



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE October 8, 2004

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, 2004.

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.

###

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

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS**

JUNE 30, 2004 AND 2003

Table of Contents

	<u>Page</u>
Independent Auditor's Report	3
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	9-10
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	11-12
Staff	13



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2004 and 2003. 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 our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements are intended to present 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, 2004 and 2003, and the results of its operations 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, 2004 and 2003, and the results of its operations 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, 2004 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.

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, 2004

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$ 1,449,782	1,223,450
Accounts receivable	412,508	520,989
Inventories	47,107	51,771
Prepaid expenses	49,097	32,576
	<u>1,958,494</u>	<u>1,828,786</u>
Total assets		
	<u>1,958,494</u>	<u>1,828,786</u>
Liabilities		
Current liabilities:		
Accounts payable	206,128	118,276
Due to management company (notes 3 and 5)	285,012	314,467
Due to other University funds	866,576	1,096,450
Deferred revenue	600,778	299,593
	<u>1,958,494</u>	<u>1,828,786</u>
Total liabilities		
	<u>1,958,494</u>	<u>1,828,786</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 Fund Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Operating revenues (note 5):		
Concessions, catering and novelties	\$ 3,054,464	3,069,045
Building and equipment rent	1,216,651	1,210,135
Reimbursed costs	956,766	1,020,606
C. Y. Stephens Series	586,938	511,172
Advertising	498,159	442,003
Public facility maintenance surcharge	313,135	316,117
Ticket handling	212,395	212,028
Promotions	374,531	198,782
Other	330,204	293,396
Total operating revenues	<u>7,543,243</u>	<u>7,273,284</u>
Operating expenses (note 5):		
Auxiliary enterprises:		
Wages and benefits	3,432,682	3,407,384
Cost of goods sold	1,733,839	1,709,639
Utilities	1,044,628	983,632
Operations and other	1,478,413	1,463,365
Administrative	455,403	405,773
Facilities costs	132,279	282,678
Concession fees (note 3)	123,281	120,840
Management fees (note 3)	123,281	120,840
Total operating expenses	<u>8,523,806</u>	<u>8,494,151</u>
Operating loss	<u>(980,563)</u>	<u>(1,220,867)</u>
Non-operating revenues:		
Interest income	30,172	65,756
Endowments from the University	39,510	49,471
Total non-operating revenues	<u>69,682</u>	<u>115,227</u>
Loss before transfers	(910,881)	(1,105,640)
Operating transfers from University funds	<u>910,881</u>	<u>1,105,640</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 CIowa State Center Business Office
Iowa State University of Science and Technology

Statement of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from events	\$ 7,952,909	6,781,561
Cash payments to suppliers	(4,983,866)	(5,677,621)
Cash payments to employees	(3,493,400)	(3,422,284)
Net cash used for operating activities	(524,357)	(2,318,344)
Cash flows from non-capital financing activities:		
Operating transfers from University funds	681,007	1,288,188
Endowments from the University	39,510	49,471
Net cash provided by non-capital financing activities	720,517	1,337,659
Cash flows from investing activities:		
Interest income	30,172	65,756
Net increase (decrease) in cash and cash equivalents	226,332	(914,929)
Cash and cash equivalents beginning of year	1,223,450	2,138,379
Cash and cash equivalents end of year	\$ 1,449,782	1,223,450
Reconciliation of operating loss to net cash used for operating activities:		
Operating loss	\$ (980,563)	(1,220,867)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and liabilities:		
Decrease in accounts receivable	108,481	248,571
(Increase) decrease in inventories	4,664	(10,187)
(Increase) decrease in prepaid expenses	(16,521)	2,542
Increase (decrease) in accounts payable	87,852	(582,951)
(Decrease) in due to management company	(29,455)	(15,158)
Increase (decrease) in deferred revenue	301,185	(740,294)
Total adjustments	456,206	(1,097,477)
Net cash used for operating activities	\$ (524,357)	(2,318,344)

See notes to financial statements.

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

Notes to Financial Statements

June 30, 2004

(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 Brunnier 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, 2004 was \$23,400. The Office's bank balances and book balances at June 30, 2004 were \$713,923 and \$676,969, respectively. The Office's deposits with the University throughout the period and the balance of \$749,413 at June 30, 2004 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 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 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, 2004 totaled \$285,012 and includes \$184,922 for management fees and commissions and \$100,090 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 as a result of the change in management agreements 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 began assessing departments a 2% administrative fee on revenues from outside sources in fiscal year 2004. 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 \$75,868 paid to the University by the Iowa State Center.

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



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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, 2004, and have issued our report thereon dated September 2, 2004. 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

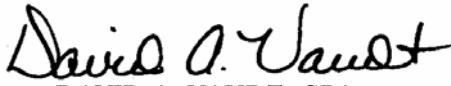
As part of obtaining reasonable assurance about whether the Iowa State Center Business Office of Iowa State University of Science and Technology's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts,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

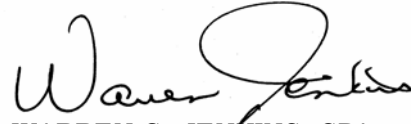
In planning and performing our audit, we considered the Iowa State Center Business Office of Iowa State University of Science and Technology's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and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

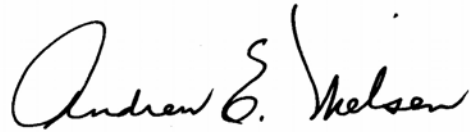
September 2, 2004

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

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Jedd D. Moore, Assistant Auditor
Curtis J. Schroeder, 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 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State