30, 2006 and 2005

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

The accompanying financial statements include the separate accounts of the Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1993, Auxiliary Facilities Enterprise Revenue Bonds, Series 1996, Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B, Auxiliary Facilities Enterprise Revenue Bonds, Series 1999, Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 2002 and Auxiliary Facilities Enterprise Refunding and Improvement Bonds, Series 2004, collectively identified as Auxiliary Bonds.

Basis of Accounting and Presentation

The financial statements of the Auxiliary Bonds of the Colorado School of Mines (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 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, 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 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 Governmental Accounting Standards Board (GASB) pronouncement. The School has elected not to apply FASB pronouncements issued after the applicable date.

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 revenue and expenses 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.

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
Building and improvements	20-40 years
Equipment	3-10 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 expense for the year ended June 30, 2006 and 2005 of $1,359,380 and $3,107,062, respectively, includes $69,692 and $15,248, respectively of amortization of discounts and premiums.

Debt

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

Classification of Revenues

Revenues are classified 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 fees, net of allowances, (2) rental income of auxiliary enterprises and (3) other operating revenues.

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 Governmental Entities That Use Proprietary Fund Accounting*.

Transfers

Transfers represent monies transferred from the School to the Bond Funds.

Reclassifications

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

Note 2: Consideration of Deficit Net Assets

The financial statements of the Auxiliary Bonds are prepared only for the purpose of complying with the provisions of certain bond indentures and are not a complete presentation of the School's assets, liabilities, revenues and expenses. The Auxiliary Bond provisions require the School to impose student fees relating to the applicable auxiliary facilities to provide sufficient gross revenues to pay general operating expenses, annual principal, interest and required reserve and replacement funds. Such fees, rates and charges are required to be sufficient to produce, in each fiscal year, gross revenues to pay the annual general operating expenses, excluding depreciation, and 110% of both principal and interest on the Bonds, excluding any reserves. Management of the School annually monitors fees, rental rates and other charges to ensure that the bond requirements, cash flows and liquidity needs of the auxiliary facilities are met. The School is currently in compliance with the bond debt service requirements (see Note 5).

Note 3: Cash and Cash Equivalents and Restricted Cash

At June 30, 2006 and 2005, the Auxiliary Bonds had $1,619,913 and $2,806,672, respectively, on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

Cash and cash equivalents as of June 30, 2006 and 2005 is comprised of the following:

	2006	2005
Deposits held by the State Treasurer	$ 1,619,913	$ 2,806,672
Petty cash and change funds	2,050	1,280
Investments with Colorado School of Mines Foundation, Inc.	433,613	—
	$ 2,055,576	$ 2,807,952

Restricted cash as of June 30, 2006 and 2005 of $12,705,041 and $15,455,086, respectively, represents funds held in money market mutual funds. The Money Market Funds are subject to credit risk. Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally statistical rating organization (NRSRO). The Money Market Mutual Funds have a maturity of 21 days and are rated AAA by Standard & Poor's.

Note 4: Capital Assets

Capital assets activity for the year ended June 30 was:

	2006				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land and improvements	$ 51,460	$ —	$ —	$ —	$ 51,460
Building and improvements	52,388,440	—	—	—	52,388,440
Equipment	231,675	—	—	—	231,675
Construction in progress	1,111,468	12,518,362	—	—	13,629,830
Total capital assets	53,783,043	12,518,362	—	—	66,301,405
Less accumulated depreciation	10,468,580	1,444,553	—	—	11,913,133
Net capital assets	$ 43,314,463	$11,073,809	$ —	$ —	$54,388,272

	2005				
	Beginning Balance	Additions	Disposals	Transfers from Construction in Progress	Ending Balance
Land and improvements	$ 51,460	$ —	$ —	$ —	$ 51,460
Building and improvements	28,618,196	5,695,955	1,261,367	19,335,656	52,388,440
Equipment	231,675	—	—	—	231,675
Construction in progress	19,501,949	945,175	—	(19,335,656)	1,111,468
Total capital assets	48,403,280	6,641,130	1,261,367	—	53,783,043
Less accumulated depreciation	10,623,996	1,105,951	(1,261,367)	—	10,468,580
Net capital assets	$ 37,779,284	$ 5,535,179	$ —	$ —	$ 43,314,463

Colorado School of Mines
Auxiliary Bonds
Notes to Financial Statements
June 30, 2006 and 2005

Note 5: Bonds Payable

The following is a summary of Auxiliary Bonds transactions for the year ended June 30:

	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Revenue bonds payable					
Series 1997A	$ 2,940,000	$ —	$ —	$ 2,940,000	$ —
Series 1997B	460,000	—	—	460,000	—
Series 1999	9,697,061	370,372	—	10,067,433	—
Series 2002	32,040,000	—	—	32,040,000	—
Series 2004	17,450,000	—	845,000	16,605,000	1,380,000
	62,587,061	370,372	845,000	62,112,433	1,380,000
Less unamortized bond (discounts) premiums, net	(312,007)	—	69,692	(242,315)	—
	$ 62,275,054	$ 370,372	$ 775,308	$ 61,870,118	$ 1,380,000

	2005 (as restated)				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Revenue bonds payable					
Series 1993	$ 3,465,000	$ —	$ 3,465,000	$ —	$ —
Series 1996	1,285,000	—	1,285,000	—	—
Series 1997A	2,940,000	—	—	2,940,000	—
Series 1997B	460,000	—	—	460,000	—
Series 1999	9,345,559	351,502	—	9,697,061	—
Series 2002	32,040,000	—	—	32,040,000	—
Series 2004	—	17,450,000	—	17,450,000	845,000
	49,535,559	17,801,502	4,750,000	62,587,061	845,000
Less unamortized bond discounts	(452,763)	156,004	15,248	(312,007)	—
Less deferred call premium on defeased bonds	(330,260)	—	(330,260)	—	—
	$ 48,752,536	$ 17,957,506	$ 4,434,988	$ 62,275,054	$ 845,000

Series 1993 Bonds

Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1993 – The purpose of the issue was to refund the Series 1988 Bonds; finance the construction, renovation, other acquisition and equipping of additional dining and recreational facilities at the Ben H. Parker Student Center and improve and equip other auxiliary facilities. The 1993 revenue bonds were in-substance defeased with the issuance of the Series 2004 Bonds.

Series 1996 Bonds

Auxiliary Facilities Enterprise Revenue Bonds, Series 1996 – The purpose of the issue was to finance the installation of a new telephone system along with the replacement of and additions to the television, data, telephone and electrical cabling for the residence halls. The 1996 revenue bonds were in-substance defeased with the issuance of the Series 2004 Bonds.

Series 1997 Bonds

Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A and 1997B. Series 1997A – Serial and Term obligations mature in fiscal years ending June 30, 2010 to 2017; due in annual installments ranging from $305,000 to $435,000 with interest payable semi-annually ranging from 4.875% to 5.125%. Series 1997B – Term obligation bonds mature December 1, 2017. Interest is payable annually through 2017 at 5.3%. The purpose of this issue was to finance the construction, acquisition and equipping of Mines Park residential housing complex.

Auxiliary Facilities Enterprise Revenue Bonds	
Series 1997A, with interest at 4.875% – 5.125%	$ 2,940,000
Series 1997B, with interest at 5.3%	460,000
	3,400,000
Less unamortized discount	(37,721)
	$ 3,362,279

Required annual principal and interest payments on the Series 1997 Bonds at June 30, 2006 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	$ 171,868	$ —	$ 171,868
2008	171,868	—	171,868
2009	171,868	—	171,868
2010	469,433	305,000	164,433
2011	468,998	320,000	148,998
2012-2016	2,356,028	1,880,000	476,028
2017-2018	942,445	895,000	47,445
	$ 4,752,508	$ 3,400,000	$ 1,352,508

Series 1999 Bonds

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

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

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

The 1999 revenue bonds outstanding as of June 30, 2006 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds, Series 1999	
Current Interest Bonds; interest at 5%	$ 2,785,000
Capital Appreciation Bonds; interest at 5.14% – 5.4%	5,009,333
Accreted Interest on 1999 Bonds	2,273,100
	10,067,433
Less unamortized discount	(50,130)
	$ 10,017,303

Required annual principal and interest payments on Series 1999 Bonds at June 30, 2006 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	$ 139,250	$ —	$ 139,250
2008	139,250	—	139,250
2009	139,250	—	139,250
2010	139,250	—	139,250
2011	139,250	—	139,250
2012-2016	2,246,250	1,550,000	696,250
2017-2021	6,531,250	5,835,000	696,250
2022-2026	7,611,250	6,915,000	696,250
2027-2029	4,563,122	4,280,000	283,122
	$ 21,648,122	18,580,000	$ 3,068,122
Unaccreted Interest on 1999 Bonds		(8,512,567)	
		$ 10,067,433	

Series 2002 Bonds

Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 2002 – Serial and Term obligations maturing in fiscal years ending June 30, 2009 to 2038; due in annual installments ranging from $70,000 to $3,245,000 with interest payable semi-annually ranging from 3.25% to 5.25%. The bonds were issued for the purpose of refunding a portion of the Series 1993 and 1997A revenue bonds and to finance the construction, acquisition and equipping of student housing and dining facilities and improving and equipping other auxiliary facilities at the School.

The 2002 revenue bonds outstanding as of June 30, 2006 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds, Series 2002, with interest at 3.25% – 5.25%	$ 32,040,000
Less unamortized discount	(300,068)
	$ 31,739,932

Required annual principal and interest payments on Series 2002 Bonds at June 30, 2006 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	$ 1,580,253	$ —	$ 1,580,253
2008	1,580,253	—	1,580,253
2009	1,742,571	165,000	1,577,571
2010	1,643,700	70,000	1,573,700
2011	1,675,568	105,000	1,570,568
2012-2016	9,506,865	1,835,000	7,671,865
2017-2021	9,075,758	1,825,000	7,250,758
2022-2026	9,012,375	2,275,000	6,737,375
2027-2031	12,061,500	6,130,000	5,931,500
2032-2036	16,617,375	13,305,000	3,312,375
2037-2038	6,650,500	6,330,000	320,500
	$ 71,146,718	$ 32,040,000	$ 39,106,718

Series 2004 Bonds

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

The 2004 revenue bonds outstanding as of June 30, 2006 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds, Series 2004, with interest at 2.5% – 5.0%	$ 16,605,000
Plus unamortized premium	145,604
	$ 16,750,604

Required annual principal and interest payments on Series 2004 Bonds at June 30, 2006 are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2007	$ 1,979,825	$ 1,380,000	$ 599,825
2008	1,979,888	1,415,000	564,888
2009	1,816,138	1,285,000	531,138
2010	1,618,275	1,120,000	498,275
2011	1,584,675	1,120,000	464,675
2012-2016	5,234,855	3,370,000	1,864,855
2017-2021	2,794,640	1,320,000	1,474,640
2022-2026	2,724,415	1,590,000	1,134,415
2027-2031	2,721,273	2,010,000	711,273
2032-2035	2,188,054	1,995,000	193,054
	$ 24,642,038	$ 16,605,000	$ 8,037,038

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.

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

Defeased Bonds

The School has in prior years in-substance defeased certain of its debt issuances by placing assets in irrevocable escrow to be used solely for the purpose of making principal and interest payments on the debt. While the chance of the School being required to make any additional future payments is remote, it remains contingently liable as the primary obligor for amounts outstanding. Because the debt is deemed to be in-substance defeased, it has been removed from the financial statements of the School. As of June 30, 2006, $835,000 of debt in-substance defeased is outstanding for the Auxiliary Facilities Enterprise Revenue Bonds, Series 1997A.

Capitalized Interest

For 2006 and 2005, $1,599,693 and $0 of interest costs were capitalized during periods of construction.

Pledge of Net Income and Required Reserves

The auxiliary bonds are secured by net pledged revenues. Bond provisions require the establishment of a reserve fund. The reserve fund is funded with a surety bond provided by the bond insurer, as required. The minimum reserves for Series 1993, Series 1996, Series 1997, Series 1999, Series 2002 and Series 2004 auxiliary bonds are $773,411, $144,200, $473,296, $779,433, $2,737,397 and $1,100,454, respectively. The School is also required to maintain certain rate covenants related to the bonds. Management believes that they are in compliance with these covenants.

Service Coverage

The Auxiliary Bonds specify debt service coverage requirements for the auxiliary facilities. The debt service coverage provisions require net pledged revenues, as defined above, to be equal to 110% of the combined principal and interest payments, excluding any reserves, on the Auxiliary Bonds and any additional bonds due during such fiscal year. The following combined debt service coverage calculation includes all Auxiliary Bonds since all bonds are payable from net pledged revenues on a parity with the other bonds.

Colorado School of Mines
Auxiliary Bonds
Notes to Financial Statements
June 30, 2006 and 2005

The calculation of the combined debt service coverage for the year ended June 30, 2006 is as follows:

	Series 2004 Bonds	Series 2002 Bonds	Series 1999 Bonds	Series 1997 Bonds	Total
Debt service					
Principal	$ 845,000	$ —	$ —	$ —	$ 845,000
Interest	627,638	1,580,253	139,250	171,868	2,519,009
Total debt service	$ 1,472,638	$ 1,580,253	$ 139,250	$ 171,868	$ 3,364,009
Operating revenues					$ 9,732,024
Less: Operating expenditures, net of depreciation					6,301,242
Plus: Auxiliary renewal & replacement fund balance					568,947
Net pledged revenues available for debt service					$ 3,999,729
Ratio of amount available for debt service to total debt service					1.19

The calculation of the combined debt service coverage for the year ended June 30, 2005 is as follows (as restated):

	Series 2004 Bonds	Series 2002 Bonds	Series 1999 Bonds	Series 1997 Bonds	Series 1993 & 1996 Bonds	Total
Debt service						
Principal	$ —	$ —	$ —	$ —	$ 345,000	$ 345,000
Interest	379,375	1,580,253	139,250	171,868	139,306	2,410,052
Total debt service	$ 379,375	$ 1,580,253	$ 139,250	$ 171,868	$ 484,306	$ 2,755,052
Operating revenues						$ 8,542,412
Less: Operating expenditures, net of depreciation						5,360,809
Plus: Capitalized interest balance used						297,000
Plus: Auxiliary renewal and replacement fund balance						512,019
Net pledged revenues available for debt service						$ 3,990,622
Ratio of amount available for debt service to total debt service						1.45

As stated in the Auxiliary Bond resolutions, the Board has pledged to impose fees, rates and charges sufficient to pay all obligations required under the provisions of the Auxiliary Bond resolutions.

The calculation of interest expense is as follows:

	2006	2005
Interest costs per above	$ 2,519,009	$ 2,410,052
Capitalized interest costs	(1,599,693)	—
Accreted interest on 1999 bonds	370,372	351,502
Amortization of bond discounts/premiums	69,692	15,248
Write-off of deferred call premium on defeased bonds	—	330,260
Interest expense	$ 1,359,380	$ 3,107,062

Additional Covenants

In addition to the other requirements listed in this footnote, the Auxiliary Bond resolutions require the Board to maintain compliance with various additional covenants while the Auxiliary Bonds are outstanding. These covenants, among other things, restrict the disposition of the auxiliary facilities under certain circumstances, require the Board to maintain adequate insurance on the auxiliary facilities, require the Board to continue to operate the auxiliary facilities and require an annual audit of the Auxiliary Bond Fund.

Events of Default

An event of default will have occurred under the Auxiliary Bond resolutions, in general, if (a) any payment of principal or interest on the Auxiliary Bonds is not made when due; (b) the Board is unable to fulfill its obligations under the Auxiliary Bond resolutions; or (c) the Board has defaulted in the performance of any covenant, condition, agreement or provision contained in any of the Auxiliary Bond resolutions. Management believes no events of default occurred under the auxiliary bank resolutions.

Note 6: Restatement of 2005 Balances

Certain 2005 balances have been restated to correct the accretion of interest expenses on deep-discount debt (Series 1999 Capital Appreciation Bonds per footnote 5), to net bond issuance costs against invested in capital assets, net of related debt and to reclassify accreted interest from accrued interest payable, deferred revenues and other liabilities, to bonds payable and to reclassify certain net assets from restricted for debt service to unrestricted.

	2005 (As Previously Reported)	Adjustment	2005 (As Restated)
Statement of Net Assets			
Deferred revenue	$ (161,147)	$ 125,866	$ (35,281)
Other liabilities	(226,176)	37,764	(188,412)
Accrued interest payable	(1,387,596)	1,387,596	—
Bonds payable	(59,527,326)	(1,902,728)	(61,430,054)
Invested in capital assets, net of related debt	1,602,777	(1,068,268)	534,509
Net assets restricted for debt service	(1,624,991)	1,624,991	—
Unrestricted (net assets) deficit	—	(205,221)	(205,221)
Total (net assets) deficit	(22,214)	351,502	329,288
Statements of Revenues, Expenses and Changes in Net Assets			
Amortization of bond issuance costs (reclassificiation)	—	34,253	34,253
Interest on capital asset – related debt	2,789,813	351,502 (34,253)	3,107,062
Increase in net assets	(691,439)	351,502	(339,937)

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of Colorado School of Mines Auxiliary Bonds (Bonds), of the Colorado School of Mines (the School), as of and for the year ended June 30, 2006, we wish to communicate the following to you.

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

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

Significant Accounting Policies

The Bond'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 area involves a significant area of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

Estimated useful lives of capital assets

111 S. Tejon Street, Suite 800 Colorado Springs, CO 80903-2286 719 471-4290 Fax 719 632-8087

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated.

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

Accretion of interest on deep-discount debt
Net asset classifications
Amortization of bond issuance costs and interest on capital asset-related debt

Disagreements with Management

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

No matters are reportable.

Consultation with Other Accountants

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

No matters are reportable.

Major Issues Discussed with Management Prior to Retention

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

No matters are reportable.

Difficulties Encountered in Performing the Audit

Our audit requires cooperative effort between management and the audit team. During our audit, we found significant difficulties in working effectively on the following matters:

No matters are reportable.

This letter is intended solely for the information and use of the Legislative Audit Committee, the Board of Trustees of the School 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

September 29, 2006

Colorado School of Mines
Auxiliary Bonds
Notes to Financial Statements
June 30, 2006 and 2005

Audit Report Distribution Summary

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 1803A