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# INDEPENDENCE BOWL FOUNDATION, INC.

## SHREVEPORT, LOUISIANA

## FINANCIAL STATEMENTS

## FEBRUARY 28, 2009



SMITH PUGH
AND COMPANY, LLP

*Certified Public Accountants ◦ Management Consultants ◦ Business Advisors*

**Independence Bowl Foundation, Inc.**

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**February 28, 2009**

SMITH PUGH
AND COMPANY, LLP
*Certified Public Accountants ∘ Management Consultants ∘ Business Advisors*

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Independence Bowl Foundation, Inc.
Shreveport, Louisiana

We have audited the accompanying statements of financial position of the Independence Bowl Foundation, Inc. as of February 28, 2009 and 2008, and the related statements of activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Independence Bowl Foundation, Inc. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller 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 that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Independence Bowl Foundation, Inc. as of February 28, 2009 and 2008, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Foundation will continue as a going concern. As discussed in Notes 9 and 12 to the financial statements, the Foundation's significant increase in its negative net assets and lack of payment by its former title sponsor raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2009, on our consideration of the Independence Bowl Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Smith Pugh & Company, LLP

Smith Pugh & Company, LLP
Shreveport, Louisiana
March 27, 2009


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# FINANCIAL STATEMENTS

## Independence Bowl Foundation, Inc.

### Statements of Financial Position
### February 28, 2009 and February 29, 2008

| | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 455,149 | $ 407,275 |
| Certificates of deposit | 43,991 | 43,047 |
| Receivables, net | 421,223 | 458,773 |
| Prepaid expenses | 17,653 | 19,651 |
| Total current assets | 938,016 | 928,746 |
| Leasehold Improvements: | | |
| Scoreboard | 1,530,200 | 1,530,200 |
| Pressbox renovations | 206,600 | 206,600 |
| | 1,736,800 | 1,736,800 |
| Less accumulated amortization | (1,391,915) | (1,196,068) |
| Total leasehold improvements | 344,885 | 540,732 |
| Deposits | 7,015 | 7,015 |
| **Total Assets** | $ 1,289,916 | $ 1,476,493 |
| **LIABILITIES AND NET ASSETS** | | |
| Current Liabilities: | | |
| Due to participating teams | $ 804,515 | $ 1,394,410 |
| Due to City of Shreveport | 494,410 | - |
| Accounts payable | 206 | 4,751 |
| Accrued interest payable | 3,445 | 3,504 |
| Payroll withholding payable | 241 | 357 |
| Note payable | 450,000 | 450,000 |
| Total current liabilities/Total liabilities | 1,752,817 | 1,853,022 |
| Net Assets: | | |
| Unrestricted net assets: | | |
| Designated by Board for debt service | 36,870 | 17,851 |
| Undesignated | (394,656) | (485,112) |
| Leasehold improvements, net of related debt | (105,115) | 90,732 |
| Total unrestricted net assets/Total net assets | (462,901) | (376,529) |
| **Total Liabilities and Net Assets** | $ 1,289,916 | $ 1,476,493 |

**The accompanying notes are an integral part of these financial statements.**

## Independence Bowl Foundation, Inc.

### Statements of Activities
### For the Years Ended February 28, 2009 and February 29, 2008

| | 2009 | 2008 |
|---|---|---|
| **Revenues:** | | |
| Independence Bowl: | | |
| Ticket sales | $ 1,491,495 | $ 1,639,185 |
| Title sponsorship | 475,000 | 980,000 |
| Other corporate sponsorships | 88,756 | 58,327 |
| Grants from state and local governments | 528,019 | 504,160 |
| Television and radio revenues | 548,800 | 383,875 |
| Scoreboard advertising | 164,785 | 172,748 |
| Other revenues | 61,250 | 141,886 |
| Donated facilities | 60,000 | 60,000 |
| Total revenue from Independence Bowl | 3,418,105 | 3,940,181 |
| Other: | | |
| Memberships | 43,225 | 44,000 |
| Interest income | 2,966 | 8,071 |
| Total other revenue | 46,191 | 52,071 |
| **Total Revenues** | 3,464,296 | 3,992,252 |
| **Expenses:** | | |
| Program Services: | | |
| Independence Bowl: | | |
| Distributions to participating teams | 1,650,000 | 2,200,000 |
| Advertising and promotion | 80,708 | 70,176 |
| Bowl related events | 121,260 | 118,708 |
| Trophies, awards and souvenirs | 122,425 | 115,303 |
| Game day expenses | 179,575 | 203,259 |
| Amortization of pressbox renovations | 25,825 | 25,825 |
| Scoreboard expenses: | | |
| Amortization | 170,022 | 170,022 |
| Interest expense | 20,960 | 38,890 |
| Other scoreboard related expenses | 25,013 | 28,533 |
| Other expenses | 74,141 | 64,824 |
| | 2,469,929 | 3,035,540 |
| Membership services | - | 880 |
| Total program services | 2,469,929 | 3,036,420 |
| Supporting Services: | | |
| Management and general | 558,833 | 559,565 |
| Fund-raising | 46,706 | 48,603 |
| Bad debt expense | 475,200 | 800,000 |
| **Total Expenses** | 3,550,668 | 4,444,588 |
| **Change in Net Assets** | $ (86,372) | $ (452,336) |

**The accompanying notes are an integral part of these financial statements.**

**Independence Bowl Foundation, Inc.**

**Statements of Changes in Net Assets**
**For the Years Ended February 28, 2009 and February 29, 2008**

| | | |
|---|---|---|
| Net Assets at February 28, 2007 | $ | 75,807 |
| Change in net assets | | (452,336) |
| Net Assets at February 29, 2008 | | (376,529) |
| Change in net assets | | (86,372) |
| **Net Assets at February 28, 2009** | **$** | **(462,901)** |

**The accompanying notes are an integral part of these financial statements.**

## Independence Bowl Foundation, Inc.

### Statements of Cash Flows
### For the Years Ended February 28, 2009 and February 29, 2008

| | 2009 | 2008 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Change in net assets | $ (86,372) | $ (452,336) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Amortization | 195,847 | 195,847 |
| Bad debt expense | 475,200 | 850,000 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (438,152) | (865,352) |
| Other receivables | 502 | (201) |
| Prepaid expenses | 1,998 | 288 |
| Increase (decrease) in liabilities: | | |
| Due to participating teams | (589,895) | 13,185 |
| Due to City of Shreveport | 494,410 | - |
| Accounts payable | (4,545) | (5,632) |
| Accrued expenses | (175) | (3,072) |
| Net Cash Provided/(Used) by Operating Activities | 48,818 | (267,273) |
| **Cash Flows from Investing Activities:** | | |
| Reinvestment of interest in certificates of deposit | (944) | - |
| Redemption of certificates of deposit | - | 7,530 |
| Net Cash (Used)/Provided by Investing Activities | (944) | 7,530 |
| **Cash Flows from Financing Activities:** | | |
| Payment of principal on long-term debt | - | (150,000) |
| Net Cash Used by Financing Activities | - | (150,000) |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | 47,874 | (409,743) |
| **Cash and Cash Equivalents, Beginning of Year** | 407,275 | 817,018 |
| **Cash and Cash Equivalents, End of Year** | $ 455,149 | $ 407,275 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid during the year for interest | $ 20,960 | $ 38,890 |

**The accompanying notes are an integral part of these financial statements.**

*1. Nature of Activities and Significant Accounting Policies:*

**Organization and Nature of Activities**

The Independence Bowl Foundation, Inc. ("the Foundation") is a tax-exempt nonprofit organization established for the purpose of advertising and promoting sports in the Shreveport-Bossier City, Louisiana area. The Foundation consists of numerous volunteer committees which carry out all its functions. The Foundation is the sponsoring organization for the Independence Bowl which is promoted and served through the Foundation's membership.

**General**

The summary of significant accounting policies of the Independence Bowl Foundation, Inc. is presented to assist in the understanding of the Foundation's financial statements. The financial statements and notes thereto are the representation of the Foundation's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

A description of the three net asset categories follows:

Unrestricted – Net assets whose use is not subject to any restrictions.

Temporarily Restricted – Net assets whose use is subject to restrictions that can be fulfilled by actions pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted – Net assets whose use is subject to restrictions that may be maintained permanently. No permanently restricted assets were held during the year ended February 28, 2009.

**Income Taxes**

The Foundation is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Accordingly, there is no provision for income taxes in these financial statements.

*1. Nature of Activities and Significant Accounting Policies (continued):*

**Donated Services, Goods, and Facilities**

A substantial number of volunteers have donated approximately 13,000 hours to the Foundation's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services, goods and facilities are reflected in the statement of activities at their fair value.

**Cash and Cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of 90 days or less when purchased. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of these financial instruments. At February 28, 2009, and throughout the year then ended, the Foundation's cash balances were deposited in several banks. Management believes the Foundation is not exposed to any significant credit risk on cash and cash equivalents.

**Leasehold Improvements**

Leasehold Improvements are recorded at cost. Amortization for reporting purposes is computed using the straight-line method over the remaining life of the lease.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*2. Certificates of Deposit*

Certificates of deposit consisted of the following as of February 28, 2009, and are stated at cost:

| Financial Institution | | Amount |
|---|---|---|
| Regions Bank | $ | 21,868 |
| JP Morgan Chase | | 11,006 |
| First Louisiana Bank | | 11,117 |
| Total | $ | 43,991 |

### 3. *Receivables*

Receivables consisted of the following as of February 28, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| Corporate sponsors and advertisers | $ 1,695,820 | $ 1,257,868 |
| Accrued interest on certifiates of deposit | 403 | 905 |
| Total | 1,696,223 | 1,258,773 |
| Less: allowance for doubtful accounts | (1,275,000) | (800,000) |
| Total receivables, net | $ 421,223 | $ 458,773 |

### 4. *Distributions to Participating Teams*

Per agreements with the Big Twelve Conference and the Southeastern Conference, the Foundation agrees to pay to each participant in the game $1,100,000. As of February 28, 2009, the minimum distribution obligations to the participants are expected to be as follows for the years ending February 28:

| Year Ending February 28, | Amount |
|---|---|
| 2010 | 2,200,000 |
| 2011 | 2,200,000 |

As part of the agreement, each participating university must purchase a minimum of 12,000 tickets. The Foundation is able to deduct from the gross distribution the amount of the tickets even if the university did not sell the tickets.

The following is a recap of the distributions and payables to the teams that participated in the 2008 Independence Bowl:

| | LA Tech | Northern Illinois | Totals |
|---|---|---|---|
| Calculated gross payout | $ 900,000 | $ 750,000 | $ 1,650,000 |
| Less: | | | |
| Value of game tickets allocated to and retained by participating institutions and other items | (424,855) | (420,630) | (845,485) |
| Balance due to participating teams | $ 475,145 | $ 329.370 | $ 804,515 |

## 5. *Cooperative Endeavor Agreement*

On August 13, 2001, the Foundation entered into a cooperative endeavor agreement with the City of Shreveport, Louisiana, to produce an annual football game referred to as the Independence Bowl. The agreement provides that the foundation will be paid $100,000 per year through the 2010 game and the use of public facilities, including Independence Stadium, at no rental charge. The estimated fair market value of the use of the facilities is $60,000. The Foundation was allowed to improve the stadium's facilities with renovations to the pressbox and the addition of a scoreboard. After the debt related to scoreboard is paid, the scoreboard becomes the property of the City of Shreveport.

## 6. *Due to City of Shreveport*

Due to the failure of PetroSun, Inc. to make its complete title sponsorship payment for the 2007 presentation of the Bowl (see Note 9), the Foundation was required to obtain funds from the City of Shreveport, Louisiana in the amount of $594,410 in order to make the team payouts as of March 31, 2008. $100,000 was considered the City's annual sponsorship for the 2008 bowl game and $494,410 as an advance payable when the title sponsor makes its payment.

## 7. *Leases*

During June 2008, the Foundation renegotiated its lease for office space in the American Tower in Shreveport, Louisiana. The new lease term commenced on June 1, 2008 and ends May 30, 2011. Total rent expense for office space during the year ended February 28, 2009 was $43,516. The following is a schedule by year of future minimum rental payments due under the operating lease agreements:

| Year Ending February 28, | Amount |
|---|---|
| 2010 | $ 47,184 |
| 2011 | 47,184 |
| 2012 | 11,796 |
| | $ 106,164 |

## 8. *Note Payable:*

On September 3, 2001, the Foundation obtained a loan from Capital One Bank in the amount of $1,500,000 to purchase a scoreboard. On May 1, 2003, the Foundation renegotiated a new variable interest rate based on the London Inter-Bank Offered Rate plus 2.15%. The rate as of February 28, 2009, was 4.74%. The loan is due upon demand. However, if no demand is made, the loan will be repaid in 10 annual principal payments of $150,000 each beginning November 30, 2001. Interest will be paid quarterly beginning December 31, 2001, with all subsequent interest payments due on the same day of each quarter thereafter. On December 3, 2008, the Foundation deferred the 2008

*8. Note Payable (Continued):*

principal payment by extending the term of the loan. The City of Shreveport, Louisiana is a co-signor on the note.

Future principal payments as of February 28, 2009, are $150,000 each year from year ending 2009 to 2012.

The Foundation has historically funded the debt service by selling advertising space on the scoreboard. The Foundation intends to continue funding the debt service in this manner until it is paid in full.

*9. Title Sponsorship*

On May 1, 2007, the Foundation signed an extension of its title sponsorship agreement with PetroSun, Inc., which shall expire January 1, 2012. The agreement includes 2007, 2008, 2009, 2010 and 2011 presentations of the Bowl. Total title sponsorship revenue during the year ended February 28, 2009 was $475,000. This was made up of $475,000 for the 2008 presentation of the Bowl.

The Foundation has reserved $475,000 of its title sponsorship revenue as being uncollectable for the year ended February 29, 2008. On July 3, 2008, the Foundation cancelled the contract and filed suit against PetroSun, Inc. for the $1,275,000 owed.

*10. Television and Radio Rights*

On August 17, 2006, the Foundation amended and extended its agreement with ESPN for the broadcast rights of the Independence Bowl through the 2009 game. The following is the rights fees payable to the Foundation for the years ending February 28:

| Year | Total |
|---|---|
| 2010 | $ 625,000 |

As part of the agreement with ESPN, the Foundation will pay the following sums to ESPN for the right of entitlement for the years ending February 28:

| Year | Total |
|---|---|
| 2010 | $ 361,757 |

The Foundation normally requires that its title sponsor pay this fee (See Note 7). If the Foundation does not have a title sponsor for the Independence Bowl, it is not required to pay ESPN for the right of entitlement.

*11. Concentration of Credit Risk for Cash and Certificates of Deposit Held in Banks*

The Foundation maintains cash balances and certificates of deposit in certain financial institutions in excess of limits insured by the Federal Deposit Insurance Corporation (FDIC), which is a maximum of $250,000 per account. At February 28, 2009, the Foundation had uninsured balances of approximately $208,000.

*12. Going Concern*

As shown in the accompanying financial statements, the Foundation incurred a net decrease in net assets of $86,372 during the current period due to reserving the accounts receivable from its title sponsor for $475,000. This results in the Foundation having a deficit in net assets of $462,901.

In response to this situation, management has implemented an expense reduction plan as well as a plan to increase sponsorship revenues from various state and local governments, individuals, and companies.

Because it is unclear whether the Foundation will be successful in accomplishing these objectives, there is uncertainty about whether the Foundation has the ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Foundation be unable to continue as a going concern.

# SUPPLEMENTARY INFORMATION

# OTHER REPORTS

SMITH PUGH
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*Certified Public Accountants ◦ Management Consultants ◦ Business Advisors*

## *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Governmental Auditing Standards*

Board of Directors
Independence Bowl Foundation, Inc.
Shreveport, Louisiana

We have audited the financial statements of Independence Bowl Foundation, Inc. (a nonprofit organization), as of and for the year ended February 28, 2009, and have issued our report thereon dated March 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Independence Bowl Foundation, Inc.'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 an opinion on the effectiveness of the Independence Bowl Foundation, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a contiol 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. See related fining 2009-1.



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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Bowl Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management, and the Office of the Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Smith Pugh & Company, LLP

Smith Pugh & Company, LLP
Shreveport, Louisiana
March 27, 2009

# SUMMARY OF AUDIT FINDINGS

**Schedule of Findings**

2009-1 Finding: Lack of segregation of duties.

Cause: Our examination disclosed that there is not any segregation of duties within the Foundation's accounting function, (especially in the areas of bank reconciliations, cash disbursements, general ledger, journal entries and ticket sales). This weakness is due to the fact that the Foundation has a very small staff and only one person is responsible for accounting and ticket sales. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, since the Foundation has such a small staff, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also the cost of hiring additional employees to handle separate aspects of the accounting function might exceed any benefits gained. The Foundation has taken the following steps to mitigate this lack of segregation of duties:

1. The Foundation has segregated parts of the cash receipts process by assigning other personnel to prepare deposit slips and make the deposits at the bank.
2. The executive director reviews the bank reconciliations for each month.
3. The treasurer and the executive director are also reviewing the general ledger for unusual items on a monthly basis.

Recommendation: Based upon the cost-benefit of hiring additional accounting personnel, it may not be feasible to achieve complete segregation of duties. We recommend that the Foundation's finance committee and executive director continue to closely monitor all records and transactions.

Response: The Foundation's finance committee and executive director concur with the recommendation.

**Schedule of Prior Findings**

2008-1 Finding: Lack of segregation of duties.

Cause: Our examination disclosed that there is not any segregation of duties within the Foundation's accounting function, (especially in the areas of bank reconciliations, cash disbursements, general ledger, journal entries and ticket sales). This weakness is due to the fact that the Foundation has a very small staff and only one person is responsible for accounting and ticket sales. Due to the lack of segregation of duties, possible errors or irregularities could occur in the accounting records and not be detected. Understandably, since the Foundation has such a small staff, the most ideal system of internal control or the most desirable accounting system may not be practicable. Also the cost of hiring additional employees to handle separate aspects of the accounting function might exceed any benefits gained. The Foundation has taken the following steps to mitigate this lack of segregation of duties:

1. The Foundation has segregated parts of the cash receipts process by assigning other personnel to prepare deposit slips and make the deposits at the bank.
2. The executive director reviews the bank reconciliations for each month.

3. The treasurer and the executive director are also reviewing the general ledger for unusual items on a monthly basis.

Recommendation: Based upon the cost-benefit of hiring additional accounting personnel, it may not be feasible to achieve complete segregation of duties. We recommend that the Foundation's finance committee and executive director continue to closely monitor all records and transactions.

Response: The Foundation's finance committee and executive director concurs with the recommendation.