

**HILTON COLISEUM 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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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, 2004, 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 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, 2004 and changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

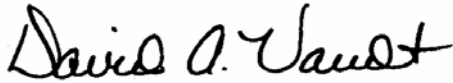
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hilton Coliseum Revenue Bond Funds of Iowa State University of Science and Technology at June 30, 2004, and the revenues, expenditures and changes in fund balances for the 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 Hilton Coliseum Revenue Bonds, except the bond resolution requires insurance coverage with a maximum \$5,000 deductible whereas the University has a \$10,000 deductible policy. As noted in Schedule 2, University management considers the difference to be self-insured. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

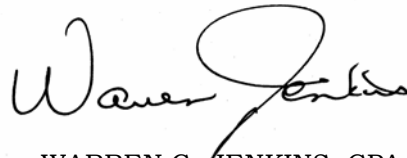
Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Hilton Coliseum Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

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

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

Balance Sheet

June 30, 2004

	<u>Renewals and Replacement Surplus Fund</u>
Assets	
Cash and investments (note 2)	\$ 1,752,932
Cash with paying agent (note 4)	-
Interest receivable	15,132
Inventories	47,107
Capital assets, net (note 3)	-
	<u> </u>
Total assets	<u><u>\$ 1,815,171</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 8,232
Interest payable	-
Revenue bonds payable (note 4)	-
Total liabilities	<u>8,232</u>
Fund balances:	
Net investment in plant	-
Reserved for debt service	-
Unreserved, designated for improvements	1,806,939
Total fund balances	<u>1,806,939</u>
Total liabilities and fund balances	<u><u>\$ 1,815,171</u></u>

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness			
Reserve Fund	Sinking Fund	Investment in Plant	Total
1,205,490	-	-	2,958,422
-	381,935	-	381,935
-	-	-	15,132
-	-	-	47,107
-	-	3,533,660	3,533,660
1,205,490	381,935	3,533,660	6,936,256
-	-	-	8,232
-	46,935	-	46,935
-	335,000	1,420,000	1,755,000
-	381,935	1,420,000	1,810,167
-	-	2,113,660	2,113,660
1,205,490	-	-	1,205,490
-	-	-	1,806,939
1,205,490	-	2,113,660	5,126,089
1,205,490	381,935	3,533,660	6,936,256

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, 2004

	Current Funds	
	Hilton Coliseum Operating Fund	Student Special Building Fund
Revenues (expenditures):		
Operating revenues (note 6)	\$ 2,695,453	-
Operating expenditures before depreciation (notes 5 and 6)	(2,856,479)	-
Operating loss before depreciation	(161,026)	-
Depreciation	-	-
Net operating loss	(161,026)	-
Other revenues (expenditures):		
Endowment and other income	251,798	-
Investment income	-	-
Interest on indebtedness	-	-
Net decrease in fair value of investments	-	-
Excess (deficiency) of revenues over (under) expenditures	90,772	-
Other financing sources (uses):		
Additions to buildings	-	-
Mandatory transfers	-	(472,383)
Non-mandatory transfers	32,349	-
Transfers to other University funds	(123,121)	-
Allocation of student fees from other University funds	-	472,383
Transfer of revenue bonds payable	-	-
Total other financing sources (uses)	(90,772)	-
Net increase (decrease) for the year	-	-
Fund balances beginning of year	-	-
Fund balances end of year	\$ -	-

See notes to financial statements.

Plant Funds					
Renewals and Replacements	Retirement of Indebtedness		Investment in Plant	Total	
Surplus Fund	Reserve Fund	Sinking Fund			
-	-	-	-		2,695,453
-	-	-	-		(2,856,479)
-	-	-	-		(161,026)
-	-	-	(153,398)		(153,398)
-	-	-	(153,398)		(314,424)
-	-	-	-		251,798
79,699	-	-	-		79,699
(75,640)	-	(86,285)	-		(86,285)
(75,640)	-	-	-		(75,640)
4,059	-	(86,285)	(153,398)		(144,852)
(7,694)	-	-	7,694		-
21,098	30,000	421,285			-
(32,349)	-	-	-		-
-	-	-	-		(123,121)
-	-	-	-		472,383
-	-	(335,000)	335,000		-
(18,945)	30,000	86,285	342,694		349,262
(14,886)	30,000	-	189,296		204,410
1,821,825	1,175,490	-	1,924,364		4,921,679
1,806,939	1,205,490	-	2,113,660		5,126,089

Hilton Coliseum 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 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, 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 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 \$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:

<u>Asset</u>	<u>Years</u>
Buildings	25-40
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 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 overdraft	\$ (36,949)
U.S. government securities	<u>2,995,371</u>
Total	<u>\$ 2,958,422</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, 2004:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Building	\$ 12,297,610	7,694	-	12,305,304
Infrastructure	223,000	-	-	223,000
Equipment	519,571	-	-	519,571
Total capital assets	<u>13,040,181</u>	<u>7,694</u>	<u>-</u>	<u>13,047,875</u>
Less accumulated depreciation:				
Building	(8,618,246)	(153,398)	-	(8,771,644)
Infrastructure	(223,000)	-	-	(223,000)
Equipment	(519,571)	-	-	(519,571)
Total accumulated depreciation	<u>(9,360,817)</u>	<u>(153,398)</u>	<u>-</u>	<u>(9,514,215)</u>
Capital assets, net	<u>\$ 3,679,364</u>	<u>(145,704)</u>	<u>-</u>	<u>3,533,660</u>

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

(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
2005	335,000	81,535	416,535
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
Total	\$ 1,755,000	218,235	1,973,235

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, 2004 of \$81,535 includes interest of \$3,792 for due and unpaid interest coupons at June 30, 2004.

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 \$381,935 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

(5) Commitments

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 costs for utilities purchased from the University's Utility System of \$370,715. Included in operating revenues are certain revenues generated from other auxiliary enterprises and current funds of the University.

Hilton Coliseum Revenue Bond Funds

Supplemental Information

Schedule 1

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

Student Fee Receipts

Year ended June 30, 2004

	Student Fees
Spring Semester, 2003*	\$ 4,041
Summer Semester, 2003**	13,650
Fall Semester, 2003	223,865
Spring Semester, 2004	205,634
Summer Semester, 2004***	<u>25,193</u>
	<u>\$ 472,383</u>

Fieldhouse-Auditorium Fees (\$4.50 for Summer and \$9.00 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 Fall Semester 2003.

** Summer Semester 2003 fees exclude \$23,246 of fees recognized in fiscal year 2003.

*** Summer Semester 2004 fees exclude \$14,583 of deferred revenues representing fees applicable to fiscal year 2005.

See accompanying independent auditor's report.

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

Insurance Coverage
(Unaudited)

June 30, 2004

Insurer

Travelers Insurance Coverage

Description of Coverage

General property coverage with a \$10,000 deductible for each occurrence for each item. (1)

Amount of Coverage

Building – \$57,931,537

Contents – \$1,936,150

Business interruption – \$1,749,750

Policy Number

KTK-CMB-544D989-2-03

Term of Policy

July 1, 2003 to July 1, 2004

(1) The bond resolution stipulates a maximum deductible for each loss. However, University management feels the surplus fund is adequate to constitute self-insurance for the deductible differential.

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, 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

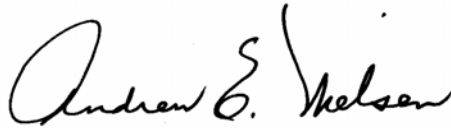
See accompanying independent auditor's report.

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

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Curtis J. Schroeder, Assistant 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 a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State