

Office of Auditor of State of Iowa

Financial Report
June 30, 2012

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Independent Auditor's Report

The Auditor of State of Iowa
Des Moines, Iowa

We have audited the accompanying 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, 2012, which collectively comprise the Office of Auditor of State of Iowa's basic financial statements as listed in the 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 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 financial statements, 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, 2012, 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 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, 2012, 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 June 27, 2013, on our consideration of the Office'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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and Budgetary Comparison Schedule on pages 19 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Des Moines, Iowa
June 27, 2013

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2012

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, 2012. 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 .18 percent, or approximately \$2,000, over the prior year. Governmental activities program revenues increased 5.4 percent, or approximately \$428,000, from fiscal year 2011 to fiscal year 2012.

Office program expenses increased 2.9 percent, or approximately \$260,000, from fiscal year 2011 to fiscal year 2012. Personal services, which represent approximately 91 percent of the Office's budget, increased 2.6 percent, or approximately \$210,000, while all other expenses increased 6.2 percent, or approximately \$50,000.

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 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 financial 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 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, 2012

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Assets:		
Current assets	\$ 3,350,337	\$ 3,158,227
Capital assets	48,390	39,231
Total assets	<u>3,398,727</u>	<u>3,197,458</u>
Liabilities:		
Current liabilities	2,472,870	2,216,644
Long-term liabilities	1,481,924	1,495,017
Total liabilities	<u>3,954,794</u>	<u>3,711,661</u>
Net assets (deficit):		
Invested in capital assets	48,390	39,231
Restricted	253,301	262,885
Unrestricted	(857,758)	(816,319)
Total net assets (deficit)	<u>\$ (556,067)</u>	<u>\$ (514,203)</u>

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2012

The largest expense in total for the Office is salaries and benefits, which accounts for 91 percent of all expenses in fiscal years 2012 and 2011. The following table presents a summary of the changes in net assets (deficit) for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues:		
Examination fees and expense reimbursements	\$ 7,802,728	\$ 7,391,169
Filing fees and miscellaneous	538,122	521,615
General revenues:		
State appropriation	905,832	904,193
Increase (decrease) in State deferred appropriation-future periods	(13,250)	99,620
Total revenues	<u>9,233,432</u>	<u>8,916,597</u>
Expenses:		
Personal services	8,408,407	8,198,732
Travel	364,033	364,959
Materials and services	490,294	438,830
Depreciation	12,562	12,201
Total expenses	<u>9,275,296</u>	<u>9,014,722</u>
Decrease in net assets	(41,864)	(98,125)
Net assets (deficit), beginning of year	(514,203)	(416,078)
Net assets (deficit), end of year	<u>\$ (556,067)</u>	<u>\$ (514,203)</u>

General Fund Budgetary Highlights

Over the course of the year, the Office adjusted its General Fund budget two times. The adjustments were made in November 2011 and March 2012 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 Office ended the fiscal year with total actual revenues less than budgeted revenues by \$437,749, a variance of 5.0 percent. Total actual expenditures were \$428,165 less than budgeted, a variance of 4.4 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 \$1,961 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 19 of this report.

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2012

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 2012 included minimal funds for essential capital assets.

Economic Factors and Next Year's Budget

The Office's management considered many factors when setting the fiscal year 2013 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, 2012

	General Fund Balance Sheet	Adjustments	Statement of Net Assets (Deficit)
Assets			
Accounts receivable	\$ 2,013,968	\$ -	\$ 2,013,968
Work in process	195,966	-	195,966
Due from State Treasurer - deferred appropriation	-	1,140,403	1,140,403
Capital assets, net of accumulated depreciation of \$56,881	-	48,390	48,390
Total assets	<u>\$ 2,209,934</u>	<u>1,188,793</u>	<u>3,398,727</u>
Liabilities			
Due to State Treasurer - reimbursable advances	\$ 1,446,938	\$ -	1,446,938
Accounts payable	79,597	-	79,597
Accrued salaries	228,775	-	228,775
Accrued travel expenses	5,357	-	5,357
Deferred revenue	195,966	(195,966)	-
Compensated absences and OPEB:			
Due within one year	-	712,203	712,203
Due after one year	-	1,481,924	1,481,924
Total liabilities	<u>1,956,633</u>	<u>1,998,161</u>	<u>3,954,794</u>
Fund balance			
Restricted for readits and workpaper reviews	253,301	(253,301)	-
Total liabilities and fund balance	<u>\$ 2,209,934</u>		
Net assets (deficit)			
Invested in capital assets		48,390	48,390
Restricted for readits and workpaper reviews		253,301	253,301
Unrestricted		(857,758)	(857,758)
Total net assets (deficit)		<u>\$ (556,067)</u>	<u>\$ (556,067)</u>

See Notes to Financial Statements.

Office of Auditor of State of Iowa

Statement of Revenues, Expenditures and Changes in Fund
Balance/Statement of Activities
Year Ended June 30, 2012

	General Fund Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues:			
Program revenues:			
Examination fees and expense reimbursements	\$ 7,767,694	\$ 35,034	\$ 7,802,728
Filing fees and miscellaneous	538,122	-	538,122
Total program revenues	8,305,816	35,034	8,340,850
General revenues:			
State appropriation	905,832	-	905,832
Decrease in State deferred appropriation - future periods	-	(13,250)	(13,250)
Total general revenues	905,832	(13,250)	892,582
Total revenues	9,211,648	21,784	9,233,432
Expenditures/expenses:			
Administration and regulation:			
Personal services	8,345,184	63,223	8,408,407
Travel	364,033	-	364,033
Office supplies	41,206	-	41,206
Professional supplies	12,252	-	12,252
Printing and binding	8,436	-	8,436
Communications	36,415	-	36,415
Professional services	68,015	-	68,015
Outside services and repairs	39,451	-	39,451
Data processing	131,202	(21,721)	109,481
Reimbursements	155,999	-	155,999
Office equipment	3,957	-	3,957
Other expenses	15,082	-	15,082
Total administration and regulation	9,221,232	41,502	9,262,734
Depreciation	-	12,562	12,562
Total expenditures/expenses	9,221,232	54,064	9,275,296
Net change in fund balance/net assets (deficit)	(9,584)	(32,280)	(41,864)
Fund balance/net assets (deficit), beginning of year	262,885	(777,088)	(514,203)
Fund balance/net assets (deficit), end of year	\$ 253,301	\$ (809,368)	\$ (556,067)

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 year 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 balances 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, the fund balance is classified as restricted. Amounts are 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, 2012 of \$253,301 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 \$253,301 as of June 30, 2012 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 5.38 percent of their annual covered salary and the Office is required to contribute 8.07 percent of annual covered salary. Contribution requirements are established by state statute. The Office's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$487,267, \$403,753 and \$408,531, 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, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due within one year
Compensated absences	\$ 868,516	\$ 561,878	\$ 501,804	\$ 928,590	\$ 593,278
SLIP	666,177	36,248	38,007	664,418	57,237
SERIP	262,444	-	77,019	185,425	61,688
Net OPEB liability	333,767	81,927	-	415,694	-
Total	\$ 2,130,904	\$ 680,053	\$ 616,830	\$ 2,194,127	\$ 712,203

Sick Leave Insurance Program (SLIP): Included in the accrued compensated absences and OPEB liability for the year ended June 30, 2012 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 or the employee is eligible for Medicare or 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, 2012, three retired employees received benefits totaling \$13,521 under the SLIP program. The remaining liability for current retirees as of June 30, 2012 is \$45,534. The estimated liability for future retirees under the SLIP program as of June 30, 2012 is \$618,884.

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 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 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 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.

SERIP is financed on a pay-as-you go basis by the office. 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, 2012 is \$88,532. This was calculated by increasing the insurance premiums in effect at June 30, 2012 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, 2012 is \$96,893.

For the year ended June 30, 2012, SERIP costs for 4 participants totaled \$77,019.

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, 2012. 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, 2012. 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 \$415,694 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, 2012 is as follows:

	Balance beginning of year	Additions	Deletions	Balance end of year
Equipment	\$ 83,550	\$ 21,721	\$ -	\$ 105,271
Less accumulated depreciation	44,319	12,562	-	56,881
Capital assets, net	<u>\$ 39,231</u>	<u>\$ 9,159</u>	<u>\$ -</u>	<u>\$ 48,390</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 \$253,301 differs from the "net assets (deficit)" of governmental activities of (\$556,067) 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.

\$ 253,301

Because the focus of governmental funds is on short-term financing, some assets are not available to pay 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	1,140,403
Deferred revenue	195,966
	<u>1,336,369</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	105,271
Accumulated depreciation	(56,881)
	<u>48,390</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>(2,194,127)</u>
Total net assets (deficit)	<u><u>\$ (556,067)</u></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 (\$9,584) in the General Fund differs from the change in net assets for governmental activities of (\$41,864) 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>\$ (9,584)</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>35,034</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>(63,223)</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 is allocated over their estimated useful lives and is reported as depreciation expense. This is the amount by which capital expenditures exceeded depreciation expense in the current year.	
Depreciation expense	(12,562)
Capital outlay	<u>21,721</u>
	<u>9,159</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.	
Decrease in deferred appropriation	<u>(13,250)</u>
Change in net assets (deficit) of governmental activities	<u><u>\$ (41,864)</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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Office beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. Management is currently evaluating the impact on the Office's financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the Office beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. Management is currently evaluating the impact on the Office's financial statements.

Office of Auditor of State of Iowa

Notes to Financial Statements

Note 7. Current Accounting Developments (Continued)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the Office beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. Management is currently evaluating the impact on the Office's financial statements.

Office of Auditor of State of Iowa

Required Supplementary Information
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget
Program revenues:				
Examination fees and expense reimbursements	\$ 8,125,000	\$ 8,228,692	\$ 7,767,694	\$ (460,998)
Filing fees and miscellaneous	475,000	514,873	538,122	23,249
Total revenues	8,600,000	8,743,565	8,305,816	(437,749)
Expenditures:				
Personal services	8,718,561	8,768,776	8,345,184	423,592
Travel	370,000	379,000	364,033	14,967
Office supplies	40,000	44,000	41,206	2,794
Professional supplies	5,000	10,000	12,252	(2,252)
Printing and binding	10,000	12,000	8,436	3,564
Communications	35,000	38,000	36,415	1,585
Professional services	70,000	72,300	68,015	4,285
Outside services and repairs	17,000	44,100	39,451	4,649
Data processing	50,000	92,964	131,202	(38,238)
Reimbursements	166,157	169,457	155,999	13,458
Office equipment	10,000	6,000	3,957	2,043
Other expenses	13,750	12,800	15,082	(2,282)
Total expenditures	9,505,468	9,649,397	9,221,232	428,165
Net change in fund balance	(905,468)	(905,832)	(915,416)	(9,584)
State appropriation	905,468	905,832	905,832	-
Fund balance, beginning of year	-	-	262,885	262,885
Fund balance, end of year	\$ -	\$ -	\$ 253,301	\$ 253,301

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.

Office of Auditor of State of Iowa

Report to the Auditor of State of Iowa

June 27, 2013



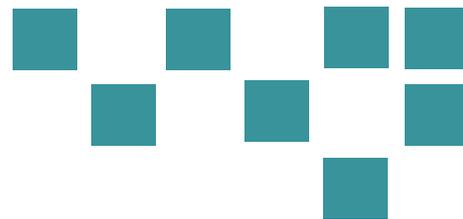
June 27, 2013

Office of Auditor of State of Iowa
Des Moines, Iowa

We are pleased to present this report related to our audit of the basic financial statements for the year ended June 30, 2012. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the Office of Auditor of State of Iowa's financial reporting process.

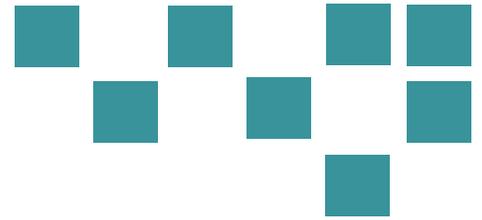
This report is intended solely for the information and use of the Office of Auditor of State of Iowa and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to the Office of Auditor of State of Iowa.

McGladrey LLP



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Representation Letter	
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Required Communications

Auditing guidance requires the auditor to communicate certain matters to keep those charged with governance adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. The following summarizes these communications:

Area	Comments
Auditor's Responsibility Under Professional Standards	Our responsibility under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, has been described to you in our arrangement letter dated September 11, 2012.
Accounting Practices	<p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the Office of Auditor of State of Iowa (the Office). In the current year, the Office did not adopt any significant accounting policies that had an effect on the financial statements, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Alternative Treatments Discussed with Management</p> <p>We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p>
Management's Judgments and Accounting Estimates	Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Accounting Estimates."
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Area	Comments
Difficulties Encountered in Performing the Audit	We did not encounter any difficulties in dealing with management during the audit.
Accounting Pronouncements	Management is currently assessing the impact of GASB Statement Nos. 63, 65 and 68, as disclosed in Note 7 of the financial statements. Management has also determined GASB Statement Nos. 60, 61, 62, 66 and 67 will not have a material effect on the financial statements and have chosen not to disclose these pending pronouncements.
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	The 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> is attached as Exhibit B.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the Office are attached as Exhibit A.

Office of Auditor of State of Iowa

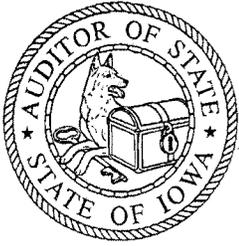
Summary of Accounting Estimates

Year Ended June 30, 2012

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in the Office's June 30, 2012, basic financial statements:

Area	Accounting Policy	Estimation Process	Comments
Other Postemployment Benefit Plan	Accounting and disclosures of other postemployment benefit plans is based upon numerous assumptions and estimates, including the expected rate of investment return on retirement plan assets, the interest rate used to determine the present value of liabilities and certain employee-related factors.	The estimate for the Office is based on a ratio of full-time equivalent employees of the Office compared to full-time equivalent employees of the State of Iowa. The State of Iowa estimate was determined by actuarial calculation.	We analyzed the Office's methodology and concluded the estimate is reasonable.
Sick Leave Insurance Program Termination Benefit	The liability is based on the rates of pay in effect at year-end and the number of earned hours estimated to be converted.	The determination is made at the time the benefit is offered and involves various judgments and assumptions, including prior experience and the probability of payment and discount for present value.	We believe the estimates and process used by the Office are reasonable.
State Employee Retirement Incentive Program	The liability is based on insurance premiums and certain employee-related factors.	The determination is made at the time the benefit is offered and involves various judgments and assumptions, including prior experience and the probability of payment and discount for present value.	We believe the estimates and process used by the Office are reasonable.

Exhibit A – Significant Written Communications between Management and Our Firm



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

June 27, 2013

McGladrey LLP
400 Locust Street, Suite 640
Des Moines, Iowa 50309

In connection with your audit of the basic financial statements of the Office of Auditor of State of Iowa (the Office), including 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, as of and for the year ended June 30, 2012, we confirm we are responsible for the fair presentation in the financial statements of financial position and changes in financial position in conformity with U.S. generally accepted accounting principles.

We confirm to the best of our knowledge and belief, as of June 27, 2013, the following representations made to you during your audit:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. There are no organizations that are a part of the reporting entity or with which we have a relationship, as these organizations are defined in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, that are:
 - a. Component units.
 - b. Other organizations for which the nature and significance of their relationship with the Office are such that exclusion would cause the Office's financial statements to be misleading or incomplete.
 - c. Jointly governed organizations in which we participated.
3. The Office, established by the Code of Iowa to support a constitutional officer, is included in the State of Iowa's primary government as this term is defined in Section 2100 of the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. The audit of the basic financial statements of the Office includes 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.
4. We have identified for you all of our funds and governmental functions of the Office of the Auditor of State of Iowa.
5. We have properly classified all funds and activities.
6. We are responsible for compliance with laws and regulations applicable to the Office.

7. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
8. We have made available to you all financial records and related data of all funds and activities.
9. There have been no communications from grantors, lenders, other funding sources or regulatory agencies concerning noncompliance with:
 - a. Statutory, regulatory or contractual provisions or requirements.
 - b. Financial reporting practices that could have a material effect on the financial statements.
10. We have no knowledge of fraud or suspected fraud affecting the Office involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
11. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance fraud is prevented and detected.
12. We have no knowledge of any allegations of fraud or suspected fraud affecting the Office received in communications from employees, former employees, analysts, regulators or others.
13. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Office's ability to record, process, summarize and report financial data.
14. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
15. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
16. All significant estimates and material concentrations known to management are properly disclosed in the financial statements. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply or markets for which events could occur which would significantly disrupt normal finances within the next year.
17. As disclosed in Note 7, we are assessing the impact of GASB Statement Nos. 63, 65 and 68 which have been issued, but not yet adopted, on the financial statements.
18. We have determined GASB Statement Nos. 60, 61, 62, 66 and 67 which have been issued, but have not yet been adopted, will not have a material effect on the financial statements and have chosen not to disclose these pending pronouncements.

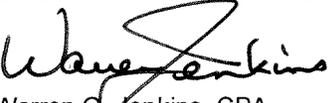
19. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. For pension obligations, postretirement benefits other than pensions and deferred compensation agreements attributable to employee services rendered through June 30, 2012.
20. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Risk financing activities.
 - b. Risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through June 30, 2012 and/or for expected retroactive insurance premium adjustments applicable to periods through June 30, 2012.
21. There are no:
 - a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
 - d. Guarantees, whether written or oral, under which the Office is contingently liable.
 - e. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances.
 - f. Lines of credit or similar arrangements.
 - g. Agreements to repurchase assets previously sold.
 - h. Security agreements in effect under the Uniform Commercial Code.
 - i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - j. Investments.
 - k. Contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - l. Liabilities which are subordinated in any way to any other actual or possible liabilities.

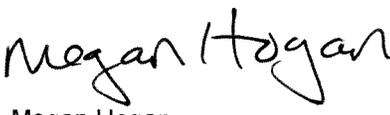
- m. Debt issue repurchase options or agreements or sinking fund debt repurchase ordinance requirements.
 - n. Debt issue provisions.
 - o. Leases or material amounts of rental obligations under long-term leases.
 - p. Authorized but unissued bonds and/or notes.
 - q. Derivative financial instruments.
 - r. Special or extraordinary items.
 - s. Arbitrage rebate liabilities.
 - t. Impairment of capital assets.
 - u. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - v. Material losses to be sustained as a result of purchase commitments.
 - w. Environmental cleanup obligations.
22. There are no unasserted claims or assessments our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
23. We have no direct or indirect, legal or moral, obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
24. We have satisfactory title to all owned assets.
25. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
26. Net asset components (invested in capital assets, restricted and unrestricted) and fund balances are properly classified and, if applicable, approved.
27. Expenses or expenditures have been appropriately classified in or allocated to functions and programs in the statement of activities and allocations have been made on a reasonable basis.
28. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
29. Capital assets are properly capitalized, reported and depreciated.
30. With respect to the Management's Discussion and Analysis and Budgetary Comparison Schedule required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.

- b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
31. In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm:
- a. We are responsible for:
 - i. Compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the Office.
 - ii. Establishing and maintaining effective internal control over financial reporting.
 - b. We have identified and disclosed to you:
 - i. All laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
 - ii. There are no violations (and possible violations) of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on compliance.
 - c. We have a process to track the status of audit findings and recommendations.
 - d. We have identified for you previous financial audits, attestation engagements, performance audits or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations, if any.
 - e. We have reviewed, approved and take full responsibility for the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.
32. We are responsible for determining significant events or transactions that have occurred since the Governmental Fund Balance Sheet/Statement of Net Assets date and through June 27, 2013 have been recognized or disclosed in the financial statements. No events or transactions have occurred subsequent to the Governmental Fund Balance Sheet/Statement of Net Assets date and through June 27, 2013 that would require recognition, or disclosure in, the financial statements. We further represent that as of June 27, 2013, the financial statements were complete in a form and format that complied with accounting principles generally accepted in the United States of America and all approvals necessary for issuance of the financial statements had been obtained.

During the course of your audit, you may have accumulated records containing data which should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Office of Auditor of State of Iowa


Warren G. Jenkins, CPA
Chief Deputy Auditor of State


Megan Hogan
Office Manager

**Exhibit B – 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***



**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 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, 2012, including 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, which collectively comprise the Office of Auditor of State of Iowa's basic financial statements and have issued our report thereon dated June 27, 2013. 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

Management of the Office of Auditor of State of Iowa is responsible for establishing and maintaining effective 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 LLP

Des Moines, Iowa
June 27, 2013