

# Office of Auditor of State of Iowa

Financial Report

June 30, 2009

**McGladrey & Pullen**

Certified Public Accountants

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

The Auditor of State of Iowa  
Des Moines, Iowa

We have audited the accompanying basic financial statements of the governmental activities and the General Fund of the Office of Auditor of State of Iowa, as of and for the year ended June 30, 2009, which collectively comprise the Office of Auditor of State of Iowa's basic financial statements as listed in the table of contents. These basic 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 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 to the basic financial statements, the basic 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, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic 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, 2009, and the 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 our report dated November 18, 2009, 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 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 on pages 3 through 6 and Budgetary Comparison Schedule on pages 17 and 18 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.

*McGladrey & Pullen, LLP*

Des Moines, Iowa  
November 18, 2009

## **Office of Auditor of State of Iowa**

### **Management's Discussion and Analysis Year Ended June 30, 2009**

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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, 2009. 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 State appropriation decreased 1.3 percent, or approximately \$15,600, from the prior year. Governmental activities program revenues increased 12.3 percent, or approximately \$914,800, from 2008 to 2009.

Office program expenses increased 2 percent, or approximately \$183,200, from 2008 to 2009. Personal services, which represent approximately 90 percent of the Office's budget, increased less than one percent, or approximately \$37,200, while all other expenses increased 18.2 percent, or approximately \$146,100.

#### **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 (Deficit)/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 (Deficit)/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.

## Office of Auditor of State of Iowa

### Management's Discussion and Analysis Year Ended June 30, 2009

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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.

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) as of June 30, 2009 and 2008:

	2009	2008
Assets:		
Current assets	\$ 2,829,184	\$ 2,789,826
Capital assets	17,942	16,264
<b>Total assets</b>	<u>2,847,126</u>	<u>2,806,090</u>
Liabilities:		
Current liabilities	2,162,829	2,364,782
Long-term liabilities	987,950	878,997
<b>Total liabilities</b>	<u>3,150,779</u>	<u>3,243,779</u>
Net assets (deficit):		
Invested in capital assets	17,942	16,264
Restricted	267,895	126,111
Unrestricted	(589,490)	(580,064)
<b>Total net assets (deficit)</b>	<u>\$ (303,653)</u>	<u>\$ (437,689)</u>

## Office of Auditor of State of Iowa

### Management's Discussion and Analysis Year Ended June 30, 2009

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The largest expense in total for the Office is salaries and benefits, which accounts for 90 percent and 91 percent, respectively, of all expenses in 2009 and 2008. The following table presents a summary of the changes in net assets (deficit) for the years ended June 30, 2009 and 2008:

	2009	2008
Revenues:		
Program revenues:		
Examination fees and expense reimbursements	\$ 7,865,520	\$ 6,913,410
Filing fees and miscellaneous	482,705	520,041
General revenues:		
State appropriation	1,234,346	1,249,928
Increase in State deferred appropriation-future periods	-	450,462
<b>Total revenues</b>	<u>9,582,571</u>	<u>9,133,841</u>
Expenses:		
Personal services	8,501,675	8,464,517
Travel	390,522	399,820
Materials and services	544,274	392,249
Decrease in State deferred appropriation - future periods	6,510	-
Depreciation	5,554	8,712
<b>Total expenses</b>	<u>9,448,535</u>	<u>9,265,298</u>
<b>Increase (decrease) in net assets</b>	134,036	(131,457)
Net assets (deficit), beginning of year	(437,689)	(306,232)
Net assets (deficit), end of year	<u>\$ (303,653)</u>	<u>\$ (437,689)</u>

### General Fund Budgetary Highlights

Over the course of the year, the Office adjusted its General fund budget three times. The first adjustment was made in October 2008 to record \$655 of funds carried forward from fiscal year 2008 and budget for expenditure of these funds in accordance with Chapter 8.62 of the Code of Iowa. The second adjustment was made in December 2008 to record a 1.5 percent across the board appropriation reduction from the State of Iowa, which resulted in a reduction in the Office's operating appropriation of \$19,189. The third adjustment was made in March 2009 to record another appropriation reduction from the State of Iowa, which resulted in a reduction of the Office's operating appropriation of \$25,754. The appropriation reductions experienced in fiscal year 2009 were not restored and, therefore, impact the fiscal year 2010 budget.

The Office's total actual revenues were \$147,009 more than budgeted revenues, a variance of 2 percent. Total actual expenditures were \$5,225 more than budgeted, a variance of less than one percent. The Office reverted \$17,956 in accordance with Chapter 8 of the Code of Iowa.

A schedule showing the original and final budget amounts compared to the Office's actual financial activity is found on page 17 of this report.

## **Office of Auditor of State of Iowa**

### **Management's Discussion and Analysis Year Ended June 30, 2009**

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#### **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 2009 included minimal funds for capital assets.

#### **Economic Factors and Next Year's Budget**

The Office's management considered many factors when setting the 2010 fiscal year budget and the fees charged for audit services. One of those factors is the economy and the stress it has placed on the State's budget. Because of the State's current economic condition, the Office was appropriated 27 percent less in State funding for fiscal year 2010 than received in fiscal year 2009. That decrease, combined with the two appropriation reductions experienced during fiscal year 2009, resulted in the Office being appropriated 29 percent, or approximately \$373,000, less than initially appropriated at the start of fiscal year 2009.

In addition, the Legislature capped the Office's billing rates and total revenues from auditing non-federal funds for 2010 to no more than billed in fiscal year 2009. As a result, because some budgeted disbursements are expected to increase (e.g. those not within the control of the Office, such as health insurance premiums), Office management needed to lower, or at least minimize increases in other operating costs. Since salary and benefit costs comprise the majority of the Office's operating expenditures, Office management decided not to grant promotions or merit increases to eligible staff during fiscal year 2010.

On October 8, 2009, a 10 percent across the board appropriation reduction for fiscal year 2010 was ordered as a result of continued declines in State revenue, further reducing the Office's appropriation for fiscal year 2010 approximately \$91,000. Office management is currently considering how to best implement available alternatives to address this most recent reduction in resources. Regardless of the alternatives implemented, the amount of audit work performed and the amount of oversight and other services provided during the year will be negatively impacted.

#### **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, Iowa 50319.

Office of Auditor of State of Iowa

Governmental Fund Balance Sheet/Statement of Net Assets (Deficit)  
June 30, 2009

	Governmental Fund Balance Sheet	Adjustments	Statement of Net Assets (Deficit)
<b>Assets:</b>			
Accounts receivable	\$ 1,827,055	\$ -	\$ 1,827,055
Work in process	194,748	-	194,748
Due from State Treasurer - deferred appropriation	-	807,381	807,381
Capital assets, net of accumulated depreciation of \$26,051	-	17,942	17,942
<b>Total assets</b>	<b>\$ 2,021,803</b>	<b>825,323</b>	<b>2,847,126</b>
<b>Liabilities:</b>			
Due to State Treasurer - reimbursable advances	\$ 1,343,967	-	1,343,967
Accounts payable	120,631	-	120,631
Accrued salaries	84,177	-	84,177
Accrued travel expenses	10,385	-	10,385
Deferred revenue	194,748	(194,748)	-
Compensated absences and OPEB:			
Due within one year	-	603,669	603,669
Due after one year	-	987,950	987,950
<b>Total liabilities</b>	<b>1,753,908</b>	<b>1,396,871</b>	<b>3,150,779</b>
<b>Fund Balance/Net Assets (Deficit):</b>			
Fund balance - reserved for specific purposes	267,895	(267,895)	-
<b>Total liabilities and fund balance</b>	<b>\$ 2,021,803</b>		
<b>Net assets (deficit):</b>			
Invested in capital assets		17,942	17,942
Restricted for specific purposes		267,895	267,895
Unrestricted		(589,490)	(589,490)
<b>Total net assets (deficit)</b>		<b>\$ (303,653)</b>	<b>\$ (303,653)</b>

See Notes to Financial Statements.

Office of Auditor of State of Iowa

Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance (Deficit)/Statement of Activities  
Year ended June 30, 2009

	Statement of Revenues, Expenditures and Changes in Fund Balance (Deficit)	Adjustments	Statement of Activities
<b>Revenues:</b>			
Program revenues:			
Examination fees and expense reimbursements	\$ 7,761,616	\$ 103,904	\$ 7,865,520
Filing fees and miscellaneous	482,705	-	482,705
<b>Total program revenues</b>	<b>8,244,321</b>	<b>103,904</b>	<b>8,348,225</b>
General revenues:			
State appropriation	1,234,346	-	1,234,346
Decrease in State deferred appropriation - future periods	-	(6,510)	(6,510)
<b>Total general revenues</b>	<b>1,234,346</b>	<b>(6,510)</b>	<b>1,227,836</b>
<b>Total revenues</b>	<b>9,478,667</b>	<b>97,394</b>	<b>9,576,061</b>
<b>Expenditures/expenses:</b>			
Administration and regulation:			
Personal services	8,394,855	106,820	8,501,675
Travel	390,522	-	390,522
Office supplies	46,286	-	46,286
Printing and binding	7,550	-	7,550
Communications	35,978	-	35,978
Professional services	59,460	-	59,460
Outside services and repairs	21,583	-	21,583
Data processing	204,395	(7,232)	197,163
Reimbursements	132,209	-	132,209
Office equipment	12,003	-	12,003
Other expenses	32,042	-	32,042
<b>Total administration and regulation</b>	<b>9,336,883</b>	<b>99,588</b>	<b>9,436,471</b>
Depreciation	-	5,554	5,554
<b>Total expenditures/expenses</b>	<b>9,336,883</b>	<b>105,142</b>	<b>9,442,025</b>
<b>Excess (deficiency) of revenues over (under) expenditures/expenses</b>	<b>141,784</b>	<b>(141,784)</b>	<b>-</b>
Increase in net assets	-	134,036	134,036
Fund balance/net assets (deficit), beginning of year	126,111	(563,800)	(437,689)
Fund balance/net assets (deficit), end of year	<b>\$ 267,895</b>	<b>\$ (571,548)</b>	<b>\$ (303,653)</b>

See Notes to Financial Statements.

## Office of Auditor of State of Iowa

### Notes to Financial Statements

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#### **Note 1. Reporting Entity, Summary of Significant Accounting Policies and Measurement Focus and Basis of Accounting**

##### **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 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.

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, 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 normally 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

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#### Note 1. Reporting Entity, Summary of Significant Accounting Policies and Measurement Focus and Basis of Accounting (Continued)

##### Measurement Focus and Basis of Accounting:

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 75 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

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.

Capital Assets: Capital assets for the Office consist of equipment. Capital assets are defined by the Office as assets with an initial individual cost of more than \$5,000 and an estimated useful life of two or more years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives for equipment is five years.

Deferred Revenue: Deferred revenue represents the amount of work in process that has been recognized in the governmental fund financial statements but the related revenue has not been recognized since the work in process is not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

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

## Office of Auditor of State of Iowa

### Notes to Financial Statements

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#### **Note 1. Reporting Entity, Summary of Significant Accounting Policies and Measurement Focus and Basis of Accounting (Continued)**

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.

Fund Equity: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted through enabling legislation totaled \$267,895 as of June 30, 2009 and consist of filing fees collected and maintained for use in the performance of reaudits and workpaper reviews.

The Office first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

#### **Note 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.

Plan members are required to contribute 3.90 percent of their annual covered salary and the Office is required to contribute 6.05 percent of annual covered salary. Contribution requirements are established by state statute. The Office's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$398,500, \$359,257 and \$326,899, respectively, equal to 100 percent of the required contribution for each year.

Office of Auditor of State of Iowa

Notes to Financial Statements

**Note 3. Compensated Absences and Other Postemployment Retirement Benefits (OPEB)**

Changes in compensated absences and other postemployment retirement benefit obligations for the year ended June 30, 2009 are summarized as follows:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due within one year
Compensated absences	\$ 1,422,702	\$ 608,649	\$ 579,472	\$ 1,451,879	\$ 603,669
Net OPEB liability	62,097	77,643	-	139,740	-
<b>Total</b>	<b>\$ 1,484,799</b>	<b>\$ 686,292</b>	<b>\$ 579,472</b>	<b>\$ 1,591,619</b>	<b>\$ 603,669</b>

**Sick Leave Insurance Program (SLIP):** Included in the accrued compensated absences liability for the year ended June 30, 2009 is the cost of a voluntary termination benefit program entitled Sick Leave Insurance Program (SLIP). The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the State's group health insurance plan after their retirement.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee's current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee's retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

<b>If the sick leave balance is:</b>	<b>The conversion rate is:</b>
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee's SLIP account. Each month, the Office will pay 100 percent of the employer's share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The Office will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, until the employee is eligible for Medicare, the employee waives the benefit or until the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2009, six employees have retired and received benefits of \$53,128 under the SLIP program. The remaining liability as of June 30, 2009 is \$603,762.

## Office of Auditor of State of Iowa

### Notes to Financial Statements

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#### Note 3. Compensated Absences and Other Postemployment Retirement Benefits (OPEB) (Continued)

**Other Postemployment Retirement Benefits:** As a part of the State of Iowa, the Office of Auditor of State participates in the State of Iowa postretirement medical plan (OPEB). The OPEB Plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The actuarial valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method as of the July 1, 2008 actuarial valuation. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$293,000,000 for the State of Iowa as of June 30, 2009. The Office's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2009. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Office recognized a net OPEB liability of \$139,740 for other postemployment benefits which represents the Office's portion of the State's net OPEB obligation. The Office's portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the Office compared to full time equivalent employees of the State of Iowa.

#### Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2009 is as follows:

	Balance beginning of year	Additions	Deletions	Balance end of year
Equipment	\$ 42,398	\$ 7,232	\$ 5,637	\$ 43,993
Less accumulated depreciation	26,134	5,554	5,637	26,051
Capital assets, net	<u>\$ 16,264</u>	<u>\$ 1,678</u>	<u>\$ -</u>	<u>\$ 17,942</u>

Office of Auditor of State of Iowa

Notes to Financial Statements

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**Note 5. Reconciliation of Office-wide and Fund Financial Statements**

Explanations of the differences between the Governmental Fund Balance Sheet and the Statement of Net Assets (Deficit) are as follows:

Total fund balance of the Office of \$267,895 differs from the "net assets (deficit)" of governmental activities of (\$303,653) 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.

\$ 267,895

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 excess 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.

Deferred appropriation	807,381
Deferred revenue	<u>194,748</u>
	<u>1,002,129</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 the governmental 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	43,993
Accumulated depreciation	<u>(26,051)</u>
	<u>17,942</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 and other postemployment benefits	<u>(1,591,619)</u>
<b>Total net assets (deficit)</b>	<u><u>\$ (303,653)</u></u>

Office of Auditor of State of Iowa

Notes to Financial Statements

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

Explanations of the differences between Governmental Fund Revenues, Expenditures and Changes in Fund Balance (Deficit) and the Statement of Activities are as follows:

The net change in fund balance of \$141,784 in the governmental funds differs from the change in net assets for governmental activities of \$134,036 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>\$ 141,784</u>
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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>103,904</u>
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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>(106,820)</u>
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When capital assets to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in the governmental funds. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and are reported as depreciation expense. This is the amount by which capital expenditures exceeded depreciation expense in the current year.

Depreciation expense	(5,554)
Capital outlay	<u>7,232</u>
	<u>1,678</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 year.

Decrease in deferred appropriation	<u>(6,510)</u>
<b>Change in net assets of governmental activities</b>	<u><u>\$ 134,036</u></u>

**Note 6. Risk Management**

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers' compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Chapter 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

Office of Auditor of State of Iowa

Required Supplementary Information  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance - favorable (unfavorable)
Program revenues:				
Examination fees and expense reimbursements	\$ 7,950,000	\$ 7,640,231	\$ 7,761,616	\$ 121,385
Filing fees and miscellaneous	420,000	457,081	482,705	25,624
<b>Total revenues</b>	<b>8,370,000</b>	<b>8,097,312</b>	<b>8,244,321</b>	<b>147,009</b>
Expenditures:				
Personal services	8,635,305	8,350,117	8,394,855	(44,738)
Travel	470,000	430,000	390,522	39,478
Office supplies	38,000	40,000	46,286	(6,286)
Printing and binding	8,000	8,000	7,550	450
Communications	42,000	38,000	35,978	2,022
Professional services	83,000	65,500	59,460	6,040
Outside services and repairs	35,000	24,000	21,583	2,417
Data processing	175,000	213,712	204,395	9,317
Reimbursements	144,329	136,829	132,209	4,620
Office equipment	5,000	12,000	12,003	(3)
Other expenses	13,000	13,500	32,042	(18,542)
<b>Total expenditures</b>	<b>9,648,634</b>	<b>9,331,658</b>	<b>9,336,883</b>	<b>(5,225)</b>
<b>Excess (deficiency) of program revenues over (under) expenditures</b>	<b>(1,278,634)</b>	<b>(1,234,346)</b>	<b>(1,092,562)</b>	<b>141,784</b>
State appropriation	1,278,634	1,234,346	1,234,346	-
Fund balance, beginning of year	-	-	126,111	126,111
Fund balance, end of year	\$ -	\$ -	\$ 267,895	\$ 267,895

See Note to Required Supplementary Information.

## Office of Auditor of State of Iowa

### Note to Required Supplementary Information

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#### Note 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 before submitting 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 Budgetary Comparison Schedule – General Fund in accordance with the appropriated budget basis to provide a meaningful comparison of actual results with the budget.

# McGladrey & Pullen

Certified Public Accountants

## **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***

The Auditor of State of Iowa  
Des Moines, Iowa

We have audited the basic financial statements of the governmental activities and the General Fund of the Office of Auditor of State of Iowa as of and for the year ended June 30, 2009, which collectively comprise the Office of Auditor of State of Iowa's basic financial statements and have issued our report thereon dated November 18, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office of Auditor of State of Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of Auditor of State of Iowa's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## 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 basic 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 those specified parties.

*McGladrey & Pullen, LLP*

Des Moines, Iowa  
November 18, 2009