REPORT OF

THE

STATE AUDITOR

COLORADO SCHOOL OF MINES AUXILIARY BONDS

Fiscal Year Ended June 30, 1999

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STATE OF COLORADO

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Denver, Colorado 80203-2211

October 15, 1999

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited the accompanying balance sheet of the Auxiliary Bonds and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes of the Colorado School of Mines (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1999. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Auxiliary Bonds of the University as of June 30, 1999, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

FINANCIAL STATEMENTS

COLORADO SCHOOL OF MINES
AUXILIARY BONDS

BALANCE SHEET
JUNE 30, 1999

		Plant Funds			
	Unrestricted Fund	Unexpended Plant	Renewals and Replacements	Retirement of Debt	Investment In Plant
ASSETS					
Cash	$ 466,425	$ 7,546,737	$ 192,372	$ 32,481	
Accounts receivable (net of allowance for doubtful accounts)	199,540				
Construction in progress		5,832,604			
Buildings					$ 14,387,063
TOTAL ASSETS	$ 665,965	$ 13,379,341	$ 192,372	$ 32,481	$ 14,387,063
LIABILITIES AND FUND BALANCES					
Vouchers payable	$ 101,459	$ 35,925			
Accrued interest payable				$ 32,481	
Deposits held for others	147,182				
Deferred revenue	33,823				
Bonds payable (net of discount)		13,426,911			$ 9,321,355
TOTAL LIABILITIES	282,464	13,462,836		32,481	9,321,355
FUND BALANCES (DEFICIT)	383,501	(83,495)	192,372		5,065,708
TOTAL LIABILITIES AND FUND BALANCES	$ 665,965	$ 13,379,341	$ 192,372	$ 32,481	$ 14,387,063

See notes to the financial statements.

COLORADO SCHOOL OF MINES
AUXILIARY BONDS

STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1999

		Plant Funds			
	Unrestricted Fund	Unexpended Plant	Renewals and Replacements	Retirement of Debt	Investment In Plant
REVENUES AND OTHER ADDITIONS:					
Unrestricted current fund revenues	$ 5,770,476				
Investment income	4,993	$ 72,014			
Gifts	66				
Retirement of indebtedness		245,000			$ 375,000
Total revenues and other additions	5,775,535	317,014			375,000
EXPENDITURES AND OTHER DEDUCTIONS:					
Auxiliary enterprises expenditures	3,831,925				
Administrative costs	217,301	304,760			
Retirement of indebtedness		245,000		$ 375,000	
Interest on indebtedness		415,753		447,694	
Total expenditures and other deductions	4,049,226	965,513		822,694	
TRANSFERS AMONG FUNDS:					
Principal and interest-mandatory	(1,504,234)	549,868	69,210	822,694	(33,714)
Other interfund transfers	(60,000)	1,574,636			(1,574,636)
Total transfers	(1,564,234)	2,124,504	69,210	822,694	(1,608,350)
NET INCREASE/(DECREASE) FOR THE YEAR	162,075	1,476,005	69,210		(1,233,350)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	221,426	(1,559,500)	123,162		6,299,058
FUND BALANCE (DEFICIT) AT END OF YEAR	$ 383,501	$ (83,495)	$ 192,372	$ 0	$ 5,065,708

See notes to the financial statements.

COLORADO SCHOOL OF MINES
AUXILIARY BONDS

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES FOR THE YEAR ENDED JUNE 30, 1999

REVENUES:	
Residence hall facilities income	$ 2,821,770
Rental of facilities	1,255,963
Student fees	661,973
Investment income	4,993
Gifts	66
Other income	217,483
Phone services	813,287
Total revenues	5,775,535
EXPENDITURES AND MANDATORY TRANSFERS:	
Expenditures:	
Direct operating and general	3,831,925
Allocation of general and administrative costs	217,301
Total expenditures	4,049,226
Mandatory transfers for:	
Principal and interest	(1,435,024)
Renewals and replacements	(69,210)
Total mandatory transfers	(1,504,234)
Total expenditures and mandatory transfers	5,553,460
OTHER TRANSFERS - Transfer to other University funds	(60,000)
NET INCREASE IN FUND BALANCE	$ 162,075

See notes to the financial statements.

1. 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 Revenue Bonds, Series 1996, Auxiliary Facilities Enterprise Revenue Bonds, Series 1997 A and 1997 B and Auxiliary Facilities Enterprise Revenue Bonds, Series 1999, collectively identified as Auxiliary Bonds.

***Accrual Basis* -** The financial statements of the Auxiliary Bonds of the Colorado School of Mines (the University) have been prepared on the accrual basis, except for recording depreciation as explained in Note 4 to the financial statements. The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of the current fund related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that the Unrestricted Fund is used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of equipment, (2) mandatory transfers in the case of required provisions for debt amortization, interest, and equipment repair and replacement, and (3) transfers of a nonmandatory nature for all other cases.

***Fund Accounting* -** In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the self-maintaining properties are maintained in accordance with the principles of “fund accounting.” Resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified by bond resolutions. Separate accounts are maintained for each fund.

The fund balances may only be utilized for the purposes established under the bond resolutions.

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund which owned such assets.

2. CASH ON HAND AND IN BANKS

At June 30, 1999, the University had $649,454 on deposit with the State Treasurer. Detailed information on the State Treasurer's pooled cash and investments is available from that office.

At year end, cash included petty cash and change funds of $1,280, $7,382,256 in highly liquid money funds with maturities of three months or less, and bank accounts of $205,025. In accordance with Governmental Accounting Standards Board Statement No. 3, Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements, the following table provides information concerning the credit risk for the University's bank balances as of June 30, 1999:

Category of credit risk	*1999*
Insured or collateralized with securities held by the University or its agent in the University's name	$ 100,000
Collateralized with securities held by the pledging institution in the University's name	7,487,281
Uninsured or uncollateralized	0
	$7,587,281

3. ACCOUNTS RECEIVABLE

The following schedule shows the status of accounts receivable and related allowance for doubtful accounts at June 30, 1999:

	June 30, 1999
Unrestricted fund:	
Accounts receivable - Non-students	$ 199,540
Less allowance for doubtful accounts	0
Net	$ 199,540

4. LAND, BUILDING AND EQUIPMENT

Physical plant and equipment acquired are stated at cost. Depreciation of physical plant and equipment is not recorded.

Land and land improvements costing in excess of $2,000 as well as buildings, building improvements and equipment costing $2,000 or more are capitalized if they will benefit a program for more than two years.

5. REVENUE BONDS PAYABLE

Revenue bonds payable were issued in 1993 in connection with construction financing of dormitories, housing facilities, and the student center. The 1993 revenue bonds outstanding as of June 30, 1999 consist of the following:

	Revenue Bonds Outstanding June 30, 1999
Auxiliary Facilities Refunding and Improvement Revenue Bonds:	
Series 1993, with interest at 2.7% - 5.0%	$8,185,000
Discount	(438,281)
	$7,746,719

Series 1993 is a serial obligation maturing in 1999 to 2014. Required principal and interest payments on the remaining Series 1993 Bonds for the fiscal years 2000 through 2014 are:

Year Ending June 30	Principal	Interest	Total
2000	$ 390,000	$ 381,974	$ 771,974
2001	405,000	365,770	770,770
2002	420,000	348,441	768,441
2003	440,000	329,891	769,891
2004	460,000	309,916	769,916
2005-2009	2,665,000	1,191,102	3,856,102
2010-2014	3,405,000	442,625	3,847,625
Total	$8,185,000	$3,369,719	$11,554,719

Revenue bonds payable were issued in 1996 in connection with constructing, acquiring, and equipping improvements to Auxiliary Facilities. The 1996 revenue bonds outstanding as of June 30, 1999 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds:	
Series 1996, with interest at 3.9% - 6.0%	$1,585,000
Discount	(10,364)
	$1,574,636

Series 1996 are serial obligations maturing in 1999 to 2017. Required principal and interest payments on the Series 1996 Bonds for the fiscal years 2000 through 2017 are:

Year Ending June 30	Principal	Interest	Total
2000	$ 55,000	$ 86,752	$ 141,752
2001	55,000	84,209	139,209
2002	60,000	81,478	141,478
2003	65,000	78,468	143,468
2004	65,000	75,259	140,259
2005-2009	385,000	319,989	704,989
2010-2014	510,000	196,306	706,306
2015-2017	390,000	36,300	426,300
Total	$1,585,000	$ 958,761	$ 2,543,761

Revenue bonds payable were issued in 1997 in connection with constructing, acquiring, and equipping improvements to Auxiliary Facilities. The 1997 revenue bonds outstanding as of June 30, 1999 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds:	
Series 1997 A, with interest at 3.90% - 5.125% and	$5,335,000
Series 1997 B, with interest at 5.30%	460,000
Discount	(83,049)
	$5,711,951

Series 1997 are serial obligations maturing in 1999 to 2018. Required principal and interest payments on the Series 1997 Bonds for the fiscal years 2000 through 2018 are:

Year Ending June 30	Principal	Interest	Total
2000	$ 195,000	$ 275,473	$ 470,473
2001	205,000	267,170	472,170
2002	215,000	258,296	473,296
2003	220,000	248,888	468,888
2004	230,000	238,988	468,988
2005-2009	1,330,000	1,022,008	2,352,008
2010-2014	1,695,000	656,199	2,351,199
2015-2018	1,705,000	180,705	1,885,705
Total	$5,795,000	$3,147,727	$ 8,942,727

Revenue bonds payable were issued in 1999 in connection with constructing, acquiring, and equipping improvements to Auxiliary Facilities. The 1999 revenue bonds outstanding as of June 30, 1999 consist of the following:

Auxiliary Facilities Enterprise Revenue Bonds:	
Series 1999, with interest at 5.0% - 5.4%	$7,794,333
Discount	(79,373)
	$7,714,960

Series 1999 are serial obligations maturing in 2015 to 2029. Required principal and interest payments on the Series 1999 Bonds for the fiscal years 2000 through 2029 are:

Year Ending June 30	**Principal**	**Interest**	**Total**
2000	$	$ 145,439	$ 145,439
2001		139,250	139,250
2002		139,250	139,250
2003		139,250	139,250
2004		139,250	139,250
2005-2009		696,250	696,250
2010-2014		696,250	696,250
2015-2019	1,847,139	3,464,111	5,311,250
2020-2024	2,122,504	5,493,746	7,616,250
2025-2029	3,824,690	3,781,935	7,606,625
Total	$ 7,794,333	$ 14,834,731	$ 22,629,064

Defeased Bonds **-** During September 1984, Housing System Revenue Bond Series E was placed 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 balance sheet. At June 30, 1999 bonds in the amount of $3,740,000 are outstanding.

During March 1988, Housing System Revenue Bond Series 1984 was placed 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 1984 Bond is considered to be extinguished in 1988, and does not appear as a liability in the accompanying balance sheet. At June 30, 1999 bonds in the amount of $3,825,000 are outstanding.

During October 1993, Housing System Revenue Bond Series 1988 was placed 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 1988 Bond is considered to be extinguished in 1993, and does not appear as a liability in the accompanying balance sheet. At June 30, 1999 bonds in the amount of $4,200,000 are outstanding.

6. AUXILIARY BOND RESOLUTION REQUIREMENTS

Pledge of Net Income **-** The Auxiliary Bonds are secured by a first (but not an exclusive first) lien upon the Net Pledged Revenues (as defined by the Bond Resolutions), while any portion of Auxiliary Bonds remain outstanding. Net Pledged Revenues are defined by the Bond Resolution to be Gross Revenues less General Operating Expenses and all other moneys credited to either the bond fund or the reserve fund.

Gross Revenues consist of all income and revenues derived directly or indirectly from the operations of the Auxiliary Facilities, including, but not limited to, the Student Center Fee, any special fees assessed against students or employees which is related to Auxiliary Facilities, and any investment earnings.

The Auxiliary Bond Resolutions allow the Board of Trustees (the Board) 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 a parity with, not superior to, the existing lien.

The Auxiliary Bonds are special limited obligations of the Board and are payable solely from Net Pledged Revenues, as defined. The Auxiliary 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 Board.

Debt 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 on the Auxiliary Bonds and any additional bonds due during any subsequent 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.

The calculation of the combined debt service coverage for the year ended June 30, 1999 is as follows:

	Series 1999 Bonds	Series 1997 A&B Bonds	Series 1996 Bonds	Series 1993 Bonds	Total June 30, 1999
Total debt service:					
Principal	$ 0	$ 190,000	$ 55,000	$ 375,000	$ 620,000
Interest	0	283,175	89,186	397,086	769,447
Total debt service	$ 0	$ 473,175	$ 144,186	$ 772,086	$ 1,389,447
Operating revenues					$ 5,775,535
Operating expenditures					3,831,925
Net pledged revenues					1,943,610
Amount available in Unrestricted Fund					383,501
Amount available for debt service					$ 2,327,111
Ratio of amount available for debt service to total debt service					1.67

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**.**

Required Reserves **-** The Auxiliary Bond Resolutions require the Board to establish a Minimum Reserve in accordance with the applicable Resolution. The Minimum Reserve under the Bond Resolution is equal to the maximum principal and interest due in any calendar year for the particular bond issue. The Auxiliary Bond Resolutions allow the Board to elect to fund the minimum reserve through a surety bond or letter of credit.

The Auxiliary Bonds minimum reserves have been funded by the issuance of surety bonds provided by Municipal Bond Insurance Association (MBIA) in an amount equal to the maximum principal and interest due in any calendar year on those issues. The minimum reserves for the Series 1993, Series 1996, Series 1997 and Series 1999 Auxiliary Bonds are $773,411, $144,200, $473,296 and $779,433, respectively.

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 Funds.

To the best of their knowledge, the Board of Trustees and management of the Colorado School of Mines are in compliance with the additional covenants.

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 of Trustees is unable to fulfill its obligations under the Auxiliary Bond Resolutions; or (c) the Board of Trustees has defaulted in the performance of any covenant, condition, agreement, or provision contained in any of the Auxiliary Bond Resolutions.

To the best of their knowledge, the Board of Trustees and management of the Colorado School of Mines are unaware of any event of default at June 30, 1999.

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REQUIRED SUPPLEMENTARY INFORMATION

STATE OF COLORADO

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October 15, 1999

Independent Auditor's Report
On Required Supplementary Information

Members of the Legislative Audit Committee:

Our audit was made for the purpose of forming an opinion on the financial statements of the Auxiliary Bonds for the Colorado School of Mines (the University), a component unit of the State of Colorado, as of and for the year ended June 30, 1999 which are presented in the preceding section of this report. The year 2000 supplementary information presented herein is not a required part of the combined 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 supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the University is or will become year 2000 compliant, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business are or will become year 2000 compliant.

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs may interpret the year 2000 as the year 1900. In addition, some programs may be unable to recognize the year 2000 as a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as, environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under Colorado School of Mines (the University) direct control but also the systems of other entities with which the University transacts business. Some of the University's systems and equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot guarantee that the University is or will be year 2000 ready, that the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be year 2000 ready.

In early 1997, the Legislature directed the Office of State Planning and Budgeting and the Commission on Information Management to assess and report on the cost of year 2000 readiness preparations. The Commission developed a process for assessing and monitoring year 2000 project progress. It has asked state agencies that are not higher education institutions to report on completion of stages for each critical system. Higher education institutions report similar information directly to the Joint Budget Committee of the legislature.

At June 30, 1999 the University had no dollars committed to the various projects through contracts with parties external to the state.

At any given time, work on the year 2000 issue with respect to each system deemed critical falls predominantly in one of the following stages:

- *Awareness Stage* – Establishing a budget and project plan for dealing with the year 2000 issue.

- *Assessment Stage* – Identifying the systems and components for which year 2000 work is needed.

- *Remediation Stage* – Making changes to systems and equipment.

- *Validation/Testing Stage* – Validating and testing changes that were made during the remediation stage.

Completion of any or all of the stages does not mean the University systems are or will be year 2000 ready or compliant.

The University identified 14 business systems in its inventory, and 10 were deemed critical. The following table shows for each stage the number and percentage of total critical systems where the University has completed work.

Stage	**Number**	**Percent**
Awareness	10	100
Assessment	10	100
Remediation	10	100
Validation/Testing	6	60

The University identified 11 embedded systems in its inventory, and all were deemed critical. The following table show for each stage the number and percentage of total critical systems where the University has completed work.

Stage	**Number**	**Percent**
Awareness	11	100
Assessment	10	91
Remediation	10	91
Validation/Testing	6	55

The University does business with many external entities that may have year 2000 problems. The University makes no representation that these external entities are or will be year 2000 ready or compliant. However, the University has determined the following systems of external entities may not be year 2000 ready or compliant, and it deems the interaction with these system to be critical.

- The University has identified no such systems.

Additional information as to the year 2000 issue related to non-higher education state agencies can be obtained from the Year 2000 Project Office web site at http://www.state.co.us/Y2.

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