



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE September 22, 2006

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Egg Council for the years ended June 30, 2006 and 2005.

The purpose of the Council is to promote the increased utilization of eggs and egg products and provide for market development.

Vaudt reported the Council had revenues of \$936,401 and expenses of \$860,334 for fiscal year 2006. This represents a nine percent increase in revenues and a twenty-nine percent increase in expenses over 2005. The increase in revenues is due primarily to increased assessments. The increase in expenses is due primarily to increased research project funding.

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 <http://auditor.iowa.gov/reports/reports.htm>.

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IOWA EGG COUNCIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS
JUNE 30, 2006 and 2005

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Iowa Egg Council

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Michael L. Tramontina
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Services Agency

Council

Richard Hall
Loren Bosma
Joe Scallon
Bruce Dooyema
Russell Dugan
Mark Friedow
Jon Kuhfus

Chairperson
Vice Chairperson
Secretary/Treasurer
Member
Member
Member
Member

Ex Officio Members

James Cashman
Dr. Dong Uk Ahn
Mark Fischer

Iowa Department of Agriculture and
Land Stewardship
Iowa State University
Iowa Department of Economic Development

Agency

Kevin S. Vinchattle

Executive Director

Iowa Egg Council



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Independent Auditor's Report

To the Members of the
Iowa Egg Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents in this report, of the Iowa Egg Council as of and for the years ended June 30, 2006 and 2005. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Egg Council at June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 5, 2006 on our consideration of the Iowa Egg Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations 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 and should be considered in assessing the results of our audit.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2006

Exhibit A

Iowa Egg Council
Statements of Net Assets
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 427,394	419,626
Accounts receivable	127,857	121,805
Prepaid expenses	2,704	1,645
Total current assets	<u>557,955</u>	<u>543,076</u>
Furniture and equipment (net of accumulated depreciation of \$26,956 and \$21,965)	<u>7,021</u>	<u>6,920</u>
Total assets	<u><u>\$ 564,976</u></u>	<u><u>549,996</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 40,189	103,155
Compensated absences	2,527	648
Total current liabilities	<u>42,716</u>	<u>103,803</u>
Net assets-unrestricted	<u>522,260</u>	<u>446,193</u>
Total liabilities and net assets	<u><u>\$ 564,976</u></u>	<u><u>549,996</u></u>

See notes to financial statements.

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2006 and 2005

	2006	2005
Revenues:		
Assessments	\$ 881,371	811,053
American Egg Board funding	40,167	43,783
Miscellaneous	794	572
Total revenues	<u>922,331</u>	<u>855,408</u>
Expenses:		
Salaries	155,047	103,189
Travel and subsistence	29,939	24,011
Office supplies	7,354	5,558
Advertising	70,398	182,538
Other promotional supplies	47,957	29,418
Equipment and maintenance	3,627	3,879
Telephone	5,562	5,155
Rent	34,332	34,259
Insurance	1,406	1,962
Professional services for research activities	372,543	167,835
Consumer education	8,408	6,925
Depreciation	4,991	4,363
Promotions	98,276	79,147
Miscellaneous	20,494	20,688
Total expenses	<u>860,334</u>	<u>668,927</u>
Operating income	61,997	186,481
Non-operating revenues:		
Interest income	14,070	4,723
Changes in net assets	76,067	191,204
Net assets beginning of year	446,193	254,989
Net assets end of year	<u>\$ 522,260</u>	<u>446,193</u>

See notes to financial statements.

Exhibit C

Iowa Egg Council

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from assessments	\$ 875,319	816,116
Cash paid to suppliers and employees	(917,490)	(577,262)
Other operating revenues	40,961	44,355
Net cash provided by (used for) operating activities	(1,210)	283,209
Cash flows from capital activities:		
Acquisition of capital assets	(5,092)	(1,342)
Cash flows from investing activities:		
Interest received	14,070	4,723
Net increase in cash and cash equivalents	7,768	286,590
Cash and cash equivalents beginning of year	419,626	133,036
Cash and cash equivalents end of year	\$ 427,394	419,626
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	\$ 61,997	186,481
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	4,991	4,363
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(6,052)	5,063
(Increase) decrease in prepaid expenses	(1,059)	1,292
Increase (decrease) in accounts payable	(62,966)	91,245
Increase (decrease) in compensated absences	1,879	(5,235)
Total adjustments	(63,207)	96,728
Net cash provided by (used for) operating activities	\$ (1,210)	283,209

See notes to financial statements.

Iowa Egg Council

Notes to Financial Statements

June 30, 2006 and 2005

(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 has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Council are such that exclusion would cause the Council's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Council to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Council. The Iowa Egg Council has no component units which meet the Governmental Accounting Standards Board criteria.
- B. Basis of Accounting – The financial statements of the Iowa Egg Council are prepared on the accrual basis.
- C. Budgetary Control – Budgetary control is exercised over the Iowa Egg Council by the Council, which approves, reviews and revises the budget.
- D. Cash and Cash Equivalents – For purposes of the statement 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 organization is exempt from taxation.
- H. Compensated Absences – Iowa Egg Council employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The cost of earned vacation payments is recorded as a liability. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

(2) Deposits

The Council's deposits in banks at June 30, 2006 and 2005 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 insure there will be no loss of public funds.

(3) Furniture and Equipment

A summary of furniture and equipment for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Balance June 30, 2006
Furniture and equipment	\$ 28,885	5,092	33,977
Less accumulated depreciation	(21,965)	(4,991)	(26,956)
Furniture and equipment, net	\$ 6,920	101	7,021

(4) Related Party Transactions

The Iowa Egg Council has contracted with the Iowa Poultry 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 provided for the Council to make payments to the Association totaling \$641,250 and \$566,211 for the years ended June 30, 2006 and 2005, respectively.

In addition, certain administrative expenses are paid by the Iowa Poultry Association for the Iowa Egg Council under a contractual agreement. The contract provided for the Council to make payments to the Association totaling \$238,708 and \$ 240,683 for the years ended June 30, 2006 and 2005, 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 \$860,334 and \$568,485 for the years ended June 30, 2006 and 2005, respectively. The amounts paid to the Iowa Poultry Association are distributed to the appropriate expense classifications on Exhibit B of the financial statements.

(5) Risk Management

The Iowa Egg 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 Iowa Egg 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.



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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 the financial statements of the Iowa Egg Council as of and for the year ended June 30, 2006, and have issued our report thereon dated September 5, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Iowa Egg Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Iowa Egg Council's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

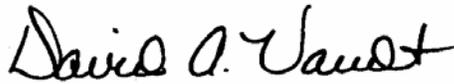
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses.

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 grants, 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 an immaterial instance of non-compliance or other matters that is described in the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Egg Council, citizens of the State of Iowa and other parties to whom the Iowa Egg Council may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 5, 2006

Iowa Egg Council

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- (1) Initial Listing of Cash Receipts – All incoming mail is opened by an employee who is not authorized to make entries to the accounting records. The employee date-stamps the mail and distributes it to the appropriate recipients, but the employee does not make an initial listing of receipts.

Recommendations – An initial listing of receipts should be prepared when the mail is opened and reconciled to the state cash receipt document by an independent person.

Response – A procedure will be put in place, when the mail is opened, the checks will be copied, and compared to the State Check Off Cash Receipt Report and initialed.

Conclusion – Response accepted.

- (2) Bank Reconciliations – The bookkeeper prepares monthly bank reconciliations which are monitored by the Director, but the bank reconciliations are not reviewed for propriety.

Recommendation – An independent person should review the monthly bank reconciliations for propriety in a timely manner and evidence this review with the initials or signature of the reviewer and the date of the review.

Response – The Executive Director will review, initial and date bank reconciliations.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

- (1) Board Minutes – The Board meetings were not preceded by public notice as required by Chapter 21.4 of the Code of Iowa and the minutes did not contain sufficient information to determine the vote of each member present as required by Chapter 21.3 of the Code of Iowa. In addition, the minutes were not signed to authenticate the information contained in the minutes.

Recommendation – Public notice should be posted at least twenty-four hours prior to commencement of each meeting as required by Chapter 21.4 of the Code of Iowa. The Board minutes should document the vote of each member as required by Chapter 21.3 of the Code of Iowa. The minutes should be signed to authenticate the information contained in the minutes.

Response – Public notice of the Board meetings will be posted in the front lobby. As of July 1, 2006, the Board minutes will document the vote of each member and the president of the Iowa Egg Council will initial the approved board minutes and preceding minutes.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

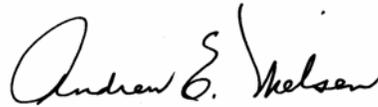
No matters were noted.

Iowa Egg Council

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Karen J. Kibbe, Staff Auditor
Matthew R. Ritchey, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State