



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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## NEWS RELEASE

FOR RELEASE \_\_\_\_\_ September 8, 2015

Contact: Andy Nielsen  
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Auditor of State Mary Mosiman today released an audit report on the Iowa Innovation Corporation for the years ended June 30, 2014 and 2013.

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 \$661,134 for the year ended June 30, 2014. Revenues consisted of \$241,050 for marketing, \$208,333 for manufacturing innovation, \$81,767 from grants, \$79,416 from program revenues, \$50,000 from program management fees and \$568 of interest income.

The Corporation's revenues totaled \$1,435,339 for the year ended June 30, 2013. Revenues consisted of \$581,500 of contributions, \$291,667 for manufacturing innovation, \$260,000 for marketing, \$111,862 from grants, \$96,000 from program management fees, \$93,390 from program revenues and \$920 of interest income.

Expenses for the year ended June 30, 2014 totaled \$1,029,343, and included \$454,768 for contractual services, \$283,538 for salaries and benefits and \$131,728 for marketing and communication.

Expenses for the year ended June 30, 2013 totaled \$727,599, and included \$304,731 for contractual services, \$283,615 for salaries and benefits and \$40,318 for marketing and communication.

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 <http://auditor.iowa.gov/reports/1433-0060-B000.pdf>.

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**IOWA INNOVATION CORPORATION**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENTS**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2014 and 2013**

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**Iowa Innovation Corporation**

**Board of Directors**

**June 2013**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Robert Riley Jr.	Board Chair	April 2015
Cara Heiden	Vice Chair	April 2015
Jamie Zanos	Secretary/Treasurer	April 2015
Sarah Hasken	Member	April 2015
Peter Hemken	Member	April 2015
Chris Nelson	Member	April 2015
Scott Norvell	Member	(Resigned April 2013)
Jack Harris	CEO and President	

**June 2014**

Robert Riley Jr.	Board Chair	April 2015
Cara Heiden	Vice Chair	April 2015
Jamie Zanos	Secretary/Treasurer	April 2015
Sarah Hasken	Member	April 2015
Peter Hemken	Member	April 2015
Chris Nelson	Member	April 2015
Mark Kittrell	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 financial statements of the Iowa Innovation Corporation as of and for the years ended June 30, 2014 and 2013, and the related Notes to Financial Statements, which collectively comprise the Iowa Innovation Corporation's 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 opinions.

Opinions

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, 2014 and 2013, and the respective changes in its financial position and its cash flows thereof for the years 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 July 30, 2015 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 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 Innovation Corporation's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 30, 2015

## **Financial Statements**

**Exhibit A**

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Iowa Innovation Corporation  
Statements of Financial Position  
June 30, 2014 and 2013

<b>Assets</b>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 193,993	227,302
Receivables:		
Contributions	131,000	286,000
Accounts	172,066	406,859
Prepaid expense	9,211	3,620
Equipment, less accumulated depreciation of \$218	1,173	-
<b>Total assets</b>	<u>\$ 507,443</u>	<u>923,781</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 22,063	22,085
Compensation payable	4,105	23,462
Contract payable	-	28,750
Total liabilities	<u>26,168</u>	<u>74,297</u>
Net assets:		
Net investment in capital assets	1,173	-
Restricted	94,761	167,357
Unrestricted	385,341	682,127
Total net assets	<u>481,275</u>	<u>849,484</u>
<b>Total liabilities and net assets</b>	<u>\$ 507,443</u>	<u>923,781</u>

See notes to financial statements.

Iowa Innovation Corporation

Statements of Activities

Years ended June 30, 2014 and 2013

	2014	2013
Revenues:		
Contributions	\$ -	581,500
Grants	81,767	111,862
State of Iowa - manufacturing innovation	208,333	291,667
Marketing	241,050	260,000
Program	79,416	93,390
Program management	50,000	96,000
Total revenues	<u>660,566</u>	<u>1,434,419</u>
Expenses:		
Salaries and benefits	283,538	283,615
Travel	24,181	24,188
Contractual services	454,768	304,731
Rent	20,000	14,400
Marketing and communication	131,728	40,318
Program	71,833	-
Conference and meeting	8,714	34,536
Legal fees	9,865	3,779
Office supplies	5,856	5,647
Insurance	14,947	15,000
Depreciaton	218	-
Miscellaneous	3,695	1,385
Total expenses	<u>1,029,343</u>	<u>727,599</u>
Operating gain (loss)	(368,777)	706,820
Non-operating revenue:		
Interest income	568	920
Change in net assets	(368,209)	707,740
Net assets beginning of year, restated	849,484	141,744
Net assets end of year	<u>\$ 481,275</u>	<u>849,484</u>

See notes to financial statements.

**Exhibit C**

## Iowa Innovation Corporation

## Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from contributions	\$ 155,000	295,500
Cash received from grants	38,995	120,167
Cash received from the State of Iowa - Manufacturing innovation	500,000	-
Cash received from marketing	221,050	300,000
Cash received from program revenues	85,648	21,325
Cash received from program management	49,666	88,000
Cash paid for goods and services	(779,950)	(427,799)
Cash paid to employees for salaries and benefits	(302,895)	(260,153)
Net cash provided (used) by operating activities	(32,486)	137,040
Cash flows from capital activities:		
Acquisition of equipment	(1,391)	-
Cash flows from investing activities:		
Interest received	568	920
Net increase (decrease) in cash and cash equivalents	(33,309)	137,960
Cash and cash equivalents beginning of year	227,302	89,342
Cash and cash equivalents end of year	\$ 193,993	227,302
<b>Reconciliation of operating gain (loss) to net cash provided (used) by operating activities:</b>		
Operating gain (loss)	\$(368,777)	706,820
Adjustments to reconcile operating gain (loss) to net cash provided (used) by operating activities:		
Depreciation	218	-
Changes in assets and liabilities:		
(Increase) decrease in contributions receivable	155,000	(286,000)
(Increase) decrease in accounts receivable	234,793	(323,427)
(Increase) in prepaid expense	(5,591)	(3,620)
Increase (decrease) in accounts payable	(22)	18,555
Increase (decrease) in compensation payable	(19,357)	23,462
Increase (decrease) in contracts payable	(28,750)	1,250
Net cash provided (used) by operating activities	\$ (32,486)	137,040

See notes to financial statements.

Iowa Innovation Corporation  
Notes to Financial Statements  
June 30, 2014 and 2013

**(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. Accordingly, the net assets of the Iowa Innovation Corporation and changes therein are classified and reported as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation.

Restricted net assets – consists of net assets restricted for use in accordance with applicable enabling legislation.

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 lives of 3 to 5 years. No interest costs were capitalized since there were no qualifying assets for the years ended June 30, 2014 and 2013.

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) Equipment**

A summary of equipment at June 30, 2014 is as follows:

	<u>2014</u>
Equipment	\$ 1,391
Less: accumulated depreciation	<u>218</u>
Equipment, net	<u>\$ 1,173</u>

**(3) Contributions Receivable**

Unrestricted contributions receivable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Unrestricted contributions	<u>\$ 131,000</u>	<u>286,000</u>
Amounts due in:		
Less than one year	\$ 131,000	155,000
One to five years	<u>-</u>	<u>131,000</u>
Total	<u>\$ 131,000</u>	<u>286,000</u>

**(4) 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. Beginning January 15, 2013, these risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage since inception.

**(5) Accounting Restatement**

Beginning net assets were restated to report accounts receivable not previously reported and to report a reduction in accounts payable previously reported. The effect of the restatement is as follows:

	<u>Net Position</u>
Balance June 30, 2012, as previously reported	\$ 47,062
Change in net assets to properly include accounts receivable not previously reported	83,432
Change in net assets to reduce accounts payable previously reported	<u>11,250</u>
Balance July 1, 2013, as restated	<u>\$ 141,744</u>

**Iowa Innovation Corporation**



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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 years ended June 30, 2014 and 2013, and the related Notes to Financial Statements, which collectively comprise the Corporation's financial statements, and have issued our report thereon dated July 30, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audits 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Iowa Innovation Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Innovation Corporation's internal control.

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. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

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 Iowa Innovation Corporation's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (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 Corporation'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 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 audits. 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

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

July 30, 2015

Iowa Innovation Corporation

Schedule of Findings

June 30, 2014 and 2013

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important element in designing internal controls to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. During the audit, we identified the following incompatible duties:
- (1) The duties of receipt collection, depositing receipts and maintaining accounts receivable records are the responsibility of one individual.
  - (2) An initial listing of receipts received in the mail is prepared by the mail opener, but there is no independent review to ensure amounts received are recorded and deposited.
  - (3) The duties of purchasing, preparing checks, signing checks and mailing checks are the responsibility of one individual. Additionally, there is no evidence individual disbursements are reviewed and approved by an independent person prior to disbursement.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the Corporation should review its control procedures to obtain the maximum internal control possible under the circumstances. The Corporation should utilize the President/CEO and Board members to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be documented by the signature or initials of the reviewer and the date of the review. Additionally, the initial listing of receipts received in the mail should be compared to the receipt records by an independent person and the comparison should be documented.

Response – Beginning in FY2014 and for FY2015, the Iowa Innovation Corporation maintained an electronic deposit record using an excel spreadsheet. The staff member opening mail records checks received in an excel spreadsheet, stamps the check then delivers to the Vice President (VP) for processing. Beginning in FY2016, checks received will be hand recorded in a physical book with the person opening mail initialing next to the entry. After the VP processes checks and makes deposits, the bank deposit slip will be returned to the staff member who opens mail for verification recorded checks were deposited. The staff member will initial and date the deposit slip and indicate in the deposit record the deposit slip was verified and matches the deposit as recorded.

Payables and checks are prepared by the VP and then presented to the President/CEO for review and signature. Beginning in November 2014, the President/CEO dates and initials the invoice prior to signing the check. The monthly financial report to the Board includes a list of all payables processed for the month for Board review and comment.

Conclusion – Response accepted.

Iowa Innovation Corporation

Schedule of Findings

June 30, 2014 and 2013

- (B) Payroll – The Corporation does not have written documentation approved by the Board authorizing salaries for all employees. Additionally, the check preparer prepares his/her own payroll checks.

Recommendation – Written authorization of employee salaries approved by the Board should be maintained for all employees. Additionally, payroll journals should be reviewed and approved by an independent person and such review should be documented by the signature or initials of the reviewer and the date of the review.

Response – Beginning in FY2014, the budget reviewed and approved by the Board includes salaries for employees listed by each position. Additionally, beginning in FY2014, the staffing plan reviewed and approved by the Board also includes salaries for current employees as well as approved hiring ranges for new or vacant positions. Starting in July 2015, all new hires are provided an employment offer letter which states the starting salary. As a result of this finding, additional steps in processing payroll have been implemented effective June 2015. A payroll report will be generated prior to processing payroll for review and approval by the President/CEO. After payroll is processed, the payroll verification received from the processing center will be presented to the President/CEO for review and signature. The President/CEO will be able to confirm payroll submitted for processing matches the previously approved payroll report.

Conclusion – Response accepted.

- (C) Financial Reporting – Material amounts of receivables and payables were not recorded properly by the Corporation. Additionally, adjustments were made to recognize revenue which had been deferred by the Corporation.

Recommendation – The Corporation should implement procedures to ensure all transactions are properly recorded in its financial statements.

Response – In November 2013, the Iowa Innovation Corporation (IICorp) moved all accounting functions in house from an outsourced service provider selected during the formation of the IICorp. With an IICorp staff member dedicated to accounting and establishing financial controls, it is anticipated these efforts, along with continued process improvement, will lead to a reduction in accounting errors. Additionally, in May 2014, the IICorp established an Audit Committee of the Board to assist with financial oversight and process improvement.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

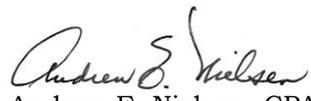
No matters were noted.

Iowa Innovation Corporation

Staff

This audit was performed by:

Michelle Meyer, CPA, Manager  
Jenny M. Podrebarac, Senior Auditor II  
Luke H. Holman, Assistant Auditor

  
Andrew E. Nielsen, CPA  
Deputy Auditor of State