

**ACADEMIC BUILDING REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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

JUNE 30, 2005

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 (Deficit)	B	8-9
Notes to Financial Statements		10-13
Supplemental Information:	<u>Schedule</u>	
Student Enrollment	1	16
Staff		17



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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, 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 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, 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 Academic Building Revenue Bond Funds for the year ended June 30, 2005. Presentation of such a statement summarizing Academic Building Revenue Bond Funds operating, noncapital financing, capital and related financing and investing activities is required by U.S. generally accepted accounting principles.

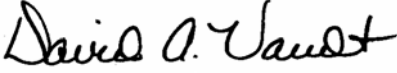
In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Academic Building Revenue Bond Funds 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 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, 2005

Financial Statements

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

Balance Sheet

June 30, 2005

	<u>Unexpended Construction Fund</u>
Assets	
Cash and investments (note 2)	\$ 93,125
Cash with paying agents (note 3)	-
Interest receivable	-
Capital assets, net (note 4)	-
Total assets	<u>\$ 93,125</u>
Liabilities and Fund Balances (Deficit)	
Liabilities:	
Interest payable	\$ -
Due to other University funds	-
Revenue bonds payable (note 3)	5,443
Total liabilities	<u>5,443</u>
Fund balances (deficit):	
Net investment in plant	-
Reserved for debt service	-
Unreserved, designated for specific purposes	87,682
Total fund balances (deficit)	<u>87,682</u>
Total liabilities and fund balances (deficit)	<u>\$ 93,125</u>

See notes to financial statements.

Plant Funds				
Retirement of Indebtedness				
Arbitrage Reserve Fund	Reserve Fund	Sinking Fund	Investment in Plant	Total
60,377	9,402,330	-	-	9,555,832
-	-	8,485,800	-	8,485,800
117	-	58,909	-	59,026
-	-	-	49,543,115	49,543,115
60,494	9,402,330	8,544,709	49,543,115	67,643,773
-	-	6,479,723	-	6,479,723
-	-	146,919	-	146,919
-	1,037,503	5,639,999	51,647,055	58,330,000
-	1,037,503	12,266,641	51,647,055	64,956,642
-	-	-	(2,103,940)	(2,103,940)
60,494	8,364,827	(3,721,932)	-	4,703,389
-	-	-	-	87,682
60,494	8,364,827	(3,721,932)	(2,103,940)	2,687,131
60,494	9,402,330	8,544,709	49,543,115	67,643,773

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, 2005

	Current Fund Revenue Fund	Unexpended Construction Fund
Revenues:		
Student fees and charges, (net of scholarship allowances of \$41,614,798)	\$ 124,312,369	-
Investment income	-	-
Net decrease in fair value of investments	-	-
Total revenues	124,312,369	-
Expenditures before depreciation:		
Interest on indebtedness	-	-
Administrative expenses	-	22,081
Total expenditures before depreciation	-	22,081
Excess (deficiency) of revenues over (under) expenditures before depreciation	124,312,369	(22,081)
Depreciation	-	-
Excess (deficiency) of revenues over expenditures after depreciation	124,312,369	(22,081)
Other financing sources (uses):		
Mandatory transfers	(9,079,808)	-
Transfers to other University General Educational accounts	(115,232,561)	-
Transfer of revenue bonds payable	-	22,081
Total other financing sources (uses)	(124,312,369)	22,081
Net increase (decrease) for the year	-	-
Fund balances (deficit) beginning of year	-	87,682
Fund balances (deficit) end of year	\$ -	87,682

See notes to financial statements.

Plant Funds				
Retirement of Indebtedness				
Arbitrage Reserve Fund	Reserve Fund	Sinking Fund	Investment in Plant	Total
-	-	-	-	124,312,369
997	-	283,653	-	284,650
-	-	(62,521)	-	(62,521)
997	-	221,132	-	124,534,498
-	-	3,046,515	-	3,046,515
9,770	-	-	-	31,851
9,770	-	3,046,515	-	3,078,366
(8,773)	-	(2,825,383)	-	121,456,132
-	-	-	(4,303,324)	(4,303,324)
(8,773)	-	(2,825,383)	(4,303,324)	117,152,808
-	(408,787)	9,488,595	-	-
-	-	(7)	-	(115,232,568)
-	-	(5,640,000)	5,617,919	-
-	(408,787)	3,848,588	5,617,919	(115,232,568)
(8,773)	(408,787)	1,023,205	1,314,595	1,920,240
69,267	8,773,614	(4,745,137)	(3,418,535)	766,891
60,494	8,364,827	(3,721,932)	(2,103,940)	2,687,131

Academic Building 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 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 Reserve and Sinking 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 tuition, 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 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 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 Bond 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, 2005, 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

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 banks of \$179,100 is combined with other University funds. The money market balance for the Academic Building Revenue Bond Funds is \$78,557.

At June 30, 2005, the Academic Building Revenue Bond Funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed Income:	
U.S. Government Treasury Notes	<u>\$ 9,298,175</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 Academic Building 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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u>
Fixed Income:		
U.S. Government Treasury Notes	<u>\$ 9,298,175</u>	<u>0.93</u>

(3) Revenue Bonds Payable

The bonds, originally issued in an aggregate amount of \$78,820,000, 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
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>\$ 58,330,000</u>	<u>20,002,218</u>	<u>78,332,218</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, 2005.

At June 30, 2005, cash with paying agents of \$8,485,800 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, 2005:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Buildings, infrastructure and equipment	\$ 151,344,111	-	-	151,344,111
Less accumulated depreciation	(97,497,672)	(4,303,324)	-	(101,800,996)
Capital assets, net	<u>\$ 53,846,439</u>	<u>(4,303,324)</u>	<u>-</u>	<u>49,543,115</u>

**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, 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

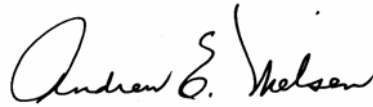
See accompanying independent auditor's report.

Academic Building 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