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August 22, 2019

Meghan Nelson
Chief Clerk
State Capitol Building
Des Moines, IA 50319

Dear Ms. Nelson,

Per the Propane Education and Research Council [599] 1.4(101C) I am sending you a copy of the IowaPERC audit and the report detailing the programs and projects conducted by the Council in 2018. Please note 101C.12 – Iowa PERC is not a state agency.

If you have any questions please contact me at 515-564-1260 or dgrooms@iapropane.org.

Sincerely,

Deb Grooms
Executive Director
Iowa Propane Gas Association

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

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

DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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 audit 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note A to the financial statements, Iowa Propane Education and Research Council - State has retrospectively adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The Council opted not to disclose the liquidity and availability and functional expense information for 2017 as permitted under the ASU in the year of adoption. 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 9, 2019, 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 9, 2019

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH RECEIPTS		
Monthly assessments	\$ 456,464	\$ 353,959
Interest	313	228
TOTAL CASH RECEIPTS	<u>456,777</u>	<u>354,187</u>
CASH DISBURSEMENTS		
Directors' and officers' insurance	673	673
Safety director	134,216	138,716
Legal fees	3,890	950
Audit and tax return preparation fees	3,385	4,640
Administrative fee agreement	30,000	30,000
LIHEAP regulator	4,884	5,126
Fire schools	5,333	2,801
Hazmat classes	7,315	4,308
Training materials	3,443	1,189
Water heater rebates	35,098	35,000
Media crisis training	-	9,658
Computer project	5,858	5,309
"Propane Can Do That" toothpick dispensers	4,000	-
Fire service props	1,499	-
Coloring books	7,270	-
Farm Bureau cookout contest	1,198	1,065
LIHEAP - "Out of Gas" brochure	1,205	550
Miscellaneous	2,792	2,339
TOTAL CASH DISBURSEMENTS	<u>252,059</u>	<u>242,324</u>
RECEIPTS OVER DISBURSEMENTS	204,718	111,863
CASH AND CASH EQUIVALENTS - beginning of year	<u>330,560</u>	<u>218,697</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 535,278</u>	<u>\$ 330,560</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.

Basis 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.

New Accounting Pronouncement - In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which is effective for fiscal years beginning after December 15, 2017 for entities other than public business entities. ASU 2016-14 amends the current reporting model for not-for-profit entities and enhances their required disclosures. The major changes include: (a) requiring presentation of an analysis of expenses by function and nature either in the Statement of Cash Receipts and Disbursements, a separate Statement of Functional Expenses, or in the notes and including a disclosure of the summary of allocation methods used to allocate costs, (b) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, and (c) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of not-for-profit financial statements. The Council has retrospectively adopted ASU 2016-14 as of and for the year ended December 31, 2018 and has opted not to disclose the liquidity and availability and functional expense information for 2017 as permitted under the ASU in the year of adoption.

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. Balances in excess of federally insured limits at December 31, 2018 totaled approximately \$289,900. 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, 2018 and 2017. 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 2018 and 2017.

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

NOTE A - SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent Events - Management has evaluated subsequent events through April 9, 2019, the date the financial statements were available to be issued.

NOTE B - LIQUIDITY AND AVAILABILITY

At December 31, 2018, the Council has \$535,278 of financial assets (cash) available within one year of the Statement of Cash Receipts and Disbursements date to meet cash needs for general expenditure. The financial assets noted above are not subject to donor restrictions that make them unavailable for general expenditure within one year of the Statement of Cash Receipts and Disbursements date; however, \$39,399 of Program funds are committed for future projects as described in Note D. The Council has a goal to maintain financial assets on hand to be available as its general expenditures, liabilities and other obligations come due.

NOTE C - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing program and administrative activities have been summarized on a functional basis for the year ended December 31, 2018 in the table below. Accordingly, certain costs have been allocated based on specific program and administrative activities. The Council uses requirements of National PERC to determine program and administrative allocations. Program costs consist of direct expenses attributable to specific projects, and administrative costs consist of indirect expenses allocated to the projects. The Council had no fundraising expenses.

	<u>Program</u>	<u>Administrative</u>	<u>2018 Total</u>
Directors' and officers' insurance	\$ 673	\$ -	\$ 673
Safety director	127,416	6,800	134,216
Legal fees	3,890	-	3,890
Audit and tax preparation fees	-	3,385	3,385
Administrative fee agreement	-	30,000	30,000
LIHEAP regulator	4,840	44	4,884
Fire schools	5,148	185	5,333
Hazmat classes	7,250	65	7,315
Training materials	3,443	-	3,443
Water heater rebates	34,598	500	35,098
Computer project	5,858	-	5,858
"Propane Can Do That"			
toothpick dispensers	4,000	-	4,000
Fire service props	1,499	-	1,499
Coloring books	7,109	161	7,270
Farm Bureau cookout contest	1,187	11	1,198
LIHEAP - "Out of Gas"			
brochure	1,170	35	1,205
Miscellaneous	2,792	-	2,792
	<u>\$ 210,873</u>	<u>\$ 41,186</u>	<u>\$ 252,059</u>

NOTE D - FUTURE PROJECT COMMITMENTS

The Council has committed \$39,399 of Program funds for the safety director project in 2019.

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

NOTE E - 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 2018 and 2017 for administrative services provided to the Program. The Program paid the Association \$139,367 and \$143,686, including \$11,551 and \$15,673 in project management fees, for projects performed by the Association on behalf of the Program during the years ended December 31, 2018 and 2017, 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 STATEMENTS 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 (the Program), a program of Iowa Propane Education and Research Council, which comprise of the statement of cash receipts and disbursements as of December 31, 2018, and the related notes to the financial statements and have issued our report thereon dated April 9, 2019. Our report on the financial statements includes another matter paragraph discussing the Program'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 Program'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.

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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2018-001 that we consider to be a significant deficiency.

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 and questioned costs. The Program'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 Program'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 Program'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 9, 2019

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INTERNAL CONTROL DEFICIENCIES:

Finding 2018-001

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 to misappropriate assets.

Recommendation: We recommend that the board treasurer continue to closely monitor and investigate unexpected operating results and review financial statements, 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.

IOWA PROPANE EDUCATION AND RESEARCH COUNCIL - STATE
STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2018

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS:

Finding 2017-001

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.