

**OFFICE OF AUDITOR OF STATE OF IOWA**  
(A Component Unit of the State of Iowa)

Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)

**OFFICE OF AUDITOR OF STATE OF IOWA**  
(A Component Unit of the State of Iowa)

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**KPMG LLP**  
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## **Independent Auditors' Report**

The Auditor of State of Iowa:

We have audited the accompanying financial statements of the governmental activities and general fund of the Office of Auditor of State of Iowa (a component unit of the State of Iowa) as of and for the years ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Iowa Code, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and Chapter 11 of the Iowa Code 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 audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Office of Auditor of State of Iowa (a component unit of the State of Iowa) are intended to present the financial position and results of operations of only that portion of the general fund and governmental activities of the State of Iowa that are attributable to the transactions of the Office of Auditor of State of Iowa (a component unit of the State of Iowa).

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Office of Auditor of State of Iowa (a component unit of the State of Iowa) as of June 30, 2004, and respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2004 on our consideration of the Office of Auditor of State of Iowa's (a component unit of the State of Iowa) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 14 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 14, 2004

# OFFICE OF AUDITOR OF STATE OF IOWA

(A Component Unit of the State of Iowa)

## Management's Discussion and Analysis

June 30, 2004

Management of the Office of Auditor of State of Iowa (the Office) provides this Management's Discussion and Analysis of the Office's annual financial statements. This narrative overview and analysis of the financial activities of the Office is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Office's financial statements, which follow this section.

### Financial Highlights

The Office's general fund appropriation increased 9.33%, or approximately \$98,000, from 2003 to 2004. Governmental fund program revenue increased 6% from 2003 to 2004.

Office program expenses were 6.6%, or approximately \$500,000, more in 2004 than in 2003. Salary and benefit expense, which represents approximately 89% of the Office's budget, increased approximately 6%, while all other expenses increased 8.5% for 2004. Other expenses for 2004 increased primarily as a result of replacing computers that were out of warranty.

### Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Office's basic financial statements. The Office's basic financial statements consist of a series of financial statements. The governmental fund balance sheet/statement of net assets (deficit) and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities (on pages 7 and 8) provide information from a fund perspective as well as information about the activities of the Office as a whole with a longer-term view of the Office's finances. These basic financial statements also include the notes to financial statements that explain some of the information in the statements and provide more detail.

### Reporting the Office as a Whole

The governmental fund balance sheet/statement of net assets (deficit) and the statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities report information about the Office as a whole and about its activities. These statements include the general fund reported on a modified accrual basis of accounting with adjustments to report all assets, liabilities, and activities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

The statement of net assets (deficit) presents all of the Office's assets and liabilities, with the differences between the two reported as "net assets (deficit)." Over time, increases or decreases in the Office's net assets (deficit) may serve as a useful indicator of whether the financial position of the Office is improving or deteriorating.

The statement of activities presents information showing how the Office's net assets (deficit) changed during the fiscal year. All changes in net assets (deficit) are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

### Financial Analysis of the Office

The Office has deficit total net assets. This indicates the Office's long-term liabilities, primarily compensated absences, exceed the Office's ability to pay those liabilities without additional funding. This is not unusual because the Office function requires a greater percent of personnel costs than capital assets.

**OFFICE OF AUDITOR OF STATE OF IOWA**

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Management's Discussion and Analysis

June 30, 2004

State law does not allow agencies to retain funds at year-end to make future payments of accrued compensated absences at year-end. Instead, those liabilities must be paid from the resources of future years when the accrued compensated absences are paid. The following table presents a summary of the Office's net assets (deficit) at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 2,521,837	2,099,321
Capital assets, net	19,465	9,024
Total assets	<u>2,541,302</u>	<u>2,108,345</u>
Liabilities:		
Current liabilities	1,881,560	1,535,564
Long-term liabilities	830,077	791,480
Total liabilities	<u>2,711,637</u>	<u>2,327,044</u>
Net assets:		
Invested in capital assets	19,465	9,024
Restricted	137,635	100,303
Unrestricted	(327,435)	(328,026)
Total net assets (deficit)	<u>\$ (170,335)</u>	<u>(218,699)</u>

**OFFICE OF AUDITOR OF STATE OF IOWA**

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Management's Discussion and Analysis

June 30, 2004

The largest expense in total for the Office is salaries and benefits, which accounts for 89% of all expenses. The following table presents a summary of the changes in net assets for the years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Revenues:		
Examination fees and expense reimbursements	\$ 6,543,110	6,198,794
Filing fees and miscellaneous	408,289	372,177
Total revenues	<u>6,951,399</u>	<u>6,570,971</u>
Expenses:		
Personal services	7,210,316	6,776,923
Travel	346,555	347,948
Materials and services	499,828	420,605
Other expenses	6,657	17,577
Total expenses	<u>8,063,356</u>	<u>7,563,053</u>
Program revenue under expenses	(1,111,957)	(992,082)
State appropriation, net of reversion	1,147,078	1,049,222
(Decrease) increase in deferred appropriation	13,243	(4,141)
Increase in net assets	48,364	52,999
Net assets (deficit) beginning of year	<u>(218,699)</u>	<u>(271,698)</u>
Net assets (deficit) end of year	<u>\$ (170,335)</u>	<u>(218,699)</u>

**General Fund Budgetary Highlights**

The Office amended the General fund budget on July 1, 2003 to record a 2.5% across the board appropriation reduction from the State of Iowa. In June 2004, the governor restored 10% of that reduction. This resulted in a net reduction in the Office's operating appropriation of \$26,292.

**Capital Assets**

The Office's investment in capital assets is comprised of servers, printers, and copiers, many of which are fully depreciated. The budget for fiscal year 2004 did not include any funds for capital assets.

**Economic Factors and Next Year's Budgets**

The Office's management considered many factors when setting the 2005 fiscal year budget and the fees that are charged for audit services. One of those factors is the economy and the stress it has placed on the State's budget. Some budgeted disbursements are expected to increase. Increased cost of salaries and benefits represent the largest increment and the Office intends to upgrade some computer equipment. These cost increases will be funded from an appropriation increase for the 2005 fiscal year and by reducing costs from prior years in other areas.

**OFFICE OF AUDITOR OF STATE OF IOWA**

(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2004

**Contacting the Office of Auditor of State's Financial Management**

This financial report is designed to present users with a general overview of the Office's finances and to demonstrate the Office's accountability for funds generated and expended. If you have any questions about the report or need additional financial information, please contact the Administration Division, Office of Auditor of State, State Capitol Building, Des Moines, IA 50319.

**OFFICE OF AUDITOR OF STATE OF IOWA**  
(A Component Unit of the State of Iowa)

Governmental Fund Balance Sheet/Statement of Net Assets (Deficit)

June 30, 2004

<b>Assets</b>	<b>General fund</b>	<b>Adjustments (note 5)</b>	<b>Statement of net assets (deficit)</b>
Accounts receivable, net of allowance of \$10,400	\$ 2,019,195		2,019,195
Work in process	—	140,964	140,964
Due from State Treasurer – deferred appropriation	—	361,678	361,678
Capital assets, net of accumulated depreciation of \$93,225	—	19,465	19,465
Total assets	\$ 2,019,195	522,107	2,541,302
<b>Liabilities</b>			
Liabilities:			
Due to State Treasurer – reimbursable advances	\$ 1,502,760	—	1,502,760
Accounts payable	103,483	—	103,483
Accrued salaries	263,500	—	263,500
Accrued travel expenses	11,817	—	11,817
Compensated absences: Due after one year	—	830,077	830,077
Total liabilities	1,881,560	830,077	2,711,637
<b>Fund Balance/Net Assets (Deficit)</b>			
Fund balance – reserved for specific purposes	137,635	(137,635)	—
Total liabilities and fund balance	\$ 2,019,195		
Net assets (deficit):			
Invested in capital assets		19,465	19,465
Restricted by legislation		137,635	137,635
Unrestricted		(327,435)	(327,435)
Total net assets (deficit)		\$ (170,335)	(170,335)

See accompanying notes to financial statements.

**OFFICE OF AUDITOR OF STATE OF IOWA**  
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Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities  
Year ended June 30, 2004

	<b>General fund</b>	<b>Adjustments (note 5)</b>	<b>Statement of activities</b>
<b>Revenues</b>			
Program revenues:			
Examination fees and expense reimbursements	\$ 6,549,450	(6,340)	6,543,110
Filing fees and miscellaneous	408,289	—	408,289
Total revenues	6,957,739	(6,340)	6,951,399
<b>Expenditures/Expenses</b>			
Administration and Regulation:			
Current:			
Personal services	7,171,719	38,597	7,210,316
Travel	346,555	—	346,555
Materials and services:			
Office supplies	39,008	—	39,008
Printing and binding	10,458	—	10,458
Communications	49,180	—	49,180
Professional services	38,340	—	38,340
Outside services and repairs	24,985	—	24,985
Data processing	220,787	—	220,787
Reimbursements	93,283	—	93,283
Office equipment	10,426	—	10,426
Other expenses	13,361	—	13,361
Total materials and services	499,828	—	499,828
Depreciation	—	6,003	6,003
Capital outlay	16,444	(16,444)	—
Debt service:			
Principal	32,285	(32,285)	—
Interest	654	—	654
Total expenditures/expenses	8,067,485	(4,129)	8,063,356
Excess (deficiency) of revenues over expenditures before non-operating revenue	(1,109,746)	(2,211)	(1,111,957)
Non-operating revenue:			
State appropriation	1,147,078	—	1,147,078
Increase in deferred appropriation	—	13,243	13,243
Total non-operating revenue	1,147,078	13,243	1,160,321
Excess of revenues over expenditures	37,332	(37,332)	—
Change in net assets	—	48,364	48,364
Fund balance/net assets (deficit) at beginning of year	100,303	(319,002)	(218,699)
Fund balance/net assets (deficit) at end of year	\$ 137,635	(307,970)	(170,335)

See accompanying notes to financial statements.

**OFFICE OF AUDITOR OF STATE OF IOWA**  
(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2004

**(1) Reporting Entity and Summary of Significant Accounting Policies**

***Reporting Entity***

The Office of Auditor of State of Iowa (the Office) was established under Chapter 11 of the State Code of Iowa and is required by law to make full settlement at least once a year between the State of Iowa (the State) and all State offices and departments and all political subdivisions of the State receiving or expending State funds. The Office is also required to make a complete audit of the books, records, and accounts of every department of State government and may provide audits of grant programs and various governmental subdivisions.

The Office has responsibility for audits of counties, cities and towns, school districts, and county hospitals.

In addition to these audits, the Office is required by law to audit the accounts, records, and documents of the State Treasury daily, and to make quarterly preliminary audits of the State educational institutions, the State Fair Board, and the State Lottery.

***Summary of Significant Accounting Policies***

The accounting and reporting policies of the Office relating to the fund included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Office is considered an integral part of the State reporting unit. The accompanying financial statements present only that portion of the General Fund of the State that is attributable to the transactions of the Office. The following represents the significant accounting and reporting policies and practices used by the Office:

***(a) Office-wide and Fund Financial Statements***

The financial statements on pages 7 and 8 combine both an office-wide perspective (right-hand column on the financial statements) and a governmental fund perspective (left-hand column on the financial statements).

The General Fund comprises the Office's governmental fund type. This fund is the general operating fund of the Office and the difference between assets and liabilities of the fund is referred to as "fund balance."

The office-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the activities of the Office. Governmental activities are those which normally are supported by taxes and intergovernmental revenues.

The statement of activities presents the Office's direct expenses, program revenues, and general revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**OFFICE OF AUDITOR OF STATE OF IOWA**  
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Notes to Financial Statements

June 30, 2004

**(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The office-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Office considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**(c) *Due From/To State Treasurer***

Deferred appropriation reflects the excess of future payments on accruals for compensated absences over the future collections on work in process which may be subject to appropriations in future periods.

Reimbursable advances represent payments made by the Treasurer of State on behalf of the Office that will be repaid upon reimbursement from other governmental units and departments for accounts receivable.

**(d) *Compensated Absences***

For all General Fund employees, vacation and sick leave (compensated absences) are accrued on the basis of the number of hours earned and unused and payment probability in the government-wide financial statements. A liability is reported in the governmental funds only if benefits are material as a result of employee resignations or retirements.

**(2) *Pension and Retirement Benefits***

The Office contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State. IPERS provides retirement and death benefits which are established by State Statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or by calling 515-281-0020.

The annual valuation of liabilities under the plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was \$1,866,898,949 at June 30, 2003, which was the most recent information available. Details of the plan are provided on a system-wide basis. The Office portion is not separately determinable.

Plan members are required to contribute 3.70% of their annual covered salary and the Office is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State Statute.

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June 30, 2004

The Office's contribution to IPERS for the years ended June 30, 2004, June 30, 2003, and June 30, 2002 were \$325,265, \$307,294, and \$304,132, respectively, equal to 100% of the required contributions for each year.

**(3) Long-term Obligations**

Changes in long-term obligations for the year ended June 30, 2004 are summarized as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>	<u>Due within one year</u>
Accrued compensated absences	\$ 791,480	38,597	—	830,077	—
Obligation under capital lease	32,285	—	32,285	—	—
Total	<u>\$ 823,765</u>	<u>38,597</u>	<u>32,285</u>	<u>830,077</u>	<u>—</u>

The Office does not provide the detail for additions and reductions in compensated absences during the year.

**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2004 is as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Equipment	\$ 96,246	16,444	—	112,690
Less accumulated depreciation	(87,222)	(6,003)	—	(93,225)
Capital assets, net	<u>\$ 9,024</u>	<u>10,441</u>	<u>—</u>	<u>19,465</u>

**OFFICE OF AUDITOR OF STATE OF IOWA**  
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Notes to Financial Statements

June 30, 2004

**(5) Reconciliation of Office-wide and Fund Financial Statements**

*Explanation of the Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (Deficit)*

Total fund balances	\$	137,635
<p>Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Deferred appropriation reflects the excesses of future payments on accruals for compensated absences over the future collection of work in process which may be subject to appropriations in future periods.</p>		
Work in process		140,964
Deferred appropriation		361,678
		502,642
<p>When capital assets (equipment) to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in government funds. However, the statement of net assets (deficit) includes those capital assets among the assets of the Office as a whole, net of accumulated depreciation.</p>		
Capital assets		112,690
Accumulated depreciation		(93,225)
		19,465
<p>Long-term liabilities applicable to the Office's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets (deficit).</p>		
Compensated absences		(830,077)
Total net assets (deficit)	\$	(170,335)

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Notes to Financial Statements

June 30, 2004

***Explanation of the Differences between Governmental Fund Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities***

Change in fund balances – governmental fund	\$	37,332
<p>Because some examination fees and expense reimbursements will not be collected for several months after the Office’s fiscal year ends, they are not considered available revenues in governmental funds.</p>		
Net change in work in process		(6,340)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Net change in operating accruals		(38,597)
<p>When capital assets to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures exceeded depreciation expense in the current period.</p>		
Depreciation expense		(6,003)
Capital outlay		16,444
		10,441
<p>Repayment of the capital lease is reported as an expenditure in governmental funds. For the Office as a whole, however, the principal payments reduce the liability in the statement of net assets (deficit) and do not result in an expense in the statement of activities. Changes in deferred appropriation represent future revenue required to fully pay compensated absences earned during the current period, but not funded by the revenue recognized in the governmental funds for the period.</p>		
Capital lease		32,285
Increase in deferred appropriation		13,243
Change in net assets of governmental activities	\$	48,364

**OFFICE OF AUDITOR OF STATE OF IOWA**  
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Budgetary Comparison Schedule - General Fund

Year ended June 30, 2004

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<b>Variance – favorable (unfavorable)</b>
Revenues:				
Examination fees and expense reimbursements	\$ 6,567,942	6,567,942	6,549,450	(18,492)
Filing fees and miscellaneous	<u>373,500</u>	<u>373,500</u>	<u>408,289</u>	<u>34,789</u>
Total revenues	<u>6,941,442</u>	<u>6,941,442</u>	<u>6,957,739</u>	<u>16,297</u>
Expenditures:				
Personal services	7,221,028	7,221,028	7,171,719	49,309
Travel	384,093	384,093	346,555	37,538
Office supplies	41,600	41,600	39,008	2,592
Printing and binding	11,500	11,500	10,458	1,042
Communications	55,000	55,000	49,180	5,820
Professional services	37,125	37,125	38,340	(1,215)
Outside services and repairs	17,581	22,581	24,545	(1,964)
Data processing	252,900	223,687	220,787	2,900
Office equipment	19,808	17,729	10,426	7,303
Reimbursements	87,160	87,160	93,283	(6,123)
Other expenses	16,009	16,009	13,801	2,208
Capital outlay			16,444	(16,444)
Debt service:				
Principal	33,000	33,000	32,285	715
Interest	<u>700</u>	<u>700</u>	<u>654</u>	<u>46</u>
Total expenditures	<u>8,177,504</u>	<u>8,151,212</u>	<u>8,067,485</u>	<u>83,727</u>
Excess (deficiency) of program revenues over expenditures	(1,236,062)	(1,209,770)	(1,109,746)	100,024
State appropriation	1,173,968	1,147,676	1,147,078	(598)
Fund balance at beginning of year	<u>100,303</u>	<u>100,303</u>	<u>100,303</u>	<u>—</u>
Fund balance at end of year	<u>\$ 38,209</u>	<u>38,209</u>	<u>137,635</u>	<u>99,426</u>

See accompanying independent auditors' report.

**OFFICE OF AUDITOR OF STATE OF IOWA**

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Note to Budgetary Comparison Schedule

June 30, 2004

**(1) Budgetary and Appropriation Data**

Budgetary control is exercised over the Office's General Fund through the budgetary process prescribed in Chapter 8 of the State Code of Iowa. Each department of the State prepares estimates of expenditures and income for the fiscal year. These estimates are transmitted to the Department of Management for its review; it then submits a tentative budget to the Governor. After holding public hearings, the Governor prepares and transmits the budget to the State Legislature. The State Legislature appropriates funds to the various departments based on the budget as adjusted through the appropriation process. No obligation can be incurred subsequent to June 30 for which an appropriation is made. On August 31, following the close of each fiscal year, all unencumbered or unobligated balances of appropriations revert to the State Treasury and to the credit of the fund from which the appropriations were made.

The General Fund budget is prepared on a basis consistent with GAAP. The actual results of operations are presented in the statement of revenues, expenditures, and changes in fund balance – budget and actual – general fund in accordance with the appropriated budget basis to provide a meaningful comparison of actual results with the budget.



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**Independent Auditors' 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***

The Auditor of State of Iowa:

We have audited the financial statements of the Office of Auditor of State of Iowa (a component unit of the State of Iowa) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Office of Auditor of State of Iowa's (a component unit of the State of Iowa) 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office of Auditor of State of Iowa's (a component unit of the State of Iowa) financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters, 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 and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of the Office of Auditor of State of Iowa (a component unit of the State of Iowa) and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 14, 2004