

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

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NEWS RELEASE

FOR RELEASE

August 2, 2017

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the Iowa Egg Council for the years ended June 30, 2016 and 2015.

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 \$835,900 and expenses of \$729,603 for the year ended June 30, 2016. This represents a 25.7% decrease in revenues and a 38.0% decrease in expenses from the year ended June 30, 2015. The significant decrease in revenue and expenses is due primarily to an outbreak of Avian Influenza beginning in April 2015 and extending through much of fiscal year 2016.

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/1760-0180-B000>.

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IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015

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Iowa Egg Council

Officials

Name

Title

State

Honorable Kim Reynolds
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

Randy Olson
Rita Scheiring

Executive Director
Interim Executive Director

Resigned Feb 2016
Indefinite

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, 2016 and 2015, 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, 2016 and 2015, 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 July 25, 2017 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

July 25, 2017

Iowa Egg Council
 Statements of Net Assets
 June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 834,645	739,153
Accounts receivable	128,488	101,792
Prepaid expenses	7,325	15,299
Total current assets	970,458	856,244
Furniture and equipment, net of accumulated depreciation of \$37,071	-	-
Total assets	\$ 970,458	856,244
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 94,400	80,053
Compensated absences	6,727	8,290
Contract payable	-	4,867
Total current liabilities	101,127	93,210
Net assets - unrestricted	869,331	763,034
Total liabilities and net assets	\$ 970,458	856,244

See notes to financial statements.

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Assessments	\$ 791,197	1,083,098
American Egg Board funding	11,823	41,362
Miscellaneous	31,552	34
Total revenues	834,572	1,124,494
Operating expenses:		
Salaries	230,747	245,661
Travel and subsistence	47,699	57,533
Office supplies	3,130	4,706
Advertising	47,007	166,046
Other promotional supplies	17,584	23,107
Equipment and maintenance	2,715	3,528
Telephone	4,812	6,106
Rent	34,815	34,506
Insurance	6,399	2,748
Professional services for research activities	55,177	37,168
Egg Industry Center Endowment	-	297,750
Egg Council Endowed Professorship	110,000	110,000
Utilization	51,413	-
Consumer education	11,240	28,874
Promotions	92,664	117,961
Miscellaneous	14,201	40,694
Total expenses	729,603	1,176,388
Operating gain (loss)	104,969	(51,894)
Non-operating revenues:		
Interest income	1,328	1,191
Changes in net assets	106,297	(50,703)
Net assets beginning of year	763,034	813,737
Net assets end of year	\$ 869,331	763,034

See notes to financial statements.

Iowa Egg Council

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from assessments	\$ 764,501	1,187,117
Cash paid to suppliers	(382,052)	(596,736)
Cash paid to employees for services	(221,660)	(242,699)
Cash paid to Egg Industry Center Endowment	-	(297,750)
Cash paid to Egg Council Endowed Professorship	(110,000)	(110,000)
Other operating revenues	43,375	41,395
Net cash provided (used) by operating activities	94,164	(18,673)
Cash flows from investing activities:		
Interest received	1,328	1,191
Net increase (decrease) in cash and cash equivalents	95,492	(17,482)
Cash and cash equivalents beginning of year	739,153	756,635
Cash and cash equivalents end of year	\$ 834,645	739,153
Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:		
Operating gain (loss)	\$ 104,969	(51,894)
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(26,696)	104,017
(Increase) decrease in prepaid expenses	7,974	(8,781)
Increase (decrease) in accounts payable	9,480	(64,977)
Increase (decrease) in compensated absences	(1,563)	2,962
Total adjustments	(10,805)	33,221
Net cash provided (used) by operating activities	\$ 94,164	(18,673)

See notes to financial statements.

Iowa Egg Council

Iowa Egg Council

Notes to Financial Statements

June 30, 2016 and 2015

(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, 2016 and 2015 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, 2016 and 2015 are as follows:

	Year ended June 30, 2016			Balance End of Year
	Balance Beginning of Year	Additions	Deductions	
Furniture and equipment	\$ 37,071	-	-	37,071
Less accumulated depreciation	(37,071)	-	-	(37,071)
Furniture and equipment, net	\$ -	-	-	-

	Year ended June 30, 2015			Balance End of Year
	Balance Beginning of Year	Additions	Deductions	
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 \$267,315 and \$717,250 for the years ended June 30, 2016 and 2015.

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 \$308,626 and \$323,082 for the years ended June 30, 2016 and 2015, 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 \$729,603 and \$1,176,388 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015 were \$2,116 and \$3,059, respectively.

(7) Gift Commitment to the Iowa Egg Council Endowed Professorship at Iowa State University

The Council made a gift commitment to establish an Iowa Egg Council Endowed Professorship at Iowa State University of Science and Technology's College of Agriculture and Life Sciences.

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. Total gifts to the Iowa Egg Council Endowed Professorship for the year ended June 30, 2016 were \$110,000. The total cumulative amount paid as of June 30, 2016 is \$ 330,000.

The Council considers this gift commitment to be a conditional pledge. 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 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, 2016, and the related Notes to Financial Statements, and have issued our report thereon dated July 25, 2017.

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, 2016 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

July 25, 2017

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2016

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, 2016

Other Findings Related to Required Statutory Reporting:

- (1) Council Minutes – The Council went into closed session four times during the year ended June 30, 2016. 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.

Recommendation – Meeting minutes should be documented in compliance with Chapter 21.3 of the Code of Iowa. 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 Iowa Code 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>
Tortas Frontera	Alcohol purchase	\$ 23
Mena’s Place	Alcohol purchase	5
Bourbon House	Alcohol purchase	21

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 – The Council will not reimburse employees for alcohol purchases.


Conclusion – Response accepted.

Iowa Egg Council

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Zachary J. Koziolk, Staff Auditor
Malika Moutiq, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State