



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

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**NEWS RELEASE**

FOR RELEASE January 16, 2008

Contact: Andy Nielsen  
515/281-5834

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, 2007.

The financial information included in this report 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.

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, 2007 AND 2006**

## Table of Contents

		<u>Page</u>
Independent Auditor's Report		3-4
Basic Financial Statements:	<u>Exhibit</u>	
Statement of Net Assets	A	6
Statement of Revenues, Expenses and Changes in Fund Net Assets	B	7
Statement of Cash Flows	C	8
Notes to Financial Statements		9-11
Supplementary Information:	<u>Schedule</u>	
Schedule of Revenues and Expenses	1	14
Independent Auditor's Report on Internal over Financing Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		15-16
Staff		17



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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, 2007 and 2006, as listed in the table of contents. 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 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.

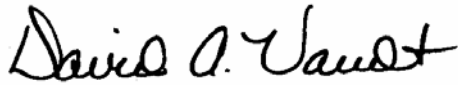
As discussed in Note 1, the financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the business type activities of the University that is attributable to the transactions of the Iowa State Center Business Office. They do not purport to, and do not, present fairly the financial position of Iowa State University of Science and Technology as of June 30, 2007 and 2006, 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, 2007 and 2006, 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.

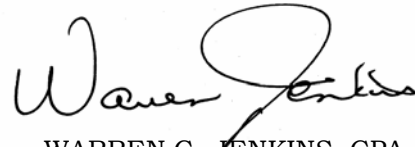
In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2007 on our consideration of the Iowa State Center Business Office's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, the articles 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 of 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Iowa State Center Business Office of Iowa State University of Science and Technology's basic financial statements. The supplementary information included as Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2007

## **Basic 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, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and investments (note 2)	\$ 271,182	346,522
Accounts receivable	423,977	502,214
Due from other University funds	276,245	-
Inventories	54,940	55,407
Prepaid expenses	25,453	46,450
Total assets	<u>1,051,797</u>	<u>950,593</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	207,144	45,458
Due to management company (notes 4 and 6)	280,438	268,197
Due to other University funds	72,512	30,090
Deferred revenue	414,215	606,848
Total current liabilities	<u>974,309</u>	<u>950,593</u>
Noncurrent liabilities:		
Due to other University funds	77,488	-
Total liabilities	<u>1,051,797</u>	<u>950,593</u>
<b>Net Assets</b>	<u>\$ -</u>	<u>-</u>

See the accompanying notes which are an integral part of these 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, 2007 and 2006

	2007	2006
Operating revenues (note 6):		
Concessions, catering and novelties	\$ 2,969,234	2,788,645
Building and equipment rent	1,445,634	1,205,410
Reimbursed costs	1,115,963	793,932
C. Y. Stephens Series	588,511	554,216
Advertising	538,021	419,737
Public facility maintenance surcharge	252,641	247,349
Ticket handling	106,698	100,172
Promotions	206,107	208,845
Other	351,961	436,729
Total operating revenues	<u>7,574,770</u>	<u>6,755,035</u>
Operating expenses (note 6):		
Auxiliary enterprises:		
Wages and benefits	3,612,258	3,359,493
Cost of goods sold	1,926,601	1,927,317
Utilities	1,209,375	1,098,495
Operations and other	1,471,560	1,353,071
Administrative	322,289	336,690
Facilities costs	69,315	75,673
Concession fees (note 4)	104,214	85,517
Management fees (note 4)	125,004	127,958
Total operating expenses	<u>8,840,616</u>	<u>8,364,214</u>
Operating loss	<u>(1,265,846)</u>	<u>(1,609,179)</u>
Non-operating revenues:		
Interest income	16,511	13,368
Endowments from the University	53,252	56,362
Total non-operating revenues	<u>69,763</u>	<u>69,730</u>
Loss before transfers	(1,196,083)	(1,539,449)
Operating transfers from University funds (net of \$186,618 and (\$671,988) excess (deficit) of revenues and transfers over expenses for the years ended June 30, 2007 and 2006, respectively	<u>1,196,083</u>	<u>1,539,449</u>
Change in net assets	-	-
Net assets beginning of year	-	-
Net assets end of year	<u>\$ -</u>	<u>-</u>

See the accompanying notes which are an integral part of these financial statements.

**Exhibit C**Iowa State Center Business Office  
Iowa State University of Science and Technology

## Statement of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from events	\$ 7,460,373	6,950,672
Cash paid to suppliers	(5,046,170)	(5,175,950)
Cash paid to employees	(3,599,054)	(3,336,700)
Net cash used for operating activities	(1,184,851)	(1,561,978)
Cash flows from non-capital financing activities:		
Operating transfers from University funds	889,748	1,127,405
Operating loan from the University	150,000	-
Endowments from the University	53,252	56,362
Net cash provided by non-capital financing activities	1,093,000	1,183,767
Cash flows from investing activities:		
Interest income	16,511	13,368
Net decrease in cash and cash equivalents	(75,340)	(364,843)
Cash and cash equivalents beginning of year	346,522	711,365
Cash and cash equivalents end of year	\$ 271,182	346,522
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (1,265,846)	(1,609,179)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	78,237	(126,803)
(Increase) decrease in inventories	467	(13,180)
(Increase) decrease in prepaid expenses	20,997	(25,131)
Increase (Decrease) in accounts payable	161,686	(128,936)
Increase in due to management company	12,241	18,812
Increase (decrease) in deferred revenue	(192,633)	322,439
Total adjustments	80,995	47,201
Net cash used for operating activities	\$ (1,184,851)	(1,561,978)

See the accompanying notes which are an integral part of these financial statements.

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

Notes to Financial Statements

June 30, 2007

**(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, 2007 was \$23,400. The Office's bank balances and book balances at June 30, 2007 were \$258,284 and \$247,782, respectively. The Office's deposits were entirely covered by the Federal Deposit Insurance Corporation (FDIC) or by the State 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) Operating Loan Payable

On May 4, 2007, Iowa State Center Business Office entered into an operating loan agreement with Iowa State University for \$150,000. The loan bears an interest rate of 5.09% and is to be repaid in four installments over the next two years. The principal and interest payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 72,512	7,955	80,467
2009	77,488	2,979	80,467
Total	\$ 150,000	10,934	160,934

### (4) Management Agreement

The Center, except for the Brunnier Gallery Museum, was managed by SMG Corporation under a management agreement with the University extending through June 30, 2011. On July 1, 2006, amendment number one to the agreement adjusted the management fee to \$125,000 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 gross concession sales and net merchandise sales, limited to the amount of the management fee for that year. On June 14, 2007, SMG Corporation was purchased by American Capital Strategies, LTD. In accordance with the agreement, the University may terminate the contract. The University and SMG Corporation are in negotiations and have initially agreed to allow the contract to continue to June 30, 2008.

The amount due to the management company at June 30, 2007 totaled \$280,438 and includes \$166,716 for management fees and commissions and \$113,722 for accrued salaries and benefits for Center staff.

### (5) Risk Management

#### (a) General Liability:

SMG Corporation has purchased a fidelity insurance bond for the Center. This bond has a coverage limit of \$500,000. 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.

Settlements have not exceeded insurance coverage for the past three fiscal years.

**(6) 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 3% administrative fee on revenues from outside sources in fiscal year 2007. The rate is expected to remain at 3% over the next few years. The Statement of Revenues, Expenses and Changes in Fund Net Assets includes administrative fees of \$90,433 paid to the University by the Iowa State Center.

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

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

**Supplementary Information**

**Schedule 1**Iowa State Center Business Office  
Iowa State University of Science and Technology

## Schedule of Revenues and Expenses

Year ended June 30, 2007

	Hilton	Conferences and The Arts	Total
Operating revenues:			
Concessions, catering and novelties	\$ 1,202,686	1,766,548	2,969,234
Building and equipment rent	590,556	855,078	1,445,634
Reimbursed costs	838,826	277,137	1,115,963
C. Y. Stephens Series	-	588,511	588,511
Advertising	63,844	474,177	538,021
Public facility maintenance surcharge	-	252,641	252,641
Ticket handling	-	106,698	106,698
Promotions	-	206,107	206,107
Other	53,283	298,678	351,961
Total operating revenues	<u>2,749,195</u>	<u>4,825,575</u>	<u>7,574,770</u>
Operating expenses:			
Auxiliary enterprises:			
Wages and benefits	1,889,314	1,722,944	3,612,258
Cost of goods sold	496,598	1,430,003	1,926,601
Utilities	405,000	804,375	1,209,375
Operations and other	212,646	1,258,914	1,471,560
Administrative	109,688	212,601	322,289
Facilities costs	-	69,315	69,315
Concession fees	87,299	16,915	104,214
Management fees	71,252	53,752	125,004
Total operating expenses	<u>3,271,797</u>	<u>5,568,819</u>	<u>8,840,616</u>
Operating loss	<u>(522,602)</u>	<u>(743,244)</u>	<u>(1,265,846)</u>
Non-operating revenues:			
Interest income	-	16,511	16,511
Endowments from the University	-	53,252	53,252
Total non-operating revenues	<u>-</u>	<u>69,763</u>	<u>69,763</u>
Loss before transfers	<u>(522,602)</u>	<u>(673,481)</u>	<u>(1,196,083)</u>
Operating transfers from University funds	<u>522,602</u>	<u>673,481</u>	<u>1,196,083</u>
Change in net assets	-	-	-
Net assets beginning of year	-	-	-
Net assets end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>

See accompanying independent auditor's report.





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

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Auditor of State

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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, 2007, and have issued our report thereon dated November 12, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Iowa State Center Business Office of Iowa State University of Science and Technology's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Iowa State Center Business Office of Iowa State University of Science and Technology's financial statements that is more than inconsequential will not be prevented or detected by the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control.

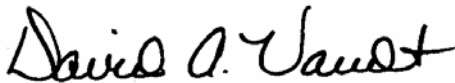
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

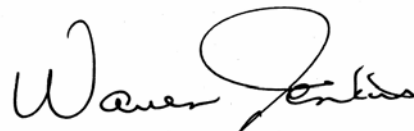
As part of obtaining reasonable assurance about whether the Iowa State Center Business Office of Iowa State University of Science and Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance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

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

November 12, 2007

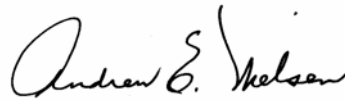
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Iowa State Center Business Office  
Iowa State University of Science and Technology

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager  
Donna R. Neubauer, Staff Auditor  
Dorothy O. Stover, Staff Auditor  
Adam D. Steffensmeier, Assistant Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State