

**MEMORIAL UNION REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS**

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		10-14
Supplemental Information:	<u>Schedule</u>	
Student Fee Receipts	1	16
Insurance Coverage	2	17
Student Enrollment	3	18
Staff		19



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

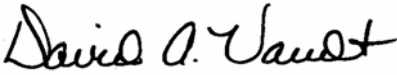
In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Memorial Union Revenue Bond Funds of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

Financial Statements

Memorial Union Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2005

	Current Fund	Unexpended	
	Revenue Fund	Project Fund	System Fund
Assets			
Cash and investments (note 2)	\$ 116,825	16,900,256	1,429,260
Cash with paying agent (note 3)	-	-	-
Accounts receivable, less allowance for doubtful accounts of \$690	7,360	-	-
Interest receivable	-	60,874	-
Prepaid expenses	998	-	-
Capital assets (note 4)	-	-	-
	-	-	-
Total assets	\$ 125,183	16,961,130	1,429,260
Liabilities and Fund Balances (Deficit)			
Liabilities:			
Accounts payable	\$ 8,931	379,643	-
Compensated absences	138,285	-	-
Accrued salaries and wages	51,076	-	-
Interest payable	-	-	-
Deferred revenue	10,964	-	-
Revenue bonds payable (note 3)	-	16,608,075	-
Total liabilities	209,256	16,987,718	-
Fund balances (deficit):			
Net investment in plant	-	-	-
Reserved for debt service	-	-	-
Unreserved, designated for specific purposes	(84,073)	(26,588)	1,429,260
Total fund balances (deficit)	(84,073)	(26,588)	1,429,260
Total liabilities and fund balances (deficit)	\$ 125,183	16,961,130	1,429,260

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness		Investment in Plant	Total
Sinking Fund	Reserve Fund		
-	1,664,924	-	20,111,265
577,267	-	-	577,267
-	-	-	7,360
-	15,392	-	76,266
-	-	-	998
-	-	12,130,350	12,130,350
577,267	1,680,316	12,130,350	32,903,506
-	-	-	388,574
-	-	-	138,285
-	-	-	51,076
577,267	-	-	577,267
-	-	-	10,964
-	1,674,000	6,011,435	24,293,510
577,267	1,674,000	6,011,435	25,459,676
-	-	6,118,915	6,118,915
-	6,316	-	6,316
-	-	-	1,318,599
-	6,316	6,118,915	7,443,830
577,267	1,680,316	12,130,350	32,903,506

Memorial Union 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	Unexpended	
	Revenue Fund	Project Fund	System Fund
Revenue (expenditures):			
Operating revenue	\$ 2,342,138	-	-
Operating expenditures before depreciation	(3,491,842)	-	-
Operating loss before depreciation	(1,149,704)	-	-
Depreciation	-	-	-
Net operating loss	(1,149,704)	-	-
Other revenues (expenditures):			
Investment income	51,615	277,200	-
Net decrease in fair value of investments	-	(69,602)	-
Interest on indebtedness	-	-	-
Issuance expenses	-	(86,223)	-
Excess (deficiency) of revenues over (under) expenditures	(1,098,089)	121,375	-
Other financing sources (uses):			
Additions to capital assets, including capitalized interest	(108,147)	(1,605,486)	-
Mandatory transfers	(782,917)	(4,306,465)	-
Non-mandatory transfers	(1,176,680)	(234,187)	1,429,260
Allocation of student fees from other University funds	630,102	-	-
Transfers from other University funds	1,524,453	-	-
Additions to capital assets financed by other University funds	-	-	-
Transfer of revenue bonds and notes payable	-	5,998,175	-
Total other financing sources (uses)	86,811	(147,963)	1,429,260
Net increase (decrease) for the year	(1,011,278)	(26,588)	1,429,260
Fund balances (deficit) beginning of year, as restated (Note 6)	927,205	-	-
Fund balances (deficit) end of year	\$ (84,073)	(26,588)	1,429,260

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness			
Sinking Fund	Reserve Fund	Investment in Plant	Total
-	-	-	2,342,138
-	-	-	(3,491,842)
-	-	-	(1,149,704)
-	-	(439,770)	(439,770)
-	-	(439,770)	(1,589,474)
1	33,785	-	362,601
-	(9,076)	-	(78,678)
(402,187)	-	-	(402,187)
-	-	-	(86,223)
(402,186)	24,709	(439,770)	(1,793,961)
(290,932)	-	2,004,565	-
5,089,382	-	-	-
-	(18,393)	-	-
-	-	-	630,102
-	-	-	1,524,453
-	-	251,340	251,340
(4,375,745)	-	(1,622,430)	-
422,705	(18,393)	633,475	2,405,895
20,519	6,316	193,705	611,934
(20,519)	-	5,925,210	6,831,896
-	6,316	6,118,915	7,443,830

Memorial Union 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 Memorial Union 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 improve, remodel, repair and construct additions to the Memorial Union Building and the Memorial Union Parking Facility on the campus of Iowa State University of Science and Technology. The bonds also will be used to refund the outstanding First Mortgage Notes, Series 2000. The revenue bonds are issued on behalf of the University.

The financial statements of the Memorial Union Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Memorial Union 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 Memorial Union 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) Unexpended, (2) Retirement of Indebtedness and (3) Investment in Plant. Unexpended, including the Project and System Funds established by the bond resolution, is comprised of amounts allocated or designated for improving, remodeling, repairing or constructing additions to the Memorial Union Building and the Memorial Union Parking Facility. Retirement of Indebtedness, including the Sinking and Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal and interest and refunding the outstanding First Mortgage Notes, Series 2000 for the Memorial Union Building. Investment in Plant is comprised of amounts representing the total of buildings and equipment, all net of accumulated depreciation, construction in progress and the related liabilities.

The Current Fund, including the Revenue 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.

Revenue Fund

The Revenue Fund is used to account for the gross revenues from the operations of the Memorial Union. All monies credited to the Revenue Fund must first be disbursed to pay current expenses of the Memorial Union and thereafter must be deposited in the Sinking Fund, Reserve Fund or System Fund as needed. The Revenue Fund will be used to account for the operations of the Memorial Union.

Project Fund

The Project Fund accounts for the bond proceeds, less the initial deposits required in the Reserve Fund. These proceeds, together with such other funds as may be lawfully available for the purpose, are disbursed and used to pay project construction costs and bond issuance costs as required by the bond resolution.

Memorial Union System Fund (System Fund)

The bond resolution provides all net revenues not required to be deposited into the Sinking Fund or the Reserve Fund be deposited into the System Fund. All moneys deposited in the System Fund shall be (a) transferred and credited to the Sinking Fund whenever necessary to prevent or remedy a default in the payment of the principal of or interest on the Bonds or parity bonds or (b) transferred and credited to the Reserve Fund whenever any deficiency may exist in the Reserve Fund or whenever necessary to replace funds transferred from the Reserve Fund to the Sinking Fund. Until so used, moneys credited to the System Fund may be used for any lawful purpose, as determined by the Board of Regents, including without limitation the following: (1) to pay principal of and interest on any other obligations which by their terms shall be payable from the net revenues and which have been issued for the purposes of extensions and improvements to the System, (2) to retire the Bonds in advance of maturity or (3) to pay for extraordinary repairs or replacements to the System.

Sinking Fund

The bond resolution provides the required amount to be deposited from the Revenue Fund to the Sinking Fund during any fiscal year shall be the amount necessary to pay in full the installment of principal and interest coming due on the next January 1 and July 1.

Reserve Fund

The bond resolution provides money in the Revenue Fund shall next be disbursed to maintain a debt service reserve in an amount equal to the Reserve Fund requirement. All monies credited to the Reserve Fund shall be used solely for the purpose of paying principal at maturity of or interest on the Bonds and any Parity Bonds for which there are insufficient funds available in the Sinking Fund.

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 and \$50,000 for buildings. 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, interest costs of \$290,932 were capitalized.

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

<u>Assets</u>	<u>Years</u>
Equipment	7-15
Building	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 banks of \$1,431,736 is combined with other University funds. The money market balance for the Memorial Union Revenue Bond Funds is \$651,200.

At June 30, 2005, the Memorial Union Revenue Bond Funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed Income:	
U.S. Government Treasury Notes	<u>\$18,028,329</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 Memorial Union 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.

Interest Rate Sensitivity - Duration

<u>Investment Type</u>	<u>Fair Value</u>	<u>Duration</u>
Fixed Income:		
U.S. Government Treasury Notes	<u>\$18,028,329</u>	<u>1.17</u>

(3) Revenue Bonds Payable

The bonds, issued on December 1, 2004 for \$24,625,000, are to be used to improve, remodel, repair and construct additions to the Memorial Union Building and the Memorial Union Parking Facility and to refund the outstanding First Mortgage Notes, Series 2000.

The bonds bear interest at rates ranging from 2.50% to 4.63% per year, payable semi-annually on January 1 and July 1. The bonds mature on January 1 and July 1 of each year, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ -	1,072,067	1,072,067
2007	620,000	981,850	1,601,850
2008	630,000	966,225	1,596,225
2009	645,000	948,675	1,593,675
2010	665,000	929,025	1,594,025
2011	680,000	908,850	1,588,850
2012	705,000	887,722	1,592,722
2013	730,000	864,932	1,594,932
2014	755,000	840,235	1,595,235
2015	785,000	813,662	1,598,662
2016	815,000	785,153	1,600,153
2017	845,000	754,537	1,599,537
2018	880,000	721,094	1,601,094
2019	920,000	685,094	1,605,094
2020	960,000	647,494	1,607,494
2021	1,000,000	608,294	1,608,294
2022	1,045,000	566,088	1,611,088
2023	1,090,000	520,719	1,610,719
2024	1,140,000	471,906	1,611,906
2025	1,195,000	419,369	1,614,369
2026	1,255,000	364,244	1,619,244
2027	1,315,000	305,597	1,620,597
2028	1,380,000	243,275	1,623,275
2029	1,450,000	177,831	1,627,831
2030	1,520,000	109,150	1,629,150
2031	1,600,000	37,000	1,637,000
	24,625,000	16,630,088	41,255,088
Unamortized discount	(331,490)		
Total	\$ 24,293,510		

Under the provisions of the bond resolution, these bonds will be retired solely from the net revenues and other system income of the Memorial Union. Principal and interest is not due for the Memorial Union revenue bonds until July 1, 2006 and July 1, 2005, respectively.

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, 2005, cash with paying agents of \$577,267 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 Memorial Union assets for the year ended June 30, 2005:

	Balance July 1, 2004, as Restated	Additions	Transfers	Deletions	Balance June 30, 2005
Capital assets, nondepreciable:					
Construction in progress	\$ 711,360	2,238,100	(238,106)	-	2,711,354
Capital assets, depreciable:					
Buildings	10,511,246	-	238,106	-	10,749,352
Equipment	27,391	17,805	-	-	45,196
Capital assets, depreciable	10,538,637	17,805	238,106	-	10,794,548
Accumulated depreciation:					
Buildings	(932,729)	(429,969)	-	-	(1,362,698)
Equipment	(3,053)	(9,801)	-	-	(12,854)
Total accumulated depreciation	(935,782)	(439,770)	-	-	(1,375,552)
Depreciable assets, net	9,602,855	(421,965)	238,106	-	9,418,996
Capital assets, net	\$ 10,314,215	1,816,135	-	-	12,130,350

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

(5) Debt Service Coverage

Memorial Union Revenue Bond Funds interest payments totaling \$577,267 due July 1, 2005 requires debt service coverage of a minimum of 120%, or \$692,720. Transfers from other University funds of \$1,524,453, student fees of \$630,102, net operating loss of \$(1,149,704), investment income of \$362,601 and cash in the System Fund of \$1,429,260 provided debt service coverage of \$2,796,712, or 484% of the interest due for the year ended June 30, 2005.

(6) Prior Period Adjustment

The beginning fund balance for Investment in Plant was increased by \$1,171,160 to include construction in progress of \$711,360 and leasehold improvements of \$459,800, net of accumulated depreciation, which had not previously been included.

Supplemental Information

Schedule 1

Memorial Union Revenue Bond Funds
Iowa State University of Science and Technology

Student Fees

Year ended June 30, 2005

	Student Fees
Summer Semester, 2004*	\$ 6,392
Fall Semester, 2004	94,326
Spring Semester, 2005	83,284
Summer Semester, 2005**	<u>65,749</u>
	<u>\$ 249,751</u>

Memorial Union Fees (\$1.95 for Summer 2004, \$3.90 for Spring and Fall, and \$24.55 for Summer 2005) are collected from students who are enrolled for more than two credit hours.

Included in allocation of student fees from other University funds is \$380,351 of student fees not included in the schedule above, which were set aside in a separate fund to finance future improvements and debt service of the Memorial Union Building.

* Summer Semester 2004 fees exclude \$10,917 of fees recognized in fiscal year 2005.

** Summer Semester 2005 fees exclude \$35,341 of deferred revenue representing fees applicable to fiscal year 2006.

See accompanying independent auditor's report.

Memorial Union Revenue Bond Funds
Iowa State University of Science and Technology

Insurance Coverage
(Unaudited)

June 30, 2005

Term of Policy	<u>Effective: 4/02/04 to 4/02/05</u>	<u>Effective 4/02/05 to 7/01/05</u>
Insurer	St. Paul Fire and Marine Insurance Company	St. Paul Travelers
Description of Coverage	General property coverage with a \$5,000 deductible for each occurrence for each item	General property coverage with a \$5,000 deductible for each occurrence for each item
Amount of Coverage		
Building	\$33,093,900	\$70,000,000
Contents	1,042,444	1,042,444
Ramp	4,866,750	6,700,000
Business Interruption	1,053,119	1,054,548
Policy Number	CF01400216	P-630-932K3865

See accompanying independent auditor's report.

Schedule 3

Memorial Union 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

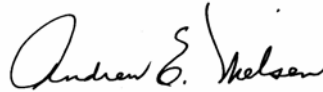
See accompanying independent auditor's report.

Memorial Union Revenue Bond Funds
Iowa State University of Science and Technology

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Patricia J. King, 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