

**IOWA PROPANE EDUCATION AND
RESEARCH COUNCIL - STATE**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2015 AND 2014

CONTENTS

Independent Auditor's Report	1
Statements of Cash Receipts and Disbursements	2
Notes to Financial Statement	3
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 <i>Government Auditing Standards</i>	6
Schedule of Findings and Questioned Costs	8



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Iowa Propane Education and Research Council - State

Report on the Financial Statements

We have audited the accompanying financial statements of Iowa Propane Education and Research Council - State, a program of Iowa Propane Education and Research Council (a nonprofit organization), which comprise the statements of cash receipts and disbursements as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note A; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 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 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 that 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 cash receipts and disbursements of Iowa Propane Education and Research Council - State as of and for the years ended December 31, 2015 and 2014, in accordance with the basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 14, 2016, on our consideration of Iowa Propane Education and Research Council - State'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 Iowa Propane Education and Research Council - State's internal control over financial reporting and compliance.

McGowan, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa

April 14, 2016

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH RECEIPTS		
Monthly assessments	\$ 328,477	\$ 443,460
Interest	482	363
TOTAL CASH RECEIPTS	<u>328,959</u>	<u>443,823</u>
CASH DISBURSEMENTS		
Directors and officers insurance	687	677
Safety director	131,882	131,889
Legal fees	2,836	2,948
Audit and tax return preparation fees	4,145	4,723
Administrative fee agreement	30,000	30,000
LIHEAP regulator	7,183	1,426
Fire schools	2,464	3,971
Hazmat classes	5,000	5,284
Water heater rebate	15,720	3,750
Furnace rebate	147,853	152,147
Farm Bureau cookout	1,200	1,200
LIHEAP - "Out of Gas" brochure	652	770
Coloring book project	6,479	-
Insurance	-	213
Consumer ad project	43,996	43,780
District meetings	-	21,310
Miscellaneous	4,775	3,990
TOTAL CASH DISBURSEMENTS	<u>404,872</u>	<u>408,078</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	(75,913)	35,745
CASH AND CASH EQUIVALENTS - beginning of year	<u>338,588</u>	<u>302,843</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 262,675</u>	<u>\$ 338,588</u>

The accompanying notes are an integral part of these financial statements.

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Program - The Iowa Propane Education and Research Council - State (the Program) is a program of Iowa Propane Education and Research Council (the Council), a nonprofit organization established by the Iowa Propane Education and Research Act. The Program is only one component of Iowa Propane Education and Research Council. The purpose of the Program is to provide activities designed to give information regarding propane, propane equipment, mechanical and technical practices, and uses of propane to consumers and members of the propane industry. Under the Iowa Propane Education and Research Act, the Program receives an assessment fee on the sale of odorized propane.

Method of Accounting - The Program's records are maintained on a cash basis. Under this method, revenues are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Property and equipment purchases are expensed as paid in accordance with the cash basis method of accounting. The cash basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, the financial statements do not present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents - Cash and cash equivalents consist of interest bearing demand and money market accounts in federally insured financial institutions. The Program occasionally maintains bank deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Funds Received from Assessments - The Program's sole source of revenue is an annual assessment from propane marketers in the state of Iowa at a rate of one-tenth of one cent on each gallon of odorized propane sold in Iowa that is remitted monthly.

Income Tax Matters - The Program's activities are included in the informational tax filings prepared by the Council.

The Council is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code. However, the Council is subject to federal and state corporate income taxes on any unrelated business income generated from activities not specifically related to its tax exempt purpose.

The Council is unaware of any uncertain income tax positions at December 31, 2015 and 2014. Interest and penalties associated with income tax matters would be presented as components of income tax expense. There were no interest or penalty charges during 2015 and 2014.

Subsequent Events - Management has evaluated subsequent events through April 14, 2016, the date the financial statements were available to be issued.

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
NOTES TO FINANCIAL STATEMENTS

NOTE B - FUTURE PROJECT COMMITMENTS

The Council has committed \$45,976 of State funds for the safety director project in 2016.

NOTE C - FUNCTIONAL ALLOCATION OF EXPENSES

Allocations of functional expenses are made by direct assignment of cost to functional categories.

Following is a summary of the functional allocation of expenses:

	<u>2015</u>	<u>2014</u>
Program services	\$ 367,011	\$ 359,856
General and administrative	37,861	48,222
	<u>\$ 404,872</u>	<u>\$ 408,078</u>

NOTE D - IOWA PROPANE GAS ASSOCIATION

Certain administrative functions are performed by the Iowa Propane Gas Association (the Association). The Program paid the Association \$30,000 in 2015 and 2014 for administrative services provided to the Program. The Program paid the Association \$150,161 and \$148,811, including \$26,779 and \$25,922 in project management fees, for projects performed by the Association during the years ended December 31, 2015 and 2014, respectively.

OTHER REQUIRED
INDEPENDENT AUDITOR'S REPORT



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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 STATEMENT PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Iowa Propane Education and Research Council - State

We have audited, in accordance with the auditing standards generally accepted in the United States of America 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 Iowa Propane Education and Research Council - State, a program of Iowa Propane Education and Research Council, which comprise of the statement of cash receipts and disbursements as of December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated April 14, 2016. Our report on the financial statements includes an other matter paragraph discussing the Organization's use of the cash basis of accounting to prepare its financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Iowa Propane Education and Research Council - State's internal control over financial reporting (internal control) to determine the audit procedures that are 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 Iowa Propane Education and Research Council - State's internal control. Accordingly, we do not express an opinion on the effectiveness of Iowa Propane Education and Research Council - State'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we considered to be material weaknesses. 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. We did identify deficiencies in internal control, described in the accompanying schedule of findings, questioned costs, and recommendations as findings 2015-001 and 2015-002, that we consider to be significant deficiencies.

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 were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iowa Propane Education and Research 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Iowa Propane Education and Research Council - State's Response to Findings

Iowa Propane Education and Research Council - State's responses to the findings identified in our audit are described in the accompanying schedule of findings, questioned costs, and recommendations. The Council'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 result of that testing, and not to provide an opinion on the effectiveness of the 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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGowan, Hurst, Clark & Smith, P.C.

West Des Moines, Iowa
April 14, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

Finding 2015-001

Criteria and Condition: The management of the Council does not possess the necessary familiarity with certain financial statement reporting and disclosure requirements of the cash basis of accounting. As a result, the Council engages its external auditors to assist in the preparation of the external full disclosure financial statements. The external auditors cannot, however, be considered to be a part of the Council's internal controls.

Context: The Council engages us to assist them with its external financial statement reporting.

Cause: As is the case with most small nonprofit organizations, the management of the Council do not research new and unusual financial statement presentations and disclosure requirements that might impact the Council, although, they are familiar with general presentation and disclosure requirement of the cash basis of accounting.

Effect: The Council's internal controls may not detect misstatements or may omit required disclosures that are more than inconsequential to the external financial statements.

Recommendation: We recommend that the Council continue to review and approve the external financial statements.

Management Response: We agree with the finding and recommendation. The Iowa Propane Education and Research Council has reviewed and approved the external financial statements and will continue to work with its auditor in the preparation of its external year-end financial statements.

Finding 2015-002

Criteria and Condition: Accounting functions are provided by Iowa Propane Gas Association. The Association's staff consists of three full-time employees. The limited number of staff makes it difficult to assign responsibilities so that individuals with access to assets are not also responsible for recording transactions related to those assets.

Context: The Association has three full-time employees, which makes it difficult to properly segregate accounting functions.

Cause: The limited number of staff makes it difficult to assign responsibilities so that individuals with access to assets are not also responsible for recording transactions relating to those assets.

Effect: Certain Association employees may have access to assets and also are responsible for recording transactions related to those assets, allowing for the opportunity for misappropriate of assets.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

Recommendation: We recommend that the board treasurer continue to closely monitor and investigate unexpected operating results and review bank statements and copies of cancelled checks for any evidence of unapproved disbursements. We also recommend that billings for services from the Association continue to be reviewed carefully by the Council's board treasurer or another independent party.

Management Response: We agree with the finding and recommendations. The Council's treasurer will continue to review bank statements and copies of cancelled checks and will closely review billings from the Association.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:

Finding 2014-01

Criteria and Condition: The management of the Council does not possess the necessary familiarity with certain financial statement reporting and disclosure requirements of the cash basis of accounting. As a result, the Council engages its external auditors to assist in the preparation of the external full disclosure financial statements. The external auditors cannot, however, be considered to be a part of the Council's internal controls.

Status: The Council continues to review and approve the external financial statements and works closely with us in the preparation of its external financial statements; however, the significant deficiency continues to exist.

Finding 2014-02

Criteria and Condition: Accounting functions are provided by Iowa Propane Gas Association. The Association's staff consists of three full-time employees. The limited number of staff makes it difficult to assign responsibilities so that individuals with access to assets are not also responsible for recording transactions related to those assets.

Status: The board treasurer continues to closely monitor and investigate unexpected operating results and reviews bank statements and copies of cancelled checks for any evidence of unapproved disbursements, as well as billings for services from the Association; however, the significant deficiency continues to exist.