



**OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

FOR RELEASE November 7, 2002

Contact: Andy Nielsen
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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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**UTILITY SYSTEM 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 Utility System 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 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 from 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 Utility System 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 Utility System Revenue Bond Funds of Iowa State University of Science and Technology at June 30, 2002, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 8 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 Utility System 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 accompanying financial information listed as 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

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Balance Sheet

June 30, 2002

	<u>Current Fund</u> <u>Operating</u> <u>Fund</u>
Assets	
Cash and investments (note 2)	\$ 18,662,735
Accounts receivable	6,295
Inventory	841,739
Interest receivable	-
Capital assets, net (note 4)	-
Total assets	<u><u>\$ 19,510,769</u></u>
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	\$ 1,497,113
Accrued salaries and wages	44,645
Compensated absences payable	136,074
Revenue bonds payable (note 3)	-
Interest payable	-
Total liabilities	<u>1,677,832</u>
Fund balances:	
Net investment in plant	-
Reserved for:	
Debt service	-
Improvements	-
Unreserved, designated for operations	17,832,937
Total fund balances	<u>17,832,937</u>
Total liabilities and fund balances	<u><u>\$ 19,510,769</u></u>

See notes to financial statements.

Plant Funds				
Renewals and Replacements	Retirement of Indebtedness		Investment	Total
Improvement Fund	Reserve Fund	Bond Fund	In Plant	
1,367,626	2,893,270	-	-	22,923,631
-	-	-	-	6,295
-	-	-	-	841,739
2,115	2,276	-	-	4,391
-	-	-	28,448,392	28,448,392
1,369,741	2,895,546	-	28,448,392	52,224,448
-	-	-	-	1,497,113
-	-	-	-	44,645
-	-	-	-	136,074
-	-	-	23,680,000	23,680,000
-	168,413	-	-	168,413
-	168,413	-	23,680,000	25,526,245
-	-	-	4,768,392	4,768,392
-	2,727,133	-	-	2,727,133
1,369,741	-	-	-	1,369,741
-	-	-	-	17,832,937
1,369,741	2,727,133	-	4,768,392	26,698,203
1,369,741	2,895,546	-	28,448,392	52,224,448

Utility System Revenue Bond Funds
Iowa State University of Science and Technology

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2002

	Current Fund Operating Fund
Revenues:	
Operating revenues (note 6)	\$ 24,749,889
Operating expenditures before depreciation:	
Repair and maintenance	571,378
Other operating expenditures (note 5)	18,015,688
Total operating expenditures before depreciation	18,587,066
Operating income before depreciation	6,162,823
Depreciation	-
Net operating revenue	6,162,823
Other revenues (expenditures):	
Administrative expenses	-
Investment income	981,850
Interest on bonds payable	-
	981,850
Excess (deficiency) of revenues over (under) expenditures	7,144,673
Other financing sources (uses):	
Net additions to capital assets	(3,373,718)
Mandatory transfers	(2,399,052)
Non-mandatory transfers	(2,400)
Transfers to other University funds	(101,065)
Transfer of revenue bonds payable	-
Total other financing sources (uses)	(5,876,235)
Net increase (decrease) for the year	1,268,438
Fund balance beginning of year, as restated (note 8)	16,564,499
Fund balances end of year	\$ 17,832,937

See notes to financial statements.

Plant Funds					
Renewals and Replacements Improvement Fund	Retirement of Indebtedness			Investment In Plant	Total
	Reserve Fund	Bond Fund	Arbitrage Reserve		
-	-	-	-	-	24,749,889
-	-	-	-	-	571,378
-	-	-	-	-	18,015,688
-	-	-	-	-	18,587,066
-	-	-	-	-	6,162,823
-	-	-	-	1,458,863	1,458,863
-	-	-	-	(1,458,863)	4,703,960
-	-	-	(2,400)	-	(2,400)
31,534	74,995	260	-	-	1,088,639
-	-	(1,027,594)	-	-	(1,027,594)
31,534	74,995	(1,027,334)	(2,400)	-	58,645
31,534	74,995	(1,027,334)	(2,400)	(1,458,863)	4,762,605
-	-	-	-	3,373,718	-
(66,493)	-	2,465,545	-	-	-
-	8,557	(8,557)	2,400	-	-
-	-	-	-	-	(101,065)
-	-	(1,430,000)	-	1,430,000	-
(66,493)	8,557	1,026,988	2,400	4,803,718	(101,065)
(34,959)	83,552	(346)	-	3,344,855	4,661,540
1,404,700	2,643,581	346	-	1,423,537	22,036,663
1,369,741	2,727,133	-	-	4,768,392	26,698,203

Utility System 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 Utility System 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 defray the costs of equipment and facility enhancement that provide utilities to Iowa State University of Science and Technology. The revenue bonds are issued on behalf of the University.

The financial statements of the Utility System Revenue Bond Funds of Iowa State University of Science and Technology (University) include only the financial position and operating activities of the Utility System 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 Utility System Revenue Bond Funds 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 of the Utility System Revenue Bond Funds include the following funds: (1) Renewals and Replacements, (2) Retirement of Indebtedness, and (3) Investment in Plant. Renewals and Replacements, including the Improvement Fund established by the bond resolution, is comprised of amounts allocated or designated for renewal or replacement of properties. Retirement of Indebtedness, including the Reserve and Bond Funds established by the bond resolution and the Arbitrage Reserve Fund are comprised of amounts to provide for payment of principal, interest and amounts due to the Federal Government. Investment in Plant is comprised of amounts representing the total of buildings, utility system infrastructure and equipment, all net of accumulated depreciation and the related liabilities.

The Current Fund, including the Operating 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.

Operating Fund

The Operating Fund is used to account for all financial activity resulting from the operation of the Utility System except those to be accounted for in another Fund.

Improvement and Extension Fund (Improvement Fund)

The bond resolution provides for the deposit of any remaining net revenues of the Utility System and proceeds of any Utility System Student Fees, after first making the required deposits in the Bond and Reserve Funds, in quarterly amounts of \$20,000 commencing not later than the fiscal year beginning July 1, 1989, until there has been an accumulation of \$1,350,000 in the Improvement Fund. All monies credited to the Improvement Fund are used to pay any extraordinary costs of maintaining the Utility System in an efficient operating condition and to pay the costs of necessary repairs, replacements, improvements and extensions.

Debt Service Reserve Fund (Reserve Fund)

The bond resolution provides that an initial deposit equal to the maximum annual debt service requirement will be credited to the Reserve Fund from the proceeds of the bond issue. All monies credited to the Reserve Fund shall be transferred to the Bond Fund and used for the payment of principal and interest on the bonds issued and outstanding.

Bond Fund

The Bond resolution provides for deposits to the Bond Fund, out of net revenues of the Utility System and proceeds of any Utility System Student Fees from time to time in amounts as are required to make timely payments of principal and interest.

Arbitrage Reserve Fund

Moneys credited to the Arbitrage Reserve Fund shall be used for the payment of arbitrage rebates.

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.

Accounts Receivable

Accounts receivable represent unpaid utility services from customers.

Inventory

Inventory is stated at the lower of cost (weighted average) or market.

Capital Assets

Capital assets are defined by the University as assets with an individual cost of more than \$2,000 for equipment and \$50,000 for buildings and infrastructure. 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 the 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:

Assets	Years
Equipment	25
Utility system infrastructure	30
Buildings	10

(2) Cash and Investments

Cash in excess of immediate needs for debt service is invested primarily in money market accounts. Cash and investments at June 30, 2002 are as follows:

	Fair Value
Cash	\$ 18,662,764
Money market accounts	<u>4,260,867</u>
Total	<u>\$ 22,923,631</u>

The money market accounts are not subject to risk categorization.

(3) Revenue Bonds Payable

The bonds, originally issued in the aggregate for \$26,680,000, bear interest at rates ranging from 3.0% to 4.85% per year, payable semi-annually on May 1 and November 1.

The bonds mature on November 1, in annual amounts as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 1,495,000	982,355	2,477,355
2004	1,560,000	924,316	2,484,316
2005	1,650,000	861,976	2,511,976
2006	1,710,000	795,310	2,505,310
2007	1,800,000	724,150	2,524,150
2008	1,885,000	647,640	2,532,640
2009	1,980,000	565,728	2,545,728
2010	2,060,000	478,343	2,538,343
2011	2,175,000	384,901	2,559,901
2012	2,315,000	284,490	2,599,490
2013	2,450,000	176,208	2,626,208
2014	2,600,000	59,978	2,659,978
	<u>\$ 23,680,000</u>	<u>6,885,395</u>	<u>30,565,395</u>

Under the provisions of the bond resolution, these bonds, and any additional bonds that may be subsequently issued, will be retired solely from the net revenues of the Utility System, Utility System Student Fees, and interest on investments.

(4) Capital Assets

The following is a summary of capital assets activity in the Investment in Plant Fund for Utility System assets for the year ended June 30, 2002:

	Balance July 1, 2001, as restated (note 8)	Additions	Deletions	Balance June 30, 2002
Building	\$ 1,282,911	-	-	1,282,911
Utility system infrastructure	37,986,200	3,362,352	-	41,348,552
Equipment	322,347	11,366	-	333,713
Total capital assets	<u>39,591,458</u>	<u>3,373,718</u>	-	<u>42,965,176</u>
Less accumulated depreciation				
Building	(152,838)	(51,316)		(204,154)
Utility system infrastructure	(12,685,798)	(1,374,176)	-	(14,059,974)
Equipment	(219,285)	(33,371)	-	(252,656)
Total accumulated depreciation	<u>(13,057,921)</u>	<u>(1,458,863)</u>	-	<u>(14,516,784)</u>
Capital assets, net	<u>\$ 26,533,537</u>	<u>1,914,855</u>	-	<u>28,448,392</u>

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) Commitments

Encumbrances outstanding totaled \$2,035,240 at June 30, 2002 and represent commitments related to unperformed contracts for goods or services that have been entered on the University's purchase order system.

The Board of Regents has entered into various agreements with the City of Ames (Ames) for the University to use certain of Ames' services, with charges determined based on sharing the cost of improvements to Ames' fire protection facilities, water and wastewater utilities, and electrical utilities.

The fire protection facility agreement is effective for an indefinite term and is cancelable annually on July 1 by either party. For the year ended June 30, 2002, \$12,000 was paid to reimburse Ames for payments related to fire protection improvements. Future average annual payments of \$10,417 from 2003 to 2007 are payable to Ames in accordance with this agreement.

The term of the wastewater utility agreement is indefinite. The University has agreed to pay a portion of the capital improvements and related interest costs of capital projects from which the University derives benefits. For the year ended June 30, 2002, payments totaling \$280,400, including interest of \$17,576, were paid to Ames. The University will continue to make payments, based on its usage, until an additional \$245,184 plus interest is paid.

The term of the electrical utilities agreement is 15 years with an option to renew for an additional 15 years. In accordance with this agreement, the University has agreed to pay a portion of the capital improvements and related interest costs of capital improvement projects from which the University derives benefits. For the year ended June 30, 2002, there were no obligations outstanding and, therefore, no payments were made to the City of Ames.

The term of the domestic water utility agreement is indefinite and is cancelable annually with a 5-year notice on July 1 by either party. The University has agreed to pay a portion of the capital improvements and related interest costs of capital projects from which the University derives benefits. For the year ended June 30, 2002, there were no obligations outstanding and, therefore, no payments were made to the City of Ames.

The annual payments to Ames under these various contracts are included in the budget estimates used to calculate the rates charged by the Utility System.

(6) Related Party Transactions

Included in operating revenues are revenues generated from the auxiliary enterprises and other current funds of the University of \$6,103,507 and \$18,646,382, respectively.

(7) Debt Service Coverage

Utility System Revenue Bond Fund principal and interest payments totaling \$2,477,355 due November 1, 2001 and May 1, 2002 require debt service coverage of a minimum of 120%, or \$2,972,826. Utility System operating income before depreciation of \$6,162,823 and investment income of \$1,088,639 provided debt service coverage of \$7,251,462, or 293% of the principal and interest due for the year ended June 30, 2002.

(8) 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 at June 30, 2001 in accordance with the Governmental Accounting Standards Board Statement Number 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.

Building	\$ 1,282,911
Utility system infrastructure	37,986,200
Equipment	322,347
Total capital assets, as previously reported at June 30, 2001	<u>39,591,458</u>
Less accumulated depreciation at June 30, 2001 for:	
Building	(152,838)
Utility system infrastructure	(12,685,798)
Equipment	(219,285)
Total accumulated depreciation	<u>(13,057,921)</u>
Capital assets, net, at July 1, 2001 as restated	<u><u>\$ 26,533,537</u></u>

Supplemental Information

Schedule 1

Utility System 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

Power plant and on-site substation, all risk, \$1,000,000 deductible per occurrence or accident

Amount of Coverage

\$180,677,875

Policy Number

IA50891

Term of Policy

July 1, 2001 to July 1, 2002

See accompanying independent auditor's report.

Utility System 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.

Utility System 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
Karen L. Brustkern, Senior Auditor
Billie Jo Heth, Staff Auditor
Scott Boisen, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State