



OFFICE OF AUDITOR OF STATE OF IOWA

Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

OFFICE OF AUDITOR OF STATE OF IOWA

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Governmental Fund Balance Sheet/Statement of Net Assets (Deficit)	7
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/ Statement of Activities	8
Notes to Financial Statements	9
Budgetary Comparison Schedule – General Fund	15
Note to Budgetary Comparison Schedule	16
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 <i>Government Auditing Standards</i>	17



KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report

The Auditor of State of Iowa:

We have audited the accompanying financial statements of the governmental activities and major fund of the Office of Auditor of State of Iowa (the Office) as of and for the year ended June 30, 2006, which collectively comprise the Office's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Office's 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, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 are intended to present the financial position and changes in financial position 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. They do not purport to, and do not present fairly the financial position of the State of Iowa as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Office of Auditor of State of Iowa as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2008, on our consideration of the Office of Auditor of State of Iowa's internal control over financial reporting and 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 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 15 through 16 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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

January 28, 2008

OFFICE OF AUDITOR OF STATE OF IOWA

Management's Discussion and Analysis

June 30, 2006

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, 2006. We encourage readers to consider this information in conjunction with the Office's financial statements and footnotes, which follow this section.

Financial Highlights

The Office's general fund appropriation increased 3.1%, or approximately \$36,700, from the prior year. Governmental fund program revenues increased 6% from 2005 to 2006.

Office program expenses were 7.5%, or approximately \$585,700, more in 2006 than in 2005. Personal services, which represent approximately 90% of the Office's budget, increased 6.5%, while all other expenses increased 16%.

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

Management's Discussion and Analysis

June 30, 2006

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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 2,411,883	2,307,190
Capital assets	8,592	13,811
Total assets	<u>\$ 2,420,475</u>	<u>2,321,001</u>
Liabilities:		
Current liabilities	\$ 1,767,295	1,683,650
Long-term liabilities	841,999	758,426
Total liabilities	<u>2,609,294</u>	<u>2,442,076</u>
Net assets (deficit):		
Invested in capital assets	8,592	13,811
Restricted	135,368	156,637
Unrestricted	<u>(332,779)</u>	<u>(291,523)</u>
Total net assets (deficit)	<u>\$ (188,819)</u>	<u>(121,075)</u>

OFFICE OF AUDITOR OF STATE OF IOWA

Management's Discussion and Analysis

June 30, 2006

The largest expense in total for the Office is salaries and benefits, which accounts for 90% of all expenses in both 2006 and 2005. The following table presents a summary of the changes in net assets for the years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Revenues:		
Examination fees and expense reimbursements	\$ 6,668,894	6,316,876
Filing fees and miscellaneous	454,263	396,419
Total revenues	<u>7,123,157</u>	<u>6,713,295</u>
Expenses:		
Personal services	7,547,057	7,083,393
Travel	400,264	359,973
Materials and services	477,350	395,135
Other expenses	5,219	5,654
Total expenses	<u>8,429,890</u>	<u>7,844,155</u>
Program revenue under expenses	(1,306,733)	(1,130,860)
State appropriation, net of reversion	1,205,259	1,168,566
Increase in deferred appropriation	33,730	11,554
Increase (decrease) in net assets	(67,744)	49,260
Net assets (deficit) beginning of year	<u>(121,075)</u>	<u>(170,335)</u>
Net assets (deficit) end of year	<u>\$ (188,819)</u>	<u>(121,075)</u>

OFFICE OF AUDITOR OF STATE OF IOWA

Management's Discussion and Analysis

June 30, 2006

General Fund Budgetary Highlights

The Office reverted \$11,448 and carried forward \$5,724 of that amount into fiscal year 2007 for additional information technology equipment or training expenses.

Capital Assets

The Office's investment in capital assets is comprised of servers, printers, and copiers, many of which are fully depreciated and should be replaced. The budget for fiscal year 2006 included minimal funds for capital assets.

Economic Factors and Next Year's Budget

The Office's management considered many factors when setting the 2007 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 and increases in billings for audit services for the 2007 fiscal year.

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

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

June 30, 2006

Assets	General Fund	Adjustments (note 5)	Statement of Net Assets (deficit)
	<u> </u>	<u> </u>	<u> </u>
Accounts receivable	\$ 1,902,663	—	1,902,663
Work in process	—	102,258	102,258
Due from State Treasurer – deferred appropriation	—	406,962	406,962
Capital assets, net of accumulated depreciation of \$82,386 (note 4)	—	8,592	8,592
Total assets	<u>\$ 1,902,663</u>	<u>517,812</u>	<u>2,420,475</u>
Liabilities			
Due to State Treasurer – reimbursable advances	\$ 1,329,766	—	1,329,766
Accounts payable	51,312	—	51,312
Accrued salaries	366,840	—	366,840
Accrued travel expenses	19,377	—	19,377
Compensated absences (note 3): Due after one year	—	841,999	841,999
Total liabilities	<u>1,767,295</u>	<u>841,999</u>	<u>2,609,294</u>
Fund Balance/Net Assets (Deficit)			
Fund balance – reserved for specific purposes	<u>135,368</u>	<u>(135,368)</u>	<u>—</u>
Total liabilities and fund balance	<u>\$ 1,902,663</u>		
Net assets (deficit):			
Invested in capital assets, net of related debt		8,592	8,592
Restricted for specific purposes		135,368	135,368
Unrestricted		<u>(332,779)</u>	<u>(332,779)</u>
Total net assets (deficit)		<u>\$ (188,819)</u>	<u>(188,819)</u>

See accompanying notes to financial statements.

OFFICE OF AUDITOR OF STATE OF IOWA

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

Year ended June 30, 2006

	<u>General Fund</u>	<u>Adjustments (note 5)</u>	<u>Statement of Activities</u>
Revenues			
Program revenues:			
Examination fees and expense reimbursements	\$ 6,660,307	8,587	6,668,894
Filing fees and miscellaneous	<u>454,263</u>	<u>—</u>	<u>454,263</u>
Total revenues	<u>7,114,570</u>	<u>8,587</u>	<u>7,123,157</u>
Expenditures/Expenses			
Administration and Regulation:			
Current:			
Personal services	<u>7,463,484</u>	<u>83,573</u>	<u>7,547,057</u>
Travel	<u>400,264</u>	<u>—</u>	<u>400,264</u>
Office supplies	50,415	—	50,415
Printing and binding	14,380	—	14,380
Communications	44,319	—	44,319
Professional services	38,275	—	38,275
Outside services and repairs	37,974	—	37,974
Data processing	127,413	—	127,413
Reimbursements	145,730	—	145,730
Office equipment	1,153	—	1,153
Other expenses	<u>17,691</u>	<u>—</u>	<u>17,691</u>
Total materials and services	<u>477,350</u>	<u>—</u>	<u>477,350</u>
Depreciation	<u>—</u>	<u>5,219</u>	<u>5,219</u>
Total expenditures/expenses	<u>8,341,098</u>	<u>88,792</u>	<u>8,429,890</u>
Deficiency of revenues under expenditures before nonoperating revenue	<u>(1,226,528)</u>	<u>(80,205)</u>	<u>(1,306,733)</u>
Nonoperating revenue:			
State appropriation	1,205,259	—	1,205,259
Increase in deferred appropriation	<u>—</u>	<u>33,730</u>	<u>33,730</u>
Total nonoperating revenue	<u>1,205,259</u>	<u>33,730</u>	<u>1,238,989</u>
Excess (deficiency) of expenditures over (under) revenues	(21,269)	21,269	—
Change in net assets	—	(67,744)	(67,744)
Fund balance/net assets (deficit) beginning of year	<u>156,637</u>	<u>(277,712)</u>	<u>(121,075)</u>
Fund balance/net assets (deficit) end of year	<u>\$ 135,368</u>	<u>(324,187)</u>	<u>(188,819)</u>

See accompanying notes to financial statements.

OFFICE OF AUDITOR OF STATE OF IOWA

Notes to Financial Statements

June 30, 2006

(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 U.S. generally accepted accounting principles (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 more 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 that 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

Notes to Financial Statements

June 30, 2006

(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) *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.

(d) *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.

(e) *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

OFFICE OF AUDITOR OF STATE OF IOWA

Notes to Financial Statements

June 30, 2006

financial statements. A liability is reported in the governmental funds only if benefits are material as a result of employee resignations or retirements.

(f) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

(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 \$2,288,608,596 at June 30, 2006. 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. The Office's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$330,344, \$315,926, and \$325,265, 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, 2006 are summarized as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Due within</u> <u>one year</u>
Accrued compensated absences	\$ 758,426	83,573	—	841,999	—

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

OFFICE OF AUDITOR OF STATE OF IOWA

Notes to Financial Statements

June 30, 2006

(4) Capital Assets

Capital asset activity for the year ended June 30, 2006 is as follows:

	Balance beginning of year	Additions	Deletions	Balance end of year
Equipment	\$ 90,978	—	—	90,978
Less accumulated depreciation	77,167	5,219	—	82,386
Capital assets, net	<u>\$ 13,811</u>	<u>5,219</u>	<u>—</u>	<u>8,592</u>

OFFICE OF AUDITOR OF STATE OF IOWA

Notes to Financial Statements

June 30, 2006

(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 balance of the Office of \$135,368 differs from the “net assets (deficit)” of governmental activities of (\$188,819) reported in the statement of net assets (deficit).

This difference primarily results from the long-term economic focus of the statement of net assets (deficit) versus the current financial resources of the governmental fund balance sheet.

\$ 135,368

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.

Work in process	102,258
Deferred appropriation	<u>406,962</u>
	<u>509,220</u>

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.

Capital assets	90,978
Accumulated depreciation	<u>(82,386)</u>
	<u>8,592</u>

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).

Compensated absences	<u>(841,999)</u>
Total net assets (deficit)	\$ <u><u>(188,819)</u></u>

OFFICE OF AUDITOR OF STATE OF IOWA

Notes to Financial Statements

June 30, 2006

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

The net change in fund balance of (\$21,269) in the governmental funds differs from the change in net assets for governmental activities of (\$67,744) in the statement of activities. The difference results primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

Net change in fund balances – governmental funds	\$ <u>(21,269)</u>
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.	
Net change in work in process	<u>8,587</u>
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.	
Net change in operating accruals	<u>(83,573)</u>
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 depreciation expense exceeded capital expenditures in the current period.	
Depreciation expense	(5,219)
Capital outlay	<u>—</u>
	<u>(5,219)</u>
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.	
Increase in deferred appropriation	<u>33,730</u>
Change in net assets of governmental activities	\$ <u><u>(67,744)</u></u>

OFFICE OF AUDITOR OF STATE OF IOWA

Budgetary Comparison Schedule – General Fund

Year ended June 30, 2006

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance – favorable (unfavorable)</u>
Program revenues:				
Examination fees and expense reimbursements	\$ 7,099,498	7,011,991	6,660,307	(351,684)
Filing fees and miscellaneous	400,500	405,500	454,263	48,763
Total revenues	<u>7,499,998</u>	<u>7,417,491</u>	<u>7,114,570</u>	<u>(302,921)</u>
Expenditures:				
Personal services	7,811,085	7,685,797	7,463,484	222,313
Travel	385,000	395,000	400,264	(5,264)
Office supplies	37,000	37,000	50,415	(13,415)
Printing and binding	10,000	10,000	14,380	(4,380)
Communications	48,199	48,001	44,319	3,682
Professional services	52,225	52,225	38,275	13,950
Outside services and repairs	54,900	63,039	37,974	25,065
Data processing	173,300	192,297	127,413	64,884
Office equipment	9,300	9,300	145,730	(136,430)
Reimbursements	165,800	165,800	1,153	164,647
Other expenses	14,216	15,111	17,691	(2,580)
Total expenditures	<u>8,761,025</u>	<u>8,673,570</u>	<u>8,341,098</u>	<u>332,472</u>
Excess (deficiency) of program revenues over expenditures	(1,261,027)	(1,256,079)	(1,226,528)	29,551
State appropriation	1,207,341	1,207,341	1,205,259	(2,082)
Fund balance at beginning of year	156,637	156,637	156,637	—
Fund balance at end of year	\$ <u>102,951</u>	<u>107,899</u>	<u>135,368</u>	<u>27,469</u>

See accompanying independent auditors' report.

OFFICE OF AUDITOR OF STATE OF IOWA

Note to Budgetary Comparison Schedule

June 30, 2006

(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.



KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

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 governmental activities and major fund of the Office of Auditor of State of Iowa as of and for the year ended June 30, 2006, and have issued our report thereon dated January 28, 2008. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Office of Auditor of State of Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 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 caused by error or fraud 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 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*.

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

KPMG LLP

January 28, 2008