

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

**INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS**

**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 Regulated Materials 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 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 our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Regulated Materials 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.

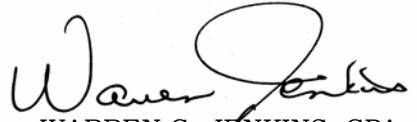
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Regulated Materials Facility Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the revenues, expenditures and changes in fund 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 Regulated Materials Facility Revenue Bond Funds. 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 Regulated Materials 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.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 30, 2004

## **Financial Statements**

Regulated Materials Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Balance Sheet

June 30, 2004

	Plant Funds			
	Unexpended		Retirement of Indebtedness	
	Project Fund	System Fund	Sinking Fund	Reserve Fund
<b>Assets</b>				
Cash and investments (note 2)	\$ 4,394,316	850,329	-	609,811
Cash with paying agent (note 3)	-	-	169,208	-
Interest receivable	10,379	-	3	817
Capital assets (note 4)	-	-	-	-
<b>Total assets</b>	<b>\$ 4,404,695</b>	<b>850,329</b>	<b>169,211</b>	<b>610,628</b>
<b>Liabilities and Fund Balances (Deficit)</b>				
Liabilities:				
Accounts payable	\$ 141,520	-	-	-
Interest payable	-	-	169,208	-
Revenue bonds payable (note 3)	4,249,653	-	-	613,812
Total liabilities	4,391,173	-	169,208	613,812
Fund balances (deficit):				
Net investment in plant	-	-	-	-
Reserved for debt service	-	-	3	(3,184)
Unreserved, designated for specific purposes	13,522	850,329	-	-
Total fund balances (deficit)	13,522	850,329	3	(3,184)
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 4,404,695</b>	<b>850,329</b>	<b>169,211</b>	<b>610,628</b>

See notes to financial statements.

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Investment in Plant	Total
-	5,854,456
-	169,208
-	11,199
<u>1,921,936</u>	<u>1,921,936</u>
<u>1,921,936</u>	<u>7,956,799</u>
-	141,520
-	169,208
<u>1,825,569</u>	<u>6,689,034</u>
<u>1,825,569</u>	<u>6,999,762</u>
96,367	96,367
-	(3,181)
-	863,851
<u>96,367</u>	<u>957,037</u>
<u>1,921,936</u>	<u>7,956,799</u>

Regulated Materials 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 Fund	Unexpended	
	Revenue Fund	Project Fund	System Fund
Other revenues (expenditures):			
Operating revenues	\$ 55	-	-
Investment income	56	52,177	-
Net decrease in fair value of investments	-	-	-
Administrative expenses	-	(38,655)	-
Interest on indebtedness	-	-	-
Excess (deficiency) of revenues over (under) expenditures	111	13,522	-
Other financing sources (uses):			
Additions to capital assets, including capitalized interest	-	(1,821,504)	-
Mandatory transfers	(162,863)	-	-
Non-mandatory transfers	(200,950)	-	210,329
Transfer from other University funds	363,702	-	640,000
Transfer of revenue bonds payable	-	1,821,504	-
Total other financing sources (uses)	(111)	-	850,329
Net increase (decrease) for the year	-	13,522	850,329
Fund balances beginning of year	-	-	-
Fund balances (deficit) end of year	\$ -	13,522	850,329

See notes to financial statements.

<u>Plant Funds</u>			
<u>Retirement of Indebtedness</u>			
<u>Sinking</u>	<u>Reserve</u>	<u>Investment</u>	
<u>Fund</u>	<u>Fund</u>	<u>in Plant</u>	<u>Total</u>
-	-	-	55
7	10,192	-	62,432
-	(4,001)	-	(4,001)
-	-	-	(38,655)
(66,496)	-	-	(66,496)
<hr/>			
(66,489)	6,191	-	(46,665)
<hr/>			
(100,432)	-	1,921,936	-
162,863	-	-	-
(4)	(9,375)	-	-
-	-	-	1,003,702
4,065	-	(1,825,569)	-
66,492	(9,375)	96,367	1,003,702
<hr/>			
3	(3,184)	96,367	957,037
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-	-	-	-
<hr/>			
3	(3,184)	96,367	957,037
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Regulated Materials 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 Regulated Materials 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, furnish and equip a regulated materials 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 Regulated Materials Facility Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Regulated Materials 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 Regulated Materials Facility Revenue Bonds issued by the University. These fund financial statements reflect only those accounts and transactions related to these bonds. Certain of 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 include the following funds: (1) Unexpended, (2) Retirement of Indebtedness, and (3) Investment in Plant. Unexpended, including the Project and System Funds established by the bond resolution, is comprised of amounts allocated or designated for construction, furnishing or equipping the Regulated Materials Facility. Retirement of Indebtedness, including the Sinking and Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal and interest. Investment in Plant is comprised of construction in progress and the related liabilities.

The Current Fund, including the Revenue Fund established by the bond resolution, is classified as a University Auxiliary Enterprise to account for transactions of substantially self-supporting activities that primarily perform a service to students, faculty and staff.

### Revenue Fund

The Revenue Fund is used to account for the entire income and gross revenues of the System from system income of the Regulated Materials Facility. All monies credited to the Revenue Fund must first be disbursed to pay current expenses of the System and thereafter must be deposited in the Sinking Fund, Reserve Fund or System Fund as needed. The Revenue Fund will be used to account for the operations of the Regulated Materials Facility scheduled to open during the year ending June 30, 2006.

### Project Fund

The Project Fund accounts for the bond proceeds, less the initial deposits required in the Reserve Fund. These proceeds, together with such other funds as may be lawfully available for the purpose, are disbursed and used to pay project construction costs and bond issuance costs as required by the bond resolution.

### Regulated Materials Facility System Fund (System Fund)

The bond resolution provides all net revenues not required to be deposited into the Sinking Fund or the Reserve Fund be deposited into the System Fund. All moneys deposited in the System Fund shall be (a) transferred and credited to the Sinking Fund whenever necessary to prevent or remedy a default in the payment of the principal of or interest on the Bonds or parity bonds or (b) 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. Until so used, moneys credited to the System Fund may be used for any lawful purpose, as determined by the Board of Regents, including without limitation the following: (1) to pay principal of and interest on any other obligations which by their terms shall be payable from the net revenues and which have been issued for the purposes of extensions and improvements to the System, (2) to retire the Bonds in advance of maturity or (3) to pay for extraordinary repairs or replacements to the System.

### 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.

### Reserve Fund

The bond resolution provides money in the Revenue Fund shall next be disbursed to maintain a debt service reserve in an amount equal to the Reserve Fund requirement. All monies credited to the Reserve Fund shall be used solely for the purpose of paying principal at maturity of or interest on the Bonds and any Parity Bonds for which there are insufficient funds available in the Sinking Fund.

### 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 \$50,000 for buildings. 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, interest costs of \$100,432 were capitalized.

## **(2) Cash and Investments**

Cash in excess of immediate needs for debt service is primarily invested in U.S. government securities. The University's investments are categorized to give an indication of the level of risk assumed by the University at year end. The University's investments in U.S. government securities are Category 2 investments, which means the investments are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the University's name. Cash and investments at June 30, 2004 are as follows:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 2,262,974
U.S. government securities	<u>3,591,482</u>
Total	<u>\$5,854,456</u>

## **(3) Revenue Bonds Payable**

The bonds, issued on November 1, 2003 for \$6,750,000, are to be used to construct, furnish and equip a Regulated Materials Facility that will consist of a 34,449 gross square foot facility to house all Environmental Health and Safety staff and facilities for processing and storing hazardous waste materials for all on-campus, extension and research farm activities of the University.

The bonds bear interest at rates ranging from 3.00% to 4.55% per year, payable semi-annually on January 1 and July 1. The bonds mature on January 1 and July 1 of each year, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ -	296,115	296,115
2006	360,000	248,412	608,412
2007	370,000	237,462	607,462
2008	375,000	226,287	601,287
2009	385,000	214,887	599,887
2010	395,000	203,188	598,188
2011	405,000	190,681	595,681
2012	420,000	176,750	596,750
2013	435,000	161,244	596,244
2014	455,000	144,215	599,215
2015	470,000	125,943	595,943
2016	495,000	106,395	601,395
2017	515,000	85,304	600,304
2018	535,000	62,724	597,724
2019	555,000	38,739	593,739
2020	580,000	13,195	593,195
	<u>6,750,000</u>	<u>2,531,541</u>	<u>9,281,541</u>
Unamortized Discount	<u>(60,966)</u>		
Total	<u>\$ 6,689,034</u>		

Under the provisions of the bond resolution, these bonds will be retired solely from the net revenues and other system income of the Regulated Materials Facility. Principal and interest is not due for the Regulated Materials Facility revenue bonds until July 1, 2005 and July 1, 2004, respectively.

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 and, as such, are reflected in the Sinking Fund.

At June 30, 2004, cash with paying agents of \$169,208 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 Regulated Materials Facility assets for the year ended June 30, 2004:

	Balance July 1, 2003	Additions	Balance June 30, 2004
Construction in Progress	\$ -	1,921,936	1,921,936

The building construction financed by the Regulated Materials Facility revenue bond proceeds was in progress at June 30, 2004. Therefore, no depreciation has been recorded as of June 30, 2004.

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

**(5) Debt Service Coverage**

Regulated Materials Facility Revenue Bond Fund interest payments totaling \$169,208 due July 1, 2004 requires debt service coverage of a minimum of 120%, or \$203,050. Transfers from other University funds (surcharge fees) of \$1,003,702, operating revenues of \$55, investment income of \$62,432, and cash in the Surplus Fund of \$850,329 provided debt service coverage of \$1,916,518, or 1,133% of the principal and interest due for the year ended June 30, 2004.

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Regulated Materials 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

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