

**TELECOMMUNICATIONS FACILITIES 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	B	8-9
Notes to Financial Statements		10-14
Supplemental Information:	<u>Schedule</u>	
Insurance Coverage	1	16
Student Enrollment	2	17
Staff		18



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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

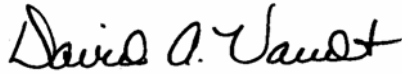
In our opinion, except that the omission of a statement of cash flows results in an incomplete presentation as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Telecommunications Facilities Revenue 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 Telecommunications Facilities Revenue Bonds. It should be noted, however, our audit was not directed primarily toward obtaining knowledge of such non-compliance.

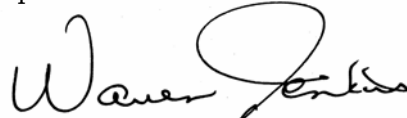
Iowa State University of Science and Technology has not presented Management's Discussion and Analysis for the Telecommunications Facilities Revenue Bond Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the financial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

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2005

	Renewals and Replacements	
	Improvement Fund	Operations Reserve
Assets		
Cash and investments (note 2)	\$ 400,000	8,582,529
Cash with paying agents (note 3)	-	-
Accounts receivable	-	74,999
Interest receivable	-	27,612
Prepaid expense	-	8,428
Capital assets, net (note 4)	-	-
Total assets	\$ 400,000	8,693,568
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$ 123,042	27,029
Compensated absences payable	-	171,544
Accrued salaries and wages	-	5,278
Interest payable	-	-
Revenue bonds payable (note 3)	-	-
Total liabilities	123,042	203,851
Fund balances:		
Net investment in plant	-	-
Reserved for debt service	-	-
Unreserved, designated for specific purposes	276,958	8,489,717
Total fund balances	276,958	8,489,717
Total liabilities and fund balances	\$ 400,000	8,693,568

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness			
Sinking Fund	Reserve Fund	Investment in Plant	Total
-	766,778	-	9,749,307
897,221	-	-	897,221
-	-	-	74,999
759	4,429	-	32,800
-	-	-	8,428
-	-	14,535,601	14,535,601
897,980	771,207	14,535,601	25,298,356
-	-	-	150,071
-	-	-	171,544
-	-	-	5,278
57,221	-	-	57,221
840,000	761,500	1,028,500	2,630,000
897,221	761,500	1,028,500	3,014,114
-	-	13,507,101	13,507,101
759	9,707	-	10,466
-	-	-	8,766,675
759	9,707	13,507,101	22,284,242
897,980	771,207	14,535,601	25,298,356

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2005

	Current Funds	
	Revenue Fund	Operations and Maintenance Fund
Revenues (expenditures):		
Operating revenues	\$ 7,234,095	-
Operating expenditures before depreciation	-	(4,583,531)
	7,234,095	(4,583,531)
Operating income before depreciation	7,234,095	(4,583,531)
Depreciation	-	-
	7,234,095	(4,583,531)
Net operating income (loss)	7,234,095	(4,583,531)
Other revenues (expenditures):		
Non-capitalized equipment	-	-
Administrative expenses	-	-
Investment income	35,702	-
Net decrease in fair value of investments	-	-
Interest on indebtedness	-	-
	7,269,797	(4,583,531)
Excess (deficiency) of revenues over (under) expenditures	7,269,797	(4,583,531)
Other financing sources (uses):		
Additions to telecommunications infrastructure	-	-
Deletions of capital assets	-	-
Mandatory transfers	(1,354,443)	-
Non-mandatory transfers	(6,219,919)	4,583,531
Transfers from other University funds	304,565	-
Transfer of revenue bonds payable	-	-
Total other financing sources (uses)	(7,269,797)	4,583,531
Net increase (decrease) for the year	-	-
Fund balances beginning of year	-	-
Fund balances end of year	\$ -	-

See notes to financial statements.

Plant Funds								
Unexpended Construction Fund	Renewals and Replacements		Retirement of Indebtedness			Investment in Plant	Total	
	Improvement Fund	Operations Reserve	Sinking Fund	Reserve Fund	Arbitrage Reserve Fund			
-	-	-	-	-	-	-	7,234,095	
-	-	-	-	-	-	-	(4,583,531)	
-	-	-	-	-	-	-	2,650,564	
-	-	-	-	-	-	(3,047,038)	(3,047,038)	
-	-	-	-	-	-	(3,047,038)	(396,474)	
-	(198,216)	-	-	-	-	-	(198,216)	
-	-	-	-	-	(1,500)	-	(1,500)	
2,482	-	186,340	4,169	32,738	-	-	261,431	
-	-	(25,763)	-	(17,355)	-	-	(43,118)	
-	-	-	(114,443)	-	-	-	(114,443)	
2,482	(198,216)	160,577	(110,274)	15,383	(1,500)	(3,047,038)	(492,320)	
(341,533)	(2,894,105)	-	-	-	-	3,235,638	-	
-	-	-	-	-	-	(265)	(265)	
-	400,000	-	954,443	-	-	-	-	
(588,629)	2,641,590	(381,775)	(3,582)	(32,716)	1,500	-	-	
-	-	-	-	-	-	40,713	345,278	
230,671	-	-	(840,000)	-	-	609,329	-	
(699,491)	147,485	(381,775)	110,861	(32,716)	1,500	3,885,415	345,013	
(697,009)	(50,731)	(221,198)	587	(17,333)	-	838,377	(147,307)	
697,009	327,689	8,710,915	172	27,040	-	12,668,724	22,431,549	
-	276,958	8,489,717	759	9,707	-	13,507,101	22,284,242	

Telecommunications Facilities 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 Telecommunications Facilities Revenue Bond Funds were created by resolution of the Board of Regents, State of Iowa which authorized the issuance of revenue bonds to defray the additional costs of constructing, improving and equipping the telecommunications system of Iowa State University of Science and Technology. The revenue bonds are issued on behalf of the University.

The financial statements of the Telecommunications Facilities Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Telecommunications Facilities 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 Telecommunications Facilities 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 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 comprised of amounts allocated or designated for constructing, acquiring and improving the Telecommunications Facilities. Renewals and Replacements, including the Improvement and the Operations Reserve Funds established by the bond resolution, is comprised of amounts allocated or designated for repairs and improvements for the Telecommunications Facilities. Retirement of Indebtedness, including Sinking, Reserve and Arbitrage Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal and interest. Investment in Plant is comprised of amounts representing the total of buildings, telecommunications system infrastructure, equipment, all net of accumulated depreciation and the related liabilities.

The Current Funds, including the Revenue and the Operations and Maintenance Funds established by the bond resolution, are classified as a University Auxiliary Enterprise to account for transactions of substantially self-supporting activities that primarily perform a service to students.

Revenue Fund

The Revenue Fund is used to account for all financial resources except those to be accounted for in another fund. In accordance with the provisions and terms of the bond resolution, the gross revenues of the Telecommunications Facilities shall be deposited as collected in this fund.

Operation and Maintenance Fund

The Operation and Maintenance Fund is used to pay expenses of operating the Telecommunications Facilities.

Construction Fund

The Construction Fund accounts for the receipts of the bond proceeds, together with such other funds as may be lawfully available for the purpose, to pay project construction costs as required by the bond resolution.

Improvement and Extension Fund (Improvement Fund)

The bond resolution provides semi-annual installments will be credited to the Improvement Fund from the net rents, profits and income of the Telecommunications Facilities remaining after first making the required payments into the Sinking and Reserve Funds in the sum of \$200,000 or a greater amount as determined by the Board of Regents. All monies credited to the Improvement Fund are used to pay any extraordinary cost of maintaining the Telecommunications Facilities and to pay the costs of constructing necessary repairs, improvements, and extensions thereto. At the end of each fiscal year, any excess cash balance above \$400,000 on deposit in the Improvement Fund shall be transferred to the Operations Reserve Fund. Transfers will made to fund deficits in the following months.

Operations Reserve Fund

The bond resolution provides all remaining net rents, profits and income of the Telecommunications Facilities are deposited to the Operations Reserve Fund. Monies deposited to the Operations Reserve Fund are used and applied to the payment of necessary operating and maintenance expenses whenever, for any reason, no other funds are available for such purpose, transferred and credited to the Sinking Fund to prevent or remedy a default in the payment of principal and interest on the outstanding bonds and credited to the Debt Service Reserve Fund or Improvement Fund whenever any deficiency may exist. Until so needed, monies deposited to the Operations Reserve Fund may be used to: (1) purchase bonds prior to maturity, (2) pay costs of constructing, acquiring and improving the Telecommunications Facilities or extraordinary costs of operating, repairing or maintaining the Telecommunications Facilities or (3) pay principal of and interest on any other obligations which by their terms shall be payable from the revenues of the Telecommunications Facilities, but subordinate to the bonds or bonds ranking on a parity therewith, and which have been issued for the purpose of extensions and improvements to the Facilities or to retire the bonds or bonds ranking on a parity therewith in advance of maturity or to pay for extraordinary repairs and replacements to the Facilities.

Bond Sinking Fund (Sinking Fund)

The bond resolution provides equal semi-annual installments shall be set aside from the net rents, profits and income derived from the Telecommunications Facilities to the Sinking Fund sufficient for the principal and interest payment that will become due and payable on and prior to the next succeeding January 1 or July 1. Any excess amount shall be transferred to the Debt Service Reserve Fund or to the Operations Reserve Fund if the amount on deposit in the Debt Service Reserve Fund is equal to or greater than the Debt Service Reserve Requirement.

Debt Service Reserve Fund (Reserve Fund)

The bond resolution establishes a Debt Service Reserve Fund as additional security for the bonds. The Debt Service Reserve Fund will be funded in an amount equal to the lesser of (1) ten percent of the stated principal amount of the bonds, (2) the maximum annual payments of principal and interest on the bonds or (3) 125% of the average annual principal and interest requirements on the Bonds (the "Debt Service Reserve Requirement"). The Debt Service Reserve Fund was funded at Bond closing in the amount of \$761,500. All moneys credited to the Debt Service Reserve Fund shall be transferred to the Bond Sinking Fund and used for the payment of principal and interest on the Bonds whenever for any reason the funds on deposit in the Bond Sinking Fund are insufficient to pay such principal and interest when due. All amounts in excess of the Debt Service Reserve Requirement shall be transferred to the Operations Reserve Fund.

Arbitrage Reserve Fund

Moneys credited to the Arbitrage Reserve Fund shall be used for the payment of arbitrage rebates and related administrative expenses. Transfers will be made to fund any deficits in the following months.

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 infrastructure. Such assets are recorded at historical cost if 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>
Equipment	5-12
Infrastructure	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 \$1,813,419 is combined with other University funds. The money market balance for the Telecommunications Facilities Revenue Bond Funds is \$4,418,104.

At June 30, 2005, the Telecommunications Facilities Revenue Bond Funds had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Fixed Income:	
U.S. Government Treasury Notes	<u>\$ 3,517,784</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 Telecommunications Facility 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>\$ 3,517,784</u>	<u>1.89</u>

(3) Revenue Bonds Payable

The bonds, issued on August 1, 1997 for \$7,615,000, were to be used to construct, improve and equip the Telecommunications Facilities for the University. The bonds bear interest at rates ranging from 4.1% to 4.4% per year, payable semi-annually on January 1 and July 1. The bonds mature on July 1, in annual amounts as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 840,000	96,383	936,383
2007	875,000	59,291	934,291
2008	915,000	20,130	935,130
Total	<u>\$ 2,630,000</u>	<u>175,804</u>	<u>2,805,804</u>

Under the provisions of the bond resolution, these bonds, and additional parity bonds that may be subsequently issued, will be retired solely from the net rents, profits and income from the Telecommunications Facilities of 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.

At June 30, 2005, cash with paying agents of \$897,221 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 for the Investment in Plant Fund for Telecommunications Facilities assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Equipment	\$ 8,902,257	58,579	(55,748)	8,905,088
Telecommunications system infrastructure	34,561,452	3,217,772	-	37,779,224
Total capital assets	43,463,709	3,276,351	(55,748)	46,684,312
Less accumulated depreciation:				
Equipment	(7,268,047)	(449,627)	55,483	(7,662,191)
Telecommunications system infrastructure	(21,889,109)	(2,597,411)	-	(24,486,520)
Total accumulated depreciation	(29,157,156)	(3,047,038)	55,483	(32,148,711)
Capital assets, net	\$ 14,306,553	229,313	(265)	14,535,601

(5) Debt Service Coverage

Telecommunications Facilities Revenue Bond Fund principal and interest payments totaling \$954,443 due January 1 and July 1, 2005 require debt service coverage of a minimum of 110%, or \$1,049,887. Telecommunications Facilities operating income before depreciation of \$2,650,564 and investment income of \$261,431 provided debt service coverage of \$2,911,995, or 305% of the principal and interest due for the year ended June 30, 2005.

Supplemental Information

Schedule 1

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Insurance Coverage
(Unaudited)

June 30, 2005

Insurer

Employers Mutual Casualty
Company (EMC)

Description of Coverage

Electronic Data Processing coverage with a \$5,000 deductible for each single loss.

Amount of Coverage

\$ 11,198,798

Policy Number

1C50891

Terms of Policy

July 1, 2004 to July 1, 2005

See accompanying independent auditor's report.

Telecommunications Facilities 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, 2005	26,380
Spring Semester, 2005	24,426

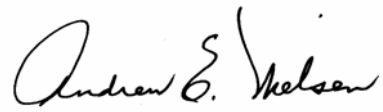
See accompanying independent auditor's report.

Telecommunications Facilities Revenue Bond Funds
Iowa State University of Science and Technology

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Jedd D. Moore, Staff Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State