

Office of Auditor of State of Iowa

Financial Report
June 30, 2011

Contents

Independent Auditor's Report	1 – 2
Management's Discussion and Analysis	3 – 6
Financial Statements	
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 – 17
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	18
Note to Required Supplementary Information	19



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 (the Office), as of and for the year ended June 30, 2011, 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, 2011, 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, 2011, 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.

As explained in Note 7 to the basic financial statements, the Office adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions*, which changed its method of accounting for governmental funds' fund balance classifications.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2012, 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 18 and 19 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
April 9, 2012

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2011

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, 2011. 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 increased 11 percent, or approximately \$89,000, from the prior year. Governmental activities program revenues decreased 4.3 percent, or approximately \$353,000 from fiscal year 2010 to fiscal year 2011.

Office program expenses decreased 4.5 percent, or approximately \$425,000, from fiscal year 2010 to fiscal year 2011. Personal services, which represent approximately 91 percent of the Office's budget, decreased 5 percent, or approximately \$434,000, while all other expenses increased 1.1 percent, or approximately \$9,000.

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 which 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 difference 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, 2011

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 years.

Financial Analysis of the Office

The Office has deficit total net assets. This indicates the Office's long-term liabilities, primarily compensated absences and other postemployment benefits (OPEB), 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 or OPEB at year-end. Instead, those liabilities must be paid from the resources of future years when the accrued compensated absences or OPEB are paid. The following table presents a summary of the Office's net assets (deficit) as of June 30, 2011 and 2010:

	2011	2010
Assets:		
Current assets	\$ 3,158,227	\$ 3,029,027
Capital assets	39,231	51,432
Total assets	<u>3,197,458</u>	<u>3,080,459</u>
Liabilities:		
Current liabilities	2,216,644	2,188,413
Long-term liabilities	1,495,017	1,308,124
Total liabilities	<u>3,711,661</u>	<u>3,496,537</u>
Net assets (deficit):		
Invested in capital assets	39,231	51,432
Restricted	262,885	287,816
Unrestricted	(816,319)	(755,326)
Total net assets (deficit)	<u>\$ (514,203)</u>	<u>\$ (416,078)</u>

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2011

The largest expense in total for the Office is salaries and benefits, which accounts for 91 percent of all expenses in fiscal years 2011 and 2010. The following table presents a summary of the changes in net assets (deficit) for the years ended June 30, 2011 and 2010:

	2011	2010
Revenues:		
Program revenues:		
Examination fees and expense reimbursements	\$ 7,391,169	\$ 7,752,834
Filing fees and miscellaneous	521,615	512,539
General revenues:		
State appropriation	904,193	814,921
Increase in State deferred appropriation-future periods	99,620	246,652
Total revenues	<u>8,916,597</u>	<u>9,326,946</u>
Expenses:		
Personal services	8,198,732	8,632,550
Travel	364,959	349,407
Materials and services	438,830	451,347
Depreciation	12,201	6,067
Total expenses	<u>9,014,722</u>	<u>9,439,371</u>
Decrease in net assets	(98,125)	(112,425)
Net assets (deficit), beginning of year	(416,078)	(303,653)
Net assets (deficit), end of year	<u>\$ (514,203)</u>	<u>\$ (416,078)</u>

General Fund Budgetary Highlights

Over the course of the year, the Office adjusted its General Fund budget three times. The first two adjustments were made in October, 2010, and February, 2011, for the purpose of re-aligning estimates of receipts and expenditures based on actual transactions incurred and work plan adjustments made throughout the fiscal year. The third adjustment was made in April, 2011, in accordance with House File (HF) 45, which reduced the Office's state appropriation and specific expenditure line items which were the subject of HF 45 by \$1,275.

The Office ended the fiscal year with total actual revenues less than budgeted revenues by \$482,579, a variance of 5.8 percent. Total actual expenditures were \$457,648 less than budgeted, a variance of 4.9 percent. The reasons for the significant reductions in actual revenues and expenditures from the original and revised budgets were due to a significant increase in staff attrition during the fiscal year, which negatively impacted the amount of audit work able to be performed and billed for audit services.

The Office reverted \$728 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 18 of this report.

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2011

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 2011 included minimal funds for essential capital assets.

Economic Factors and Next Year's Budget

The Office's management considered many factors when setting the 2012 fiscal year budget and the fees charged for audit services. One of those factors is the condition of the economy and the stress it continues to place on the State's budget.

Office management continues to consider available options and alternatives to managing its limited resources, whether the limited resources are a result of staff attrition or reductions in state appropriations received to operate the Office. Regardless of the options and alternatives implemented, the amount of audit work performed and the amount of oversight and other services provided each year has been, and will continue to be the maximum which can be provided with the available resources.

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, 2011

	General Fund Balance Sheet	Adjustments	Statement of Net Assets (Deficit)
Assets:			
Accounts receivable	\$ 1,843,642	\$ -	\$ 1,843,642
Work in process	160,932	-	160,932
Due from State Treasurer - deferred appropriation	-	1,153,653	1,153,653
Capital assets, net of accumulated depreciation of \$44,319	-	39,231	39,231
Total assets	<u>\$ 2,004,574</u>	<u>1,192,884</u>	<u>3,197,458</u>
Liabilities:			
Due to State Treasurer - reimbursable advances	\$ 1,366,392	-	1,366,392
Accounts payable	58,249	-	58,249
Accrued salaries	145,478	-	145,478
Accrued travel expenses	10,638	-	10,638
Deferred revenue	160,932	(160,932)	-
Compensated absences and OPEB:			
Due within one year	-	635,887	635,887
Due after one year	-	1,495,017	1,495,017
Total liabilities	<u>1,741,689</u>	<u>1,969,972</u>	<u>3,711,661</u>
Fund Balance/Net Assets (Deficit):			
Fund balance - restricted for reaudits and workpaper reviews	262,885	(262,885)	-
Total liabilities and fund balance	<u>\$ 2,004,574</u>		
Net assets (deficit):			
Invested in capital assets		39,231	39,231
Restricted for reaudits and workpaper reviews		262,885	262,885
Unrestricted		(816,319)	(816,319)
Total net assets (deficit)		<u>\$ (514,203)</u>	<u>\$ (514,203)</u>

See 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, 2011

	General Fund		
	Statement of		Statement of
	Revenues,		Activities
	Expenditures		
	and Changes in		
	Fund Balance	Adjustments	
Revenues:			
Program revenues:			
Examination fees and expense reimbursements	\$ 7,379,809	\$ 11,360	\$ 7,391,169
Filing fees and miscellaneous	521,615	-	521,615
Total program revenues	7,901,424	11,360	7,912,784
General revenues:			
State appropriation	904,193	-	904,193
Increase in State deferred appropriation - future periods	-	99,620	99,620
Total general revenues	904,193	99,620	1,003,813
Total revenues	8,805,617	110,980	8,916,597
Expenditures/expenses:			
Administration and regulation:			
Personal services	8,026,759	171,973	8,198,732
Travel	364,959	-	364,959
Office supplies	40,995	-	40,995
Professional supplies	1,024	-	1,024
Printing and binding	10,696	-	10,696
Communications	36,768	-	36,768
Professional services	83,294	-	83,294
Outside services and repairs	14,060	-	14,060
Data processing	69,782	-	69,782
Reimbursements	161,009	-	161,009
Office equipment	5,811	-	5,811
Other expenses	15,391	-	15,391
Total administration and regulation	8,830,548	171,973	9,002,521
Depreciation	-	12,201	12,201
Total expenditures/expenses	8,830,548	184,174	9,014,722
Excess (deficiency) of revenues over (under) expenditures/expenses	(24,931)	24,931	-
Decrease in net assets	-	(98,125)	(98,125)
Fund balance/net assets (deficit), beginning of year	287,816	(703,894)	(416,078)
Fund balance/net assets (deficit), end of year	\$ 262,885	\$ (777,088)	\$ (514,203)

See Notes to Financial Statements.

Office of Auditor of State of Iowa

Notes to Financial Statements

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, certain county and memorial hospitals, merged areas, area education agencies and certain entities organized under Chapter 28E of the Code of Iowa.

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

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 year. For this purpose, the Office considers revenues to be available if they are collected within 75 days after the end of the current fiscal year. 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 years.

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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Office of Auditor of State of Iowa

Notes to Financial Statements

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

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

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 Balance: In the governmental fund financial statements, fund balances are classified and reported in categories which describe the extent to which certain resources may be spent. Resources are categorized as spendable or non-spendable.

Spendable fund balances include resources that are in spendable form (e.g. cash) and are available for spending. The spendable fund balance of the Office is further classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

The fund balance restricted at June 30, 2011 of \$262,885 consists of filing fees collected and maintained for use in the performance of reaudits and workpaper reviews in accordance with Chapter 11.6(10) of the Code of Iowa.

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 \$262,885 as of June 30, 2011 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.

Office of Auditor of State of Iowa

Notes to Financial Statements

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, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.50 percent of their annual covered salary and the Office is required to contribute 6.95 percent of annual covered salary. Contribution requirements are established by state statute. The Office's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$403,753, \$408,531 and \$398,500, respectively, equal to 100 percent of the required contribution for each year.

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

Changes in compensated absences and other postemployment benefit obligations for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due within one year
Compensated absences	\$ 851,420	\$ 549,278	\$ 532,182	\$ 868,516	\$ 557,545
SLIP	587,753	118,280	39,856	666,177	13,521
SERIP	313,427	12,850	63,833	262,444	64,821
Net OPEB liability	206,331	127,436	-	333,767	-
Total	\$ 1,958,931	\$ 807,844	\$ 635,871	\$ 2,130,904	\$ 635,887

Sick Leave Insurance Program (SLIP): Included in the accrued compensated absences and OPEB liability for the year ended June 30, 2011 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 which 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:

If the sick leave balance is:	The conversion rate is:
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

Office of Auditor of State of Iowa

Notes to Financial Statements

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

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 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, 2011, five retired employees received benefits totaling \$39,856 under the SLIP program. The remaining liability for current retirees as of June 30, 2011 is \$9,286. The estimated liability for future retirees under the SLIP as of June 30, 2011 is \$656,891.

State Employee Retirement Incentive Program (SERIP): On February 10, 2010, the Governor signed into law a State Employee Retirement Incentive Program (SERIP) for eligible executive branch employees. To be eligible, an employee must have been employed on February 10, 2010, be age 55 or older on July 31, 2010 and terminate employment no later than June 24, 2010.

Participants in the SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant's last pay check.
- 2) Health insurance – A minimum of 5 years of state contributions toward the premiums of a state-sponsored health insurance plan, either through the Sick Leave Insurance Program (SLIP), SERIP or a combination of both programs.
- 3) Unused vacation and years of service incentive – Cash payments, including the entire value of the participant's accrued but unused vacation leave, and, for participants with at least 10 years of state employment, \$1,000 for each year of state employment, up to 25 years of employment. The total unused vacation leave and years of service incentive shall be paid in five equal installments beginning in September 2010 and ending in 2014.

Office of Auditor of State of Iowa

Notes to Financial Statements

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

In the event a SERIP participant dies within 5 years of termination of employment, the participant's beneficiary will receive any remaining unpaid vacation leave and years of service incentive payments. If the participant's surviving spouse is covered on the participant's state retiree health insurance plan, the surviving spouse may elect to continue health insurance coverage and will receive any remaining health insurance contribution benefits under the SERIP. If the surviving spouse was not covered by the participant's insurance plan, or if there is no surviving spouse, any remaining health insurance contribution benefits are forfeited.

Participants in the SERIP are not eligible to accept any further employment with the state, other than as an elected official or a member of a board or commission, from the date of termination of employment. Participants may not enter into contracts to provide services to the state as independent contractors or consultants.

The SERIP is financed on a pay-as-you go basis by the department from which the employee retired. Amounts due for the program have been recorded as liabilities in the office-wide financial statements. The liability for the expected future health insurance benefits at June 30, 2011 is \$133,254. This was calculated by increasing the insurance premiums in effect at June 30, 2011 using established rates effective through December 31, 2012, for the annual medical trend rates for fiscal years 2013 through 2015, which resulted in an increase in the SERIP liability. The annual medical trend rates range from 8 percent in 2013 to 6.8 percent in 2015. The liability for the unused vacation leave and years of service incentive installment payments at June 30, 2011 is \$129,190.

For the year ended June 30, 2011, SERIP costs for 4 participants totaled \$63,833.

Other Postemployment Benefits: As a part of the State of Iowa, the Office participates in the State of Iowa postretirement medical plan (OPEB Plan). 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, 2010 actuarial valuation. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$378,000,000 for the State of Iowa at June 30, 2011. 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, 2011. 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 \$333,767 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 the full time equivalent employees of the State of Iowa.

Office of Auditor of State of Iowa

Notes to Financial Statements

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance beginning of year	Additions	Deletions	Balance end of year
Equipment	\$ 83,550	\$ -	\$ -	\$ 83,550
Less accumulated depreciation	32,118	12,201	-	44,319
Capital assets, net	<u>\$ 51,432</u>	<u>\$ (12,201)</u>	<u>\$ -</u>	<u>\$ 39,231</u>

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

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

Total fund balance of the Office of \$262,885 differs from the "net assets (deficit)" of governmental activities of (\$514,203) 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 General Fund Balance Sheet.

\$ 262,885

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-year 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 years.

Deferred appropriation	1,153,653
Deferred revenue	<u>160,932</u>
	<u>1,314,585</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 General Fund. 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	83,550
Accumulated depreciation	<u>(44,319)</u>
	<u>39,231</u>

Long-term liabilities applicable to the Office's governmental activities are not due and payable in the current year 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>(2,130,904)</u>
Total net assets (deficit)	<u>\$ (514,203)</u>

Office of Auditor of State of Iowa

Notes to Financial Statements

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

Explanations of the differences between General Fund Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities are as follows:

The net change in fund balance of (\$24,931) in the General Fund differs from the change in net assets for governmental activities of (\$98,125) reported 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 General Fund. The main components of the difference are described below.

Net change in fund balances - General Fund	<u>\$ (24,931)</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 General Fund.	
Net change in work in process	<u>11,360</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 General Fund.	
Net change in operating accruals	<u>(171,973)</u>
When capital assets to be used in governmental activities are purchased, the resources expended for those assets are reported as expenditures in the General Fund. 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	<u>(12,201)</u>
Changes in deferred appropriation represent future revenue required to fully pay compensated absences earned during the current year but not able to be funded by the revenue recognized in the General Fund for the year.	
Increase in deferred appropriation	<u>99,620</u>
Change in net assets (deficit) of governmental activities	<u><u>\$ (98,125)</u></u>

Office of Auditor of State of Iowa

Notes to Financial Statements

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).

Note 7. Current Accounting Developments

In the year ended June 30, 2011, the Office adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The Statement established criteria for classifying fund balances into specifically defined classifications and clarified definitions for governmental fund types. The adoption of this Statement resulted in the Office reclassifying the fund balance of \$262,885 for the General Fund.

Office of Auditor of State of Iowa

Required Supplementary Information
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance With Final Budget
Program revenues:				
Examination fees and expense reimbursements	\$ 8,050,000	\$ 7,907,245	\$ 7,379,809	\$ (527,436)
Filing fees and miscellaneous	420,000	476,758	521,615	44,857
Total revenues	8,470,000	8,384,003	7,901,424	(482,579)
Expenditures:				
Personal services	8,547,314	8,506,617	8,026,759	479,858
Travel	385,000	368,000	364,959	3,041
Office supplies	40,000	38,725	40,995	(2,270)
Professional supplies	5,000	5,000	1,024	3,976
Printing and binding	10,000	10,000	10,696	(696)
Communications	35,000	35,000	36,768	(1,768)
Professional services	80,000	81,000	83,294	(2,294)
Outside services and repairs	16,000	19,900	14,060	5,840
Data processing	75,000	50,000	69,782	(19,782)
Reimbursements	157,404	154,404	161,009	(6,605)
Office equipment	10,000	5,000	5,811	(811)
Other expenses	14,750	14,550	15,391	(841)
Total expenditures	9,375,468	9,288,196	8,830,548	457,648
Deficiency of program revenues under expenditures	(905,468)	(904,193)	(929,124)	(24,931)
State appropriation	905,468	904,193	904,193	-
Fund balance, beginning of year	-	-	287,816	287,816
Fund balance, end of year	\$ -	\$ -	\$ 262,885	\$ 262,885

See Note to Required Supplementary Information.

Office of Auditor of State of Iowa

Note to Required Supplementary Information

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 Code of Iowa. Each department of the State prepares estimates of expenditures and income for each ensuing fiscal year. These estimates are transmitted to the Department of Management, which prepares and submits a tentative budget to the Governor. After holding public hearings, the Governor prepares and transmits a budget to the State Legislature. The State Legislature appropriates funds to the various departments based on the budget as adjusted through the appropriation process. Formal and legal budgetary control is based on total operating expenditures by appropriation unit. 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.