



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

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Warren G. Jenkins, CPA
Chief Deputy Auditor of State

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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**IOWA STATE CENTER BUSINESS OFFICE
IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS**

JUNE 30, 2002 AND 2001

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Independent Auditor's Report

To the Office of Business and Finance,
Iowa State University of Science and Technology:

We have audited the accompanying financial statements of the Iowa State Center Business Office of Iowa State University of Science and Technology, as of and for the years ended June 30, 2002 and 2001. 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position, results of operations and cash flows of only that portion of the business-type activities of the University that is attributable to the transactions of the Iowa State Center Business Office. They 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 2001 and the results of its operation and its cash flows for the years 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 Iowa State Center Business Office of Iowa State University of Science and Technology at June 30, 2002 and 2001, and the results of its operations and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 6 to the financial statements, for the year ended June 30, 2002, Iowa State University of Science and Technology adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2002 on our consideration of the Iowa State Center Business Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 15, 2002

Iowa State Center Business Office

Financial Statements

Exhibit A

Iowa State Center Business Office
Iowa State University of Science and Technology

Statement of Net Assets

June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$ 2,138,379	1,223,200
Accounts receivable	769,560	369,614
Inventories	41,584	39,020
Prepaid expenses	<u>35,118</u>	<u>62,151</u>
Total assets	<u>2,984,641</u>	<u>1,693,985</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	701,227	157,224
Due to management company (notes 3 and 5)	329,625	117,460
Due to other University funds	913,902	1,138,587
Deferred revenue	<u>1,039,887</u>	<u>280,714</u>
Total liabilities	<u>2,984,641</u>	<u>1,693,985</u>
Net assets	<u>\$ -</u>	<u>-</u>

See notes to financial statements.

Iowa State Center Business Office
Iowa State University of Science and Technology

Statement of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2002 and 2001

	2002	2001
Operating revenues (note 5):		
Concessions, catering and novelties	\$ 3,146,044	3,268,561
Building and equipment rent	1,101,221	1,076,570
Reimbursed costs	915,570	841,250
C. Y. Stephens Series	778,102	599,524
Advertising	356,361	335,682
Ticket handling	149,026	98,826
Promotions	70,294	64,928
Other	609,188	532,062
Total operating revenues	7,125,806	6,817,403
Operating expenses (note 5):		
Auxiliary enterprises:		
Wages and benefits	3,076,903	2,732,348
Cost of goods sold	1,938,056	2,030,253
Utilities	915,998	1,044,147
Operations and other	1,459,846	1,053,504
Administrative	388,457	549,441
Facilities costs	580,858	549,463
Concession fees (note 3)	111,560	117,470
Management fees (note 3)	122,500	150,000
Total operating expenditures	8,594,178	8,226,626
Operating loss	(1,468,372)	(1,409,223)
Non-operating revenues:		
Interest income	72,311	107,078
Endowments from the University	63,342	74,698
Total non-operating revenues	135,653	181,776
Loss before transfers	(1,332,719)	(1,227,447)
Operating transfers from University funds	1,332,719	1,227,447
Change in net assets	-	-
Net assets, beginning of year	-	-
Net assets, end of year	\$ -	-

See notes to financial statements.

Exhibit C

Iowa State Center Business Office
Iowa State University of Science and Technology

Statement of Cash Flows

Years ended June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from events	\$ 7,471,832	7,401,108
Cash payments to suppliers	(4,895,685)	(7,101,398)
Cash payments to employees	<u>(2,994,821)</u>	<u>(2,871,995)</u>
Cash used for operating activities	<u>(418,674)</u>	<u>(2,572,285)</u>
Cash flows from non-capital financing activities:		
Interfund transfers from other University funds	1,198,200	1,224,877
Endowment income	<u>63,342</u>	<u>74,698</u>
Net cash provided by non-capital financing activities	<u>1,261,542</u>	<u>1,299,575</u>
Cash flows from investing activities:		
Interest income	<u>72,311</u>	<u>107,078</u>
Net increase (decrease) in cash and cash equivalents	915,179	(1,165,632)
Cash and cash equivalents beginning of year	<u>1,223,200</u>	<u>2,388,832</u>
Cash and cash equivalents end of year	<u>\$ 2,138,379</u>	<u>1,223,200</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	<u>\$ (1,468,372)</u>	<u>(1,409,223)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(399,946)	832,111
(Increase) decrease in inventory	(2,564)	1,939
(Increase) decrease in prepaid expenses	27,033	(25,229)
Increase (decrease) in accounts payable and accrued expenses	544,003	(41,679)
Increase (decrease) in salaries payable	82,082	(139,647)
Increase in due to management company	130,083	28,819
(Decrease) in due to other University funds	(90,166)	(1,607,430)
Increase (decrease) in deferred revenue	<u>759,173</u>	<u>(211,946)</u>
Total adjustments	<u>1,049,698</u>	<u>(1,163,062)</u>
Net cash used for operating activities	<u>\$ (418,674)</u>	<u>(2,572,285)</u>

See notes to financial statements.

Iowa State Center Business Office
Iowa State University of Science and Technology

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

Operations

The Iowa State Center Business Office (Office) of the Iowa State University of Science and Technology (University) is organized to operate the facilities included in the Iowa State Center (Center), except for the Brunnier Gallery Museum. The Office is classified as a University Auxiliary Enterprise to account for transactions of activities that primarily provide a service to students.

Basis of Accounting

The financial statements of the Office include only the operating activities of the Center and exclude the fixed assets and bonded indebtedness related to the Center. These financial statements present only a portion of the funds of the University. In the event of operating deficits, they are offset by an allocation from the University.

The financial statements have been prepared on the accrual basis.

Inventories

Inventories are stated at average cost, which approximates the value that would be reported had inventories been stated at lower of cost or market, as required by U.S. generally accepted accounting principles.

Prepaid Expenses

Prepaid expenses include promotion and preparation costs for future events, which costs are included in operations on occurrence of the events.

Deferred Revenue

Ticket sales and rental deposits are recognized as revenue on occurrence of the related events.

(2) Cash and Investments

The Center's cash on hand at June 30, 2002 was \$25,200. The Center's bank balances and book balances at June 30, 2002 were \$661,829 and \$695,021, respectively. The Center's deposits with the University throughout the period and balance of \$1,418,158 at June 30, 2002 were covered by the federal deposit insurance corporation (FDIC) or by the State's Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

In accordance with the Code of Iowa and the Board of Regents' policy, the University operating portfolio may be invested in obligations of the U.S. government or its agencies, certain high rated commercial paper, highly rated corporate bonds, certain limited maturity zero coupon securities, fully insured or collateralized certificates of deposits and savings, eligible bankers acceptances of 180 days or less, certain repurchase agreements, high quality money market funds, and highly rated guaranteed investment contracts.

(3) Management Agreement

The Center, except for the Brunnier Gallery Museum, was managed by ARAMARK Corporation under a management agreement with the University through July 31, 2001. The agreement provided for the University to compensate ARAMARK Corporation with a management fee of \$12,500 per month and a commission fee equal to 10% of concessions and novelties revenues.

A new management agreement with SMG Corporation was effective August 1, 2001 and runs through June 30, 2006. The new agreement provides for SMG Corporation to receive a management fee, initially established at \$120,000 per year. The management fee is subject to annual adjustments during the term of the agreement, not to exceed the annual percentage increase or decrease reflected in the consumer price index, with a maximum annual increase of 2.75% to be applied to the following year's payment. In addition, SMG Corporation is to receive a 10% commission on net concession and merchandise sales, limited to the amount of the management fee for that year.

The amount due to the management company at June 30, 2002 totaled \$329,625 and includes \$170,000 for management fees and commissions and \$159,625 for accrued salaries and benefits for Center staff.

(4) Risk Management

- (a) **General Liability** - SMG Corporation has purchased a fidelity insurance bond for the Iowa State Center. This bond has a coverage limit of \$1,000,000. In addition, under the current management agreement with SMG Corporation, the Center is insured through SMG Corporation policies for commercial general liability, umbrella liability, workers compensation and employers liability. Additional policies have been obtained by SMG Corporation for the Center to cover professional liability and dram shop liability.
- (b) **Motor Vehicle Insurance** - The Center is insured through SMG Corporation for automobile liability.
- (c) **Property Insurance** - Iowa State University has purchased commercial property insurance, including earthquake and flood coverage, for the University's enterprise facilities, such as the Center. Deductibles range from \$1,000 to \$100,000 per occurrence.
- (d) **Business Interruption Insurance** - Commercial insurance is purchased by Iowa State University to cover business interruption losses for self-supporting enterprises, such as the Center.

There were no significant reductions in insurance coverage from the prior year as a result of the change in management agreements, and settlements have not exceeded coverage for the past three fiscal years.

(5) Related Party Transactions

Certain services, including facilities maintenance, facilities modifications, keying services, pest control, remote alarm monitoring, snow removal and utilities work, are provided to the Office by the University and included in expenses. Certain revenues result from events sponsored by other University funds.

Certain services, principally personnel costs, are provided to the Center by SMG Corporation or its affiliates.

(6) Accounting Change

Iowa State University of Science and Technology adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, for the year ended June 30, 2002. The statement requires the Center to present a statement of cash flows.

Iowa State Center Business Office



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**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Office of Business and Finance,
Iowa State University of Science and Technology:

We have audited the financial statements of the Iowa State Center Business Office of Iowa State University of Science and Technology, as of and for the year ended June 30, 2002, and have issued our report thereon dated August 15, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Iowa State Center Business Office of Iowa State University of Science and Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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 operation that we consider to be material weaknesses.

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, 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Iowa State Center Business Office of Iowa State University of Science and Technology during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 15, 2002

Iowa State Center Business Office
Iowa State University of Science and Technology

Staff

This audit was performed by:

Ronald D. Swanson, CPA, Manager
Julie J. Lyon, CPA, Staff Auditor
Jedd D. Moore, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State