



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____

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, 2004 and 2003.

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 \$777,409 and expenses of \$743,724 for fiscal year 2004. This represents a ten percent increase in revenues and a seven percent decrease in expenses from 2003. The decrease in expenses is due primarily to decreased advertising and promotion.

A copy of the 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, 2004 and 2003

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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

Russell Dugan
Loren Bosma
Joe Scallon
Bruce Dooyema
Mark Friedow
Richard Hall
Tony Quandahl

Chairperson
Vice Chairperson
Secretary/Treasurer
Member
Member
Member
Member

Ex Officio Members

James Cashman
Dr. Dong Uk Ahn
Dennis Leland

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 of this report, of the Iowa Egg Council, as of and for the years ended June 30, 2004 and 2003. 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 and provisions 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 that 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, 2004 and 2003, 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 August 17, 2005 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, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 17, 2005

Exhibit A

Iowa Egg Council
Statements of Financial Position
June 30, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 133,036	170,420
Accounts receivable	126,868	110,424
Prepaid expenses	2,937	14,765
Total current assets	<u>262,841</u>	<u>295,609</u>
 Furniture and equipment (net of accumulated depreciation of \$17,601 and \$16,951)	 9,941	 13,180
	<u>9,941</u>	<u>13,180</u>
 Total assets	 \$ 272,782	 308,789
	<u><u>\$ 272,782</u></u>	<u><u>308,789</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 11,910	81,991
Compensated absences	5,883	5,494
Total current liabilities	<u>17,793</u>	<u>87,485</u>
 Net Assets-unrestricted	 254,989	 221,304
	<u>254,989</u>	<u>221,304</u>
 Total liabilities and net assets	 \$ 272,782	 308,789
	<u><u>\$ 272,782</u></u>	<u><u>308,789</u></u>

See notes to financial statements.

Iowa Egg Council

Statements of Revenues, Expenses and Changes
in Net Assets

Years ended June 30, 2004 and 2003

	2004	2003
Revenues:		
Assessments	\$ 745,979	677,360
American Egg Board funding	25,747	29,266
Miscellaneous	4,262	344
Total revenues	<u>775,988</u>	<u>706,970</u>
Expenses:		
Salaries	148,545	141,300
Travel and subsistence	13,687	12,110
Office supplies	6,505	8,441
Advertising	254,552	321,160
Other promotional supplies	38,634	28,632
Equipment and maintenance	4,237	4,448
Telephone	5,011	5,280
Rent	34,345	34,259
Insurance	2,410	2,261
Professional services for research activities	118,292	84,695
Consumer education	4,549	2,598
Depreciation	4,216	4,260
Promotions	81,408	122,022
Egg Promotion Specialist salaries, travel and supplies	-	11,745
Miscellaneous	27,333	15,200
Total expenses	<u>743,724</u>	<u>798,411</u>
Operating gain (loss)	<u>32,264</u>	<u>(91,441)</u>
Non-operating revenues:		
Interest	1,214	2,285
Gain on sale of furniture and equipment	207	-
Net non-operating revenues	<u>1,421</u>	<u>2,285</u>
Changes in net assets	33,685	(89,156)
Net assets beginning of year	<u>221,304</u>	<u>310,460</u>
Net assets end of year	<u>\$ 254,989</u>	<u>221,304</u>

See notes to financial statements.

Exhibit C

Iowa Egg Council

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from assessments	\$ 729,535	675,128
Cash payments to suppliers and employees	(797,372)	(692,896)
Other operating revenues	30,009	29,610
Net cash provided by (used for) operating activities	(37,828)	11,842
Cash flows from capital activities:		
Acquisition of capital assets	(1,350)	-
Proceeds from sale of equipment	580	-
Net cash used for capital activities	(770)	-
Cash flows from investing activities:		
Interest received	1,214	2,285
Net increase (decrease) in cash and cash equivalents	(37,384)	14,127
Cash and cash equivalents beginning of year	170,420	156,293
Cash and cash equivalents end of year	\$ 133,036	170,420
Reconciliation of operating gain (loss) to net cash provided by (used for) operating activities:		
Operating gain (loss)	\$ 32,264	(91,441)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation	4,216	4,260
Changes in assets and liabilities:		
(Increase) in accounts receivable	(16,444)	(2,232)
Decrease in prepaid expenses	11,828	23,806
Increase (decrease) in accounts payable	(70,081)	77,794
Increase (decrease) in compensated absences payable	389	(345)
Total adjustments	(70,092)	103,283
Net cash provided by (used for) operating activities	\$ (37,828)	11,842

See notes to financial statements.

Iowa Egg Council

Notes to Financial Statements

June 30, 2004 and 2003

(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 included 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. Budget 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 repairs and maintenance are charged against operations. The estimated lives for furniture and equipment range from five 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, 2004.

(2) Deposits

The Council's deposits in banks at June 30 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) 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 \$632,875 for the period July 1, 2003 to June 30, 2004.

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 \$241,023 for the period July 1, 2003 to June 30, 2004.

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 \$787,642 for the year ended June 30, 2004. The amounts paid to the Iowa Poultry Association are distributed to the appropriate expense classifications on Exhibit B of the financial statements.

(4) 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 Compliance and
on Internal Control over Financial Reporting

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, 2004, and have issued our report thereon dated August 17, 2005. 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.

Compliance

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 that are required to be reported under Government Auditing Standards.

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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is 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 believe the reportable condition described in the accompanying Schedule of Findings is a material weakness. The prior year's reportable condition has not been resolved.

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

August 17, 2005

Iowa Egg Council
Schedule of Findings
Year ended June 30, 2004

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

Segregation of Duties – An important aspect of internal control is the segregation of duties among employees so the activities of one employee act as an independent check on the work of another. A majority of the duties relating to general accounting are performed by one person. This includes opening the mail, handling receipts, ledger and journal entry functions for receipts and disbursements, and preparing reconciliations.

Recommendation – We recognize that with a limited number of employees, segregation of duties is difficult. The Council should review its oversight control procedures for accounting personnel to obtain the maximum internal control possible under the circumstances.

Response – The Iowa Egg Council operates on a limited budget. Therefore, meeting Code-mandated activities must be balanced against other uses of funds, including staffing decisions. The Council will continue to review oversight control procedures. Budget and staff resources will primarily control opportunities for future changes.

It should be noted that the Executive Director does monitor the bank reconciliations. Invoices are reviewed and approved prior to checks being approved and mailed. Checks are matched to invoices prior to mailing. The Council and the Executive Director receive and review monthly financial statements showing income and expenditures including a monthly check register. Therefore, there are multiple points in the process where the bookkeeper's work is reviewed by a number of people.

The bookkeeper generally does not open mail. Mail handling is normally performed by the administrative assistant who opens and date-stamps the mail, which is then distributed to recipients.

Conclusion – Response acknowledged. In addition, an initial listing of receipts should be prepared by the administrative assistant when mail is opened and reconciled to bank deposits by an independent person.

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
Donald N. Miksch, Staff Auditor
Cheryl R. McNaught, Assistant Auditor
Brad A. Meisterling, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State