



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE June 10, 2004

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Sheep and Wool Promotion Board for the years ended June 30, 2003 and 2002.

The purpose of the Board is to establish programs for promotion, research and education directed toward better and more efficient production, marketing and utilization of sheep and wool products; to provide public relations and other promotion techniques for the maintenance of present markets; to provide for the development of new or larger domestic and foreign markets; and to provide for the prevention, modification or elimination of trade barriers which obstruct the free flow of sheep and wool products.

The Board's net assessment revenues totaled \$59,864 for the year ended June 30, 2003, a 3% increase from 2002. The increase in revenues is due to an increase in pounds of wool and slaughter sheep sold. Expenses for the year ended June 30, 2003 totaled \$55,202, a 4% increase from the prior year. The increase in expenses is due to an increase in the number of educational and research proposals approved for funding by the Board.

A copy of the audit report is available for review in the Office of Auditor of State and the Iowa Department of Agriculture and Land Stewardship.

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IOWA SHEEP AND WOOL PROMOTION BOARD

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

JUNE 30, 2003 AND 2002

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Iowa Sheep and Wool Promotion Board

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhauer
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Services Agency

Board

Mark Loutsch
Jon McFadden
Duane Sprouse
Tom Cory
Bill Dohrman
Gary Erickson
James Koss
Les Vander Linden

Chairperson
Vice Chairperson
Secretary
Treasurer
Member
Member
Member
Member

Ex Officio Members

Harold Hommes
Dr. Daniel Morrical
Kaitlyn Bartling

Secretary Designee, Iowa Department of Agriculture and Land
Stewardship
ISU Extension, Sheep Specialist
Executive Director, Iowa Sheep Industry Association

Iowa Sheep and Wool Promotion Board



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Independent Auditor's Report

To the Members of the Iowa Sheep
and Wool Promotion Board:


We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Iowa Sheep and Wool Promotion Board, as of and for the years ended June 30, 2003 and 2002. These financial statements are the responsibility of the Board'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, Chapter 11 of the Code of Iowa 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 Sheep and Wool Promotion Board at June 30, 2003 and 2002, 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 March 23, 2004 on our consideration of the Iowa Sheep and Wool Promotion Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. 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

March 23, 2004

Iowa Sheep and Wool Promotion Board

Financial Statements

Exhibit A

Iowa Sheep and Wool Promotion Board

Statements of Financial Position

June 30, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents (note 2)	\$ 43,818	39,780
Assessments receivable	11,698	11,587
Interest receivable	56	110
Accounts receivable	-	603
Total current assets	55,572	52,080
Equipment, net (note 3)	782	1,127
Total assets	\$ 56,354	53,207
Liabilities and Net Assets		
Current liabilities:		
Refunds payable	\$ 502	724
Accounts payable	3,735	5,350
Total current liabilities	4,237	6,074
Net Assets - unrestricted	52,117	47,133
Total liabilities and net assets	\$ 56,354	53,207

See notes to financial statements.

Iowa Sheep and Wool Promotion Board

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2003 and 2002

	2003	2002
Revenues:		
Assessments	\$ 66,459	65,690
Less refunds	(6,595)	(7,722)
Net revenues	59,864	57,968
Expenses:		
Administration	9,525	10,260
Education - consumer	18,328	19,419
Education - producer	24,598	23,190
Research	2,406	-
Depreciation	345	345
Total expenses	55,202	53,214
Operating income	4,662	4,754
Non-operating revenues:		
Interest income	322	480
Changes in net assets	4,984	5,234
Net assets beginning of year	47,133	41,899
Net assets end of year	\$ 52,117	47,133

See notes to financial statements.

Exhibit C

Iowa Sheep and Wool Promotion Board

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Cash received from assessments	\$ 66,951	67,180
Cash paid to suppliers for goods and services	(56,472)	(53,395)
Cash paid for refunds	(6,817)	(7,308)
Net cash provided by operating activities	3,662	6,477
Cash flows from investing activities:		
Interest received	376	506
Net increase in cash and cash equivalents	4,038	6,983
Cash and cash equivalents beginning of year	39,780	32,797
Cash and cash equivalents end of year	\$ 43,818	39,780
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,662	4,754
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	345	345
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	(111)	1,490
(Increase) decrease in accounts receivable	603	(603)
Increase (decrease) in refunds payable	(222)	414
Increase (decrease) in accounts payable	(1,615)	77
Total adjustments	(1,000)	1,723
Net cash provided by operating activities	\$ 3,662	6,477

See notes to financial statements.

Iowa Sheep and Wool Promotion Board

Notes to Financial Statements

Years ended June 30, 2003 and 2002

(1) Summary of Significant Accounting Policies

The purpose of the Iowa Sheep and Wool Promotion Board is to establish programs for promotion, research and education directed toward better and more efficient production, marketing and utilization of sheep and wool products; to provide public relations and other promotion techniques for the maintenance of present markets; to provide for the development of new or larger domestic and foreign markets and to provide for the prevention, modification or elimination of trade barriers which obstruct the free flow of sheep and wool products. Statutory authority for the Iowa Sheep and Wool Promotion Board is established under Chapter 182 of the Code of Iowa.

- A. Reporting Entity – For financial reporting purposes, the Iowa Sheep and Wool Promotion Board has included all funds, organizations, agencies, boards, commissions, and authorities. The Board 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 Board are such that exclusion would cause the Board'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 Board 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 Board. The Iowa Sheep and Wool Promotion Board has no component units which meet the Governmental Accounting Standards Board criteria.
- B. Basis of Accounting – The financial statements of the Iowa Sheep and Wool Promotion Board are prepared on the accrual basis.
- C. Assessments – The Iowa Sheep and Wool Promotion Board receives an assessment of two cents for each pound of wool produced and sold by a producer and ten cents per head on sheep sold for slaughter by a producer. The assessments are required to be remitted to the Board no later than 30 days following each calendar quarter.
- 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. Equipment – Equipment is recorded at cost and depreciated on a straight-line basis over an estimated useful life of six years.
- F. Income Taxes – The Board is exempt from taxation under Section 501(c) of the Internal Revenue Code.

(2) Cash and Cash Equivalents

The Board's deposits in banks at June 30, 2003 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) Equipment

A summary of equipment at June 30, 2003 is as follows:

Equipment	\$ 2,070
Less: Accumulated depreciation	<u>(1,288)</u>
Equipment, net	<u>\$ 782</u>

(4) Risk Management

The Board 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. 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 Sheep
and Wool Promotion Board:

We have audited the financial statements of the Iowa Sheep and Wool Promotion Board as of and for the year ended June 30, 2003, and have issued our report thereon dated March 23, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa 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 Sheep and Wool Promotion Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described as items (1), (2) and (3) in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Board's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Board. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. The prior year statutory comment has not been resolved and is repeated as item (1).


Internal Control Over Financial Reporting

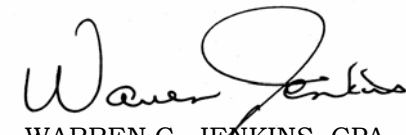
In planning and performing our audit, we considered the Iowa Sheep and Wool Promotion Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control 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 Sheep and Wool Promotion Board'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 as item (A) 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 above as item (A) is a material weakness. The prior year reportable condition has not been resolved and is repeated as item (A).

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Sheep and Wool Promotion Board, citizens of the State of Iowa and other parties to whom the Iowa Sheep and Wool Promotion Board 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 Sheep and Wool Promotion Board 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

March 23, 2004

Iowa Sheep and Wool Promotion Board

Schedule of Findings

June 30, 2003

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) Segregation of Duties – The Board has one contract employee. This employee is authorized by the Board to approve refund payments and administrative expenditures, prepare, sign and mail checks, and post all expenditure transactions to the disbursement ledger. The Board approves expenditures following payment, but there is no written evidence of the approval of individual transactions.

This individual also receives bank statements and miscellaneous receipts, prepares the deposits, posts the receipts to the receipt ledger and performs bank reconciliations. Board guidelines and policies require the Board Treasurer to review the reconciliation ledger and bank statements for each quarter and to initial the bank statements when the review is completed. The Board Treasurer did not initial the bank statements.

An important aspect of internal control is the segregation of duties. We recognize that many methods of achieving good internal control may not be adaptable to a small staff with a number of employees insufficient to permit division of duties.

Recommendation – The Board should be aware of the limited segregation of duties and should continue to review operating procedures to obtain the maximum internal control possible in the circumstances. In addition, the Board should adopt written guidelines and policies that provide evidence of approval of individual transactions. Also, the Board Treasurer should initial each bank statement after the review is completed as required by existing Board guidelines and policies.

Response – The Treasurer's report is now being attached to the minutes to document the transactions approved by the Board. The Board Treasurer will review all monthly bank statements per quarter and will sign the statements as he reviews them. The Board Treasurer signs all salary checks. Deposits are made directly to the bank. The dollar limit for pre-approval authorization for expenditures is \$500 per month.

Conclusion – Response accepted.

Iowa Sheep and Wool Promotion Board

Schedule of Findings

June 30, 2003

Other Findings Related to Required Statutory Reporting:

- (1) Tax-exempt Filing Status – The Iowa Sheep and Wool Promotion Board is a separate legal entity from the state with its own employer identification number. The Board claims tax-exempt status.

However, when the Board filed Form 1023 (Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code), it did not meet the requirements for tax-exempt status under section 501(c)(3). As a result, the Board was not granted tax-exempt status.

Recommendation – The Board should file the required form and pay the application fee to apply for tax-exempt status under the appropriate provisions of section 501(c).

Response – Form 1024 was filed with the Internal Revenue Service and tax-exempt status under section 501(c)(5) of the Internal Revenue Code was granted.

Conclusion – Response accepted.

- (2) Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

However, the Board did not adopt a new depository resolution at the time that Firststar Bank became US Bank.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories and current banking institutions' names should be adopted by the Board.

Response – The Board adopted US Bank as its official depository with maximum deposit amounts not to exceed \$100,000.

Conclusion – Response accepted.

- (3) Board Meetings – The Iowa Sheep and Wool Promotion Board is required by Section 182.13 of the Code of Iowa to meet at least once every three months and at other times it deems necessary.

The Board did not hold a meeting during the second quarter of the fiscal year.

Recommendation – The Board should meet at least once every quarter as required by Section 182.13 of the Code of Iowa.

Response – The Board will follow Section 182.13 of the Code of Iowa and meet quarterly. If it is not possible to meet on the date set for the meetings, it will be rescheduled or a conference call will be held.

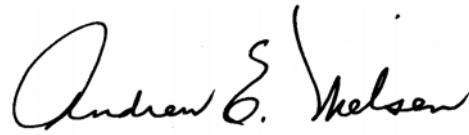
Conclusion – Response accepted.

Iowa Sheep and Wool Promotion Board

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager
Heather B. Allen, CPA, Staff Auditor
Scott P. Boisen, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State