

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

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Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

November 14, 2018

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Iowa Innovation Corporation for the year ended June 30, 2018.

The Iowa Innovation Corporation was established by Chapter 15.107 of the Code of Iowa as a non-profit corporation for the purpose of receiving and disbursing funds from public and private sources to further the overall development and economic well-being of the State of Iowa.

The Corporation's revenues totaled \$1,166,261 for the year ended June 30, 2018, or a 1% increase over the prior year. Revenues consisted of \$466,334 from program revenues, \$465,000 from program management fees, \$103,747 from grants, \$84,996 from networking and outreach, \$23,024 from services income, \$22,105 from event income and \$1,055 of interest income.

Expenses for the year ended June 30, 2018 totaled \$1,096,248, a 5.7% decrease from the prior year, and included \$466,335 for program expenses, \$419,035 for salaries and benefits and \$114,140 for networking and outreach.

A copy of the audit report is available for review in the office of the President of the Iowa Innovation Corporation, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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IOWA INNOVATION CORPORATION
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2018

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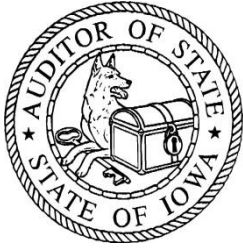
Iowa Innovation Corporation

Board of Directors

June 2018

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Kingland	Board Chair	Apr 2019
Georgia VanGundy	Secretary/Treasurer	Apr 2021
Myron Linn	Member	Apr 2019
Kathryn Kunert	Member	Apr 2019
Adam Claypool	Member	Apr 2020
Brad Epperly	Member	Apr 2020
John Greaves	Member	Apr 2021
Kirk Bjorland (Resigned Dec 2017)	CEO and President	
James Register (Hired Oct 2018)	CEO and President	

Iowa Innovation Corporation



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Independent Auditor's Report

To the Board of Directors of the Iowa Innovation Corporation:

Report on the Financial Statements

We have audited the accompanying Statement of Net Position, and the related Statements of Activities and Cash Flows of the Iowa Innovation Corporation as of and for the year ended June 30, 2018, and the related Notes to Financial Statements which collectively comprise the Iowa Innovation Corporation 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 opinions 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 of 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 Innovation Corporation'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 Innovation Corporation'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Innovation Corporation as of June 30, 2018, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity 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 October 29, 2018 on our consideration of the Iowa Innovation Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Corporation's 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 Innovation Corporation's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

October 29, 2018

Financial Statements

Exhibit A

Iowa Innovation Corporation
Statement of Financial Position
June 30, 2018

Assets	
Cash and cash equivalents	\$ 545,669
Accounts receivable	105,822
Capital assets, net of accumulated depreciation	<u>485</u>
Total assets	<u>\$ 651,976</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 29,819
Salaries and benefits payable	6,408
Unearned revenue	<u>28,000</u>
Total liabilities	<u>64,227</u>
Net assets:	
Unrestricted	<u>587,749</u>
Total liabilities and net assets	<u>\$ 651,976</u>

See notes to financial statements.

Iowa Innovation Corporation

Statement of Activities

Year ended June 30, 2018

Revenues:	
Grants	\$ 103,747
Networking and outreach	84,996
Program	466,334
Program management	465,000
Event income	22,105
Services income	<u>23,024</u>
Total revenues	<u>1,165,206</u>
Expenses:	
Salaries and benefits	419,035
Travel	11,911
Contractual services	10,382
Rent	25,128
Networking and outreach	114,140
Program	466,335
Conference and meeting	11,367
Legal Fees	8,371
Office supplies	1,921
Insurance	16,142
Depreciation	388
Miscellaneous	<u>11,128</u>
Total expenses	<u>1,096,248</u>
Operating gain	68,958
Non-operating revenue:	
Interest income	<u>1,055</u>
Change in net assets	70,013
Net assets beginning of year	<u>517,736</u>
Net assets end of year	<u>\$ 587,749</u>

See notes to financial statements.

Exhibit C

Iowa Innovation Corporation

Statement of Cash Flows

Year ended June 30, 2018

Cash flows from operating activities:	
Cash received from grants	\$ 87,700
Cash received from networking and outreach	92,079
Cash received from program revenues	566,355
Cash received from program management	474,424
Cash received from events	22,105
Cash received from services	23,477
Cash paid for customer deposits	(5,000)
Cash paid for goods and services	(746,178)
Cash paid to employees for salaries and benefits	<u>(417,445)</u>
Net cash provided by operating activities	97,517
Cash flows from investing activities:	
Interest received	<u>1,055</u>
Net increase in cash and cash equivalents	98,572
Cash and cash equivalents beginning of year	<u>447,097</u>
Cash and cash equivalents end of year	<u>\$ 545,669</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain	\$ 68,958
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation	389
Changes in assets and liabilities:	
Decrease in accounts receivable	100,934
Decrease in prepaid expense	3,282
Decrease in accounts payable	(72,636)
Increase in compensation payable	1,590
Increase in unearned revenue	<u>(5,000)</u>
Net cash provided by operating activities	<u>\$ 97,517</u>

See notes to financial statements.

Iowa Innovation Corporation
Notes to Financial Statements
June 30, 2018

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Iowa Innovation Corporation (Corporation) was established as a non-profit corporation in October 2011 by Chapter 15.107 of the Code of Iowa for the purpose of receiving and disbursing funds from public and private sources to further the overall development and economic well-being of the State of Iowa.

The Iowa Innovation Corporation is a nonprofit corporation organized under Chapter 504 of the Code of Iowa and qualifies under Section 501(c)(3) of the Internal Revenue Code as an organization exempt from taxation.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recorded when earned and expenses are recorded when the liability is incurred.

Purchases of equipment providing future benefits are capitalized and depreciated.

C. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Restricted net assets – consists of net assets restricted for use in accordance with donor imposed restrictions.

Unrestricted net assets – net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets.

D. Assets, Liabilities and Net Assets

Cash and Cash Equivalents – The Corporation considers its savings account to be a cash equivalent.

Equipment – Purchased equipment is stated at cost. Donated capital assets are valued at the estimated fair value on the date of donation. Capital assets are defined by the Iowa Innovation Corporation as assets with initial, individual costs in excess of \$1,000. Depreciation is computed using the straight-line method over the estimated useful life of 4 years.

Compensated Absences – Corporation employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Unused vacation and sick leave balances are not paid out upon the end of employment.

(2) Lease Commitment

The Corporation occupies office space under a long-term operating lease which expired June 30, 2018.

Rental expense under this lease for the year ended June 30, 2018 totaled \$20,045.

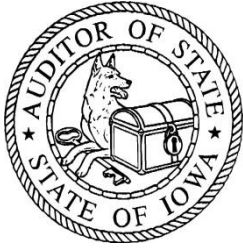
(3) Risk Management

The Corporation 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 commercial insurance purchased from independent third parties. The Corporation 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.

(4) Equipment

A summary of equipment at June 30, 2018 is as follows:

	<u>2018</u>
Equipment	\$ 1,165
Less: accumulated depreciation	<u>680</u>
Equipment, net	<u>\$ 485</u>



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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 Board of Directors of the Iowa Innovation Corporation:

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 Innovation Corporation as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Innovation Corporation'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 Innovation Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Innovation Corporation's internal control.

A deficiency in internal control exists when the design or operation of a 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 Corporation'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 that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Innovation Corporation'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 that are required to be reported under Government Auditing Standards. However, we noted 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 Corporation's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Corporation. 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 Innovation Corporation's Responses to the Findings

The Iowa Innovation Corporation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Iowa Innovation Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statement 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 Corporation'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 Corporation'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 Innovation Corporation 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

October 29, 2018

Iowa Innovation Corporation

Schedule of Findings

June 30, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Corporation's (IIC) financial statements.

Condition – Generally, one or two individuals in the offices identified may have control over the following areas for which no compensating controls exist:

1. One individual in IIC has control over each of the following areas for which no compensating control exists: opens mail, deposit collection and preparation, approval of invoices and check signing.
2. Bank reconciliations are not being reviewed by an independent individual within a timely manner.

Cause – IIC went from a staff of 6 to a staff of 1 during the fiscal year and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect IIC's ability to prevent detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – IIC should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including members of the Board elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – IIC understands this issue and agrees with the recommendation. With staffing now above one this will be addressed moving forward.

Conclusion – Response accepted.

(B) Disbursement Approvals

Criteria – An effective internal control system provides for internal controls related to approval of disbursements before submission for payment.

Condition – Expenditures are reviewed and approved for payment. However, there is no evidence of approval before submission for payment.

Iowa Innovation Corporation

Schedule of Findings

June 30, 2018

Cause – Policies and procedures have not been implemented to ensure evidence of approval for claims to be paid.

Effect – Because there is no evidence of approval, claims may be paid which were not properly authorized or approved to be purchased.

Recommendation – Individual claims should include evidence of approval before submission for payment.

Response – IIC understands this issue and agrees with the recommendation. With staffing now above one this will be addressed moving forward.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

Questionable Expenditures

Certain expenditures we believe may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

Paid To	Purpose	Amount
Summerset Winery	12 bottles of Get Frosted and 12 bottles of Get Jolly wine, for Christmas party/gifts for board	\$ 265
Lydia Hall	Parking ticket	15

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – IIC should determine and document the public purpose served by these expenditures prior to authorizing any further payments. If this practice is continued, IIC should establish written policies and procedures, including the requirement for proper documentation.

Response – IIC understands this issue and agrees with the recommendation. An improved expense approval process has been implemented.

Conclusion – Response accepted.

Iowa Innovation Corporation

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Luke M. Bormann, Staff Auditor
Alyson J. Logel, Auditor Intern

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