Colorado School of Mines Development Corporation

A Component Unit of Colorado School of Mines
Report of Independent Certified Public
Accountants and Financial Statements

Years Ended June 30, 2005 and 2004

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Colorado School of Mines Development Corporation
June 30, 2005 and 2004

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Summary of Progress in Implementing Prior Audit Recommendations

The audit report for the year ended June 30, 2004 included one recommendation. The disposition of this audit recommendation as of December 20, 2005 is as follows:

	Recommendation	Disposition
1	Management of the Colorado School of Mines Development Corporation should continue to re-evaluate the costs versus benefits of additional control procedures or the addition of new personnel. Management also should ensure that the Board of Directors is aware of the conflicting duties and is considering the potential risks when reviewing financial statements, transactions or other internal reports.	Partially Implemented. The Board of Directors did not meet since the release of the June 30, 2004 audit report by the State Auditors Office in February, 2005 until August 18, 2005 and was advised of said finding at that time. The Board of Directors will take the finding into consideration when reviewing the financial statements, transactions and other internal reports.

Report of Independent Certified Public Accountants

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Colorado School of Mines Development Corporation (the Corporation), a blended component unit of the Colorado School of Mines (the School), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation as of and for the year ended June 30, 2004 were audited by other auditors whose report dated October 15, 2004, expressed an unqualified opinion on those statements.

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

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of the Corporation, as of June 30, 2005, and its changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the Corporation adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
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compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

Denver, Colorado
December 20, 2005

Colorado School of Mines Development Corporation

Management's Discussion and Analysis

Years Ended June 30, 2005 and 2004

Management's Discussion and Analysis

This section of the Colorado School of Mines Development Corporation's (The Corporation) annual report presents a discussion and analysis of the financial performance of the Corporation for the fiscal year ended June 30, 2005 with prior year data for comparative purposes. 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.

Using the Annual Financial Report

The Corporation's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are presented in accordance with the Governmental Accounting Standards Board Statements No. 34 and 35.

The **Statement of Net Assets** includes all assets and liabilities using the accrual basis of accounting. All current year's revenues and expenses are taken into account regardless of when cash is received or paid. Net assets, the difference between total assets and total liabilities, are one indicator of the current financial position of the Corporation.

A summarized comparison of the Corporation's assets, liabilities and net assets at June 30, 2005, 2004 and 2003 is as follows:

Condensed Statements of Net Assets

	June 30,		
	2005	2004	2003
Assets			
Cash and cash equivalents	$ 119,078	$ 141,101	$ 42,008
Accounts receivable	22,043	—	704,165
Restricted cash and cash equivalents	34	34	342,745
Capital assets	10,988,851	11,283,016	11,577,567
Other noncurrent assets	75,232	259,360	276,936
Total assets	11,205,238	11,683,511	12,943,421
Liabilities			
Current liabilities	399,481	399,481	1,332,657
Noncurrent liabilities	10,555,000	10,860,000	10,860,000
Total liabilities	10,954,481	11,259,481	12,192,657
Net Assets	$ 250,757	$ 424,030	$ 750,764

Construction of the research building was completed during fiscal year 2003, and tenants began occupying it in late 2002. Final close-out of the project with the payment of retainage took place in fiscal year 2004.

The **Statement of Revenues, Expenses and Changes in Net Assets** presents the revenues earned and the expenses incurred for operating, nonoperating and other related activities during the year. Its purpose is to assess the Corporation's financial activities for each fiscal year presented. A summarized comparison of the Corporation's revenues, expenses and changes in net assets for the years ended June 30 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Years ended June 30,		
	2005	2004	2003
Operating Income (Loss)	$ 364,187	$ (101,258)	$ (5,647)
Nonoperating Revenues (Expenses)	(537,460)	(225,476)	686,126
(Decrease) Increase in Net Assets	(173,273)	(326,734)	680,479
Net Assets, Beginning of Year	424,030	750,764	70,285
Net assets, End of Year	$ 250,757	$ 424,030	$ 750,764

Colorado School of Mines has entered into a long-term operating lease with the Development Corporation for the space within the building. The rental income from this lease is expected to cover debt service.

The building is now fully operational and the operating revenues are sufficient to cover the expenses associated with debt service on the bonds. The fiscal year 2005 decrease in net assets is attributed to the recognition of depreciation expense of $294,165 and amortization of debt issuance costs on defeased bonds of $259,360.

The **Statement of Cash Flows** presents cash receipts and payments of the Corporation during the year. A comparative summary of the statements of cash flows for the years ended June 30, 2005, 2004 and 2003 is as follows:

Condensed Statements of Cash Flows

	Years ended June 30,		
	2005	2004	2003
Cash flows provided (used) by			
Operating activities	$ 645,673	$ 194,466	$ 139,786
Capital and related financing activities	(667,696)	(438,084)	(6,693,097)
Net decrease in cash	(22,023)	(243,618)	(6,553,311)
Cash and cash equivalents, beginning of year	141,135	384,753	6,938,064
Cash and cash equivalents, end of year	$ 119,112	$ 141,135	$ 384,753

Cash flows from operating activities represents rental payments, net of maintenance and other operating payments, designed to cover the debt service payments. The negative cash flow related to capital and related financing activities is related to the completion of the construction of the building, debt service and settling of outstanding payables and receivables.

Factors Impacting Future Periods

Revenue sources that support the bond repayment and debt service are expected to increase with increased occupancy of the research building. The facilities in the building will be used to promote additional major research projects on campus, which is expected to increase the amount of indirect cost recoveries for the School. The growth in research projects is anticipated to make the School more attractive to faculty and graduate students further supporting continued growth in research activity.

The building space is partially occupied. The Colorado School of Mines Geology Museum, the Center for Commercial Applications of Combustion in Space (CCACS) and other organized research components are currently utilizing the space.

Colorado School of Mines Development Corporation

Statements of Net Assets

June 30, 2005 and 2004

Assets

	2005	2004
Current Assets		
Cash	$ 119,078	$ 141,101
Accounts receivable, Colorado School of Mines	22,043	—
Total current assets	141,121	141,101
Noncurrent Assets		
Restricted cash and cash equivalents	34	34
Bond issuance costs, net of accumulated amortization; 2005 – $1,623 and 2004 – $32,056	75,232	259,360
Capital assets, net of accumulated depreciation; 2005 – $733,763 and 2004 – $439,598	10,988,851	11,283,016
Total noncurrent assets	11,064,117	11,542,410
Total assets	11,205,238	11,683,511

Liabilities

	2005	2004
Current Liabilities		
Advance from Colorado School of Mines Building Corporation	399,481	399,481
Total current liabilities	399,481	399,481
Noncurrent Liabilities		
Bonds payable	10,555,000	10,860,000
Total noncurrent liabilities	10,555,000	10,860,000
Total liabilities	10,954,481	11,259,481

Net Assets

	2005	2004
Invested in capital assets, net of related debt	509,083	682,376
Restricted – expendable		
Capital projects	34	34
Unrestricted (deficit)	(258,360)	(258,380)
Total net assets	$ 250,757	$ 424,030

See Notes to Financial Statements

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

	2005	2004
Operating Revenues		
Rent income	$ 658,916	$ 220,557
Total operating revenues	658,916	220,557
Operating Expenses		
Depreciation	294,165	294,165
Maintenance and other	564	27,650
Total operating expenses	294,729	321,815
Operating Income (Loss)	364,187	(101,258)
Nonoperating Revenues (Expenses)		
Amortization of bond issuance costs	(1,623)	(5,076)
Amortization of refunded bond issuance costs	(259,360)	—
Bond fees	(60,028)	—
Interest on capital-asset related debt	(216,469)	(117,718)
Interest income	20	—
Capital asset-related debt remarketing fees	—	(102,682)
Nonoperating revenues (expenses)	(537,460)	(225,476)
Decrease in Net Assets	(173,273)	(326,734)
Net Assets, Beginning of Year	424,030	750,764
Net Assets, End of Year	$ 250,757	$ 424,030

See Notes to Financial Statements

Colorado School of Mines
Development Corporation
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Payments from tenants for rent	$ 646,237	$ 222,116
Maintenance and other operating payments	(564)	(27,650)
Net cash provided by operating activities	645,673	194,466
Cash Flows From Capital and Related Financing Activities		
Bond issuance costs	(76,855)	—
Construction of capital assets	—	(483,176)
Contributions	—	702,606
Repayment of advance	—	(450,000)
Repayment of Bonds	(305,000)	—
Interest income received	—	386
Other cash received	—	12,500
Interest and fees paid on capital debt	(285,841)	(220,400)
Net cash used in capital and related financing activities	(667,696)	(438,084)
Decrease in Cash and Cash Equivalents	(22,023)	(243,618)
Cash and Cash Equivalents, Beginning of Year	141,135	384,753
Cash and Cash Equivalents, End of Year	$ 119,112	$ 141,135
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash	$ 119,078	$ 141,101
Restricted cash and cash equivalents – noncurrent	34	34
	$ 119,112	$ 141,135
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 364,187	$ (101,258)
Change in accounts receivable	(12,679)	1,559
Depreciation expense	294,165	294,165
Net Cash Provided by Operating Activities	$ 645,673	$ 194,466

See Notes to Financial Statements

Colorado School of Mines
Development Corporation
Notes to Financial Statements
Years Ended June 30, 2005 and 2004

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

Nature of Operations

Colorado School of Mines Development Corporation (the Corporation) was established on September 7, 2001 for the purpose of issuing obligations for and assisting in the financing of capital expenditures on behalf of the Colorado School of Mines (the School). The Corporation is a component unit of the School. The Corporation's revenues are derived principally from contributions and rents received from the School.

Basis of Accounting and Presentation

The financial statements of the Corporation 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 Corporation 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 Corporation prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The Corporation 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 Corporation 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of U.S. Government money market funds with a broker.

Colorado School of Mines
Development Corporation
Notes to Financial Statements
Years Ended June 30, 2005 and 2004:

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include amounts restricted for project construction.

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 Corporation:

Buildings and improvements	20 – 40 years

Bond Issue Costs

Bond issue costs are being amortized on a straight-line basis over the term of the bonds. Total amortization for the year ended June 30, 2005 and 2004, was $260,983 and $5,076, respectively. The June 30, 2005 bond amortization includes $259,360 attributable to the retirement of the 2001 series bonds via issuance of $10,555,000 in new bonds and a principal payment of $305,000.

Debt

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

Classification of Revenues

The Corporation 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 rents received on the research facility.

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.

Income Taxes

The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Corporation is subject to federal income tax on any unrelated business taxable income. The Corporation had no material unrelated business income for the years ended June 30, 2005 and 2004.

Colorado School of Mines
Development Corporation
Notes to Financial Statements
Years Ended June 30, 2005 and 2004

Note 2: Capital Assets

Capital assets activity for the years ended June 30, 2005 and 2004 was:

	2005			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	$ 11,722,614	$ —	$ —	$ 11,722,614
	11,722,614	—	—	11,722,614
Less accumulated depreciation				
Buildings and improvements	439,598	294,165	—	733,763
Net capital assets	$ 11,283,016	$ (294,165)	$ —	$ 10,988,851

	2004			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings and improvements	$ 11,723,000	$ —	$ 386	$ 11,722,614
	11,723,000	—	386	11,722,614
Less accumulated depreciation				
Buildings and improvements	145,433	294,165	—	439,598
Net capital assets	$ 11,577,567	$ (294,165)	$ 386	$ 11,283,016

Note 3: Bonds Payable

The following is a summary of long-term obligation transactions for the Corporation for the years ended June 30, 2005 and 2004:

	2005				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds					
Revenue bonds payable Series 2005	$ —	$10,555,000	$ —	$10,555,000	$ —
Series 2001	$ 10,860,000	$ —	$10,860,000	$ —	$ —
Total noncurrent liabilities	$ 10,860,000	$ 10,555,000	$10,860,000	$ 10,555,000	$ —

	2004				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds					
Revenue bonds payable Series 2001	$ 10,860,000	$ —	$ —	$ 10,860,000	$ —
Total noncurrent liabilities	$ 10,860,000	$ —	$ —	$ 10,860,000	$ —

On January 20, 2005, the Corporation issued $10,555,000 in Refunding Variable Rate Demand Bonds, Series 2005. The proceeds from the bonds were used to refund the Series 2001 revenue bonds. The purpose of the Series 2001 issue was to finance the construction and acquisition of educational facilities at the Colorado School of Mines. Interest was payable at varying rates, not to exceed 10%. The bonds were secured by net pledged revenue, a letter of credit and a guarantee by the Colorado School of Mines Foundation, Incorporated, a discretely presented component unit of the School The debt service pursuant to the 2001 issue was $18,251,158; the debt service pursuant to the refunding is $16,505,182, a net savings of $1,745,976. The economic net present value gain to the School was $1,253,739.

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

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

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

The bonds are guaranteed by the Foundation. The bonds are not secured by any encumbrance, mortgage or other pledge of property, except the net pledged revenues, and do not constitute general obligations of the Corporation.

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

Years Ending	Total to be Paid	Principal	Interest
2006	$ 286,040	$ —	$ 286,040
2007	286,040	—	286,040
2008	286,040	—	286,040
2009	286,040	—	286,040
2010	286,040	—	286,040
2011 – 2015	1,430,200	—	1,430,200
2016 – 2020	1,430,200	—	1,430,200
2021 – 2025	1,430,200	—	1,430,200
2026 – 2027	10,888,713	10,555,000	333,713
	$ 16,609,513	$ 10,555,000	$ 6,054,513

Note 4: Related Party Transactions

The School provides certain administrative and accounting functions at no cost to the Corporation.

The Corporation leases the building located at 1310 Maple Street, Golden, Colorado to the School under a lease agreement that expires on June 30, 2012. Under the lease agreement the School is required to pay annual rents through June 30, 2012 equal to the debt service on the Series 2005 Revenue Bonds. Annual lease payments for periods July 1, 2005 through the expiration of the lease agreement are payable at a base rent amount of $435,000 plus debt service on the bonds not to exceed $1,086,000. Pursuant to this lease agreement, the School owes the Corporation $22,043 as of June 30, 2005. Rent income for the years ended June 30, 2005 and 2004 was $658,916 and $220,557, respectively.

The Corporation has outstanding capital construction advances payable of $399,481 at June 30, 2005 and 2004, from the Colorado School of Mines Building Corporation, a blended component unit of the School.

Note 5: Change in Accounting Principle

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

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the Legislative Audit Committee:

We have audited the financial statements of the Colorado School of Mines Development Corporation (the Corporation), a blended component unit of the Colorado School of Mines (the School), as of and for the year ended June 30, 2005, and have issued our report thereon dated December 20, 2005 which contained an explanatory paragraph regarding a change in accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we express no such opinion. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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.*

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
F 303.839.5701 Tax
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This report is intended solely for the information and use of the Legislative Audit Committee, the Board of Directors of the Corporation, the Board of Trustees of the School and the management of the Corporation and the School and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Denver, Colorado
December 20, 2005

Accountants and Business Advisors

Grant Thornton

December 20, 2005

Members of the Legislative Audit Committee:

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

Responsibilities under generally accepted auditing standards

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

US GAAS and GAGAS also requires that we obtain a sufficient understanding of the Corporation's internal control over financial reporting. However, such understanding is required for the purpose of planning the audit and determining our audit procedures and not to provide any assurance concerning such internal control or to identify internal control deficiencies.

Significant accounting policies

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

707 Seventeenth Street, Suite 3200
Denver, CO 80202
T 303.813.4000
F 303.839.5711 Audit
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Particularly sensitive accounting estimates

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

We believe that the following item represents such particularly sensitive accounting estimates:

Estimated useful lives of capital assets.

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

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

Significant audit adjustments

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

We proposed no corrections to the financial statements that could, in our judgment, either individually or in the aggregate, have a significant effect on the Corporation's financial statements.

Disagreements with management

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

Consultation by management with other accountants

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

Major issues discussed with management prior to our retention

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

Difficulties encountered in performing the audit

We had no significant difficulties in performing the audit of the Corporation.

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

Very truly yours,

Grant Thornton LLP

Colorado School of Mines
Development Corporation
Years Ended June 30, 2005 and 2004

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