

**REGULATED MATERIALS FACILITY REVENUE BOND FUNDS
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS**

JUNE 30, 2005

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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 Regulated Materials Facility 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 Regulated Materials Facility 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.

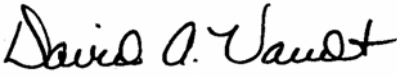
Iowa State University of Science and Technology declined to present a statement of cash flows for the Regulated Materials Facility Revenue Bond Funds for the year ended June 30, 2005. Presentation of such a statement summarizing the Regulated Materials Facility Revenue Bond Funds operating, noncapital 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 Regulated Materials Facility 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 Regulated Materials Facility 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 Regulated Materials Facility 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 30, 2005

Financial Statements

Regulated Materials Facility Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2005

	Unexpended	
	Project Fund	System Fund
Assets		
Cash and investments (note 2)	\$ -	939,360
Cash with paying agent (note 3)	-	-
Interest receivable	129	-
Capital assets (note 4)	-	-
	-	-
Total assets	\$ 129	939,360
Liabilities and Fund Balances (Deficit)		
Liabilities:		
Interest payable	\$ -	-
Revenue bonds payable (note 3)	-	-
Total liabilities	-	-
Fund balances (deficit):		
Net investment in plant	-	-
Reserved for debt service	-	-
Unreserved, designated for specific purposes	129	939,360
Total fund balances (deficit)	129	939,360
Total liabilities and fund balances (deficit)	\$ 129	939,360

See notes to financial statements.

Plant Funds			
Retirement of Indebtedness		Investment in Plant	Total
Sinking Fund	Reserve Fund		
-	606,761	-	1,546,121
486,906	-	-	486,906
325	821	-	1,275
-	-	8,202,315	8,202,315
487,231	607,582	8,202,315	10,236,617
126,906	-	-	126,906
360,000	613,812	5,719,286	6,693,098
486,906	613,812	5,719,286	6,820,004
-	-	2,483,029	2,483,029
325	(6,230)	-	(5,905)
-	-	-	939,489
325	(6,230)	2,483,029	3,416,613
487,231	607,582	8,202,315	10,236,617

Regulated Materials Facility 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	Unexpended	
	Fund	Project	System
	Revenue	Fund	Fund
	Fund		
Other revenues (expenditures):			
Operating revenues	\$ 424,331	-	-
Investment income	15,089	29,727	-
Net decrease in fair value of investments	-	-	-
Operating expenses	(367)	-	-
Administrative expenses	-	-	(4,390)
Interest on indebtedness	-	-	-
Excess (deficiency) of revenues over (under) expenditures	439,053	29,727	(4,390)
Other financing sources (uses):			
Additions to capital assets, including capitalized interest	-	(4,292,773)	-
Manadatory transfers	(613,813)	-	-
Non-mandatory transfers	(75,240)	-	93,421
Transfer from other University funds	250,000	-	-
Transfer of revenue bonds payable	-	4,249,653	-
Total other financing sources (uses)	(439,053)	(43,120)	93,421
Net increase (decrease) for the year	-	(13,393)	89,031
Fund balances (deficit) beginning of year	-	13,522	850,329
Fund balances (deficit) end of year	\$ -	129	939,360

See notes to financial statements.

Plant Funds					
Retirement of Indebtedness					
Sinking Fund	Reserve Fund	Arbitrage Reserve Fund	Investment in Plant		Total
-	-	-	-		424,331
1,728	18,280	-	-		64,824
-	(3,050)	-	-		(3,050)
-	-	-	-		(367)
-	-	(1,500)	-		(5,890)
(68,889)	-	-	-		(68,889)
(67,161)	15,230	(1,500)	-		410,959
(188,989)	-	-	4,481,762		-
613,813	-	-	-		-
(1,405)	(18,276)	1,500	-		-
-	-	-	1,798,617		2,048,617
(355,936)	-	-	(3,893,717)		-
67,483	(18,276)	1,500	2,386,662		2,048,617
322	(3,046)	-	2,386,662		2,459,576
3	(3,184)	-	96,367		957,037
325	(6,230)	-	2,483,029		3,416,613

Regulated Materials Facility 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 Regulated Materials Facility 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 construct, furnish and equip a regulated materials facility 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 Regulated Materials Facility Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Regulated Materials Facility 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 Regulated Materials Facility 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 construction, furnishing or equipping the Regulated Materials Facility. Retirement of Indebtedness, including the Sinking, Reserve and Arbitrage Reserve Funds established by the bond resolution, is comprised of amounts to provide for payment of principal, interest and rebates. Investment in Plant is comprised of buildings, net of 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 system income of the Regulated Materials Facility. All monies credited to the Revenue Fund must first be disbursed to pay current expenses of the System 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 Regulated Materials Facility scheduled to open early in the year ending June 30, 2006.

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.

Regulated Materials Facility 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 due on each January 1 and July 1 of each fiscal year.

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.

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.

Capital Assets

Capital assets are defined by the University as assets with an initial individual cost of more than \$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 \$188,989 were capitalized.

(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 \$939,360 is combined with other University funds. The money market balance for the Regulated Materials Facility Revenue Bond Funds is \$3,813.

At June 30, 2005, the Regulated Materials Facility Revenue Bond Funds had the following investments:

<u>Investment</u> <u>Type</u>	<u>Fair</u> <u>Value</u>
Fixed Income:	
Federal Home Loan Bank	<u>\$ 602,948</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 Regulated Materials 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.

Interest Rate Sensitivity - Duration

Investment Type	Fair Value	Duration
Fixed Income:		
Federal Home Loan Bank	<u>\$ 602,948</u>	<u>1.41</u>

(3) Revenue Bonds Payable

The bonds, issued on November 1, 2003 for \$6,750,000, are to be used to construct, furnish and equip a Regulated Materials Facility that will consist of a 34,449 gross square foot facility to house all Environmental Health and Safety staff and facilities for processing and storing hazardous waste materials for all on-campus, extension and research farm activities of the University.

The bonds bear interest at rates ranging from 3.00% to 4.55% 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	\$ 360,000	248,412	608,412
2007	370,000	237,462	607,462
2008	375,000	226,287	601,287
2009	385,000	214,887	599,887
2010	395,000	203,188	598,188
2011	405,000	190,681	595,681
2012	420,000	176,750	596,750
2013	435,000	161,244	596,244
2014	455,000	144,215	599,215
2015	470,000	125,943	595,943
2016	495,000	106,395	601,395
2017	515,000	85,304	600,304
2018	535,000	62,724	597,724
2019	555,000	38,739	593,739
2020	580,000	13,195	593,195
	<u>6,750,000</u>	<u>2,235,426</u>	<u>8,985,426</u>
Unamortized Discount	<u>(56,902)</u>		
Total	<u>\$ 6,693,098</u>		

Under the provisions of the bond resolution, these bonds will be retired solely from the net revenues and other system income of the Regulated Materials Facility.

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 \$486,906 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 Regulated Materials Facility assets for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Transfers	Deletions	Balance June 30, 2005
Capital assets, nondepreciable:					
Construction in progress	\$ 1,921,936	6,280,379	(8,202,315)	-	-
Capital assets, depreciable:					
Buildings	-	-	8,202,315	-	8,202,315
Less accumulated depreciation:	-	-	-	-	-
Depreciable assets, net	-	-	8,202,315	-	8,202,315
Total capital assets, net	\$ 1,921,936	6,280,379	8,202,315	-	16,404,630

Included in additions is \$1,798,617 from other University funds for the construction of the building.

The construction in progress was transferred to buildings at June 30, 2005. Therefore, no depreciation was recorded in the year ended June 30, 2005.

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) Related Party Transactions

Included in operating revenues are revenues generated from other funds of the University of \$424,331.

(6) Debt Service Coverage

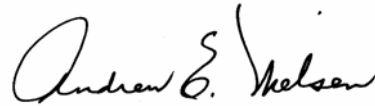
Regulated Materials Facility Revenue Bond Funds principal and interest payments totaling \$613,813 due January 1 and July 1, 2005 require debt service coverage of a minimum of 120%, or \$736,576. Transfers from other University funds (surcharge fees) of \$250,000, operating revenues of \$424,331, investment income of \$64,824 and cash in the System Fund of \$939,360 provided debt service coverage of \$1,678,515, or 273% of the principal and interest due for the year ended June 30, 2005.

Regulated Materials Facility 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