

IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2018 AND 2017

Iowa Egg Council



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

May 3, 2019

Officials of the Iowa Egg Council

Dear Council Members:

I am pleased to submit to you the financial and compliance audit report for the Iowa Egg Council for the year ended June 30, 2018. The audit was performed pursuant to Chapter 184.14 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the Iowa Egg Council throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

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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

Bruce Dooyema
Evan Blom
Jeff Hardie

Chairperson
Vice-Chairperson
Secretary-Treasurer

Andrew Kaldenberg
Tom Olson
Dann Snyder
Blair Van Zetten

Member
Member
Member
Member

Ex Officio Members

Honorable Mike Naig

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 Stiles

Executive Director

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, 2018 and 2017, 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.

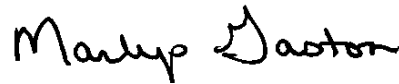
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2018 and 2017, 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 3, 2019 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.



MARLYS K. GASTON, CPA
Deputy Auditor of State

May 3, 2019

Iowa Egg Council
 Statements of Net Assets
 June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 1,063,297	1,221,151
Accounts receivable	143,454	115,389
Prepaid expenses	9,811	10,600
Total assets	\$ 1,216,562	1,347,140
Liabilities and Net Assets		
Accounts payable	\$ 115,178	398,373
Compensated absences	10,830	12,173
Contract payable	1,631	1,631
Total liabilities	127,639	412,177
Net assets - unrestricted	1,088,923	934,963
Total liabilities and net assets	\$ 1,216,562	1,347,140

See notes to financial statements.

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Assessments	\$ 1,097,064	1,093,486
American Egg Board funding	12,401	9,500
Miscellaneous	1,500	-
Total revenues	<u>1,110,965</u>	<u>1,102,986</u>
Operating expenses:		
Salaries	256,365	274,527
Travel and subsistence	39,975	59,334
Office supplies	4,038	6,113
Advertising	92,111	130,961
Other promotional supplies	32,713	18,912
Equipment and maintenance	4,254	4,624
Telephone	6,993	7,161
Rent	34,936	35,130
Insurance	8,142	7,567
Professional services for research activities	18,858	9,548
Egg Council Endowed Professorship	119,333	109,583
Poultry Teaching and Research Facility	150,000	150,000
Utilization	50,672	44,000
Consumer education	14,602	11,536
Promotions	98,986	100,507
Recruiting	-	58,916
Miscellaneous	27,115	10,501
Total expenses	<u>959,093</u>	<u>1,038,920</u>
Operating gain	151,872	64,066
Non-operating revenues:		
Interest income	2,088	1,566
Changes in net assets	153,960	65,632
Net assets beginning of year	<u>934,963</u>	<u>869,331</u>
Net assets end of year	<u>\$ 1,088,923</u>	<u>934,963</u>

See notes to financial statements.

Iowa Egg Council

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from assessments	\$ 1,068,999	1,106,585
Cash paid to suppliers	(715,801)	(202,481)
Cash paid to employees for services	(257,708)	(269,081)
Cash paid to Egg Council Endowed Professorship	(119,333)	(109,583)
Cash paid to the Poultry Teaching and Research Facility	(150,000)	(150,000)
Other operating revenues	13,901	9,500
Net cash provided (used) by operating activities	(159,942)	384,940
Cash flows from investing activities:		
Interest received	2,088	1,566
Net increase (decrease) in cash and cash equivalents	(157,854)	386,506
Cash and cash equivalents beginning of year	1,221,151	834,645
Cash and cash equivalents end of year	<u>\$ 1,063,297</u>	<u>1,221,151</u>
Reconciliation of operating gain to net cash provided by operating activities:		
Operating gain	\$ 151,872	64,066
Adjustments to reconcile operating gain to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(28,065)	13,099
(Increase) decrease in prepaid expenses	789	(3,275)
Increase (decrease) in accounts payable	(283,195)	305,604
Increase (decrease) in compensated absences	(1,343)	5,446
Total adjustments	(311,814)	320,874
Net cash provided (used) by operating activities	<u>\$ (159,942)</u>	<u>384,940</u>

See notes to financial statements.

Iowa Egg Council

Iowa Egg Council

Notes to Financial Statements

June 30, 2018 and 2017

(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, 2018 and 2017 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

A summary of furniture and equipment for the year ended June 30, 2017 is as follows:

	Year ended June 30, 2017			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	\$ -	-	-	-

The Iowa Egg Council did not hold any furniture and equipment at June 30, 2018.

(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 \$692,965 and \$452,188 for the years ended June 30, 2018 and 2017, respectively.

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 \$342,186 and \$389,734 for the years ended June 30, 2018 and 2017, 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 \$959,093 and \$1,038,920 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017 were \$6,191 and \$4,033, respectively.

(7) Gift Commitments

In June 2013, 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. 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, 2018 were \$119,333. The total cumulative amount paid as of June 30, 2018 is \$558,916.

In June 2016, the Council made a gift commitment to establish a Poultry Teaching and Research Facility at Iowa State University. The Council pledged \$1,500,000 to the Poultry Teaching and Research Facility with the pledge to be completed in annual installments equal to the lesser of \$150,000 or 15% of annual check-off fee revenue over ten years beginning no earlier than July 2017. In June 2017, the Council approved to move up the first payment earlier than July 2017 in support of the planning process for the project. As a result, the first payment of \$150,000 was made to Iowa State University in June 2017 for this gift commitment. The Council approved and payment was made on the second \$150,000 installment in June 2018. The total cumulative amount paid as of June 30, 2018 is \$300,000.

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.

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, 2018, and the related Notes to Financial Statements, and have issued our report thereon dated May 3, 2019.

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 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a material weakness.

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.

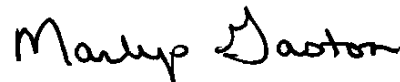
The Iowa Egg Council's Response to the Finding

The Iowa Egg Council's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Iowa Egg Council's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



MARLYS K. GASTON, CPA
Office of Auditor of State

May 3, 2019

Iowa Egg Council
Schedule of Findings
Year ended June 30, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

Bank Reconciliations

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 Iowa Egg Council’s financial statements.

Condition – The same individual who handles or records cash also performs the monthly bank reconciliations. For six of twelve months tested, there was no evidence of independent review of the bank reconciliations.

Cause – The Iowa Egg Council has limited number of employees and procedures have not been designed to adequately segregate duties or document compensating controls through additional oversight of transactions and processes.

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

Recommendation – The Iowa Egg Council should utilize current personnel to provide additional control through review of reconciliations. Such reviews should be performed by independent persons and should be documented by the reviewer’s signature or initials and the date of review.

Response – During the fiscal year 2017 audit, the auditor asked that the Executive Director review bank reconciliations and sign the bank statements for proof of the bank reconciliation review. This process was implemented in January 2018, after the fiscal year 2017 audit was complete.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

No matters were noted.

Iowa Egg Council

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Jennifer L. Wall, CPA, Manager
Christopher M. Anderson, Staff Auditor