

**The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
Des Moines, Iowa**

FINANCIAL REPORT

June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The State of Iowa Facilities Improvement Corporation
Des Moines, Iowa

We have audited the accompanying balance sheets of The State of Iowa Facilities Improvement Corporation (a component unit of the State of Iowa), referred to as "Corporation", as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2005 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4-7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2005

STATE OF IOWA FACILITIES IMPROVEMENT CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Iowa Facilities Improvement Corporation (SIFIC) offers this narrative overview and analysis of the financial activities of SIFIC for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with SIFIC's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- SIFIC's anticipated operating revenue was not realized because of unexpected delays in energy management improvement project delivery. These projects are still in development, with expected fee revenues anticipated in fiscal year 2006.
- SIFIC's operating expenses for fiscal year 2005 decreased by approximately \$21,000 because of decreased staff costs.
- SIFIC continues to maintain an account which serves as a reserve to cover reimbursables, such as Technical Energy Analyses and small energy improvement projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of SIFIC. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of SIFIC indicate that SIFIC uses accounting methods similar to those used by private-sector companies. These statements offer short- and long-term financial information about SIFIC's activities. The Balance Sheet includes all of SIFIC's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to SIFIC creditors (liabilities).

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of SIFIC's operations over the past year and can be used to determine whether SIFIC has successfully recovered all its costs through its fees, profitability, and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF SIFIC

One of the most important questions asked about SIFIC's finances is, "is SIFIC as a whole better off or worse off as a result of this year's activities?" The Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets report information about SIFIC's activities in a way that will help answer this question. These two statements report the net assets of SIFIC and the changes in them. One can think of SIFIC's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in SIFIC's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

STATE OF IOWA FACILITIES IMPROVEMENT CORPORATION

NET ASSETS

To begin our analysis, a summary of SIFIC's Balance Sheet is presented in Table A-1.

**Table A-1
Condensed Balance Sheets**

	<u>FY 2005</u>	<u>FY 2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>	<u>FY 2003</u>
Current and Other Assets	\$811,913	\$904,384	-\$92,471	-10.2%	\$1,081,880
Capital Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0%</u>	<u>0</u>
Total Assets	<u>811,913</u>	<u>904,384</u>	<u>-91,471</u>	<u>-10.2%</u>	<u>1,081,880</u>
Long-term Debt Outstanding	0	0	0	0.0%	0
Other Liabilities	<u>44,765</u>	<u>52,941</u>	<u>-8,176</u>	<u>-15.4%</u>	<u>107,871</u>
Total Liabilities	<u>44,765</u>	<u>52,941</u>	<u>-8,176</u>	<u>-15.4%</u>	<u>107,871</u>
Invested in Capital Assets, Net of Related Debt	0	0	0	0.0%	0
- Restricted	0	0	0	0.0%	0
- Unrestricted	<u>767,148</u>	<u>851,443</u>	<u>-84,295</u>	<u>9.9%</u>	<u>974,009</u>
	<u>\$767,148</u>	<u>\$851,443</u>	<u>\$ -84,295</u>	<u>9.9%</u>	<u>\$ 974,009</u>

As can be seen from the table above, net assets decreased \$84 thousand from \$851 thousand in 2004 to \$767 thousand in 2005. The decrease in net assets was primarily due to the \$92 thousand decrease in Current and Other Assets and \$8 thousand decrease in Other Liabilities. Changes in Current and Other Assets reflect primarily continuing Department of Natural Resources (DNR) staffing costs. Changes in Other Liabilities are the result of a decrease in Accounts Payable.

STATE OF IOWA FACILITIES IMPROVEMENT CORPORATION

Table A-2
Condensed Statements of Revenues,
Expenses, and Changes in Net Assets

	<u>FY 2005</u>	<u>FY 2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating revenues	\$ 21,411	\$ 11,137	\$ 10,274	92.3%
Nonoperating revenues	<u>10,603</u>	<u>4,165</u>	<u>6,438</u>	<u>154.6%</u>
Total Revenues	<u>32,014</u>	<u>15,302</u>	<u>16,712</u>	<u>109.2%</u>
Operating expense	114,386	135,595	-21,209	-15.6%
Nonoperating expense	<u>1,923</u>	<u>2,273</u>	<u>-350</u>	<u>-15.4%</u>
Total Expenses	<u>116,309</u>	<u>137,868</u>	<u>-21,559</u>	<u>-15.6%</u>
Changes in Net Assets	-84,295	-122,566	38,271	
Beginning Net Assets	<u>851,443</u>	<u>974,009</u>	<u>-122,566</u>	
Ending Net Assets	<u>\$767,148</u>	<u>\$851,443</u>	<u>\$ -84,295</u>	

While the Balance Sheet shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in Table A-2 above, the increase in Operating revenues is due primarily to an increase in fees received for project facilitation (FY2005: \$21,411 for DHS - FY2004: \$11,137 for DNR). The increase in Nonoperating revenues reflects the increase in Investments.

The decrease in Operating expenses are due primarily to the decrease in payments to the DNR for Administrative expenses (FY 2005 = \$102,758, FY 2004 = \$131,775).

STATE OF IOWA FACILITIES IMPROVEMENT CORPORATION

BUDGETARY HIGHLIGHTS

SIFIC adopts an annual Operating Budget following management analysis and referencing the periodically-updated Business Plan. The Operating Budget includes proposed expenses and the means of financing them. SIFIC's Operating Budget remains in effect the entire year and is not revised. An annual budget comparison analysis is presented to management as interim financial statements; however, they are not reported or shown in the financial statement section of this report.

**Table A-3
Budget vs. Actual
FY 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Staffing Expenses			
Salaries & Fringes	\$108,602	\$ 89,168	\$ 19,434
Travel	2,000	1,597	403
Out of State Travel	0	0	0
Office Supplies	551	54	497
Printing	0	0	0
Communications	0	864	-864
State Reimbursements	0	63	-63
ITD Reimbursements	0	0	0
Equipment	0	0	0
Other expenses/Oblig.	1,000	175	825
DNR Indirects	<u>13,195</u>	<u>10,837</u>	<u>2,358</u>
Total Staffing Expenses	125,348	102,758	22,590
Program Expenses			
Audit costs	2,400	2,350	50
Bank account admin fee	750	750	0
SIFIC legal fees	2,000	2,220	-220
Other	0	6,308	-6,308
Non-operating (investment expenses)	<u>3,000</u>	<u>1,923</u>	<u>1,077</u>
Total Program Expenses	<u>8,150</u>	<u>13,551</u>	<u>-5,401</u>
Total Staffing and Program Expenses	<u>\$133,498</u>	<u>\$116,309</u>	<u>\$ 17,189</u>

CONTACTING SIFIC's FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of SIFIC's finances and to demonstrate SIFIC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dan Lane, 515-281-6696, 502 E. 9th St, Des Moines, IA 50319-0034, or via E-Mail at Dan.Lane@dnr.state.ia.us.

The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
BALANCE SHEETS

	June 30	
ASSETS	2005	2004
Investments	\$ 594,593	\$ 614,829
Interest receivable	1,259	309
Due from state agencies	<u>216,061</u>	<u>289,246</u>
Totals	<u>\$ 811,913</u>	<u>\$ 904,384</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 20,609	\$ 29,078
Energy management system maintenance payable	<u>24,156</u>	<u>23,863</u>
Total liabilities	<u>44,765</u>	<u>52,941</u>
Net assets, unrestricted	<u>767,148</u>	<u>851,443</u>
Totals	<u>\$ 811,913</u>	<u>\$ 904,384</u>

See Notes to Financial Statements.

The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year ended June 30	
	2005	2004
OPERATING REVENUES		
Service income	\$ <u>21,411</u>	\$ <u>11,137</u>
OPERATING EXPENSES		
General and administrative expenses	<u>114,386</u>	<u>135,595</u>
OPERATING (LOSS)	(92,975)	(124,458)
NONOPERATING REVENUES (EXPENSES)		
Investment income	10,603	4,165
Investment expenses	<u>(1,923)</u>	<u>(2,273)</u>
Total nonoperating revenues	<u>8,680</u>	<u>1,892</u>
Change in net assets	(84,295)	(122,566)
NET ASSETS		
Beginning of year	<u>851,443</u>	<u>974,009</u>
End of year	<u>\$ 767,148</u>	<u>\$ 851,443</u>

See Notes to Financial Statements.

The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Investment income received	\$ 9,653	\$ 4,537
Other expenses (paid)	(124,485)	(120,488)
Capital fund loans received (paid)	73,185	(196,511)
Service income received	<u>21,411</u>	<u>11,137</u>
Net cash (used in) operating activities	<u>(20,236)</u>	<u>(301,325)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(226,622)	(35,187)
Proceeds from sale of investments	<u>246,858</u>	<u>336,512</u>
Net cash provided by investing activities	<u>20,236</u>	<u>301,325</u>
NET CHANGE IN CASH		
	-	-
CASH		
Beginning	<u>-</u>	<u>-</u>
Ending	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ <u>(84,295)</u>	\$ <u>(122,566)</u>
Adjustments to reconcile to net cash (used in) operating activities		
Changes in assets and liabilities		
(Increase) decrease in interest receivable	(950)	232
(Increase) decrease in due from state agencies	73,185	(124,061)
(Decrease) in accounts payable	(8,469)	(54,997)
Increase in energy management system maintenance payable	<u>293</u>	<u>67</u>
Total adjustments	<u>64,059</u>	<u>(178,759)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>\$ (20,236)</u>	<u>\$ (301,325)</u>

See Notes to Financial Statements.

The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The State of Iowa Facilities Improvement Corporation (Corporation) is an Iowa nonprofit corporation formed to finance energy saving capital improvements for state agencies. The Corporation is administered by the Iowa Department of Natural Resources. The Corporation facilitates private-sector, lease-purchase financing between the agencies and private lending institutions to finance the energy saving improvements, and contracts for installation of the improvements. Only cost-effective energy saving improvements are installed.

Cash-flow neutrality is the key to the program's success. Lease-purchase payments are designed to be sufficient to retire principal and interest on the lease through the energy savings from the installed improvements; the lessees have no budget impact due to financing. When energy savings are actually greater than the projections on which the financing is based, the budget impact will be positive for the state agencies even before the lease is retired. Cost savings return to the state General Fund to be redirected to other mission-critical activities when the lease is retired.

The Corporation currently maintains three accounts, two of which support the primary program operations. The Administrative Expenses Fund Account receives project administration fees, and supports the reasonable and necessary expenses, charges, or other obligations incurred by the Corporation for the promotion of energy efficiency in state facilities. The Capital Fund holds funds to provide advance support for technical engineering analyses (TEA's), TEA updates, and design and specification work. These funds are reimbursed from project lease proceeds. The Capital Fund is also available for low-interest loans for small projects (\$100,000 or less), which are repaid with project energy savings. The third account supports Energy Management System maintenance liability for the Cherokee Mental Health Institute (see Note 2).

The Corporation's officers and employees are authorized to enter into contracts, when requested by the Agencies, to provide project design services, project management services, technical oversight, payment processing, contract management and other services related to the installation and financing of improvements.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The term measurement focus is used to denote what is being measured and reported in the Corporation's operating statement. The Corporation is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Corporation is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Corporation's operating statement. The Corporation uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Invested in capital assets, net of related debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted net assets

This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

As of June 30, 2005, the Corporation had only unrestricted net assets.

Energy Management System Maintenance Liability

In 1990, the Corporation established a program in which it would participate with electing Agencies in funding future energy management system maintenance costs. A trust account was established to account for these funds. Investment income earned on funds in the trust account are retained therein. Energy management system maintenance costs incurred by participating Agencies are paid directly from the trust account, until such time it is exhausted. At the conclusion of the program, any remaining amounts in the trust account will be refunded to the participating Agencies. At June 30, 2005 and 2004, the Iowa Department of Human Services was the only agency participating in the program.

Tax Status

The Corporation, as a Section 504 corporation created by the State of Iowa, is exempt from federal income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 INVESTMENTS

Investments are stated at their fair value. Qualified investments are federal obligations, direct and general obligations of any state of the United States or a political subdivision of a state, agency obligations, repurchase and investment agreements, public housing bonds, commercial paper, certain open-ended mutual funds, banker's acceptances and warrants or improvement certificates of a drainage district.

Investments consisted of the following:

	June 30	
	2005	2004
Goldman Sachs Financial Square Treasury Instrument Fund	\$ <u>594,593</u>	\$ <u>614,829</u>

**The State of Iowa Facilities Improvement Corporation
(A Component Unit of the State of Iowa)
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 INVESTMENTS (continued)

Investments were held in the following funds:

	June 30	
	2005	2004
Emergency Management System Maintenance Escrow Fund	\$ 24,157	\$ 23,864
Iowa Facilities Improvement Corporation Series B Fund	546,417	499,438
Administrative Expense Fund	24,019	91,527
 Total investments	 \$ 594,593	 \$ 614,829

Investment income is summarized as follows:

	Year ended June 30	
	2005	2004
Interest and dividend income	\$ 10,603	\$ 4,165

NOTE 3 RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation is governed by a Board of Directors of nine members, all of whom are officials of the State of Iowa, and who serve by virtue of their official positions. Therefore, all leases and lease payments receivable are with or due from related parties. In addition, the Corporation has contracted with the Iowa Department of Natural Resources (DNR) to provide all administrative services needed to conduct the Corporation's business. Administration expenses of approximately \$114,000 and \$135,000 were incurred under this contract during fiscal years 2005 and 2004, respectively. Accounts payable include amounts due to DNR of approximately \$20,600 and \$29,000 at June 30, 2005 and 2004, respectively.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
The State of Iowa Facilities Improvement Corporation
Des Moines, Iowa

We have audited the financial statements of The State of Iowa Facilities Improvement Corporation (a component unit of the State of Iowa), referred to as "Corporation", as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 15, 2005