

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

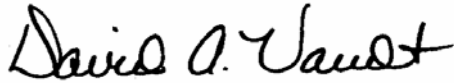
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility System Revenue Bond Funds of Iowa State University of Science and Technology at June 30, 2004, and the revenues, expenditures and changes in fund balances (deficit) 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 Utility System Revenue Bonds. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

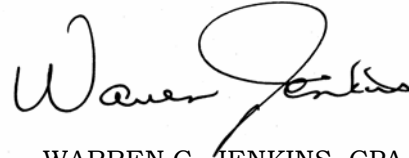
Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Utility System Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial statements.

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, 2004

Financial Statements

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

Balance Sheet

June 30, 2004

	Current Fund Operating Fund	Unexpended Construction Fund
Assets		
Cash and investments (note 2)	\$ 15,320,883	8,563,602
Accounts receivable	2,527	-
Due from other funds	-	-
Prepaid expense	3,825	-
Inventory	1,299,258	-
Interest receivable	-	24,375
Capital assets, net (note 4)	-	-
Total assets	\$ 16,626,493	8,587,977
Liabilities and Fund Balances (Deficit)		
Liabilities:		
Accounts payable	\$ 1,181,633	140,311
Accrued salaries and wages	49,173	-
Due to other funds	236,135	-
Compensated absences payable	154,525	-
Revenue bonds payable (note 3)	-	8,483,797
Interest payable	-	-
Total liabilities	1,621,466	8,624,108
Fund balances:		
Net investment in plant	-	-
Reserved for:		
Debt service	-	-
Improvements	-	-
Unreserved, designated for specific purposes	15,005,027	(36,131)
Total fund balances (deficit)	15,005,027	(36,131)
Total liabilities and fund balances (deficit)	\$ 16,626,493	8,587,977

See notes to financial statements.

Plant Funds				
Renewals and Replacements	Retirement of Indebtedness		Investment	Total
Improvement Fund	Reserve Fund	Bond Fund	in Plant	
1,350,767	3,653,891	29	-	28,889,172
-	-	-	-	2,527
-	-	236,135	-	236,135
-	-	-	-	3,825
-	-	-	-	1,299,258
235	401	-	-	25,011
-	-	-	41,725,406	41,725,406
1,351,002	3,654,292	236,164	41,725,406	72,181,334
-	-	-	-	1,321,944
-	-	-	-	49,173
-	-	-	-	236,135
-	-	-	-	154,525
-	991,378	-	24,255,878	33,731,053
-	-	236,135	-	236,135
-	991,378	236,135	24,255,878	35,728,965
-	-	-	17,469,528	17,469,528
-	2,662,914	29	-	2,662,943
1,351,002	-	-	-	1,351,002
-	-	-	-	14,968,896
1,351,002	2,662,914	29	17,469,528	36,452,369
1,351,002	3,654,292	236,164	41,725,406	72,181,334

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, 2004

	Current Fund Operating Fund	Unexpended Construction Fund
Operating revenues (note 6)	\$ 27,221,795	-
Operating expenditures before depreciation (note 5)	19,335,656	-
Operating income before depreciation	7,886,139	-
Depreciation	-	-
Net operating income (loss)	7,886,139	-
Other revenues (expenditures):		
Administrative expenses	-	(48,115)
Investment income	432,053	56,293
Net decrease in fair value of investments	-	(25,882)
Interest on bonds payable	-	-
	432,053	(17,704)
Excess (deficiency) of revenues over (under) expenditures	8,318,192	(17,704)
Other financing sources (uses):		
Net additions to capital assets	(8,261,336)	(3,622,595)
Mandatory transfers	(2,709,193)	(18,427)
Non-mandatory transfers	(1,500)	-
Transfers to other University funds	(5,928)	-
Transfer of revenue bonds payable	-	3,622,595
Total other financing sources (uses)	(10,977,957)	(18,427)
Net increase (decrease) for the year	(2,659,765)	(36,131)
Fund balances beginning of year	17,664,792	-
Fund balances (deficit) end of year	\$ 15,005,027	(36,131)

See notes to financial statements.

Plant Funds						
Renewals and Replacements Improvement Fund	Retirement of Indebtedness			Investment in Plant	Total	
	Reserve Fund	Bond Fund	Arbitrage Reserve Fund			
-	-	-	-	-	27,221,795	
-	-	-	-	-	19,335,656	
-	-	-	-	-	7,886,139	
-	-	-	-	2,013,937	2,013,937	
-	-	-	-	(2,013,937)	5,872,202	
-	-	-	(1,500)	-	(49,615)	
25,468	71,123	279	-	-	585,216	
(22,356)	(60,444)	-	-	-	(108,682)	
-	-	(1,214,306)	-	-	(1,214,306)	
3,112	10,679	(1,214,027)	(1,500)	-	(787,387)	
3,112	10,679	(1,214,027)	(1,500)	(2,013,937)	5,084,815	
-	-	-	-	11,883,931	-	
(12,909)	(25,167)	2,765,696	-	-	-	
-	-	-	1,500	-	-	
-	-	-	-	-	(5,928)	
-	-	(1,551,717)	-	(2,070,878)	-	
(12,909)	(25,167)	1,213,979	1,500	9,813,053	(5,928)	
(9,797)	(14,488)	(48)	-	7,799,116	5,078,887	
1,360,799	2,677,402	77	-	9,670,412	31,373,482	
1,351,002	2,662,914	29	-	17,469,528	36,452,369	

Utility System 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 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 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 in the Bond and Reserve Funds, in quarterly amounts of \$20,000 commencing not later than the fiscal year beginning July 1, 1989, until there has been an accumulation of \$1,350,000 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 that 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, 2004, no interest costs were capitalized.

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

<u>Assets</u>	<u>Years</u>
Equipment	25
Utility system infrastructure	30
Buildings	10

(2) Cash and Investments

Cash in excess of immediate needs for debt service is primarily invested 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	\$ 18,013,862
U.S. government securities	<u>10,875,310</u>
Total	<u>\$ 28,889,172</u>

(3) Revenue Bonds Payable

The bonds, originally issued in the aggregate for \$39,960,000, including Utility System Revenue Bonds, Series I.S.U. 2003 issued on December 10, 2003, bear interest at rates ranging from 2.0% to 4.85% per year, payable semi-annually on May 1 and November 1.

The Series 2003 bonds were issued to equip and improve the Utility System.

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

Year Ending June 30,	Principal	Interest	Total
2005	\$ 1,650,000	1,384,384	3,034,384
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
	<u>33,905,000</u>	<u>12,058,235</u>	<u>45,963,235</u>
Unamortized discount	<u>(173,947)</u>		
Total	<u>\$ 33,731,053</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, 2004:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Building	\$ 1,622,207	-	-	1,622,207
Utility system infrastructure	46,034,746	11,883,931	-	57,918,677
Equipment	333,713	-	-	333,713
Total capital assets	<u>47,990,666</u>	<u>11,883,931</u>	<u>-</u>	<u>59,874,597</u>
Less accumulated depreciation				
Building	(269,042)	(64,888)	-	(333,930)
Utility system infrastructure	(15,594,466)	(1,930,623)	-	(17,525,089)
Equipment	(271,746)	(18,426)	-	(290,172)
Total accumulated depreciation	<u>(16,135,254)</u>	<u>(2,013,937)</u>	<u>-</u>	<u>(18,149,191)</u>
Capital assets, net	<u>\$ 31,855,412</u>	<u>9,869,994</u>	<u>-</u>	<u>41,725,406</u>

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, 2004, \$28,852 was paid to reimburse Ames for payments related to fire protection improvements. Future average annual payments of \$22,849 from 2005 to 2015 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, 2004, 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, 2004, 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, 2004, 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, 2004, 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 \$7,251,637 and \$19,970,158, respectively.

(7) Debt Service Coverage

Utility System Revenue Bond Fund 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 \$7,886,139 and investment income of \$585,216 provided debt service coverage of \$8,471,355, or 279% of the principal and interest due for the year ending June 30, 2004.

Supplemental Information

Schedule 1

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

Insurance Coverage
(Unaudited)

June 30, 2004

Insurer

Travelers Insurance Company

Description of Coverage

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

Amount of Coverage

\$242,650,411

Policy Number

KTK-CMB-544D989-2-03

Term of Policy

July 1, 2003 to July 1, 2004

See accompanying independent auditor's report.

Utility System 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

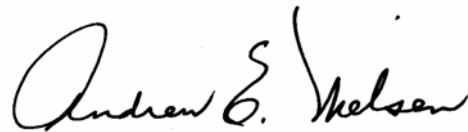
See accompanying independent auditor's report.

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

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Ernest H. Ruben, Jr., CPA, Senior Auditor II

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