

**ACADEMIC BUILDING 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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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 balance sheet of the Academic Building Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the related statement of revenues, expenditures and changes in fund balances (deficit) for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Academic Building 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.

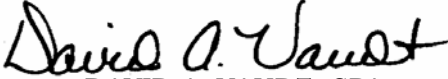
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academic Building Revenue Bond Funds of Iowa State University of Science and Technology as of June 30, 2004, and the revenues, expenditures and changes in fund balances (deficit) for the year then ended in conformity with U.S. generally accepted accounting principles.

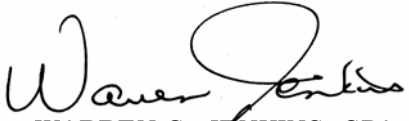
In connection with our audit, nothing came to our attention that caused us to believe Iowa State University of Science and Technology was not in compliance with the accounting requirements of the Board of Regents Resolution for the issuance of the Academic Building Revenue Bonds. It should be noted, 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 Academic Building 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 Schedule 1 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, 2004

Financial Statements

Academic Building Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2004

	Plant Funds		
	Unexpended Construction Fund	Retirement of Indebtedness	
		Arbitrage Reserve Fund	Reserve Fund
Assets			
Cash and investments (note 2)	\$ 115,205	69,258	9,811,117
Cash with paying agent (note 3)	-	-	-
Interest receivable	-	9	-
Capital assets, net (note 4)	-	-	-
Total assets	\$ 115,205	69,267	9,811,117
Liabilities and Fund Balances (Deficit)			
Liabilities:			
Interest payable	\$ -	-	-
Due to other University funds	-	-	-
Revenue bonds payable (note 3)	27,523	-	1,037,503
Total liabilities	27,523	-	1,037,503
Fund balances (deficit):			
Net investment in plant	-	-	-
Reserved for debt service	-	69,267	8,773,614
Unreserved, designated for specific purposes	87,682	-	-
Total fund balances (deficit)	87,682	69,267	8,773,614
Total liabilities and fund balances (deficit)	\$ 115,205	69,267	9,811,117

See notes to financial statements.

Sinking Fund	Investment in Plant	Total
-		9,995,580
10,754,835	-	10,754,835
56,113	-	56,122
-	53,846,439	53,846,439
10,810,948	53,846,439	74,652,976

7,737,243	-	7,737,243
68,842	-	68,842
7,750,000	57,264,974	66,080,000
15,556,085	57,264,974	73,886,085

-	(3,418,535)	(3,418,535)
(4,745,137)	-	4,097,744
-	-	87,682
(4,745,137)	(3,418,535)	766,891
10,810,948	53,846,439	74,652,976

Academic Building Revenue Bond Funds
Iowa State University of Science and Technology

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

Year ended June 30, 2004

	Current Fund	Unexpended	
	Revenue	Construction	Arbitrage Reserve
	Fund	Fund	Fund
Revenues:			
Student fees and charges, (net of scholarship allowances of \$42,174,288)	\$ 118,589,572	-	-
Investment income	-	-	342
Net decrease in fair value of investments	-	-	-
Total revenues	<u>118,589,572</u>	<u>-</u>	<u>342</u>
Expenditures before depreciation:			
Interest on indebtedness	-	-	-
Administrative expenses	-	71,261	9,096
Loss on refunding bonds (note 3)	-	-	-
Total expenditures before depreciation	<u>-</u>	<u>71,261</u>	<u>9,096</u>
Excess (deficiency) of revenues over (under) expenditures before depreciation	118,589,572	(71,261)	(8,754)
Depreciation	-	-	-
Excess (deficiency) of revenues over expenditures after depreciation	<u>118,589,572</u>	<u>(71,261)</u>	<u>(8,754)</u>
Other financing sources (uses):			
Premium on bonds issued	-	84,101	-
Mandatory transfers	(9,013,702)	(38,713)	-
Transfers to other University General Educational accounts	(109,575,870)	-	-
Change in bonds payable	-	-	-
Transfer of revenue bonds payable	-	109,974	-
Total other financing sources (uses)	<u>(118,589,572)</u>	<u>155,362</u>	<u>-</u>
Net increase (decrease) for the year	-	84,101	(8,754)
Fund balances (deficit) beginning of year	-	3,581	78,021
Fund balances (deficit) end of year	<u>\$ -</u>	<u>87,682</u>	<u>69,267</u>

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness			
Reserve Fund	Sinking Fund	Investment in Plant	Total
-	-	-	118,589,572
-	317,050	-	317,392
-	(339,123)	-	(339,123)
-	(22,073)	-	118,567,841
-	3,451,038	-	3,451,038
-	-	-	80,357
-	-	85,000	85,000
-	3,451,038	85,000	3,616,395
-	(3,473,111)	(85,000)	114,951,446
-	-	(4,263,818)	(4,263,818)
-	(3,473,111)	(4,348,818)	110,687,628
-	-	-	84,101
(2,719,709)	11,772,124	-	-
-	-	-	(109,575,870)
-	-	(6,915,000)	(6,915,000)
-	(7,750,000)	7,640,026	-
(2,719,709)	4,022,124	725,026	(116,406,769)
(2,719,709)	549,013	(3,623,792)	(5,719,141)
11,493,323	(5,294,150)	205,257	6,486,032
8,773,614	(4,745,137)	(3,418,535)	766,891

Academic Building 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 Academic Building 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 constructing, furnishing, and equipping academic facilities 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 Academic Building Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Academic Building 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 Academic Building Revenue Bonds issued by the University. These fund financial statements reflect only those accounts and transactions related to these bonds. 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 for the Academic Building Revenue Bonds include the following funds: (1) Unexpended, (2) Retirement of Indebtedness and (3) Investment in Plant. Unexpended, including the Construction Fund established by the bond resolution, is comprised of amounts allocated or designated for buildings, improvements and equipment. Retirement of Indebtedness, including the Sinking and Reserve Funds established by the bond resolution and the Arbitrage Reserve Fund, is 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, infrastructure and equipment, all net of accumulated depreciation and the related liabilities.

The Current Fund, including the Revenue Fund established by the bond resolution, is classified under the University General Educational Fund.

Revenue Fund

The Revenue Fund is used to account for student fees and charges such as tuitions, rates and fees levied against the students attending the University. In accordance with the provisions and terms of the bond resolution, these student fees and charges are irrevocably assigned as collateral to the payment of the principal and interest on the bonds. Student fees and charges that remain after the required transfers to the Sinking and Reserve Funds are transferred to the other University General Educational Fund accounts.

Construction Fund

The bond resolution provides that the balance of bond proceeds remaining after first making required deposits to the Academic Building Revenue Sinking Fund shall be deposited to the Construction Fund. The funds are to be held as a trust fund and disbursed, together with such other funds as may be lawfully available for the purpose, to pay for project costs.

Arbitrage Reserve Fund

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

Bond Reserve Fund (Reserve Fund)

The bond resolution provides that semi-annual installments will be credited to the Bond Reserve Fund from the student fees and charges remaining after first making the required payments into the Academic Building Revenue Reserve Sinking Fund, in an amount equal to 12% of the principal and interest due in the current fiscal year until the Bond Reserve Fund is equal to the maximum annual principal and interest coming due in any succeeding fiscal year. However, amounts credited to the Bond Reserve Fund in excess of the maximum amount of principal and interest due in any succeeding fiscal year shall be deposited in the University's General Educational Fund. All moneys credited to the Bond Reserve Fund shall be used for the payment of principal and interest on the bonds issued and outstanding.

Bond Sinking Fund (Sinking Fund)

The bond resolution provides for semi-annual installments to be set aside from the student fees and charges derived from the Revenue Fund to the Sinking Fund sufficient for the principal and interest payment that will become due and payable on and prior to the next succeeding July 1. The Sinking Fund shall be used solely for and is pledged for the purpose of paying the principal and interest of the bonds.

Cash and Investments

The University deposits the cash of most funds in commingled bank accounts and makes disbursements from the combined cash balances. An individual fund's cash balance represents that fund's cumulative deposits to and disbursements from the University's bank accounts.

Investments are reported at fair value.

Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$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	11-40
Infrastructure	30
Equipment	10

(2) Cash and Investments

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

	<u>Fair Value</u>
Cash and cash equivalents	\$ 371,233
U.S. government securities	<u>9,624,347</u>
Total	<u>\$ 9,995,580</u>

(3) Revenue Bonds Payable

The bonds, originally issued in an aggregate amount of \$107,475,000, bear interest at rates ranging from 3.00% to 6.85% per year. The bonds mature on July 1, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 7,750,000	4,304,035	12,054,035
2006	5,640,000	3,970,230	9,610,230
2007	5,590,000	3,702,309	9,292,309
2008	5,275,000	3,420,802	8,695,802
2009	5,740,000	3,030,990	8,770,990
2010	5,740,000	1,487,338	7,227,338
2011	6,025,000	1,236,591	7,261,591
2012	6,345,000	965,415	7,310,415
2013	4,740,000	716,261	5,456,261
2014	4,560,000	501,814	5,061,814
2015	2,190,000	344,132	2,534,132
2016	2,295,000	238,408	2,533,408
2017	1,045,000	161,794	1,206,794
2018	1,085,000	115,989	1,200,989
2019	1,135,000	67,245	1,202,245
2020	450,000	31,975	481,975
2021	475,000	10,925	485,925
Total	<u>\$ 66,080,000</u>	<u>24,306,253</u>	<u>90,386,253</u>

Under provisions of the bond resolutions, all bonds, and any additional parity bonds that may be subsequently issued, shall be retired solely from the student fees and charges levied against students attending the University.

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. Therefore, such debt is reflected in the Sinking Fund. Also, the bond resolutions require the Sinking Fund to remit funds to the paying agents in accordance with the bond resolution and are reported as deposits with paying agents as of June 30, 2004.

In November 2003, the University issued Series 2003 Academic Building Refunding Bonds for \$7,790,000, bearing interest rates ranging from 4% to 4.5% per year, payable semiannually on January 1 and July 1. The proceeds were used to refund the \$7,000,000 Academic Building Revenue Notes, Series 2002 on December 1, 2003.

In May 2004, the University issued Series 2004A and Series 2004B Academic Building Revenue Refunding Bonds for \$5,430,000 and \$3,135,000, respectively, bearing interest rates ranging from 3% to 4.6% per year, payable semi-annually on January 1 and July 1. The proceeds were held by the University Treasurer to refund in advance of maturity the July 1, 2006 through July 1, 2020 maturities of the Academic Building Revenue Bonds, Series 1994 in the aggregate principal amount of \$5,385,000; and to refund in advance of maturity the July 1, 2005 through 2012 maturities of the Academic Building Revenue Refunding Bonds, Series 1994 in the aggregate principal amount of \$3,095,000. As a result, that portion of the bonds (fiscal years 2005 through 2020) is considered defeased and the liability has been excluded from Revenue Bonds Payable.

The refunding of the Academic Building Revenue Bonds, Series 1994 and Academic Building Revenue Refunding Bonds, Series 1994 bonds permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$547,459 and reduces future aggregate debt service payments by \$349,971. The current year impact was to decrease net investments in plant by the loss on refunding bonds of \$85,000 (the increase in the principal balance of the refunding issue over the principal of the defeased portion).

At June 30, 2004, cash with paying agents of \$10,754,835 was on deposit in the Agency Fund of the University for the purpose of paying current obligations of bond principal and interest.

(4) Capital Assets

The following is a summary of capital assets activity in the Investment in Plant Fund for Academic Building assets for the year ended June 30, 2004:

	Balance June 30, 2003	Additions	Deletions	Balance June 30, 2004
Buildings, infrastructure and equipment	\$ 151,344,111	-	-	151,344,111
Less accumulated depreciation	(93,233,854)	(4,263,818)	-	(97,497,672)
Capital assets, net	\$ 58,110,257	(4,263,818)	-	53,846,439

Academic Building Revenue Bond Funds
Iowa State University of Science and Technology

Supplemental Information

Schedule 1

Academic Building 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

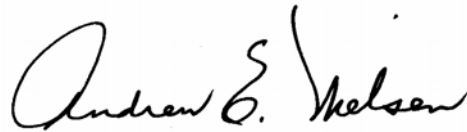
See accompanying independent auditor's report.

Academic Building 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 that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State