



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

November 6, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an audit report on the Iowa Innovation Corporation for the year ended June 30, 2019.

FINANCIAL HIGHLIGHTS:

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 \$1,539,353 for the year ended June 30, 2019, or a 31.9% increase over the prior year. Revenues consisted of \$821,968 from program revenues, \$560,210 from program management fees, \$40,255 from grants, \$115,000 from networking and outreach, \$ 500 from event income and \$1,420 of interest income.

Expenses for the year ended June 30, 2019 totaled \$1,220,608, an 11.3% increase over the prior year, and included \$844,200 for program expenses, \$238,799 for salaries and benefits and \$52,849 for networking and outreach.

AUDIT FINDINGS:

Sand reported 3 findings related the receipt and disbursement of funds from public and private sources. The findings address issues such as a lack of segregation of duties, improper coding of transactions and the lack of approval of disbursements prior to payment. Sand provided the Commission with recommendations to address each of the findings.

The Corporation Board has a fiduciary responsibility to provide oversight to the Corporations operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the audit report is available for review 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, 2019

Iowa Innovation Corporation



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October 28, 2019

Iowa Innovation Corporation
Des Moines, Iowa

To the Members of the Iowa Innovation Corporation:

I am pleased to submit to you the financial and compliance audit report for the Iowa Innovation Corporation for the year ended June 30, 2019. The audit was performed 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 Iowa Innovation Corporation throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Board of Directors	3
Independent Auditor's Report	4-5
Financial Statements:	<u>Exhibit</u>
Statement of Financial Position	A 8
Statement of Activities	B 9
Statement of Cash Flows	C 11
Notes to Financial Statements	12-13
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 <u>Government Auditing Standards</u>	14-15
Schedule of Findings	16-18
Staff	19

Iowa Innovation Corporation

Board of Directors

June 2019

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Schickler	Board Chair	Apr 2022
Georgia VanGundy	Secretary/Treasurer	Apr 2021
Adam Claypool	Member	Apr 2020
Brad Epperly	Member	Apr 2020
John Greaves	Member	Apr 2021
George Arida	Member	Apr 2022
Mike Roof	Member	Apr 2022
James Register	CEO and President	



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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, 2019, 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 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 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.

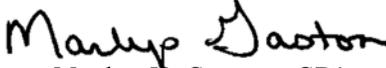
We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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, 2019, 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 28, 2019 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

October 28, 2019

Iowa Innovation Corporation

Financial Statements

Exhibit A

Iowa Innovation Corporation
Statement of Financial Position
June 30, 2019

Assets	
Cash and cash equivalents	\$ 718,137
Accounts receivable	211,820
Prepaid expense	4,444
Capital assets, net of accumulated depreciation	<u>1,035</u>
Total assets	<u>\$ 935,436</u>
Liabilities and Net Assets	
Liabilities:	
Accounts payable	\$ 14,426
Salaries and benefits payable	12,016
Unearned revenue	<u>2,500</u>
Total liabilities	<u>28,942</u>
Net assets:	
Unrestricted	<u>906,494</u>
Total liabilities and net assets	<u>\$ 935,436</u>

See notes to financial statements.

Iowa Innovation Corporation

Statement of Activities

Year ended June 30, 2019

Revenues:	
Grants	\$ 40,255
Networking and outreach	115,000
Program	821,968
Program management	560,210
Event income	500
Total revenues	<u>1,537,933</u>
Expenses:	
Salaries and benefits	238,799
Travel	3,014
Contractual services	21,603
Rent	22,103
Networking and outreach	52,849
Program	844,200
Conference and meeting	193
Legal Fees	8,726
Office supplies	8,707
Insurance	16,604
Depreciation	701
Miscellaneous	3,109
Total expenses	<u>1,220,608</u>
Operating gain	317,325
Non-operating revenue:	
Interest income	<u>1,420</u>
Change in net assets	318,745
Net assets beginning of year	<u>587,749</u>
Net assets end of year	<u>\$ 906,494</u>

See notes to financial statements.

Iowa Innovation Corporation

Iowa Innovation Corporation

Statement of Cash Flows

Year ended June 30, 2019

Cash flows from operating activities:	
Cash received from networking and outreach	\$ 102,917
Cash received from program revenues	799,894
Cash received from program management	528,339
Cash received from events	500
Cash received from services	285
Cash paid for customer deposits	(25,500)
Cash paid for goods and services	(1,000,947)
Cash paid to employees for salaries and benefits	<u>(233,189)</u>
Net cash provided by operating activities	172,299
Cash flows from capital and related financing activities:	
Acquisition of Capital Assets	(1,251)
Cash flows from investing activities:	
Interest received	<u>1,420</u>
Net increase in cash and cash equivalents	172,468
Cash and cash equivalents beginning of year	<u>545,669</u>
Cash and cash equivalents end of year	<u>\$ 718,137</u>
Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain	\$ 317,325
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation	701
Changes in assets and liabilities:	
Increase in accounts receivable	(105,998)
Increase in prepaid expense	(4,444)
Decrease in accounts payable	(15,393)
Increase in salaries and benefits payable	5,608
Decrease in unearned revenue	<u>(25,500)</u>
Net cash provided by operating activities	<u>\$ 172,299</u>

See notes to financial statements.

Iowa Innovation Corporation
Notes to Financial Statements
June 30, 2019

(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.

(2) Lease Commitment

The Corporation occupies office space under a long-term operating lease which started May 1, 2019 and continues through April 30, 2024.

The following schedule shows future minimum rental payments required under the lease as of June 30, 2019.

Year ending June 30,	Amount
2020	\$ 39,154
2021	39,828
2022	40,523
2023	41,239
2024	34,668
Total	\$ 195,412

Rental expense under this lease for the year ended June 30, 2019 totaled \$6,470.

(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) Capital Assets

A summary of equipment at June 30, 2019 is as follows:

Equipment	\$ 2,416
Less: accumulated depreciation	1,381
Equipment, net	\$ 1,035



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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, 2019, and the related Notes to Financial Statements, and have issued our report thereon dated October 28, 2019.

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), (B) and (C) 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.

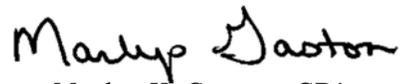
The Iowa Innovation Corporation's Responses to the Findings

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.


Marlys K. Gaston, CPA
Deputy Auditor of State

October 28, 2019

Iowa Innovation Corporation

Schedule of Findings

June 30, 2019

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. Opening mail, preparing and depositing collections, approving invoices and signing checks.
2. Bank reconciliations are not reviewed by an independent person monthly.
3. Payroll journals and vacation/sick leave usage are not reviewed to ensure they are properly recorded.

Cause – IIC went from a staff of six to a staff of one during fiscal year 2018. Although staffing increased during fiscal year 2019 to three, procedures have not been designed and implemented 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 acknowledges and understands the findings and to the extent possible, given our organization's size, will address these moving forward.

Conclusion – Response accepted.

Iowa Innovation Corporation

Schedule of Findings

June 30, 2019

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Corporation's financial statements.

Condition – During the audit, we determined material amounts of revenues and expenses in aggregate were not recorded in the proper fiscal year. Additionally, prepaid expenses and capital asset additions and depreciation were not properly recorded in the Corporation's financial statements. Adjustments were subsequently made by the Corporation to properly include these amounts in the financial statements.

Cause – Corporation policies do not require, and procedures have not been established to require independent review of year end cut-off transactions to ensure the Corporation's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Corporation employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the Corporation's financial statements were necessary.

Recommendations – The Corporation should implement procedures to ensure all revenues, expenses, capital assets and depreciation are identified and properly included in the Corporation's financial statements.

Response – IIC acknowledges and understands the findings and work with our accountant to avoid such mistakes in the future.

Conclusion – Response accepted.

Iowa Innovation Corporation

Schedule of Findings

June 30, 2019

(C) 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.

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.

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

Response – IIC acknowledges and understands the findings and to the extent possible, given our organizations size, will address these moving forward.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Iowa Innovation Corporation

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Deborah J. Moser, CPA, Manager
Karen J. Kibbe, Senior Auditor II
Nicholas J. Gassman, Staff Auditor
Edward J. Schroder, Staff Auditor