

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

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2008**

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

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Auditor of State

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Independent Auditor's Report

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

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in fund net assets and cash flows, of the Regulated Materials Facility Revenue Bond Funds of Iowa State University of Science and Technology (Iowa State University) as of and for the year ended June 30, 2008, which collectively comprise the Bond Funds' basic financial statements listed in the table of contents. We have also audited the financial statements of each individual fund of the Regulated Materials Facility Revenue Bond Funds of Iowa State University as of and for the year ended June 30, 2008 presented in the combining fund financial statements in the supplementary information listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 our audit provides a reasonable basis for our opinions.

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 as of June 30, 2008 and the changes in its financial position and its cash flows 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 as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the combining fund financial statements referred to above present fairly, in all material respects, the respective financial position of each individual fund of the Regulated Materials Facility Revenue Bond Funds of Iowa State University as of June 30, 2008 and the respective changes in financial position of each individual fund 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 was not in compliance with the accounting requirements of the Board of Regents Resolution for the issuance of the Regulated Materials Facility Revenue Bonds.

Iowa State University 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, the members of the Board of Regents, citizens of the State of Iowa and other parties to whom Iowa State University 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, 2008

## **Basic Financial Statements**

**Exhibit A**

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

## Statement of Net Assets

June 30, 2008

**Assets**

## Current assets:

Interest receivable	\$ 165
Cash with paying agents	495,331
Total current assets	<u>495,496</u>

## Noncurrent assets:

Cash, cash equivalents and investments	2,293,775
Interest receivable	4,020
Capital assets, net	8,224,430
Total noncurrent assets	<u>10,522,225</u>
<b>Total assets</b>	<u>11,017,721</u>

**Liabilities**

## Current liabilities:

Interest payable	110,331
Revenue bonds payable, current portion	385,000
Total current liabilities	<u>495,331</u>

## Noncurrent liabilities:

Revenue bonds payable, noncurrent portion	5,215,291
<b>Total liabilities</b>	<u>5,710,622</u>

**Net assets**

Invested in capital assets, net of related debt	3,622,952
Restricted for debt service	165
Restricted for improvements	1,690,079
Unrestricted	<u>(6,097)</u>
<b>Total net assets</b>	<u>\$ 5,307,099</u>

See the accompanying notes which are an integral part of these financial statements.

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

## Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended June 30, 2008

Operating revenues	\$ 522,896
Operating expenses:	
Depreciation	<u>227,666</u>
Operating income	<u>295,230</u>
Nonoperating revenues (expenses):	
Investment income	92,951
Net decrease in fair value of investments	(6,509)
Legal and administrative expense	(4,152)
Interest expense	<u>(224,727)</u>
Net nonoperating revenues (expenses)	<u>(142,437)</u>
Income before transfers	152,793
Transfers:	
Transfers from other University funds	<u>250,000</u>
Increase in net assets	402,793
Net assets beginning of year	<u>4,904,306</u>
Net assets end of year	<u><u>\$ 5,307,099</u></u>

See the accompanying notes which are an integral part of these financial statements.

**Exhibit C**

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

## Statement of Cash Flows

Year ended June 30, 2008

Cash flows from operating activities:	
Cash received from operations	\$ 522,896
Cash flows from capital financing activities:	
Transfers from other University funds	250,000
Principal paid on capital debt	(385,000)
Interest paid on capital debt	(220,663)
Legal and administrative expense	(4,152)
Net cash used by capital financing activities	<u>(359,815)</u>
Cash flows from investing activities:	
Interest on investments	91,592
Proceeds from sales of investments	815,570
Purchases of investments	<u>(1,417,717)</u>
Net cash used by investing activities	<u>(510,555)</u>
Net decrease in cash and cash equivalents	(347,474)
Cash and cash equivalents beginning of year	<u>2,045,611</u>
Cash and cash equivalents end of year	<u><u>\$ 1,698,137</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 295,230
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	<u>227,666</u>
Net cash provided by operating activities	<u><u>\$ 522,896</u></u>
<b>Reconciliation of cash and cash equivalents to the Statement of Net Assets:</b>	
Cash and cash equivalents classified as noncurrent assets	<u><u>\$ 1,698,137</u></u>

See the accompanying notes which are an integral part of these financial statements.

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

Notes to Financial Statements

June 30, 2008

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

Reporting Entity

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 financial statements present only a portion of the funds of the University.

Basis of Presentation

Basic Financial Statements – The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets and the Statement of Cash Flows report information on all of the activities of the Regulated Materials Facility Revenue Bond Funds. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Revenues, Expenses and Changes in Fund Net Assets demonstrates how net assets changed during the fiscal year.

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital financing and investing activities.

Fund Financial Statements – 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, Reserve and Arbitrage Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal, interest and rebates. Investment in Plant is comprised of buildings, net of 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.

The following funds are required by the bond resolution:

Revenue Fund - The Revenue Fund is used to account for the 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 is used to account for the operations of the Regulated Materials Facility.

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. There were no transactions or balances in this fund during the year ended June 30, 2008.

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.

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

#### Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and are reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when the liability is incurred.

Purchases of facilities providing future benefits are capitalized and depreciated.

#### Cash, Cash Equivalents 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. For purposes of the Statement of Net Assets and the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 repair 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, 2008, no interest costs were capitalized.

Depreciation is computed using the straight-line method over an estimated useful life of 25 or 40 years on various components of the building.

**(2) Cash, Cash Equivalents and Investments**

The University's deposits were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. In the unlikely event a bank fails, the State Treasurer first determines the amount of the loss and validates the amount of applicable FDIC insurance. He is empowered by this chapter to cover the remaining loss from the State Sinking Fund for public deposits in banks. If the balance in the State Sinking Fund is inadequate to pay the entire loss, he is empowered to make assessments against other banks to insure there will be no loss of public funds. Cash in banks of \$1,688,848 is combined with other University funds. The money market balance for the Regulated Materials Facility Revenue Bond Funds is \$9,289, which is considered to be cash equivalents.

At June 30, 2008, the Regulated Materials Facility Revenue Bond Funds had the following investments:

Investment Type	Fair Value
Fixed Income:	
U.S. Government Treasury Notes	<u>\$ 595,638</u>

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations to the University. At June 30, 2008, the Regulated Materials Facility Revenue Bond Funds fixed income assets were 100% government guaranteed.

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the University's investment in a single issue. Except for U.S. Government investments, no one issuer represents 5% or more of the total assets.

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes.

Investment Type	Fair Value	Duration
Fixed Income:		
U.S. Government Treasury Notes	<u>\$ 595,638</u>	<u>1.62</u>

**(3) 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, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Buildings	\$ 8,893,198	-	-	8,893,198
Less accumulated depreciation	(441,102)	(227,666)	-	(668,768)
Capital assets, net	<u>\$ 8,452,096</u>	<u>(227,666)</u>	-	<u>8,224,430</u>

The cost of land used for the System is not reflected on the Statement of Net Assets. This land is included in other accounts of the University.

**(4) Revenue Bonds Payable**

The bonds, issued on November 1, 2003 for \$6,750,000, were used to construct, furnish and equip a Regulated Materials Facility that consists of a 34,449 gross square foot facility that houses 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 July 1 of each year, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
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
	5,645,000	1,523,265	7,168,265
Unamortized Discount	(44,709)		
Total	\$ 5,600,291		

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.

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, 2008, cash with paying agents of \$495,331 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

**(5) Related Party Transactions**

Included in operating revenues are revenues of \$522,896 generated from other funds of the University.

**(6) Debt Service Coverage**

Regulated Materials Facility Revenue Bond principal and interest payments totaling \$605,663 due January 1 and July 1, 2008 require debt service coverage of a minimum of 120%, or \$726,796. Transfers from other University funds (surcharge fees) of \$250,000, operating revenues of \$522,896, investment income of \$92,951 and funds on deposit or credited to the System Fund of \$1,434,068 provided debt service coverage of \$2,299,915, or 380% of the principal and interest due for the year ended June 30, 2008.

The debt service coverage for the current and two prior years is as follows:

Year Ended June 30,	Principal and Interest	Required Debt Service Coverage	Actual Debt Service Coverage	Required Coverage Percentage	Actual Coverage Percentage
2008	\$ 605,663	726,796	2,299,915	120%	380%
2007	606,913	728,296	2,046,720	120	337
2006	613,013	735,616	1,796,442	120	293

## **Supplementary Information**

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

Combining Statement of Net Assets

June 30, 2008

	<u>Unexpended System Fund</u>
<b>Assets</b>	
Current assets:	
Interest receivable	\$ -
Cash with paying agents	-
Total current assets	<u>-</u>
Noncurrent assets:	
Cash, cash equivalents and investments	1,690,079
Interest receivable	-
Capital assets, net	-
Total noncurrent assets	<u>1,690,079</u>
<b>Total assets</b>	<u>1,690,079</u>
<b>Liabilities</b>	
Current liabilities:	
Interest payable	-
Revenue bonds payable, current portion	-
Total current liabilities	<u>-</u>
Noncurrent liabilities:	
Revenue bonds payable, noncurrent portion	-
<b>Total liabilities</b>	<u>-</u>
<b>Net assets</b>	
Net investment in plant	-
Restricted for debt service	-
Restricted for improvements	1,690,079
Unrestricted	-
<b>Total net assets</b>	<u>\$ 1,690,079</u>

See the accompanying notes which are an integral part of these financial statements.

Plant Funds			
Retirement of Indebtedness			
Sinking Fund	Reserve Fund	Investment in Plant	Total
165	-	-	165
495,331	-	-	495,331
495,496	-	-	495,496
-	603,696	-	2,293,775
-	4,020	-	4,020
-	-	8,224,430	8,224,430
-	607,716	8,224,430	10,522,225
495,496	607,716	8,224,430	11,017,721
110,331	-	-	110,331
385,000	-	-	385,000
495,331	-	-	495,331
-	613,813	4,601,478	5,215,291
495,331	613,813	4,601,478	5,710,622
-	-	3,622,952	3,622,952
165	-	-	165
-	-	-	1,690,079
-	(6,097)	-	(6,097)
165	(6,097)	3,622,952	5,307,099

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

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2008

	Current Fund Revenue Fund	Unexpended System Fund
Operating revenues	\$ 522,896	-
Operating expenses:		
Depreciation	-	-
Operating income (loss)	522,896	-
Nonoperating revenues (expenses):		
Investment income	73,398	-
Net decrease in fair value of investments	-	-
Legal and administrative expense	-	(3,302)
Interest expense	-	-
Net nonoperating revenues (expenses)	73,398	(3,302)
Income (loss) before transfers	596,294	(3,302)
Transfers:		
Mandatory transfers	(605,663)	-
Non-mandatory transfers	(240,631)	259,313
Transfers from other University funds	250,000	-
Transfer of revenue bonds payable	-	-
Total transfers	(596,294)	259,313
Net increase (decrease) in net assets	-	256,011
Net assets (deficit) beginning of year	-	1,434,068
Net assets (deficit) end of year	\$ -	1,690,079

See the accompanying notes which are an integral part of these financial statements.

Plant Funds					
Retirement of Indebtedness					
Sinking Fund	Reserve Fund	Arbitrage Reserve Fund	Investment in Plant		Total
-	-	-	-		522,896
-	-	-	227,666		227,666
-	-	-	(227,666)		295,230
1,202	18,351	-	-		92,951
-	(6,509)	-	-		(6,509)
-	-	(850)	-		(4,152)
(224,727)	-	-	-		(224,727)
(223,525)	11,842	(850)	-		(142,437)
(223,525)	11,842	(850)	(227,666)		152,793
605,663	-	-	-		-
(1,649)	(17,883)	850	-		-
-	-	-	-		250,000
(380,936)	-	-	380,936		-
223,078	(17,883)	850	380,936		250,000
(447)	(6,041)	-	153,270		402,793
612	(56)	-	3,469,682		4,904,306
165	(6,097)	-	3,622,952		5,307,099

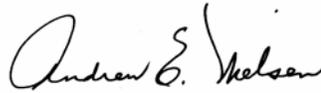
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Regulated Materials Facility Revenue Bond Funds  
Iowa State University of Science and Technology

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Scott G. Anderson, Assistant Auditor  
Curtis M. Powers, Auditor Intern



Andrew E. Nielsen, CPA  
Deputy Auditor of State