



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

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE _____

March 26, 2003

Contact: Andy Nielsen

515/281-5515

The Office of Auditor of State today released an audit report on the Iowa Egg Council for the years ended June 30, 2002 and 2001.

The purpose of the Council is to promote the increased utilization of eggs and egg products and provide for market development.

The Council had revenues of \$663,179 and expenses of \$663,637 for fiscal year 2002. This represents a 12% increase in revenues and a 21% increase in expenses from 2001. The increase in revenues is the result of an increase in assessments received. The increase in expenses is due primarily to increased advertising.

A copy of the audit report is available for review in the office of the Auditor of State and from the Iowa Egg Council.

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IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2002 and 2001

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Iowa Egg Council

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Fiscal Bureau

Council

Russell Dugan
Loren Bosma
Steve Bleisner
John Enderes
Mark Friedow
Bruce Dooyema
Tony Quandahl

Chairperson
Vice Chairperson
Secretary/Treasurer
Member
Member
Member
Member

Ex Officio Members

Harold Hommes
Dr. Dong Uk Ahn
Dennis Leland

Iowa Department of Agriculture and
Land Stewardship
Iowa State University
Iowa Department of Economic Development

Agency

Kevin S. Vinchattle

Executive Director

Iowa Egg Council



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Independent Auditor's Report

To the Members of the
Iowa Egg Council:

We have audited the financial statements, listed as exhibits in the table of contents of this report, of the Iowa Egg Council, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Egg Council at June 30, 2002 and 2001, 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 January 13, 2003 on our consideration of the Iowa Egg Council'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.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 13, 2003

Exhibit A

Iowa Egg Council

Balance Sheets

June 30, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 156,293	191,410
Accounts receivable	108,192	98,630
Prepaid expenses	38,571	14,708
Total current assets	303,056	304,748
Furniture and equipment (net of accumulated depreciation of \$12,692 and \$16,840)	17,440	16,917
Total assets	\$ 320,496	321,665
Liabilities and Fund Balance		
Current liabilities:		
Accounts payable	\$ 4,197	6,515
Compensated absences payable	5,839	4,232
Total current liabilities	10,036	10,747
Fund balance	310,460	310,918
Total liabilities and fund balance	\$ 320,496	321,665

See notes to financial statements.

Iowa Egg Council
Statements of Revenues, Expenses and Changes
in Fund Balance

Years ended June 30, 2002 and 2001

Exhibit B

	2002	2001
Revenues:		
Assessments	\$ 632,040	555,127
American Egg Board funding	25,782	24,559
Miscellaneous	1,407	487
Total revenues	<u>659,229</u>	<u>580,173</u>
Expenses:		
Salaries	136,968	126,207
Travel and subsistence	12,306	11,670
Office supplies	8,068	7,689
Advertising	264,686	139,254
Other promotional supplies	59,988	27,957
Equipment and maintenance	4,676	5,871
Telephone	4,952	4,005
Rent	24,885	22,841
Insurance	1,937	1,424
Accounting	306	7,388
Staff development	-	1,777
Professional services for research activities	21,083	63,305
Consumer education	4,312	6,908
Depreciation	5,307	3,443
Promotions	85,771	73,377
Egg Promotion Specialist salaries, travel and supplies	14,923	17,059
Scholarship	-	25,080
Miscellaneous	10,541	5,427
Total expenses	<u>660,709</u>	<u>550,682</u>
Operating income (loss)	<u>(1,480)</u>	<u>29,491</u>
Non-operating revenues (expenses):		
Interest	3,950	10,522
Loss on sale of fixed assets	(2,928)	-
Net non-operating revenues	<u>1,022</u>	<u>10,522</u>
Excess (deficiency) of revenues over (under) expenses	(458)	40,013
Fund balance beginning of year	<u>310,918</u>	<u>270,905</u>
Fund balance end of year	<u>\$ 310,460</u>	<u>310,918</u>

See notes to financial statements.

Iowa Egg Council
 Statements of Cash Flows

Years ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Cash received from assessments	\$ 622,477	535,269
Cash payments to suppliers and employees	(679,975)	(559,486)
Other operating revenues	27,189	25,046
Net cash provided (used) by operating activities	(30,309)	829
Cash flows from capital activities:		
Acquisition of furniture and equipment	(9,328)	(10,357)
Proceeds from sale of equipment	571	-
Net cash used for capital activities	(8,757)	(10,357)
Cash flows from investing activities:		
Interest received	3,949	10,522
Net increase (decrease) in cash and cash equivalents	(35,117)	994
Cash and cash equivalents at beginning of year	191,410	190,416
Cash and cash equivalents at end of year	\$ 156,293	191,410
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (1,480)	29,491
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	5,307	3,443
Changes in assets and liabilities:		
(Increase) in accounts receivable	(9,562)	(19,858)
(Increase) in prepaid expenses	(23,863)	(1,494)
(Decrease) in accounts payable	(2,318)	(10,678)
(Decrease) in Due to Iowa Poultry Association	-	(2,189)
Increase in compensated absences payable	1,607	2,114
Total adjustments	(28,829)	(28,662)
Net cash provided (used) by operating activities	\$ (30,309)	829

Exhibit C

See notes to financial statements.

Iowa Egg Council

Notes to Financial Statements

June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The purpose of the Iowa Egg Council is to promote the increased utilization of eggs and egg products and provide for market development. Statutory authority for the Iowa Egg Council is established under Chapter 184 of the Code of Iowa. Funding is provided by an assessment imposed on producers for eggs sold.

- A. Reporting Entity - For financial reporting purposes, the Iowa Egg Council has included all funds, organizations, agencies, boards, commissions, and authorities. The Council has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body, and (1) the ability of the Council to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Council. The Iowa Egg Council has no component units which meet the Governmental Accounting Standards Board criteria.
- B. Basis of Accounting - The financial statements of the Iowa Egg Council are prepared on the accrual basis.
- C. Budget Control - Budgetary control is exercised over the Iowa Egg Council by the Council, which approves, reviews and revises the budget.
- D. Cash and Cash Equivalents - For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.
- E. Furniture and Equipment - Furniture and equipment is capitalized at cost. Expenses for repairs and maintenance are charged against operations. The estimated lives for furniture and equipment range from five to seven years.
- F. Depreciation - Furniture and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets.
- G. Income Taxes - The organization is exempt from taxation.

H. Compensated Absences - Iowa Egg Council employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The cost of earned vacation payments is recorded as a liability. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2002.

(2) Deposits

The Council's deposits in banks at June 30 were entirely covered by federal depository insurance 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.

(3) Related Party Transactions

The Iowa Egg Council has contracted with the Iowa Poultry Association to: develop, prepare and distribute educational and promotional material relating to eggs, egg products and egg production; develop and implement public relations, advertising or marketing campaigns designed to maintain/increase the use of eggs or egg products, secure consumer confidence and promote the safe handling of eggs and egg products; encourage exchange of information, ideas and technology between various parties involved in the egg industry; and participate in trade missions, fairs, trade shows and conferences which are beneficial to the industry. The contract provided for the Council to make payments to the Association totaling \$526,000 for the period July 1, 2001 to June 30, 2002.

In addition, certain administrative expenses are paid by the Iowa Poultry Association for the Iowa Egg Council under a contractual agreement. The contract provided for the Council to make payments to the Association totaling \$232,790 for the period July 1, 2001 to June 30, 2002.

Both contracts contain provisions which state, in part, "The contract payments may be modified as necessary to meet the obligations incurred in the performance of this agreement. Such payments shall not exceed the actual amount required to cover the actual services performed..." Actual cash basis disbursements under the above contracts totaled \$690,138 for the year ended June 30, 2002. The amounts paid to the Iowa Poultry Association are distributed to the appropriate expense classifications on Exhibit B of the financial statements.

(4) Risk Management

The Iowa Egg Council is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks were self-insured.



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

To the Members of the
Iowa Egg Council:

We have audited the financial statements of the Iowa Egg Council as of and for the year ended June 30, 2002, and have issued our report thereon dated January 13, 2003. 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 Egg Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 Egg Council'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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Iowa Egg Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the accompanying Schedule of Findings is a material weakness. The prior year reportable condition has not been resolved and is repeated as item (A).

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Egg Council, citizens of the State of Iowa and other parties to whom the Iowa Egg Council 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 Egg Council 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.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 13, 2003

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2002

Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties - An important aspect of internal control is the segregation of duties among employees so that the activities of one employee act as an independent check on the work of another. A majority of the duties relating to general accounting are performed by one person. This includes handling receipts, ledger and journal entry functions for receipts and disbursements, and preparing reconciliations.

Recommendation - We recognize that with a limited number of employees, segregation of duties is difficult. The Council should review its oversight control procedures for accounting personnel to obtain the maximum internal control possible under the circumstances.

Response - The Iowa Egg Council operates on a limited budget. Therefore, meeting Code-mandated activities must be balanced against other uses of funds, including staffing decisions. The Council will continue to review oversight control procedures. Budget and staff resources will primarily control opportunities for future changes.

It should be noted that the Executive Director does monitor the bank reconciliations. Invoices are reviewed and approved prior to checks being approved and mailed. Checks are matched to invoices prior to mailing. The Council and the Executive Director receive and review monthly financial statements showing income and expenditures including a monthly check register. Therefore, there are multiple points in the process where the bookkeeper's work is reviewed by a number of people.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

No matters were noted.

Iowa Egg Council

Staff

This audit was performed by:

Michelle B. Meyer, CPA, Manager
Gary D. Van Lengen, CPA, Staff Auditor
Matthew J. Anfinson, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State