

Office of Auditor of State of Iowa

Financial Report
June 30, 2013

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Independent Auditor's Report

The Auditor of State of Iowa
Des Moines, Iowa

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Office of Auditor of State of Iowa's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Office's preparation and fair presentation of its financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6 and the 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 which 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the Office's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.

McGladrey LLP

Des Moines, Iowa
October 24, 2014

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2013

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, 2013. We encourage readers to consider this information in conjunction with the Office's financial statements and footnotes, which follow this section.

Financial Highlights

The Office's State appropriation decreased less than .1%, or approximately \$400, from the prior year. Governmental activities program revenues increased 2.8%, or approximately \$236,000, from fiscal year 2012 to fiscal year 2013.

Office program expenses increased 2.2%, or approximately \$202,000, from fiscal year 2012 to fiscal year 2013. Personal services, which represent approximately 91% of the Office's budget, increased 2.1%, or approximately \$177,000, while all other expenses increased 2.8%, or approximately \$25,000.

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 Position (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 Position (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 Position (Deficit) presents all of the Office's assets and liabilities, with the difference between the two reported as "net position (deficit)." Over time, increases or decreases in the Office's net position (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, 2013**

The Statement of Activities presents information showing how the Office's net position (deficit) changed during the fiscal year. All changes in net position (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 position. 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 position (deficit) as of June 30, 2013 and 2012:

	2013	2012
Assets:		
Current assets	\$ 3,777,350	\$ 3,350,337
Capital assets	53,343	48,390
Total assets	<u>3,830,693</u>	<u>3,398,727</u>
Liabilities:		
Current liabilities	2,857,100	2,472,870
Long-term liabilities	1,482,566	1,481,924
Total liabilities	<u>4,339,666</u>	<u>3,954,794</u>
Net position (deficit):		
Investment in capital assets	53,343	48,390
Restricted	278,239	253,301
Unrestricted	(840,555)	(857,758)
Total net position (deficit)	<u>\$ (508,973)</u>	<u>\$ (556,067)</u>

Office of Auditor of State of Iowa

Management's Discussion and Analysis Year Ended June 30, 2013

The largest expense in total for the Office is salaries and benefits, which accounts for 91% of all expenses in fiscal years 2013 and 2012. The following table presents a summary of the changes in net position (deficit) for the years ended June 30, 2013 and 2012:

	2013	2012
Revenues:		
Program revenues:		
Examination fees and expense reimbursements	\$ 8,061,076	\$ 7,802,728
Filing fees and miscellaneous	516,204	538,122
General revenues:		
State appropriation	905,468	905,832
Increase (decrease) in State deferred appropriation-future periods	41,590	(13,250)
Total revenues	<u>9,524,338</u>	<u>9,233,432</u>
Expenses:		
Personal services	8,585,841	8,408,407
Travel	387,844	364,033
Materials and services	488,337	490,294
Depreciation	15,222	12,562
Total expenses	<u>9,477,244</u>	<u>9,275,296</u>
Increase (decrease) in net position	47,094	(41,864)
Net position (deficit), beginning of year	(556,067)	(514,203)
Net position (deficit), end of year	<u>\$ (508,973)</u>	<u>\$ (556,067)</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 2012 and December 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 \$522,370, a variance of 5.8%. Total actual expenditures were \$547,308 less than budgeted, a variance of 5.5%. 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 \$609 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, 2013

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 2013 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 2014 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 Position (Deficit)
June 30, 2013

	General Fund Balance Sheet	Adjustments	Statement of Net Position (Deficit)
Assets			
Accounts receivable	\$ 2,326,783	\$ -	\$ 2,326,783
Work in process	268,574	-	268,574
Due from State Treasurer - deferred appropriation	-	1,181,993	1,181,993
Capital assets, net of accumulated depreciation of \$57,893	-	53,343	53,343
Total assets	\$ 2,595,357	1,235,336	3,830,693
Liabilities			
Due to State Treasurer - reimbursable advances	\$ 1,662,872	-	1,662,872
Accounts payable	138,236	-	138,236
Accrued salaries	241,990	-	241,990
Accrued travel expenses	5,446	-	5,446
Deferred revenue	268,574	(268,574)	-
Compensated absences and OPEB:			
Due within one year	-	808,556	808,556
Due after one year	-	1,482,566	1,482,566
Total liabilities	2,317,118	2,022,548	4,339,666
Fund balance			
Restricted for readits and workpaper reviews	278,239	(278,239)	-
Total liabilities and fund balance	\$ 2,595,357		
Net position (deficit)			
Investment in capital assets		53,343	53,343
Restricted for readits and workpaper reviews		278,239	278,239
Unrestricted		(840,555)	(840,555)
Total net position (deficit)		\$ (508,973)	\$ (508,973)

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, 2013

	General Fund Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Revenues:			
Program revenues:			
Examination fees and expense reimbursements	\$ 7,988,468	\$ 72,608	\$ 8,061,076
Filing fees and miscellaneous	516,204	-	516,204
Total program revenues	8,504,672	72,608	8,577,280
General revenues:			
State appropriation	905,468	-	905,468
Increase in State deferred appropriation - future periods	-	41,590	41,590
Total general revenues	905,468	41,590	947,058
Total revenues	9,410,140	114,198	9,524,338
Expenditures/expenses:			
Administration and regulation:			
Personal services	8,488,846	96,995	8,585,841
Travel	387,844	-	387,844
Office supplies	35,506	-	35,506
Professional supplies	5,426	-	5,426
Printing and binding	14,459	-	14,459
Communications	35,837	-	35,837
Professional services	64,676	-	64,676
Outside services and repairs	23,036	-	23,036
Data processing	139,064	(20,175)	118,889
Reimbursements	168,268	-	168,268
Office equipment	633	-	633
Other expenses	21,607	-	21,607
Total administration and regulation	9,385,202	76,820	9,462,022
Depreciation	-	15,222	15,222
Total expenditures/expenses	9,385,202	92,042	9,477,244
Net change in fund balance/net position (deficit)	24,938	22,156	47,094
Fund balance/net position (deficit), beginning of year	253,301	(809,368)	(556,067)
Fund balance/net position (deficit), end of year	\$ 278,239	\$ (787,212)	\$ (508,973)

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, school districts, certain county and memorial hospitals, merged areas, area education agencies and certain entities organized under Chapter 28E of the Code of Iowa. The Office also has responsibility for examinations of cities.

In addition to these audits and examinations, 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 Position (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, 2013 of \$278,239 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 Position: Net position represents the difference between assets and liabilities. Investment 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 position is 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 position restricted through enabling legislation totaled \$278,239 as of June 30, 2013 and consists 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 position is 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 5.78% of their annual covered salary and the Office is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Office's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$533,356, \$487,267 and \$403,753, respectively, equal to 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, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due within one year
Compensated absences	\$ 928,590	\$ 575,995	\$ 587,529	\$ 917,056	\$ 573,468
SLIP	664,418	138,727	17,180	785,965	174,144
SERIP	185,425	-	61,389	124,036	60,944
Net OPEB liability	415,694	48,371	-	464,065	-
Total	\$ 2,194,127	\$ 763,093	\$ 666,098	\$ 2,291,122	\$ 808,556

Sick Leave Insurance Program (SLIP): Included in the accrued compensated absences and OPEB liability for the year ended June 30, 2013 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's 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:

Zero to 750 hours
Over 750 hours to 1,500 hours
Over 1,500 hours

The conversion rate is:

60% of the value
80% of the value
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% 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, 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, 2013, three retired employees received benefits totaling \$17,180 under the SLIP program. The remaining liability for current retirees as of June 30, 2013 is \$157,916. The estimated liability for future retirees under the SLIP program as of June 30, 2013 is \$628,049.

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, 2013 is \$59,441. This was calculated by increasing the insurance premiums in effect at June 30, 2013 using established rates effective through December 31, 2013, 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% in 2013 to 6.8% in 2015. The liability for the unused vacation leave and years of service incentive installment payments at June 30, 2013 is \$64,595.

For the year ended June 30, 2013, SERIP costs for 4 participants totaled \$61,389.

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 \$233,000,000 for the State of Iowa at June 30, 2013. 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, 2013. 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 \$464,065 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, 2013 is as follows:

	Balance beginning of year	Additions	Deletions	Balance end of year
Equipment	\$ 105,271	\$ 20,175	\$ 14,210	\$ 111,236
Less accumulated depreciation	56,881	15,222	14,210	57,893
Capital assets, net	<u>\$ 48,390</u>	<u>\$ 4,953</u>	<u>\$ -</u>	<u>\$ 53,343</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 Position (Deficit) are as follows:

Total fund balance of the Office of \$278,239 differs from the net position (deficit) of governmental activities of (\$508,973) reported in the Statement of Net Position (Deficit). This difference primarily results from the long-term economic focus of the Statement of Net Position (Deficit) versus the current financial resources of the General Fund Balance Sheet.

\$ 278,239

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	1,181,993
Deferred revenue	<u>268,574</u>
	<u>1,450,567</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 Position (Deficit) includes those capital assets among the assets of the Office as a whole, net of accumulated depreciation.

Capital assets	111,236
Accumulated depreciation	<u>(57,893)</u>
	<u>53,343</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 Position (Deficit).

Compensated absences and other postemployment benefits	<u>(2,291,122)</u>
Total net position (deficit)	<u><u>\$ (508,973)</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 \$24,938 in the General Fund differs from the change in net position for governmental activities of \$47,094 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>\$ 24,938</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 the General Fund.	
Net change in work in process	<u>72,608</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 the General Fund.	
Net change in compensated absences and other postemployment benefit obligations	<u>(96,995)</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	(15,222)
Capital outlay	<u>20,175</u>
	<u>4,953</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>41,590</u>
Change in net position (deficit) of governmental activities	<u><u>\$ 47,094</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, was effective for the Office for the year ended 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.

The GASB has issued the following Statements not yet implemented by the Office. The Statements which might impact the Office are as follows:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the Office beginning with the 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.

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 the 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.
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, will be effective for the Office beginning with the year ending June 30, 2015. This Statement eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. To correct this potential understatement, Statement 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

Management is currently evaluating the impact these Statements will have 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, 2013

	Original Budget	Final Budget	Actual	Variance With Final Budget
Program revenues:				
Examination fees and expense reimbursements	\$ 8,653,624	\$ 8,517,042	\$ 7,988,468	\$ (528,574)
Filing fees and miscellaneous	515,000	510,000	516,204	6,204
Total revenues	9,168,624	9,027,042	8,504,672	(522,370)
Expenditures:				
Personal services	9,192,079	9,022,927	8,488,846	534,081
Travel	385,000	389,770	387,844	1,926
Office supplies	40,000	38,626	35,506	3,120
Professional supplies	13,500	13,500	5,426	8,074
Printing and binding	10,000	9,000	14,459	(5,459)
Communications	39,000	39,000	35,837	3,163
Professional services	70,000	70,000	64,676	5,324
Outside services and repairs	11,000	30,500	23,036	7,464
Data processing	125,000	125,000	139,064	(14,064)
Reimbursements	166,513	173,587	168,268	5,319
Office equipment	6,000	5,000	633	4,367
Other expenses	16,000	15,600	21,607	(6,007)
Total expenditures	10,074,092	9,932,510	9,385,202	547,308
Net change in fund balance	(905,468)	(905,468)	(880,530)	24,938
State appropriation	905,468	905,468	905,468	-
Fund balance, beginning of year	-	-	253,301	253,301
Fund balance, end of year	\$ -	\$ -	\$ 278,239	\$ 278,239

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.