



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

June 2, 2016

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Iowa Egg Council for the years ended June 30, 2015 and 2014.

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 \$1,125,685 and expenses of \$1,176,388 for the year ended June 30, 2015. This represents a less than 1% increase in revenues and a 20.0% increase in expenses from the year ended June 30, 2014. The significant increase in expenses is due primarily to an increase in payments to the Egg Industry Center Endowment at Iowa State University during fiscal year 2015.

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 <https://auditor.iowa.gov/reports/1660-0180-B000>.

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IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2015 and 2014

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Iowa Egg Council

Officials

Name

Title

State

Honorable Terry E. Branstad
David Roederer
Glen P. Dickinson

Governor
Director, Department of Management
Director, Legislative Services Agency

Council

Rich Hall
Bruce Dooyema
Jeff Hardie

Chairperson
Vice-Chairperson
Secretary-Treasurer

Evan Blom
Andrew Kaldenberg
Dave Nugent
Blair Van Zetten

Member
Member
Member
Member

Ex Officio Members

Honorable Bill Northey

Dr. Hongwei Xin
Mark Fischer

Iowa Department of Agriculture and
Land Stewardship – Secretary of Agriculture
Iowa State University
International Marketing Manager,
Iowa Economic Development Authority

Agency

Kevin S. Vinchattle
Randy Olson

Executive Director
Executive Director

Resigned Dec 2014
Hired Feb 2015

Iowa Egg Council



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Independent Auditor's Report

To the Members of the
Iowa Egg Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Egg Council as of and for the years ended June 30, 2015 and 2014, and the related Notes to Financial Statements, which collectively comprise the Iowa Egg Council's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Iowa Egg Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Egg Council's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Iowa Egg Council at June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 20, 2016 on our consideration of the Iowa Egg Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 in considering the Iowa Egg Council's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 20, 2016

Iowa Egg Council
 Statements of Net Assets
 June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 739,153	756,635
Accounts receivable	101,792	205,810
Prepaid expenses	15,299	6,517
Total current assets	856,244	968,962
Furniture and equipment, net of accumulated depreciation of \$37,071	-	-
Total assets	\$ 856,244	968,962
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 80,053	149,898
Compensated absences	8,290	5,327
Contract payable	4,867	-
Total current liabilities	93,210	155,225
Net assets - unrestricted	763,034	813,737
Total liabilities and net assets	\$ 856,244	968,962

See notes to financial statements.

Exhibit B

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Assessments	\$ 1,083,098	1,082,794
American Egg Board funding	41,362	40,578
Miscellaneous	34	225
Total revenues	1,124,494	1,123,597
Operating expenses:		
Salaries	245,661	210,767
Travel and subsistence	57,533	45,536
Office supplies	4,706	5,130
Advertising	166,046	173,580
Other promotional supplies	23,107	44,004
Equipment and maintenance	3,528	5,896
Telephone	6,106	4,536
Rent	34,506	34,654
Insurance	2,748	3,417
Professional services for research activities	37,168	67,388
Egg Industry Center Endowment	297,750	105,000
Egg Council Endowed Professorship	110,000	110,000
Consumer education	28,874	9,039
Promotions	117,961	139,472
Miscellaneous	40,694	21,544
Total expenses	1,176,388	979,963
Operating gain (loss)	(51,894)	143,634
Non-operating revenues:		
Interest income	1,191	1,076
Changes in net assets	(50,703)	144,710
Net assets beginning of year	813,737	669,027
Net assets end of year	\$ 763,034	813,737

See notes to financial statements.

Iowa Egg Council
 Statements of Cash Flows
 Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from assessments	\$ 1,187,117	1,010,873
Cash paid to suppliers	(596,736)	(488,163)
Cash paid to employees for services	(242,699)	(209,423)
Cash paid to Egg Industry Center Endowment	(297,750)	(105,000)
Cash paid to Egg Council Endowed Professorship	(110,000)	(110,000)
Other operating revenues	41,395	40,802
Net cash provided (used) by operating activities	(18,673)	139,089
Cash flows from investing activities:		
Interest received	1,191	1,076
Net increase (decrease) in cash and cash equivalents	(17,482)	140,165
Cash and cash equivalents beginning of year	756,635	616,470
Cash and cash equivalents end of year	\$ 739,153	756,635
Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:		
Operating gain (loss)	\$ (51,894)	143,634
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	104,017	(71,922)
(Increase) decrease in prepaid expenses	(8,781)	154
Increase (decrease) in accounts payable	(64,977)	65,789
Increase in compensated absences	2,962	1,344
Total adjustments	33,221	(4,545)
Net cash provided (used) by operating activities	\$ (18,673)	139,089

See notes to financial statements.

Iowa Egg Council

Notes to Financial Statements

June 30, 2015 and 2014

(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's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit organizations.

- 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 Statements 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 hours 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, 2015 and 2014 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 ensure there will be no loss of public funds.

(3) Furniture and Equipment

Summaries of furniture and equipment for the years ended June 30, 2015 and 2014 are as follows:

	Year ended June 30, 2015			
	Balance			Balance
	Beginning			End
	of Year	Additions	Deductions	of Year
Furniture and equipment	\$ 37,071	-	-	37,071
Less accumulated depreciation	(37,071)	-	-	(37,071)
Furniture and equipment, net	\$ -	-	-	-

	Year ended June 30, 2014			
	Balance			Balance
	Beginning			End
	of Year	Additions	Deductions	of Year
Furniture and equipment	\$ 37,071	-	-	37,071
Less accumulated depreciation	(37,071)	-	-	(37,071)
Furniture and equipment, net	\$ -	-	-	-

(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 provides for the Council to make monthly payments to the Association for these services totaling \$717,250 for each of the years ended June 30, 2015 and 2014.

In addition, certain administrative expenses are also paid by the Association for the Council under a contractual agreement. The contract provides for the Council to make payments to the Association totaling \$323,082 and \$315,866 for the years ended June 30, 2015 and 2014, 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 \$1,176,388 and \$979,963 for the years ended June 30, 2015 and 2014, 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 participates in a SIMPLE IRA plan which covers most employees. The Council matches an employee's contributions up to a maximum of 3% of the employee's wages. Total expenses under this plan for the years ended June 30, 2015 and 2014 were \$3,059 and \$4,323, respectively.

(7) Gift Commitments to the Egg Industry Center Endowment and the Iowa Egg Council Endowed Professorship at Iowa State University

The Council made gift commitments to establish an endowed Egg Industry Center and an Iowa Egg Council Endowed Professorship at 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. Total gifts to the Egg Industry Center Endowment for the years ended June 30, 2015 and 2014 were \$297,750 and \$105,000, respectively. The final payment for the initial pledge was paid ahead of schedule with the Council completing its pledge on June 14, 2013. The second pledge was completed by October 2014.

In addition, in June 2013, the Council pledged \$550,000 to the Iowa Egg Council Endowed Professorship with the pledge to be completed in equal installments over five years. During the year ended June 30, 2015, \$110,000 was remitted to the Iowa Egg Council Endowed Professorship, with a cumulative total of \$220,000 remitted as of June 30, 2015.

The Council considers these 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.



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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 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, the financial statements of the Iowa Egg Council as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, and have issued our report thereon dated May 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Egg Council's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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 Iowa Egg Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Egg Council's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

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. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Council's operations for the year ended June 30, 2015 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. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Iowa Egg Council's Responses to the Findings

The Iowa Egg Council's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Iowa Egg Council's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Iowa Egg Council's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Egg Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 20, 2016

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Council Minutes – The Council went into closed session three times during the year ended June 30, 2015. The Council minutes did not include the vote of each member on the question of holding the closed session and did not reference a specific Code exemption as required by Chapter 21.5 of the Code of Iowa.

Additionally, the minutes for one of the meetings lacked the information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa.

Recommendation – Meeting minutes should be documented in compliance with Chapter 21.3 of the Code of Iowa. Minutes should state information sufficient to indicate the vote of each member present and the vote of each member present shall be made public at the open session. Closed meetings should be held in compliance with Chapter 21.5 of the Code of Iowa and, when entering into a closed session, the vote of each member on the question of holding the closed session and the reason for holding the closed session by reference to a specific Code exemption shall be announced publicly at the open session and entered in the minutes.

Response – The Iowa Egg Council will follow the recommendation and comply with Chapters 21.3 and 21.5 of the Code of Iowa

Conclusion – Response accepted.

- (2) Questionable Expense – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Splash Seafood Bar & Grill	Meal reimbursement - Egg Industry Forum	\$ 344
Hilton Liberty Tavern	Alcohol purchase	45
Palmers Deli	Food for working Board meeting	75

Recommendation – The above expenses do not appear consistent with the purposes and duties of the Council as provided in Chapter 184 of the Code of Iowa. The Council should ensure expenses for alcohol are not reimbursed with Iowa Egg Council funds. Also, the Council should determine and document the public purpose served by the disbursements for meals and food before authorizing any further payments. If this practice is continued, the Council should establish written policies and procedures, including the requirement for proper documentation and the consideration of maximum per diems.

Response – We are updating our travel policy.

Conclusion – Response acknowledged. In addition, the Council should not reimburse employees for alcohol purchases.

Iowa Egg Council

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Ramona E. F. Daly, Staff Auditor
Johnathan M. Mader, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State