



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 20, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Egg Council for the years ended June 30, 2010 and 2009.

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

Vaudt reported the Council had revenues of \$1,048,556 and expenses of \$1,167,167 for the year ended June 30, 2010. This represents a 2% increase in revenues and a 22% increase in expenses over the year ended June 30, 2009. The increase in revenues is due primarily to increased assessments. The increase in expenses is due primarily to increased professional services for research activities.

A copy of the audit 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/1160-0180-B000.pdf>.

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IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2010 and 2009

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Iowa Egg Council

Officials

Governor

Honorable Chester J. Culver
(Ended during January 2011)

Honorable Terry E. Branstad
(Began during January 2011)

Director, Department of Management

Charles J. Krogmeier
(Ended during January 2011)

David Roederer
(Began during January 2011)

Director, Legislative Services Agency

Glen P. Dickinson

Council

Blair Van Zetten
Joe Scallon
Brett Pickar
Rich Hall
Bruce Dooyema
Mark Friedow
Jon Kuhfus
Jerry Fisher

Chairperson
Co-Chairperson
Secretary/Treasurer
Member
Member
Member
Member
Member

Ex Officio Members

Honorable Bill Northey
Dr. Hongwei Xin
Mark Fischer

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 accompanying financial statements, listed as exhibits in the table of contents in this report, of the Iowa Egg Council as of and for the years ended June 30, 2010 and 2009. 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 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.

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, 2010 and 2009, 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 June 3, 2011 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 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 3, 2011

Exhibit A

Iowa Egg Council
Statements of Net Assets
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 601,235	686,001
Accounts receivable	132,132	127,424
Prepaid expenses	5,588	3,580
Total current assets	<u>738,955</u>	<u>817,005</u>
Furniture and equipment (net of accumulated depreciation of \$37,071 and \$35,520)	-	1,551
Total assets	<u><u>\$ 738,955</u></u>	<u><u>818,556</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 151,453	114,879
Compensated absences	5,133	2,697
Total current liabilities	<u>156,586</u>	<u>117,576</u>
Net assets-unrestricted	<u>582,369</u>	<u>700,980</u>
Total liabilities and net assets	<u><u>\$ 738,955</u></u>	<u><u>818,556</u></u>

See notes to financial statements.

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Revenues:		
Assessments	\$ 988,613	967,161
American Egg Board funding	58,180	55,127
Miscellaneous	128	200
Total revenues	<u>1,046,921</u>	<u>1,022,488</u>
Expenses:		
Salaries	165,215	152,928
Travel and subsistence	52,279	47,247
Office supplies	8,155	7,264
Advertising	137,072	126,475
Other promotional supplies	31,428	21,150
Equipment and maintenance	10,187	9,465
Telephone	5,442	6,447
Rent	34,380	34,332
Insurance	2,995	2,435
Professional services for research activities	381,105	216,505
Egg Industry Center Endowment	210,000	210,000
Consumer education	466	3,733
Depreciation	1,551	2,687
Promotions	104,710	87,982
Miscellaneous	22,182	24,327
Total expenses	<u>1,167,167</u>	<u>952,977</u>
Operating income (loss)	(120,246)	69,511
Non-operating revenues:		
Interest income	1,635	3,744
Change in net assets	(118,611)	73,255
Net assets beginning of year	<u>700,980</u>	<u>627,725</u>
Net assets end of year	<u>\$ 582,369</u>	<u>700,980</u>

See notes to financial statements.

Exhibit C

Iowa Egg Council

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from assessments	\$ 983,905	955,987
Cash paid to suppliers and employees	(918,615)	(764,778)
Cash paid to Egg Industry Center Endowment	(210,000)	(210,000)
Other operating revenues	58,309	55,327
Net cash provided (used) by operating activities	(86,401)	36,536
Cash flows from investing activities:		
Interest received	1,635	3,744
Net increase (decrease) in cash and cash equivalents	(84,766)	40,280
Cash and cash equivalents beginning of year	686,001	645,721
Cash and cash equivalents end of year	\$ 601,235	686,001
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (120,246)	69,511
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,551	2,687
Changes in assets and liabilities:		
Increase in accounts receivable	(4,708)	(11,174)
Increase in prepaid expenses	(2,008)	(949)
Increase (decrease) in accounts payable	36,574	(22,955)
Increase (decrease) in compensated absences	2,436	(584)
Total adjustments	33,845	(32,975)
Net cash provided (used) by operating activities	\$ (86,401)	36,536

See notes to financial statements.

Iowa Egg Council

Notes to Financial Statements

June 30, 2010 and 2009

(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 include 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 Council has no component units which meet the Governmental Accounting Standards Board criteria.
- B. Basis of Accounting – The financial statements of the Council are prepared on the accrual basis.
- C. Budgetary Control – Budgetary control is exercised over the Council by the governing body of 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, have a maturity date no longer than three months.
- E. Furniture and Equipment – Furniture and equipment are capitalized at cost. Expenses for repair and maintenance are charged against operations. The estimated lives for furniture and equipment range from three 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 Council is exempt from taxation.
- H. Compensated Absences – Council employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The liability recorded for earned but unused vacation has been computed based on rates of pay in effect at the end of the fiscal year.

(2) Deposits

The Council's deposits in banks at June 30, 2010 and 2009 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) Furniture and Equipment

A summary of furniture and equipment for the years ended June 30, 2010 and 2009 were as follows:

	Year ended June 30, 2010			
	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Furniture and equipment	\$ 37,071	-	-	37,071
Less accumulated depreciation	(35,520)	(1,551)	-	(37,071)
Furniture and equipment, net	\$ 1,551	(1,551)	-	-

	Year ended June 30, 2009			
	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Furniture and equipment	\$ 37,071	-	-	37,071
Less accumulated depreciation	(32,833)	(2,687)	-	(35,520)
Furniture and equipment, net	\$ 4,238	(2,687)	-	1,551

(4) Related Party Transactions

The Council has contracted with the Iowa Poultry Association (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 \$1,060,450 and \$1,055,801 for the years ended June 30, 2010 and 2009, respectively.

In addition, certain administrative expenses are paid by the Association for the Council under a contractual agreement. The contract provided for the Council to make payments to the Association totaling \$256,904 and \$248,595 for the years ended June 30, 2010 and 2009, respectively.

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 expenses under the above contracts totaled \$1,167,167 and \$952,977 for the years ended June 30, 2010 and 2009, respectively. The amounts paid to the Association are distributed to the appropriate expense classifications in Exhibit B of the financial statements.

(5) Risk Management

The 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 are covered by the purchase of commercial insurance. The Council assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) SIMPLE IRA Plan

The Council began a SIMPLE IRA plan on January 1, 2006 which covers most employees. However, the Council did not match employee contributions until 2007. The Council matches an employee's salary reduction contributions up to a maximum of 3% of the employee's compensation. Total expenses under this plan for the years ended June 30, 2010 and 2009 were \$3,671 and \$3,279, respectively.

(7) Gift Commitments to Egg Industry Center Endowment at Iowa State University

The Council made gift commitments to establish an endowed Egg Industry Center in Iowa State University of Science and Technology's College of Agriculture and Life Sciences.

In June 2006, the Council pledged \$1,000,000, plus \$5,000 per year for administrative costs, to the Egg Industry Center Endowment, with the pledge to be completed in equal installments over ten years. In March 2007, the Council pledged an additional \$1,000,000, plus \$5,000 per year for administrative costs, to the Egg Industry Center Endowment over ten years beginning July 1, 2007. The total gifts to the Egg Industry Center Endowment for the years ended June 30, 2010 and 2009 were \$210,000.

The Council considers the gift commitments to be conditional pledges. The Council approves the payment amount as part of the annual budget, which is contingent upon the availability of future revenues.

Iowa Egg Council



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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 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, 2010, and have issued our report thereon dated June 3, 2011. 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 Egg Council'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 Egg Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Egg Council's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Egg Council's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, 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 required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Council's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Council. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited.

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


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 3, 2011

Iowa Egg Council
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

Employment Agreement – The employment agreement for the Executive Director covering the year commencing July 1, 2009 and ending June 30, 2010 was not signed until March 4, 2010. In addition, the contract for year ending June 30, 2011 was not signed prior to July 1, 2010.

Recommendation – The Board should approve the employment agreement for the Executive Director prior to July 1, the effective date of the agreement.

Response – At the May 24, 2011 Board meeting a motion was carried to sign Kevin Vinchattle's employment contract for year ending June 30, 2011 and a committee was appointed to make recommendations for the year ending June 30, 2012 contract.

Conclusion – Response acknowledged. The employment agreement for the year ending June 30, 2012 should be completed and signed by July 1, 2011, if possible.

Iowa Egg Council

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Tiffany M. Ainger, Staff Auditor
Cory A. Lee, 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