

**RECREATIONAL FACILITY REVENUE BOND FUNDS  
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2004**

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**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Independent Auditor's Report

To the Members of the Board of Regents,  
State of Iowa:

We have audited the accompanying balance sheet of the Recreational Facility Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the related statement of revenues, expenditures and changes in fund balances (deficit) for the year then ended. 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 U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Recreational Facility Revenue Bond Funds and do not purport to, and do not, present fairly the financial position of Iowa State University of Science and Technology as of June 30, 2004 and changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Recreational Facility Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the revenues, expenditures and changes in fund balances (deficit) for the year then ended in conformity with U.S. generally accepted accounting principles.

In connection with our audit, nothing came to our attention that caused us to believe Iowa State University of Science and Technology was not in compliance with the accounting requirements of the Board of Regents Resolution for the issuance of the Recreational Facility Revenue Bonds. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Recreational Facility Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Iowa State University of Science and Technology, the members of the Board of Regents, citizens of the State of Iowa and other parties to whom Iowa State University of Science and Technology may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included as Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. The information included in the schedule of student fee receipts has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The information in the schedule of insurance coverage and the schedule of student enrollment has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 30, 2004

## **Financial Statements**

Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Balance Sheet

June 30, 2004

	Plant Funds			
	Unexpended	Retirement of Indebtedness		
	System Fund	Arbitrage Reserve Fund	Reserve Fund	Sinking Fund
<b>Assets</b>				
Cash and cash equivalents (note 2)	\$ 695,622	-	620,656	6,177
Cash with paying agent (note 3)	-	-		1,123,950
Interest receivable	77	-	276	367
Capital assets, net (note 4)	-	-		-
<b>Total assets</b>	<b>\$ 695,699</b>	<b>-</b>	<b>620,932</b>	<b>1,130,494</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Interest payable	\$ -	-	-	208,969
Accounts payable	-	6,913	-	-
Revenue bonds payable (note 3)	-	-	-	1,048,644
Total liabilities	-	6,913	-	1,257,613
Fund balances:				
Net investment in plant	-	-	-	-
Reserved for debt service	-	-	620,932	(127,119)
Unreserved, designated for improvements	695,699	-	-	-
Unreserved, undesignated	-	(6,913)	-	-
Total fund balances (deficit)	695,699	(6,913)	620,932	(127,119)
<b>Total liabilities and fund balances</b>	<b>\$ 695,699</b>	<b>-</b>	<b>620,932</b>	<b>1,130,494</b>

See notes to financial statements.

<u>Investment in Plant</u>	<u>Total</u>
-	1,322,455
-	1,123,950
-	720
<u>6,407,307</u>	<u>6,407,307</u>
<u>6,407,307</u>	<u>8,854,432</u>

-	208,969
-	6,913
<u>6,210,000</u>	<u>7,258,644</u>
<u>6,210,000</u>	<u>7,474,526</u>

197,307	197,307
-	493,813
-	695,699
-	(6,913)
<u>197,307</u>	<u>1,379,906</u>
<u>6,407,307</u>	<u>8,854,432</u>

Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year ended June 30, 2004

	Current Revenue Fund	Unexpended System Fund
Revenues:		
Investment income	\$ 16,898	77
Gain on sale of refunding bonds (note 3)	-	-
Net decrease in fair value of investments	-	-
Total revenues	<u>16,898</u>	<u>77</u>
Expenditures before depreciation:		
Interest on bonds payable	-	-
Administrative expenses	4,891	21,900
Repair, maintenance and supplies	-	-
Total expenditures before depreciation	<u>4,891</u>	<u>21,900</u>
Excess (deficiency) of revenues over (under) expenditures before depreciation	12,007	(21,823)
Depreciation	-	-
Excess (deficiency) of revenues over (under) expenditures after depreciation	<u>12,007</u>	<u>(21,823)</u>
Other financing sources (uses):		
Addition to construction in progress	(242,136)	-
Transfer from athletic department	401,840	-
Transfer of revenue bonds payable	-	-
Mandatory transfers	(1,236,429)	-
Non-mandatory transfers	(508,090)	717,522
Payment to trustee for advance refunded bonds	-	-
Allocation of student fees from University funds	800,427	-
Total other financing sources (uses)	<u>(784,388)</u>	<u>717,522</u>
Net increase (decrease) for the year	(772,381)	695,699
Fund balances (deficit) beginning of year	772,381	-
Fund balances (deficit) at end of year	<u>\$ -</u>	<u>695,699</u>

See notes to financial statements.

Plant Funds				
Retirement of Indebtedness				
Arbitrage Reserve Fund	Reserve Fund	Sinking Fund	Investment in Plant	Total
-	61,937	2,801	-	81,713
-	-	-	580,000	580,000
-	(57,072)	-	-	(57,072)
-	4,865	2,801	580,000	604,641
-	-	376,499	-	376,499
7,673	-	-	-	34,464
-	-	-	-	-
7,673	-	376,499	-	410,963
(7,673)	4,865	(373,698)	580,000	193,678
-	-	-	(273,591)	(273,591)
(7,673)	4,865	(373,698)	306,409	(79,913)
-	-	-	242,136	-
10,782	-	-	-	412,622
-	-	(950,000)	950,000	-
-	(58,855)	1,295,284	-	-
22,393	(231,294)	(531)	-	-
-	(481,356)	(98,644)	-	(580,000)
-	-	-	-	800,427
33,175	(771,505)	246,109	1,192,136	633,049
25,502	(766,640)	(127,589)	1,498,545	553,136
(32,415)	1,387,572	470	(1,301,238)	826,770
(6,913)	620,932	(127,119)	197,307	1,379,906

Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

Accounting Entity and Basis of Accounting

The Recreational Facility Revenue Bond Funds were created by resolution of the Board of Regents, State of Iowa which authorized the issuance of revenue bonds to be used to construct and furnish a multi-purpose recreation athletic facility on the campus of Iowa State University of Science and Technology. The revenue bonds are issued on behalf of the University.

The financial statements of the Recreational Facility Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Recreational Facility Revenue Bond Funds. These fund financial statements present only a portion of the funds of the University.

The financial statements have been prepared on the accrual basis.

Fund Accounting

In order to ensure observance of limitations and restrictions placed on the use of resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting" under which resources for various projects are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified.

The University's accounts and transactions include those related to the Recreational Facility Revenue Bonds issued by the University. These fund financial statements reflect only those accounts and transactions related to these bonds. These accounts and transactions are included as a portion of the University's Plant Funds. Plant Funds are used to account for the transactions relating to investment in University properties. Plant Funds of the Recreational Facility Revenue Bond Funds include the following funds: (1) Unexpended, (2) Retirement of Indebtedness and (3) Investment in Plant. Unexpended, including the System Fund established by the bond resolution, is used for extensions and improvements to the Facility. Retirement of Indebtedness, including the Arbitrage Reserve, Reserve and Sinking Funds established by the bond resolution, is comprised of amounts to provide for payment of principal, interest and amounts due to Federal Government. Investment in Plant is comprised of amounts representing the total of buildings, infrastructure and equipment, all net of accumulated depreciation and the related liabilities.

Recreational Facility Revenue Fund (Revenue Fund)

During the year, the University issued refunding bonds. At the date of issuance of the refunding bonds, the Excess Fund was renamed the Revenue Fund.

All rents, profits, income and revenues derived from the operations of the System, including student recreational fees and student athletic fees, must be deposited as collected into the Recreational Facility Revenue Fund.

#### Recreational Facility System Fund (System Fund)

The bond resolution provides the net revenue not required to be deposited into the Sinking Fund or the Reserve Fund shall be deposited in the System Fund. All moneys deposited in the System Fund shall be transferred and credited to the Sinking Fund or transferred and credited to the Reserve Fund whenever any deficiency may exist in the Reserve Fund or whenever necessary to replace funds transferred from the Reserve Fund to the Sinking Fund. These moneys may then be used to purchase bonds prior to maturity or pay the cost of constructing, acquiring or improving the project.

#### Arbitrage Reserve Fund

Moneys credited to the Arbitrage Reserve Fund shall be used for the payment of arbitrage rebates and related administrative expenses.

#### Debt Service Reserve Fund (Reserve Fund)

The bond resolution provides the fund shall be maintained at the lesser of the maximum amount permitted by State and federal law or the maximum annual principal and interest coming due in any succeeding fiscal year on the outstanding bonds. All moneys credited to the Reserve Fund shall be used for the payment of principal and interest on the bonds issued and outstanding.

#### Bond Sinking Fund (Sinking Fund)

The bond resolution provides the required amount to be deposited from the Revenue Fund to the Sinking Fund during any fiscal year shall be the amount necessary to pay in full the installment of principal and interest due on each January 1 and July 1 of each fiscal year.

#### Cash and Investments

The University deposits the cash of most funds in commingled bank accounts and makes disbursements from the combined cash balances. An individual fund's cash balance represents that fund's cumulative deposits to and disbursements from the University's bank accounts.

Investments are reported at fair value.

#### Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$5,000 for equipment or \$50,000 for buildings and infrastructure. Such assets are recorded at historical cost when purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Outlays for capital assets are capitalized as projects are constructed. During the year ended June 30, 2004, no interest costs were capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment	5-12
Infrastructure	10
Buildings	25-40

**(2) Cash and Cash Equivalents**

Cash in excess of immediate needs for debt service is invested in money market accounts. The money market accounts are not subject to risk categorization. Cash and cash equivalents at June 30, 2004 are as follows:

	<u>Fair Value</u>
Cash and cash equivalents	<u>\$ 1,322,455</u>

**(3) Revenue Bonds Payable**

In May 2004, the University issued Recreational Facility Revenue Refunding Bonds Series 2004 for \$6,210,000, bearing interest rates ranging from 3.25% to 3.75% per year, payable semiannually on January 1 and July 1. The proceeds were placed with the University Treasurer to refund in advance of maturity the July 1, 2005 through 2010 maturities of the Series 1994 Recreational Facility Revenue Refunding Bonds in the aggregate principal amount of \$6,790,000. As a result, the portion of the bonds (fiscal years 2005 through 2011) is considered defeased and the liability has been excluded from Revenue Bonds Payable.

The refunding of the Series 1994 bonds permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$167,579 and reduces the future aggregate debt service payments by \$898,916. The current year impact was to increase net investment in plant by the gain on the sale of the refunding bonds of \$580,000 (the decrease of the principal balance of the refunding issue from the principal of the defeased portion).

The bonds mature on July 1, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 950,000	173,950	1,123,950
2006	935,000	140,075	1,075,075
2007	985,000	194,919	1,179,919
2008	1,035,000	163,719	1,198,719
2009	1,055,000	130,894	1,185,894
2010	1,085,000	96,931	1,181,931
2011	1,115,000	60,800	1,175,800
2012	-	20,906	20,906
	<u>7,160,000</u>	<u>982,194</u>	<u>8,142,194</u>
Unamortized Premium	<u>98,644</u>		
Total	<u>\$ 7,258,644</u>		

The Board of Regents, an agency of the State of Iowa, has title in fee simple to the Recreational Facility site and is not to sell, lease, mortgage, abandon or in any manner dispose of any buildings or facilities constructed from the proceeds of the bonds until all bonds have been paid in full or unless provisions have been made for the payment of the bonds and interest in full. Also, the student recreational fees and student athletic fees as allocated by the bond resolution are pledged for the payment of the bonds.

The bonds are subject to redemption prior to their respective maturities at the option of the Board of Regents. Redemption of bonds shall be at a price of par.

In accordance with the provisions of the bond resolution, all principal and interest maturing July 1 of each year shall be considered to be obligations of the then immediately preceding fiscal year. Therefore, such debt is reflected in the Sinking Fund.

At June 30, 2004, cash with paying agents of \$1,123,950 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

**(4) Capital Assets**

The following is a summary of capital assets activity in the Investment in Plant Fund for the Recreational Facility assets for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Transfers	Deletions	Balance June 30, 2004
Capital assets, nondepreciable:					
Construction in progress	\$ 22,847	242,136	(264,983)	-	264,983
Capital assets, depreciable:					
Building	13,227,681	-	264,983	-	13,227,681
Infrastructure	84,163	-	-	-	84,163
Equipment	101,105	-	-	-	101,105
Total capital assets, depreciable	13,412,949	-	264,983	-	13,412,949
Less accumulated depreciation:					
Buildings	(6,812,938)	(272,864)	-	-	(7,085,802)
Infrastructure	(84,163)	-	-	-	(84,163)
Equipment	(99,933)	(727)	-	-	(100,660)
Total accumulated depreciation	(6,997,034)	(273,591)	-	-	(7,270,625)
Depreciable assets, net	6,415,915	(273,591)	264,983	-	6,142,324
Total capital assets, net	\$ 6,438,762	(31,455)	-	-	6,407,307

The cost of land is not reflected on the balance sheet. This land is included in other accounts of the University.

**(5) Debt Service Coverage**

Recreational Facility Revenue Bond Fund principal and interest payments totaling \$1,297,900 due January 1 and July 1, 2004 require debt service coverage of a minimum of 125%, or \$1,622,375. Recreational facility student fees of \$800,427, Reserve Fund investment income of \$61,937, athletic department support of \$401,840, and funds on deposit or credited to the System Fund of \$695,699 provided debt service coverage of \$1,959,903, or 151% of the principal and interest due for the year ended June 30, 2004.

**Recreational Facility Revenue Bond Funds**

**Supplemental Information**

**Schedule 1**

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Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Student Fee Receipts

Year ended June 30, 2004

	<u>Student Fees</u>
Spring Semester, 2003 *	\$ 6,847
Summer Semester, 2003 **	23,130
Fall Semester, 2003	379,327
Spring Semester, 2004	348,435
Summer Semester, 2004 ***	<u>42,688</u>
	<u>\$ 800,427</u>

Recreational facility fees (\$7.625 for Summer and \$15.25 for Spring and Fall) are collected from students who are enrolled for more than two credit hours.

\* Spring Semester 2003 fees that were not paid until fiscal year 2004.

\*\* Summer Semester 2003 fees exclude \$39,388 of fees recognized in fiscal year 2003.

\*\*\* Summer Semester 2004 fees exclude \$24,995 of deferred revenues representing fees applicable to fiscal year 2005.

See accompanying independent auditor's report.

Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Insurance Coverage  
(Unaudited)

Year ended June 30, 2004

**Insurer**

Travelers Insurance Company

**Description of Coverage**

All risk \$100,000 deductible per occurrence - Recreational Facility

**Amount of Coverage**

\$18,097,736

**Policy Number**

KTK-CMB-544D989-2-03

**Term of Policy**

July 1, 2003 to July 1, 2004

See accompanying independent auditor's report.

**Schedule 3**

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Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Student Enrollment  
(Unaudited)

Year ended June 30, 2004

Enrollment at Iowa State University of Science and Technology for the year ended June 30, 2004 was as follows:

Summer Semester, 2003	9,966
Fall Semester, 2003	27,380
Spring Semester, 2004	25,282

See accompanying independent auditor's report.

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Recreational Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager  
Patricia J. King, CPA, Senior Auditor II  
Cory A. Warmuth, CPA, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State