



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE May 16, 2003

Contact: Andy Nielsen
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The Office of Auditor of State today released an audit report on the Iowa Sheep and Wool Promotion Board for the fiscal years ended June 30, 2002 and 2001.

The purpose of the Board is to establish programs for promotion, research and education directed toward better and more efficient production, marketing, and utilization of sheep and wool products; to provide public relations and other promotion techniques for the maintenance of present markets; to provide for the development of new or larger domestic and foreign markets; and to provide for the prevention, modification, or elimination of trade barriers which obstruct the free flow of sheep and wool products.

The Board's net assessment revenues totaled \$57,968 for the year ended June 30, 2002, a 9% increase from 2001. The increase in revenues is due to an increase in pounds of wool and slaughter sheep sold. Expenses for the year ended June 30, 2002 totaled \$53,214 an 8% decrease from the prior year. The decrease in expenses is due to a reduction in the number of educational proposals approved for funding by the Board.

This report contains recommendations to the Board. For example, the Board should review operating procedures to obtain the maximum internal control possible and file the appropriate tax-exempt forms and pay the related fee to the IRS. The Board's responses are included in this report.

A copy of the audit report is available for review in the office of the Auditor of State and the Iowa Department of Agriculture and Land Stewardship.

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IOWA SHEEP AND WOOL PROMOTION BOARD

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

JUNE 30, 2002 AND 2001

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Iowa Sheep and Wool Promotion Board

Officials

Name

Title

State

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

Governor
Director, Department of Management
Director, Legislative Fiscal Bureau

Board

Mark Loutsch
Lowell Bence
Tom Cory
Lee Buelt
Gary Erickson
Ron Pullin
James Koss
Jon McFadden
Duane Sprouse

Chairperson
Vice Chairperson
Secretary
Treasurer
Member
Member
Member
Member
Member

Ex Officio Members

Jamie Cashman
Dr. Daniel Morrical
Kaitlyn Bartling

Secretary Designee, Iowa Department of Agriculture and Land
Stewardship
ISU Extension, Sheep Specialist
Executive Director, Iowa Sheep Industry Association

Iowa Sheep and Wool Promotion Board



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Independent Auditor's Report

To the Members of the Iowa Sheep
and Wool Promotion Board:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Iowa Sheep and Wool Promotion Board, as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the Board'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 Sheep and Wool Promotion Board 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 included our report dated March 17, 2003 on our consideration of Iowa Sheep and Wool Promotion Board'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.

March 17, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Iowa Sheep and Wool Promotion Board

Financial Statements

Exhibit A

Iowa Sheep and Wool Promotion Board

Balance Sheets

June 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 39,780	32,797
Assessments receivable	11,587	13,077
Interest receivable	110	136
Accounts receivable	603	-
Total current assets	<u>52,080</u>	<u>46,010</u>
Equipment, net (note 3)	<u>1,127</u>	<u>1,472</u>
Total assets	<u><u>\$ 53,207</u></u>	<u><u>47,482</u></u>
Liabilities and Fund Balance		
Current liabilities:		
Refunds payable	\$ 724	310
Accounts payable	5,350	5,273
Total current liabilities	<u>6,074</u>	<u>5,583</u>
Fund balance	<u>47,133</u>	<u>41,899</u>
Total liabilities and fund balance	<u><u>\$ 53,207</u></u>	<u><u>47,482</u></u>

See notes to financial statements.

Iowa Sheep and Wool Promotion Board
 Statements of Revenues, Expenses and Changes in Fund Balance
 Years ended June 30, 2002 and 2001

	2002	2001
Revenues:		
Assessments	\$ 65,690	58,470
Less refunds	(7,722)	(5,321)
Net revenues	57,968	53,149
Expenses:		
Administration	10,260	8,279
Education - consumer	19,419	21,958
Education - producer	23,190	27,291
Depreciation	345	345
Total expenses	53,214	57,873
Operating income (loss)	4,754	(4,724)
Non-operating revenues:		
Interest	480	1,381
Excess (deficiency) of revenues over (under) expenses	5,234	(3,343)
Fund balance beginning of year	41,899	45,242
Fund balance end of year	\$ 47,133	41,899

See notes to financial statements.

Exhibit C

Iowa Sheep and Wool Promotion Board

Statements of Cash Flows

Years ended June 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Cash received from assessments	\$ 67,180	56,549
Cash payments to suppliers for goods and services	(53,395)	(57,167)
Cash payments for refunds	(7,308)	(5,311)
Net cash provided (used) by operating activities	6,477	(5,929)
Cash flows from investing activities:		
Interest received	506	2,299
Net increase (decrease) in cash and cash equivalents	6,983	(3,630)
Cash and cash equivalents at beginning of year	32,797	36,427
Cash and cash equivalents at end of year	\$ 39,780	32,797
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 4,754	(4,724)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	345	345
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	1,490	(1,921)
(Increase) in accounts receivable	(603)	-
Increase in refunds payable	414	10
Increase in accounts payable	77	361
Total adjustments	1,723	(1,205)
Net cash provided (used) by operating activities	\$ 6,477	(5,929)

See notes to financial statements.

Iowa Sheep and Wool Promotion Board

Notes to Financial Statements

Years ended June 30, 2002 and 2001

(1) Summary of Significant Accounting Policies

The purpose of the Iowa Sheep and Wool Promotion Board is to establish programs for promotion, research and education directed toward better and more efficient production, marketing and utilization of sheep and wool products; to provide public relations and other promotion techniques for the maintenance of present markets; to provide for the development of new or larger domestic and foreign markets and to provide for the prevention, modification or elimination of trade barriers which obstruct the free flow of sheep and wool products. Statutory authority for the Iowa Sheep and Wool Promotion Board is established under Chapter 182 of the Code of Iowa.

- A. Reporting Entity – For financial reporting purposes, the Iowa Sheep and Wool Promotion Board has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Board 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 Board are such that exclusion would cause the Board'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 include appointing a voting majority of an organization's governing body and (1) the ability of the Board 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 Board. The Iowa Sheep and Wool Promotion Board has no component units which meet the Governmental Accounting Standards Board criteria.
- B. Basis of Accounting – The financial statements of the Iowa Sheep and Wool Promotion Board are prepared on the accrual basis.
- C. Assessments – The Iowa Sheep and Wool Promotion Board receives an assessment of two cents for each pound of wool produced and sold by a producer and ten cents per head on sheep sold for slaughter by a producer. The assessments are required to be remitted to the Board no later than 30 days following each calendar quarter.
- 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. Equipment – Equipment is recorded at cost and depreciated on a straight-line basis over an estimated useful life of six years.
- F. Income Taxes – The Board is exempt from taxation under Section 501(c) of the Internal Revenue Code.

(2) Cash and Cash Equivalents

The Board's deposits in banks at June 30, 2002 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) Equipment

A summary of equipment at June 30, 2002 is as follows:

Equipment	\$ 2,070
Less: Accumulated depreciation	<u>(943)</u>
Equipment, net	<u>\$ 1,127</u>

(4) Risk Management

The Board 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 are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



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

To the Members of the Iowa Sheep
and Wool Promotion Board:

We have audited the financial statements of the Iowa Sheep and Wool Promotion Board as of and for the year ended June 30, 2002, and have issued our report thereon dated March 17, 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 Sheep and Wool Promotion Board'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 statements 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. However, we noted an immaterial instance of non-compliance that is described as item (1) in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Board's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Board. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. The prior year statutory comment has not been resolved and is repeated as item (1).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Sheep and Wool Promotion Board'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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Sheep and Wool Promotion Board's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as item (A) 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 above as item (A) 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 Sheep and Wool Promotion Board, citizens of the State of Iowa and other parties to whom the Iowa Sheep and Wool Promotion Board 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 Sheep and Wool Promotion Board 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.

March 17, 2003

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

Iowa Sheep and Wool Promotion Board

Schedule of Findings

June 30, 2002

Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – The Board has one contract employee. This employee is authorized by the Board to approve refund payments and administrative expenditures, prepare, sign and mail checks, and post all expenditure transactions to the disbursement ledger. The Board approves the administrative expenditures following payment. This individual also receives bank statements and miscellaneous receipts, prepares the deposits, posts the receipts to the receipt ledger and performs bank reconciliations.

An important aspect of internal control is the segregation of duties. We recognize that many methods of achieving good internal control may not be adaptable to a small staff with a number of employees insufficient to permit division of duties.

Recommendation – The Board should be aware of the limited segregation of duties and should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Board is aware of the limited segregation of duties and has reviewed operating procedures. The following steps have been taken to achieve good internal control:

1. The Board Treasurer reviews all monthly bank statements and bank reconciliation ledger.
2. The Board Treasurer signs all salary checks.
3. The deposits are made directly to the bank.
4. The dollar limit for pre-approved authorizations is \$300 per month.

We feel these steps are appropriate for our situation.

Conclusion – Response accepted.

Iowa Sheep and Wool Promotion Board

Schedule of Findings

June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Tax-exempt Filing Status – The Iowa Sheep and Wool Promotion Board is a separate legal entity from the state with its own employer identification number. The Board claims a tax-exempt status. Section 501(c) of the Internal Revenue Code states that in order to claim tax-exempt status, Form 1023 (Application for Recognition of Exemption) or Form 990 (Return of Organization Exempt from Income Tax) must be filed with the Internal Revenue Service.

The Board filed these forms with the Internal Revenue Service but failed to pay the required fee. As a result, it has not been granted tax-exempt status.

Recommendation – The Board should file the appropriate forms and pay the required fee to the Internal Revenue Service for its tax-exempt status.

Response – The Board has filed Form 1023 Application for Recognition of Exemption with the Internal Revenue Service. We also filed Form 8718 Determination Letter Request with the appropriate user fee.

Conclusion – Response accepted.

Iowa Sheep and Wool Promotion Board

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Jill M. Bergantzel, CPA, Staff Auditor
Heather L. Templeton, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State