



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

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Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE

November 7, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released reports for the year ended June 30, 2002 on the Iowa State Center Business Office and on the following Revenue Bond Funds of Iowa State University of Science and Technology: Dormitory and Dining Services, Telecommunications Facilities, Utility System, Hilton Coliseum, Recreational Facility, Student Health Center, Parking System and Academic Building; and the Ice Arena Facility Revenue Note Funds.

These reports demonstrate compliance with the provisions included in the various bond agreements. The financial information included in these reports is also included in the Annual Financial Report of Iowa State University of Science and Technology and the Comprehensive Annual Financial Report of the State of Iowa.

Copies of the reports are available for review in the office of the Auditor of State.

###

**HILTON COLISEUM REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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

JUNE 30, 2002

Table of Contents

| | | <u>Page</u> |
|---|-----------------|-------------|
| Independent Auditor's Report | | 3-4 |
| Financial Statements: | <u>Exhibit</u> | |
| Balance Sheet | A | 6-7 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | B | 8-9 |
| Notes to Financial Statements | | 10-14 |
| Supplemental Information: | <u>Schedule</u> | |
| Student Fee Receipts | 1 | 16 |
| Insurance Coverage | 2 | 17 |
| Student Enrollment | 3 | 18 |
| Staff | | 19 |



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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 Hilton Coliseum Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2002, and the related statement of revenues, expenditures and changes in fund balances 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 that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Hilton Coliseum 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, 2002 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 Hilton Coliseum Revenue Bond Funds of Iowa State University of Science and Technology at June 30, 2002, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 7 to the financial statements, for the year ended June 30, 2002, Iowa State University of Science and Technology adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

In connection with our audit, nothing came to our attention that caused us to believe that 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 Hilton Coliseum Revenue Bonds. It should be noted, however, that our audit was not directed primarily toward obtaining knowledge of such non-compliance.

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.

RICHARD D. JOHNSON, CPA
Auditor of State Chief

WARREN G. JENKINS, CPA
Deputy Auditor of State

October 15, 2002

Financial Statements

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2002

| | <u>Renewals and Replacement Surplus Fund</u> |
|--|--|
| Assets | |
| Cash and investments (note 2) | \$ 1,926,027 |
| Cash with paying agent (note 4) | - |
| Interest receivable | 53,130 |
| Inventories | 41,584 |
| Prepaid expense | 142 |
| Capital assets, net (note 3) | <u>-</u> |
| Total assets | <u><u>\$ 2,020,883</u></u> |
| Liabilities and Fund Balances | |
| Liabilities: | |
| Accounts payable | \$ 5,795 |
| Interest payable | - |
| Revenue bonds payable (note 4) | - |
| Total liabilities | <u>5,795</u> |
| Fund balances: | |
| Net investment in plant | - |
| Reserved for debt service | - |
| Unreserved, designated for improvements | <u>2,015,088</u> |
| Total fund balances | <u>2,015,088</u> |
| Total liabilities and fund balances | <u><u>\$ 2,020,883</u></u> |

See notes to financial statements.

| Plant Funds | | | |
|----------------------------|--------------|---------------------|-----------|
| Retirement of Indebtedness | | | Total |
| Reserve Fund | Sinking Fund | Investment In Plant | |
| 1,145,490 | - | - | 3,071,517 |
| - | 370,413 | - | 370,413 |
| - | - | - | 53,130 |
| - | - | - | 41,584 |
| - | - | - | 142 |
| - | - | 3,568,362 | 3,568,362 |
| 1,145,490 | 370,413 | 3,568,362 | 7,105,148 |
| - | - | - | 5,795 |
| - | 65,413 | - | 65,413 |
| - | 305,000 | 2,075,000 | 2,380,000 |
| - | 370,413 | 2,075,000 | 2,451,208 |
| - | - | 1,493,362 | 1,493,362 |
| 1,145,490 | - | - | 1,145,490 |
| - | - | - | 2,015,088 |
| 1,145,490 | - | 1,493,362 | 4,653,940 |
| 1,145,490 | 370,413 | 3,568,362 | 7,105,148 |

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2002

| | Current Funds | | |
|--|---|--|---|
| | Hilton Coliseum Operating Fund | Student Special Building Fund | Renewals and Replacements Surplus Fund |
| Revenues (expenditures): | | | |
| Operating revenues (note 6) | \$ 2,305,325 | - | - |
| Operating expenditures before depreciation (note 6) | (2,525,269) | - | - |
| Operating income before depreciation | (219,944) | - | - |
| Depreciation | - | - | - |
| Net operating loss | (219,944) | - | - |
| Other revenues (expenditures): | | | |
| Endowment and other income | 150,974 | - | - |
| Investment income | - | - | 264,236 |
| Interest on indebtedness | - | - | - |
| Net decrease in fair value of investments | - | - | (49,585) |
| Excess (deficiency) of revenues over (under) expenditures | (68,970) | - | 214,651 |
| Other financing sources (uses): | | | |
| Additions to buildings | - | - | (1,972,554) |
| Mandatory transfers | - | (554,804) | 101,644 |
| Non-mandatory transfers | (83,043) | - | 83,043 |
| Transfers from other University funds | 152,013 | - | - |
| Allocation of student fees from other University funds | - | 554,804 | - |
| Transfer of revenue bonds payable | - | - | - |
| Total other financing sources (uses) | 68,970 | - | (1,787,867) |
| Net increase (decrease) for the year | - | - | (1,573,216) |
| Fund balances beginning of year, as restated (note 7) | - | - | 3,588,304 |
| Fund balances end of year | \$ - | - | 2,015,088 |

See notes to financial statements.

| Plant Funds | | | |
|----------------------------|--------------|---------------------|-------------|
| Retirement of Indebtedness | | | |
| Reserve Fund | Sinking Fund | Investment in Plant | Total |
| - | - | - | 2,305,325 |
| - | - | - | (2,525,269) |
| - | - | - | (219,944) |
| - | - | (192,057) | (192,057) |
| - | - | (192,057) | (412,001) |
| - | - | - | 150,974 |
| - | - | - | 264,236 |
| - | (118,160) | - | (118,160) |
| - | - | - | (49,585) |
| - | (118,160) | (192,057) | (164,536) |
| - | - | 1,972,554 | - |
| 30,000 | 423,160 | - | - |
| - | - | - | - |
| - | - | - | 152,013 |
| - | - | - | 554,804 |
| - | (305,000) | 305,000 | - |
| 30,000 | 118,160 | 2,277,554 | 706,817 |
| 30,000 | - | 2,085,497 | 542,281 |
| 1,115,490 | - | (592,135) | 4,111,659 |
| 1,145,490 | - | 1,493,362 | 4,653,940 |

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

Accounting Entity and Basis of Accounting

The Hilton Coliseum 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 fieldhouse-auditorium 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 Hilton Coliseum Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Hilton Coliseum 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 Hilton Coliseum 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) Renewals and Replacements, (2) Retirement of Indebtedness, and (3) Investment in Plant. Renewals and Replacements, including the Surplus Fund established by the bond resolution, is comprised of amounts allocated or designated for buildings, improvements other than buildings and equipment. Retirement of Indebtedness, including Reserve and Sinking Funds established by the bond resolution, is comprised of amounts to provide for payment of principal and interest. Investment in Plant is comprised of amounts representing the total of buildings, infrastructure, equipment, all net of accumulated depreciation, and the related liabilities.

Current Funds, including the Hilton Coliseum Operating and Student Special Building Funds established by the bond resolution, are 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.

Hilton Coliseum Operating Fund

The Hilton Coliseum Operating Fund is used to account for all financial activity resulting from the operation of Hilton Coliseum except those to be accounted for in another Fund.

Student Special Building Fund

The Student Special Building Fund is used to collect Student Fieldhouse-Auditorium Fees for allocation to the Sinking, Reserve and Surplus Funds in accordance with the bond resolution.

Surplus Fund

The bond resolution provides that any remaining Student Fieldhouse-Auditorium Fees and net income revenues from the Fieldhouse-Auditorium Operations Fund are to be deposited to the Surplus Fund. Monies deposited to the Surplus Fund may be used to: (1) purchase bonds prior to maturity; (2) create a fund for the construction of extensions, additions or improvements to the Fieldhouse-Auditorium; (3) transfer to the Sinking Fund or Reserve Fund; and (4) pay the principal and interest on subordinate bonds of the Board of Regents, State of Iowa issued in connection with the Fieldhouse-Auditorium.

Bond and Interest Reserve Fund (Reserve Fund)

The bond resolution provides that, from the balance of the Student Fieldhouse-Auditorium Fees remaining after first making the required payment into the Sinking Fund, the annual sum of \$30,000 be deposited into the Reserve Fund. Also, for each fiscal year, one-half of the remaining Student Fieldhouse-Auditorium fees will be deposited in the Reserve Fund until that fund is equal to the maximum amount of principal and interest due in any succeeding fiscal year. All monies credited to the Reserve Fund are to be used for payment of principal and interest on the bonds. If for any reason the funds on deposit in the Sinking Fund are insufficient to pay such principal and interest when due, then amounts on deposit in the Reserve Fund in excess of the maximum amount of principal and interest due on the outstanding bonds may be used to service the indebtedness due.

Bond Sinking Fund (Sinking Fund)

The bond resolution provides that the proceeds from the Student Fieldhouse-Auditorium Fees are to be deposited in the Sinking Fund until an amount equal to the principal and interest payment due on and prior to the next succeeding July 1 of each succeeding year has been accumulated. The Sinking Fund shall be used solely for the purpose of paying principal and interest payments on the bonded indebtedness.

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.

Inventories

Inventories are stated at average cost, which approximates the value that would be reported had inventories been stated at lower of cost or market, as required by U.S. generally accepted accounting principles.

Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$2,000 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, 2002, no interest costs were capitalized.

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

| <u>Asset</u> | <u>Years</u> |
|----------------|--------------|
| Buildings | 25 |
| Infrastructure | 30 |
| Equipment | 10 |

(2) Cash and Investments

Cash in excess of immediate needs for debt service is invested primarily in United States government agency 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 that 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, 2001 are as follows:

| | <u>Fair Value</u> |
|----------------------------|---------------------|
| Cash | \$ (161,563) |
| U.S. government securities | <u>3,233,080</u> |
| Total | <u>\$ 3,071,517</u> |

(3) Capital Assets

The following is a summary of capital assets activity in the Investment in Plant Fund for Hilton Coliseum assets for the year ended June 30, 2002:

| | <u>Balance</u> | | <u>Balance</u> | |
|--------------------------------|---------------------|------------------|------------------|--------------------|
| | <u>July 1, 2001</u> | | <u>June 30,</u> | |
| | <u>as restated,</u> | | <u>2002</u> | |
| | <u>(note 7)</u> | <u>Additions</u> | <u>Deletions</u> | |
| Building | \$ 10,091,910 | 1,972,554 | - | 12,064,464 |
| Infrastructure | 223,000 | - | - | 223,000 |
| Equipment | 519,571 | - | - | 519,571 |
| Total capital assets | <u>10,834,481</u> | <u>1,972,554</u> | - | <u>12,807,035</u> |
| Less accumulated depreciation: | | | | |
| Building | (8,310,444) | (188,206) | - | (8,498,650) |
| Infrastructure | (223,000) | - | - | (223,000) |
| Equipment | (513,172) | (3,851) | - | (517,023) |
| Total accumulated depreciation | <u>(9,046,616)</u> | <u>(192,057)</u> | - | <u>(9,238,673)</u> |
| Capital assets, net | <u>\$ 1,787,865</u> | <u>1,780,497</u> | - | <u>3,568,362</u> |

(4) Revenue Bonds Payable

The bonds were issued on July 1, 1968 for \$6,800,000 and bear interest at rates ranging from 4.5% to 5.25% per year, payable semiannually on January 1 and July 1. The bonds mature on July 1, in annual amounts as follows:

| Year Ending June 30, | Principal | Interest | Total |
|----------------------------|---------------------|----------------|------------------|
| 2003 | \$ 305,000 | 116,716 | 421,716 |
| 2004 | 320,000 | 94,445 | 414,445 |
| 2005 | 335,000 | 77,742 | 412,742 |
| 2006 | 350,000 | 60,450 | 410,450 |
| 2007 | 350,000 | 42,950 | 392,950 |
| 2008 | 360,000 | 25,200 | 385,200 |
| 2009 | 360,000 | 8,100 | 368,100 |
| | <u>\$ 2,380,000</u> | <u>425,603</u> | <u>2,805,603</u> |

Under the provisions of the bond resolution, these bonds will be retired solely from proceeds of Student Fieldhouse-Auditorium fees, revenues derived from Fieldhouse-Auditorium operations and interest on invested funds. The bonds are subject to redemption prior to their respective maturities, at the option of the Board of Regents, State of Iowa, upon payment of certain premium rates ranging from 1% to 4% over the stated bond value.

The interest amount for the year ended June 30, 2003 of \$116,716 includes interest of \$6,333 for due and unpaid interest coupons at June 30, 2002.

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.

As of June 30, 2002, cash with paying agents in the amount of \$370,413 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

(5) Commitments

Encumbrances outstanding at June 30, 2002 totaled \$153,496 and represent commitments related to unperformed contracts for goods or services that have been entered on the University's purchase order system.

The Board of Regents entered into a management agreement with SMG Corporation effective August 1, 2001 through June 30, 2006. The agreement provides for SMG Corporation to receive a management fee, initially established at \$120,000 per year. The management fee is subject to annual adjustments during the term of the agreement, not to exceed the annual percentage increase or decrease reflected in the consumer price index, with a maximum annual increase of 2.75% to be applied to the following year's payment. In addition, SMG Corporation is to receive a 10% commission on net concession and merchandise sales, limited to the amount of the management fee for that year.

(6) Related Party Transactions

Included in operating expenditures are utilities expenses purchased from the University's Utility System of \$327,145. Included in operating revenues are certain revenues generated from other auxiliary enterprises and current funds of the University.

(7) Restatement of Beginning Balance

The beginning fund balance of the Plant Fund - Investment in Plant has been retroactively restated at July 1, 2001. This restatement was made to record the accumulated depreciation as of June 30, 2001 in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, effective for financial statements for periods beginning after June 15, 2001.

| | |
|---|----------------------------|
| Building | \$ 10,091,910 |
| Infrastructure | 223,000 |
| Equipment | 519,571 |
| Total capital assets, as previously reported at June 30, 2001 | <u>10,834,481</u> |
| Less accumulated depreciation at June 30, 2001 for: | |
| Building | (8,310,444) |
| Infrastructure | (223,000) |
| Equipment | (513,172) |
| Total accumulated depreciation | <u>(9,046,616)</u> |
| Capital assets, net, at July 1, 2001 as restated | <u><u>\$ 1,787,865</u></u> |

Supplemental Information

Schedule 1

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Student Fee Receipts

Year ended June 30, 2002

| | Student Enrollment For Which Fieldhouse- Auditorium Fees Were Paid* | Fee Rate | Student Fees |
|--------------------------|--|-------------|-------------------|
| Spring Semester, 2001** | 282 | \$ 9.00 | 2,538 |
| Summer Semester, 2001 | 8,169 | 9.00 | 73,521 |
| Fall Semester, 2001 | 25,787 | 9.00 | 232,083 |
| Spring Semester, 2002 | 23,830 | 9.00 | 214,470 |
| Summer Semester, 2002*** | 5,920 | 9.00 | 32,192 |
| | | | <u>\$ 554,804</u> |

* Fieldhouse-Auditorium Fees are collected from students who are enrolled for more than two credit hours and only if the student's tuition and fees have been paid in full.

** Spring Semester 2001 fees that were not paid until Fall Semester 2001.

***Summer Semester 2002 fees exclude \$21,088 (39.58%) of deferred revenues representing fees applicable to fiscal year 2003.

See accompanying independent auditor's report.

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Insurance Coverage
(Unaudited)

June 30, 2002

Insurer

Employers Mutual Casualty Company (EMC)

Description of Coverage

General property coverage with a \$5,000 deductible for each occurrence for each item

Amount of Coverage

Building - \$55,681,985

Contents - \$1,860,967

Business interruption - \$1,749,750

Policy Number

IA50891

Term of Policy

July 1, 2001 to July 1, 2002

See accompanying independent auditor's report.

Schedule 3

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Student Enrollment
(Unaudited)

Year ended June 30, 2002

Enrollment at Iowa State University of Science and Technology for the year ended June 30, 2002 was as follows:

| | |
|-----------------------|--------|
| Summer Semester, 2001 | 9,829 |
| Fall Semester, 2001 | 27,823 |
| Spring Semester, 2002 | 25,875 |

See accompanying independent auditor's report.

Hilton Coliseum Revenue Bond Funds
Iowa State University of Science and Technology

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Patricia J. King, CPA, Senior Auditor II
Jennifer Campbell, Staff Auditor
Billie Jo Heth, Staff Auditor
Sheila Jensen, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State