

**UTILITY SYSTEM REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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

JUNE 30, 2005

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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 balance sheet of the Utility System Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2005, 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. Those standards 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 Utility System 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, 2005 and changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Iowa State University of Science and Technology declined to present a statement of cash flows for the Utility System Revenue Bond Funds for the year ended June 30, 2005. Presentation of such a statement summarizing the Utility System Revenue Bond Funds operating, noncapital financing, capital and related financing and investing activities is required by U.S. generally accepted accounting principles.

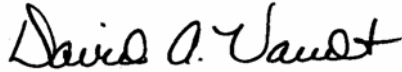
In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility System Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2005, and the changes in its financial position 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 Utility System Revenue Bonds. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

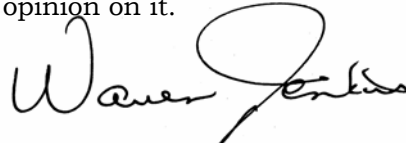
Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Utility System Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

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 and 2 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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, 2005

Financial Statements

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2005

	<u>Current Fund</u> <u>Operating</u> <u>Fund</u>	<u>Unexpended</u> <u>Construction</u> <u>Fund</u>
Assets		
Cash and investments (note 2)	\$ 17,740,413	3,473,073
Accounts receivable	1,474	-
Due from other funds	-	-
Prepaid expense	7,719	-
Inventory	2,042,632	-
Interest receivable	-	21,721
Capital assets, net (note 4)	-	-
Total assets	\$ 19,792,238	3,494,794
Liabilities and Fund Balances (Deficit)		
Liabilities:		
Accounts payable	\$ 963,843	7,406
Accrued salaries and wages	53,080	-
Due to other funds	225,326	-
Compensated absences payable	150,841	-
Revenue bonds payable (note 3)	-	3,504,870
Interest payable	-	-
Total liabilities	1,393,090	3,512,276
Fund balances:		
Net investment in plant	-	-
Reserved for:		
Debt service	-	-
Improvements	-	-
Unreserved, designated for specific purposes	18,399,148	(17,482)
Total fund balances (deficit)	18,399,148	(17,482)
Total liabilities and fund balances (deficit)	\$ 19,792,238	3,494,794

See notes to financial statements.

Plant Funds				
Renewals and Replacements Improvement Fund	Retirement of Indebtedness		Investment in Plant	Total
Reserve Fund	Bond Fund			
1,379,963	3,746,614	355	-	26,340,418
-	-	-	-	1,474
-	-	225,326	-	225,326
-	-	-	-	7,719
-	-	-	-	2,042,632
305	550	-	-	22,576
-	-	-	46,097,720	46,097,720
1,380,268	3,747,164	225,681	46,097,720	74,737,865
-	-	-	-	971,249
-	-	-	-	53,080
-	-	-	-	225,326
-	-	-	-	150,841
-	991,377	-	27,593,088	32,089,335
-	-	225,326	-	225,326
-	991,377	225,326	27,593,088	33,715,157
-	-	-	18,504,632	18,504,632
-	2,755,787	355	-	2,756,142
1,380,268	-	-	-	1,380,268
-	-	-	-	18,381,666
1,380,268	2,755,787	355	18,504,632	41,022,708
1,380,268	3,747,164	225,681	46,097,720	74,737,865

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

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

Year ended June 30, 2005

	Current Fund Operating Fund	Unexpended Construction Fund
Operating revenues (note 6)	\$ 28,811,629	-
Operating expenditures before depreciation (note 5)	21,433,645	-
Operating income before depreciation	7,377,984	-
Depreciation	-	-
Net operating income (loss)	7,377,984	-
Other revenues (expenditures):		
Administrative expenses	-	-
Investment income	456,782	117,580
Net increase (decrease) in fair value of investments	-	19,312
Interest on bonds payable	-	-
	456,782	136,892
Excess (deficiency) of revenues over (under) expenditures	7,834,766	136,892
Other financing sources (uses):		
Net additions to capital assets	(1,625,580)	(4,978,926)
Mandatory transfers	(2,875,804)	(118,244)
Non-mandatory transfers	(3,000)	-
Transfers from other University funds	63,739	-
Transfer of revenue bonds payable	-	4,978,927
Total other financing sources (uses)	(4,440,645)	(118,243)
Net increase for the year	3,394,121	18,649
Fund balances (deficit) beginning of year	15,005,027	(36,131)
Fund balances (deficit) end of year	\$ 18,399,148	(17,482)

See notes to financial statements.

Plant Funds					
Renewals and Replacements	Retirement of Indebtedness			Investment	Total
Improvement Fund	Reserve Fund	Bond Fund	Arbitrage Reserve Fund	in Plant	
-	-	-	-	-	28,811,629
-	-	-	-	-	21,433,645
-	-	-	-	-	7,377,984
-	-	-	-	2,232,192	2,232,192
-	-	-	-	(2,232,192)	5,145,792
-	-	-	(3,000)	-	(3,000)
42,323	114,657	1,262	-	-	732,604
(1,688)	(4,563)	-	-	-	13,061
-	-	(1,381,857)	-	-	(1,381,857)
40,635	110,094	(1,380,595)	(3,000)	-	(639,192)
40,635	110,094	(1,380,595)	(3,000)	(2,232,192)	4,506,600
-	-	-	-	6,604,506	-
(11,369)	(17,221)	3,022,638	-	-	-
-	-	-	3,000	-	-
-	-	-	-	-	63,739
-	-	(1,641,717)	-	(3,337,210)	-
(11,369)	(17,221)	1,380,921	3,000	3,267,296	63,739
29,266	92,873	326	-	1,035,104	4,570,339
1,351,002	2,662,914	29	-	17,469,528	36,452,369
1,380,268	2,755,787	355	-	18,504,632	41,022,708

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Accounting Entity and Basis of Accounting

The Utility System 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 defray the costs of equipment and facility enhancement that provide utilities to Iowa State University of Science and Technology. The revenue bonds are issued on behalf of the University.

The financial statements of the Utility System Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Utility System 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 Utility System 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 of the Utility System Revenue Bond Funds include the following funds: (1) Unexpended, (2) Renewals and Replacements, (3) Retirement of Indebtedness and (4) Investment in Plant. Unexpended, including the Construction Fund established by the bond resolution, is used to account for the bond proceeds and other funds to be used in the construction of improvements or extensions to the Utility System. Renewals and Replacements, including the Improvement Fund established by the bond resolution, is comprised of amounts allocated or designated for renewal or replacement of properties. Retirement of Indebtedness, including the Reserve, Bond and Arbitrage Reserve Funds established by the bond resolution, are comprised of amounts to provide for payment of principal, interest and amounts due to the Federal Government. Investment in Plant is comprised of amounts representing the total of buildings, utility system infrastructure and equipment, all net of accumulated depreciation and the related liabilities.

The Current Fund, including the Operating 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.

Operating Fund

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

Construction Fund

The Construction Fund is used to account for the bond proceeds and other funds to be used for the construction of improvements or extensions to the Utility System.

Improvement and Extension Fund (Improvement Fund)

The bond resolution provides for the deposit of any remaining net revenues of the Utility System and proceeds of any Utility System student fees, after first making the required deposits to the Bond and Reserve Funds, in quarterly amounts of \$20,000 commencing not later than the fiscal year beginning July 1, 1989, until \$1,350,000 has been accumulated in the Improvement Fund. All monies credited to the Improvement Fund are used to pay any extraordinary costs of maintaining the Utility System in an efficient operating condition and to pay the costs of necessary repairs, replacements, improvements and extensions.

Debt Service Reserve Fund (Reserve Fund)

The bond resolution provides an initial deposit equal to the maximum annual debt service requirement will be credited to the Reserve Fund from the proceeds of the bond issue. All monies credited to the Reserve Fund shall be transferred to the Bond Fund and used for the payment of principal and interest on the bonds issued and outstanding.

Bond Fund

The Bond resolution provides for deposits to the Bond Fund out of net revenues of the Utility System and proceeds of any Utility System student fees from time to time in amounts as are required to make timely payments of principal and interest.

Arbitrage Reserve Fund

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

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.

Accounts Receivable

Accounts receivable represent unpaid utility services from customers.

Inventory

Inventory is stated at the lower of cost (weighted average) or market.

Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$5,000 for equipment and \$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 the asset lives are not capitalized.

Outlays for capital assets are capitalized as projects are constructed. During the year ended June 30, 2005, no interest costs were capitalized.

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

Assets	Years
Equipment	10
Utility system infrastructure	30
Buildings	25

(2) Cash 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 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 bank of \$17,730,967 is combined with other University funds. The money market balance for the Utility System Revenue Bond Funds is \$705,071.

At June 30, 2005, the Utility System Revenue Bond Funds had the following investments:

Investment Type	Fair Value
Fixed Income:	
Federal Home Loan Bank	<u>\$7,904,380</u>

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations to the University. As of June 30, 2005, the Utility System 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:		
Federal Home Loan Bank	<u>\$7,904,380</u>	<u>0.94</u>

(3) Revenue Bonds Payable

The bonds, originally issued in the aggregate for \$39,960,000, bear interest at rates ranging from 2.00% to 4.85% per year, payable semi-annually on May 1 and November 1.

The bonds mature on November 1 in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 2,170,000	1,313,117	3,483,117
2007	2,275,000	1,232,607	3,507,607
2008	2,370,000	1,146,012	3,516,012
2009	2,480,000	1,052,265	3,532,265
2010	2,580,000	950,840	3,530,840
2011	2,710,000	841,433	3,551,433
2012	2,870,000	723,021	3,593,021
2013	3,025,000	594,528	3,619,528
2014	3,195,000	456,356	3,651,356
2015	620,000	372,673	992,673
2016	645,000	347,211	992,211
2017	675,000	320,144	995,144
2018	700,000	291,263	991,263
2019	735,000	259,850	994,850
2020	765,000	226,100	991,100
2021	805,000	190,775	995,775
2022	845,000	152,594	997,594
2023	885,000	111,506	996,506
2024	930,000	68,400	998,400
2025	975,000	23,156	998,156
	32,255,000	10,673,851	42,928,851
Unamortized discount	(165,665)		
Total	<u>\$ 32,089,335</u>		

Under the provisions of the bond resolution, these bonds, and any additional bonds that may be subsequently issued, will be retired solely from the net revenues of the Utility System, Utility System student fees and interest on investments.

(4) Capital Assets

The following is a summary of capital assets activity in the Investment in Plant Fund for Utility System assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Building	\$ 1,622,207	500	-	1,622,707
Utility system infrastructure	57,918,677	6,604,006	-	64,522,683
Equipment	333,713	-	-	333,713
Total capital assets	59,874,597	6,604,506	-	66,479,103
Less accumulated depreciation:				
Building	(333,930)	(64,908)		(398,838)
Utility system infrastructure	(17,525,089)	(2,150,756)	-	(19,675,845)
Equipment	(290,172)	(16,528)	-	(306,700)
Total accumulated depreciation	(18,149,191)	(2,232,192)	-	(20,381,383)
Capital assets, net	\$ 41,725,406	4,372,314	-	46,097,720

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) Commitments

The Board of Regents has entered into various agreements with the City of Ames (Ames) for the University to use certain of Ames' services, with charges determined based on sharing the cost of improvements to Ames' fire protection facilities, water and wastewater utilities and electrical utilities.

The fire protection facility agreement is effective for an indefinite term and is cancelable annually on July 1 by either party. For the year ended June 30, 2005, \$43,785 was paid to reimburse Ames for payments related to fire protection improvements. Future average annual payments of \$35,950 from 2006 to 2017 are payable to Ames in accordance with this agreement. Also, the University has agreed to pay a portion of the cost for additional fire apparatus. For the year ended June 30, 2005, there were no outstanding obligations relating to the fire apparatus and, therefore, no payments were made to the City.

The term of the wastewater utility agreement is indefinite. The University has agreed to pay a portion of the capital improvements and related interest costs of capital projects from which the University derives benefits. For the year ended June 30, 2005, there were no obligations outstanding and, therefore, no payments were made to the City of Ames.

The term of the electrical utilities agreement is 15 years with an option to renew for an additional 15 years. In accordance with this agreement, the University has agreed to pay a portion of the capital improvements and related interest costs of capital improvement projects from which the University derives benefits. For the year ended June 30, 2005, there were no obligations outstanding and, therefore, no payments were made to the City of Ames.

The term of the domestic water utility agreement is indefinite and is cancelable annually with a 5-year notice on July 1 by either party. The University has agreed to pay a portion of the capital improvements and related interest costs of capital projects from which the University derives benefits. For the year ended June 30, 2005, there were no obligations outstanding and, therefore, no payments were made to the City of Ames.

The annual payments to Ames under these various contracts are included in the budget estimates used to calculate the rates charged by the Utility System.

(6) Related Party Transactions

Included in operating revenues are revenues generated from the auxiliary enterprises and other current funds of the University of \$6,969,876 and \$21,841,753 respectively.

(7) Debt Service Coverage

Utility System Revenue Bond Funds principal and interest payments totaling \$3,034,384 due November 1, 2004 and May 1, 2005 require debt service coverage of a minimum of 120%, or \$3,641,261. Utility System operating income before depreciation of \$7,377,984 and investment income of \$732,604 provided debt service coverage of \$8,110,588, or 267% of the principal and interest due for the year ended June 30, 2005.

Supplemental Information

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Insurance Coverage
(Unaudited)

June 30, 2005

Insurer

St. Paul Travelers

Description of Coverage

Power plant and on-site substation, all risk, \$1,000,000 deductible per occurrence or accident

Amount of Coverage

\$277,783,993

Policy Number

KTK-CMB-544D989-2-04

Term of Policy

July 1, 2004 to July 1, 2005

See accompanying independent auditor's report.

Schedule 2

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Student Enrollment
(Unaudited)

Year ended June 30, 2005

Enrollment at Iowa State University of Science and Technology for the year ended June 30, 2005
was as follows:

Summer Semester, 2004	9,720
Fall Semester, 2004	26,380
Spring Semester, 2005	24,426

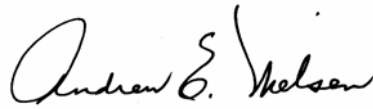
See accompanying independent auditor's report.

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Marc D. Johnson, Staff Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State