



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

David A. Vaudt, CPA  
Auditor of State

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**NEWS RELEASE**

FOR RELEASE \_\_\_\_\_ October 11, 2005

Contact: Andy Nielsen  
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Auditor of State David A. Vaudt today released an audit report on the Iowa State Center Business Office of Iowa State University of Science and Technology for the year ended June 30, 2005.

The financial information included in this report will also be 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.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS**

**JUNE 30, 2005 AND 2004**

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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 basic 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, 2005 and 2004. 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 and the standards applicable to financial audits contained in 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 our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements are intended to present the financial position, changes in financial position 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, 2005 and 2004, and the changes in its financial position 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 as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2005 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, the articles of incorporation 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 Iowa State Center Business Office of Iowa State University Science and Technology has not presented Management's Discussion and Analysis which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 2, 2005

**Iowa State Center Business Office**

## **Financial Statements**

**Exhibit A**

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

## Statement of Net Assets

June 30, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and investments (note 2)	\$ 711,365	1,449,782
Accounts receivable	375,411	412,508
Inventories	42,227	47,107
Prepaid expenses	21,319	49,097
	<hr/>	
Total assets	1,150,322	1,958,494
	<hr/>	
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	174,394	206,128
Due to management company (notes 3 and 5)	249,385	285,012
Due to other University funds	442,134	866,576
Deferred revenue	284,409	600,778
	<hr/>	
Total liabilities	1,150,322	1,958,494
	<hr/>	
<b>Net Assets</b>	<b>\$ -</b>	<b>-</b>

See notes to financial statements.

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

Statement of Revenues, Expenses and Changes in Fund Net Assets

Years ended June 30, 2005 and 2004

	2005	2004
Operating revenues (note 5):		
Concessions, catering and novelties	\$ 2,790,452	3,054,464
Building and equipment rent	1,247,684	1,216,651
Reimbursed costs	841,634	956,766
C. Y. Stephens Series	616,295	586,938
Advertising	402,374	498,159
Public facility maintenance surcharge	288,756	313,135
Ticket handling	130,877	212,395
Promotions	214,087	374,531
Other	324,139	330,204
Total operating revenues	<u>6,856,298</u>	<u>7,543,243</u>
Operating expenses (note 5):		
Auxiliary enterprises:		
Wages and benefits	3,180,649	3,432,682
Cost of goods sold	1,708,452	1,733,839
Utilities	1,048,270	1,044,628
Operations and other	1,405,517	1,478,413
Administrative	387,572	455,403
Facilities costs	175,512	132,279
Concession fees (note 3)	106,680	123,281
Management fees (note 3)	125,376	123,281
Total operating expenses	<u>8,138,028</u>	<u>8,523,806</u>
Operating loss	<u>(1,281,730)</u>	<u>(980,563)</u>
Non-operating revenues:		
Interest income	23,061	30,172
Endowments from the University	59,539	39,510
Total non-operating revenues	<u>82,600</u>	<u>69,682</u>
Loss before transfers	<u>(1,199,130)</u>	<u>(910,881)</u>
Operating transfers from University funds	<u>1,199,130</u>	<u>910,881</u>
Change in net assets	-	-
Net assets beginning of year	-	-
Net assets end of year	<u>\$ -</u>	<u>-</u>

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, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Cash received from events	\$ 6,577,026	7,952,909
Cash paid to suppliers	(4,979,103)	(4,983,866)
Cash paid to employees	(3,193,628)	(3,493,400)
Net cash used for operating activities	<u>(1,595,705)</u>	<u>(524,357)</u>
Cash flows from non-capital financing activities:		
Operating transfers from University funds	774,688	681,007
Endowments from the University	59,539	39,510
Net cash provided by non-capital financing activities	<u>834,227</u>	<u>720,517</u>
Cash flows from investing activities:		
Interest income	<u>23,061</u>	<u>30,172</u>
Net increase (decrease) in cash and cash equivalents	(738,417)	226,332
Cash and cash equivalents beginning of year	<u>1,449,782</u>	<u>1,223,450</u>
Cash and cash equivalents end of year	<u>\$ 711,365</u>	<u>1,449,782</u>
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,281,730)	(980,563)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable	37,097	108,481
Decrease in inventories	4,880	4,664
(Increase) decrease in prepaid expenses	27,778	(16,521)
Increase (decrease) in accounts payable	(31,734)	87,852
(Decrease) in due to management company	(35,627)	(29,455)
Increase (decrease) in deferred revenue	(316,369)	301,185
Total adjustments	<u>(313,975)</u>	<u>456,206</u>
Net cash used for operating activities	<u>\$ (1,595,705)</u>	<u>(524,357)</u>

See notes to financial statements.

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

Notes to Financial Statements

June 30, 2005

**(1) Summary of Significant Accounting Policies**

Operations

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

Basis of Accounting

The financial statements of the Office include only the operating activities of the Center and exclude the capital 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 of accounting.

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 will be 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. If an event is cancelled, ticket sales are kept as Unearned Ticket Revenue and refunds are paid directly from that fund. If ticket sales are not refunded within one year, revenue is recognized.

**(2) Cash and Investments**

The Office's cash on hand at June 30, 2005 was \$11,400. The Office's bank balances and book balances at June 30, 2005 were \$483,857 and \$485,229, respectively. The Office's deposits with the University throughout the period and the balance of \$214,736 at June 30, 2005 were entirely 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 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 SMG Corporation under a management agreement with the University that extends through June 30, 2006. The 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, 2005 totaled \$249,385 and includes \$169,368 for management fees and commissions and \$80,017 for accrued salaries and benefits for Center staff.

### **(4) Risk Management**

(a) General Liability:

SMG Corporation has purchased a fidelity insurance bond for the 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 employer's 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:

The 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 the 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 and settlements have not exceeded insurance 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.

The University assessed departments a 2.5% administrative fee on revenues from outside sources in fiscal year 2005. The rate is expected to increase to 4% over the next few years. The Statement of Revenues, Expenses and Changes in Fund Net Assets includes administrative fees of \$109,555 paid to the University by the Iowa State Center.

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



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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 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, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

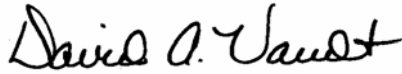
In planning and performing our audit, we considered the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements 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.

Compliance and Other Matters

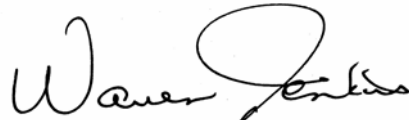
As part of obtaining reasonable assurance about whether the Iowa State Center Business Office of Iowa State University of Science and Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance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

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa State Center Business Office of Iowa State University of Science and Technology and other parties to whom the Iowa State Center Business Office of 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 the 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.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

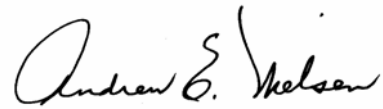
September 2, 2005

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

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager  
Scott P. Boisen, Staff Auditor  
Sarah D. Nelson, CPA, Staff Auditor  
Donna R. Neubauer, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct 'N'.

Andrew E. Nielsen, CPA  
Deputy Auditor of State