



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

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**NEWS RELEASE**

FOR RELEASE November 7, 2002

Contact: Andy Nielsen  
515/281-5515

Auditor of State Richard Johnson today released reports for the year ended June 30, 2002 on the Iowa State Center Business Office and on the following Revenue Bond Funds of Iowa State University of Science and Technology: Dormitory and Dining Services, Telecommunications Facilities, Utility System, Hilton Coliseum, Recreational Facility, Student Health Center, Parking System and Academic Building; and the Ice Arena Facility Revenue Note Funds.

These reports demonstrate compliance with the provisions included in the various bond agreements. The financial information included in these reports is also included in the Annual Financial Report of Iowa State University of Science and Technology and the Comprehensive Annual Financial Report of the State of Iowa.

Copies of the reports are available for review in the office of the Auditor of State.

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**TELECOMMUNICATIONS FACILITIES REVENUE BOND FUNDS  
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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

**JUNE 30, 2002**

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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, 2002, 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 and Chapter 11 of the Code of Iowa. Those standards and provisions 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 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, 2002 and changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, 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, 2002, and the revenues, expenditures and the changes in fund balances (deficit) for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 7 to the financial statements, for the year ended June 30, 2002, Iowa State University of Science and Technology adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

In connection with our audit, nothing came to our attention that caused us to believe that 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, that our audit was not directed primarily toward obtaining knowledge of such non-compliance.

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.

RICHARD D. JOHNSON, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

October 15, 2002

## **Financial Statements**

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

Balance Sheet

June 30, 2002

	Unexpended Construction Fund	Renewals and Improvement Fund
<b>Assets</b>		
Cash and investments (note 2)	\$ 950,038	400,000
Cash with paying agents (note 3)	-	-
Accounts receivable	-	-
Interest receivable	335	-
Prepaid expense	-	-
Capital assets, net (note 4)	-	-
	\$ 950,373	400,000
<b>Total assets</b>		
<b>Liabilities and Fund Balances (Deficit)</b>		
Liabilities:		
Accounts payable	\$ -	418,710
Compensated absences payable	-	-
Accrued salaries and wages	-	-
Interest payable	-	-
Revenue bonds payable (note 3)	257,596	-
Total liabilities	257,596	418,710
Fund balances:		
Net investment in plant	-	-
Reserved for debt service	-	-
Unreserved, designated for specific purposes	692,777	(18,710)
Total fund balances (deficit)	692,777	(18,710)
	\$ 950,373	400,000
<b>Total liabilities and fund balances (deficit)</b>		

See notes to financial statements.



Plant Funds					
Replacements	Retirement of Indebtedness			Investment	
Operations Reserve	Sinking Fund	Reserve Fund	Arbitrage Reserve	In Plant	Total
11,381,450	-	776,248	31,450	-	13,539,186
-	840,459	-	-	-	840,459
180,936	-	-	-	-	180,936
139,635	363	4,412	-	-	144,745
26,526	-	-	-	-	26,526
-	-	-	-	13,014,169	13,014,169
11,728,547	840,822	780,660	31,450	13,014,169	27,746,021
44,799	-	-	187,733	-	651,242
137,358	-	-	-	-	137,358
4,271	-	-	-	-	4,271
-	105,459	-	-	-	105,459
-	735,000	761,500	-	3,180,904	4,935,000
186,428	840,459	761,500	187,733	3,180,904	5,833,330
-	-	-	-	9,833,265	9,833,265
-	363	19,160	(156,283)	-	(136,760)
11,542,119	-	-	-	-	12,216,186
11,542,119	363	19,160	(156,283)	9,833,265	21,912,691
11,728,547	840,822	780,660	31,450	13,014,169	27,746,021

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

Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)

Year ended June 30, 2002

	Current Funds		Unexpended Construction Fund
	Revenue Fund	Operations and Maintenance Fund	
Revenues (expenditures):			
Operating revenues	\$ 8,369,770	-	-
Operating expenditures before depreciation	-	(4,943,587)	-
Operating income before depreciation	8,369,770	(4,943,587)	-
Depreciation	-	-	-
Net operating revenue	8,369,770	(4,943,587)	-
Other revenues (expenditures):			
Non-capitalized equipment	-	-	-
Administrative expenses	-	-	-
Arbitrage rebate	-	-	-
Investment income	-	-	16,691
Net increase in fair value of investments	-	-	-
Interest on indebtedness	-	-	-
Excess (deficiency) of revenues over (under) expenditures	8,369,770	(4,943,587)	16,691
Other financing sources (uses):			
Net additions to equipment	-	(38,412)	-
Additions to telecommunications infrastructure	-	-	(863,272)
Deletions of capital assets	-	-	-
Mandatory transfers	(1,345,917)	-	-
Non-mandatory transfers	(7,023,853)	4,981,999	-
Transfers to other University funds	-	-	-
Transfer of revenue bonds payable	-	-	863,272
Total other financing sources (uses)	(8,369,770)	4,943,587	-
Net increase (decrease) for the year	-	-	16,691
Fund balances beginning of year, as restated (note 7)	-	-	676,086
Fund balances (deficit) end of year	\$ -	-	692,777

See notes to financial statements.

Plant Funds							
Renewals and Replacements		Retirement of Indebtedness					
Improvement Fund	Operations Reserve	Sinking Fund	Reserve Fund	Arbitrage Fund	Investment in Plant		Total
-	-	-	-	-	-		8,369,770
-	-	-	-	-	-		(4,943,587)
-	-	-	-	-	-		3,426,183
-	-	-	-	-	(2,335,886)		(2,335,886)
-	-	-	-	-	(2,335,886)		1,090,297
(255,201)	-	-	-	-	-		(255,201)
-	-	-	-	(1,200)	-		(1,200)
-	-	-	-	(187,733)	-		(187,733)
-	417,361	2,563	34,647	-	-		471,262
-	82,556	-	9,755	-	-		92,311
-	-	(210,917)	-	-	-		(210,917)
(255,201)	499,917	(208,354)	44,402	(188,933)	(2,335,886)		998,819
(128,117)	-	-	-	-	166,529		-
(1,806,882)	-	-	-	-	2,670,154		-
-	-	-	-	-	(160,756)		(160,756)
400,000	-	945,917	-	-	-		-
1,454,471	628,707	(3,162)	(38,162)	-	-		-
(74,673)	-	-	-	-	-		(74,673)
-	-	(735,000)	-	-	(128,272)		-
(155,201)	628,707	207,755	(38,162)	-	2,547,655		(235,429)
(410,402)	1,128,624	(599)	6,240	(188,933)	211,769		763,390
391,692	10,413,495	962	12,920	32,650	9,621,496		21,149,301
(18,710)	11,542,119	363	19,160	(156,283)	9,833,265		21,912,691

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

Notes to Financial Statements

June 30, 2002

**(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 System. 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 System. 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 Operation 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 System 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 System.

#### 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 that semi-annual installments will be credited to the Improvement Fund, from the net rents, profits and income of the Telecommunications System 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 System 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 be made to fund deficits in the following months.

#### Operations Reserve Fund

The bond resolution provides that all remaining net rents, profits and income of the Telecommunications System 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 System or extraordinary costs of operating, repairing or maintaining the Telecommunications System, or 3) pay principal of and interest on any other obligations which by their terms shall be payable from the revenues of the Telecommunications System, 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 System or to retire the Bonds or bonds ranking on parity therewith in advance of maturity, or to pay for extraordinary repairs and replacements to the System.

Bond Sinking Fund (Sinking Fund)

The bond resolution provides that equal semi-annual installments shall be set aside from the net rents, profits and income derived from the 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 (i) ten percent of the stated principal amount of the bonds; (ii) the maximum annual payments of principal and interest on the bonds, or (iii) 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. 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 \$2,000 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, 2002, 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**

Cash in excess of immediate needs for debt service is invested in qualified investments, such as United States government agency securities. The University's investments are categorized to give an indication of the level of risk assumed by the University at year end. The University's investments in U.S. government securities are Category 2 investments, which means that the investments are uninsured and unregistered. The money market accounts are not subject to risk categorization. Cash and investments at June 30, 2002 are as follows:

	<u>Fair Value</u>
Cash	\$ 2,967,846
U.S. government securities	6,780,475
Money market accounts	<u>3,790,865</u>
Total	<u>\$13,539,186</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 3.6% 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:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 735,000	195,850	930,850
2004	770,000	164,613	934,613
2005	800,000	131,442	931,442
2006	840,000	96,383	936,383
2007	875,000	59,291	934,291
2008	915,000	20,130	935,130
	<u>\$ 4,935,000</u>	<u>667,709</u>	<u>5,602,709</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.

As of June 30, 2002, cash with paying agents in the amount of \$840,459 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, 2002:

	Balance July 1, 2001, as restated (note 7)	Additions	Deletions	Balance June 30, 2002
Equipment	\$ 9,503,935	166,529	(160,755)	9,509,709
Telecommunications system infrastructure	25,388,374	2,670,153	-	28,058,527
Total capital assets	34,892,309	2,836,682	(160,755)	37,568,236
Less accumulated depreciation:				
Equipment	(6,393,432)	(506,957)	-	(6,900,389)
Telecommunications system infrastructure	(15,824,749)	(1,828,929)	-	(17,653,678)
Total accumulated depreciation	(22,218,181)	(2,335,886)	-	(24,554,067)
Capital assets, net	\$ 12,674,128	500,796	(160,755)	13,014,169

**(5) Commitments**

Encumbrances outstanding at June 30, 2002 totaled \$2,625,137 and represent commitments related to unperformed contracts for capital expenditures and for other goods or services that have been entered on the University's purchase order system.

**(6) Debt Service Coverage**

Telecommunications Facilities Revenue Bond Fund principal and interest payments totaling \$945,917 due January 1 and July 1, 2002 require debt service coverage of a minimum of 110%, or \$1,040,510. Telecommunications Facilities operating income before depreciation of \$3,426,183 and investment income (net of arbitrage rebate) of \$283,529 provided debt service coverage of \$3,709,712, or 392% of the principal and interest due for the year ended June 30, 2002.

**(7) Restatement of Beginning Balance**

The beginning fund balance of the Plant Fund - Investment in Plant has been retroactively restated at July 1, 2001. This restatement was made to record the accumulated depreciation as of June 30, 2001 in accordance with Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, effective for financial statements for periods beginning after June 15, 2001.

Equipment	\$ 9,503,935
Telecommunications system infrastructure	25,388,374
Total capital assets, as previously reported at June 30, 2001	34,892,309
Less accumulated depreciation at June 30, 2001 for:	
Equipment	(6,393,432)
Telecommunications system infrastructure	(15,824,749)
Total accumulated depreciation	(22,218,181)
Capital assets, net, at July 1, 2001 as restated	\$ 12,674,128



## **Supplemental Information**

**Schedule 1**

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

Insurance Coverage  
(Unaudited)

June 30, 2002

**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**

\$ 10,127,040

**Policy Number**

IA50891

**Terms of Policy**

July 1, 2001 to July 1, 2002

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, 2002**

**Enrollment at Iowa State University of Science and Technology for the year ended June 30, 2002 was as follows:**

Summer Semester, 2001	9,829
Fall Semester, 2001	27,823
Spring Semester, 2002	25,875

**See accompanying independent auditor's report.**

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

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager  
Patricia J. King, CPA, Senior Auditor II  
Billie Jo Heth, Staff Auditor  
Marc D. Johnson, Staff Auditor  
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Andrew E. Nielsen, CPA  
Deputy Auditor of State