



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

FOR RELEASE \_\_\_\_\_ March 27, 2013 \_\_\_\_\_

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Federal Family Education Loan Program Division, a Division of the Iowa College Student Aid Commission, for the year ended June 30, 2012.

The Division was established to guarantee loans made by eligible lenders to eligible students and to administer the program. The Division is responsible for the determination of lender, school and student eligibility. The Division is also responsible for reimbursement to eligible lenders of principal and accrued interest on defaulted loans guaranteed by the Commission and to establish an effective system for the collection of delinquent loans. Beginning July 1, 2010, the Health Care and Education Reconciliation Act of 2010 eliminated the Division's ability to issue new Federal Family Education Loan Program loans.

The Division had revenues of \$110,163,087 during the year, a 5.3% decrease from the prior year. Revenues included \$63,203,016 from the U.S. Department of Education (USDE) for federal reinsurance payments and default collections of \$35,083,310. Other revenues included federal management fees of \$1,566,773 and interest income of \$169,924.

Expenses for the year totaled \$109,649,251, a 6.9% decrease from the prior year. Expenses included payments to lenders on defaulted loans of \$68,367,449, a 1.4% decrease from the prior year, and default collections remitted to USDE of \$7,149,766. The Division reported \$2.482 billion of outstanding student loans guaranteed at June 30, 2012, a decrease of 10% from the \$2.755 billion subject to guarantee at June 30, 2011.

A copy of the audit report is available for review in the Iowa College Student Aid Commission's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1360-2840-B000.pdf>.

###



**IOWA FEDERAL FAMILY EDUCATION LOAN PROGRAM DIVISION  
IOWA COLLEGE STUDENT AID COMMISSION**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2012**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Basic Financial Statements:	<u>Exhibit</u>	
Governmental Funds Balance Sheet and Statement of Net Assets	A	8
Statement of Revenues, Expenditures and		
Changes in Fund Balances and Statement of Activities	B	9
Notes to Financial Statements		10-17
Supplementary Information:	<u>Schedule</u>	
Expenditures by Object – Special Revenue Funds	1	19
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 <u>Government Auditing Standards</u>		21-22
Staff		23

**Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission**

**Officials**

**Governor**

Honorable Terry E. Branstad

**Director, Department of Management**

David Roederer

**Director, Legislative Services Agency**

Glen P. Dickinson

**Commission**

Janet L. Adams	Chairperson
Crystal Ford	Vice Chairperson
Robert Denson	Member
Robert Donley	Member
Senator Randy Feenstra	Member
Representative Ron Jorgensen	Member
Shazia Manus (Ended July 2011)	Member
Terrence Martin (Ended June 2012)	Member
Frederick Moore	Member
Senator Herman C. Quirmbach	Member
Doug Shull	Member
Kelli Todd (Ended June 2012)	Member
Roger Utman (Ended June 2012)	Member
Karolyn Wells (Began November 2011)	Member
Representative Cindy Winckler	Member
Roger Claypool (Began June 2012)	Member
Elizabeth Sullivan (Began July 2012)	Member
Jeremy Varner (Began November 2012)	Member

**Agency**

Karen Misjak	Executive Director
Deborah Krueger (Resigned September 2012)	Director, Accounting
Kristen May (Began December 2012)	Director, Accounting
Todd Brown	Director, Program Administration
Julie Leeper	Director, Legislative Services and Personnel
Bobbi Pulley (Resigned September 2012)	Director, Borrower Services
Dan Powers	Director, Technology

**Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

## Independent Auditor's Report

To the Members of the  
Iowa College Student Aid Commission:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa College Student Aid Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Division. 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 U.S. generally accepted accounting principles.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2013 on our consideration of the Iowa Federal Family Education Loan Program Division's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Division has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on information the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Iowa Federal Family Education Loan Program. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 11, 2013



## **Basic Financial Statements**

**Exhibit A**

Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission

Governmental Funds Balance Sheet  
and Statement of Net Assets

June 30, 2012

	Special Revenue			Total	Adjustments	Statement of Net Assets
	General	Federal	Guaranty			
	Default Prevention	Student Loan Reserve	Agency Operating			
<b>Assets</b>						
Cash and investments	\$ 1,595,299	18,040,013	20,165,053	39,800,365	-	39,800,365
Accounts receivable	-	3,383	4,357,073	4,360,456	-	4,360,456
Interest receivable	1,835	27,767	23,801	53,403	-	53,403
Due from other funds	-	-	513,395	513,395	(513,395)	-
Due from the federal government	-	7,499,119	405,743	7,904,862	-	7,904,862
Prepaid expense	-	-	45,360	45,360	-	45,360
Capital assets, net of accumulated depreciation	-	-	-	-	6,008	6,008
<b>Total assets</b>	<b>\$ 1,597,134</b>	<b>25,570,282</b>	<b>25,510,425</b>	<b>52,677,841</b>	<b>(507,387)</b>	<b>52,170,454</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	\$ -	20,336	1,442,256	1,462,592	61,158	1,523,750
Due to the federal government	-	2,006,635	-	2,006,635	-	2,006,635
Due to other funds	-	513,395	-	513,395	(513,395)	-
Compensated absences	-	-	-	-	245,841	245,841
Total current liabilities	-	2,540,366	1,442,256	3,982,622	(206,396)	3,776,226
Noncurrent liabilities:						
Accounts payable	-	-	-	-	104,946	104,946
Compensated absences	-	-	-	-	152,202	152,202
Net OPEB liability	-	-	-	-	162,976	162,976
Total noncurrent liabilities	-	-	-	-	420,124	420,124
<b>Total liabilities</b>	<b>-</b>	<b>2,540,366</b>	<b>1,442,256</b>	<b>3,982,622</b>	<b>213,728</b>	<b>4,196,350</b>
<b>Fund balances/Net assets</b>						
Fund balances:						
Nonspendable	-	-	45,360	45,360	(45,360)	-
Spendable:						
Restricted for the Iowa Federal Family Education Loan Program	1,597,134	23,029,916	24,022,809	48,649,859	(48,649,859)	-
Total fund balances	1,597,134	23,029,916	24,068,169	48,695,219	(48,695,219)	-
<b>Total liabilities and fund balances</b>	<b>\$ 1,597,134</b>	<b>25,570,282</b>	<b>25,510,425</b>	<b>52,677,841</b>		
Net assets:						
Invested in capital assets					6,008	6,008
Restricted					47,968,096	47,968,096
<b>Total net assets</b>					<b>\$ 47,974,104</b>	<b>47,974,104</b>

See notes to financial statements.

Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
and Statement of Activities

Year ended June 30, 2012

	Special Revenue			Total	Adjustments	Statement of Activities
	General Default Prevention	Federal Student Loan Reserve	Guaranty Agency Operating			
Revenues:						
Federal management fees	\$ -	-	1,566,773	1,566,773	-	1,566,773
Federal reinsurance payments	-	63,203,016	-	63,203,016	-	63,203,016
Default aversion fees	-	-	1,318,558	1,318,558	(1,318,558)	-
Default aversion rebates	-	618,659	-	618,659	(618,659)	-
Interest income	5,920	88,534	75,470	169,924	-	169,924
Default collections	-	32,825,882	2,257,428	35,083,310	-	35,083,310
Overpayments and repurchases	-	5,416,705	-	5,416,705	-	5,416,705
Federal default fees	-	104	5,107	5,211	-	5,211
Fees and recoveries allocated to						
Guaranty Agency Operating Fund	-	-	8,401,580	8,401,580	(8,401,580)	-
Gear up grant	-	-	2,976,776	2,976,776	-	2,976,776
College access grant	-	-	488,676	488,676	-	488,676
Other	4,717	5,162	1,242,817	1,252,696	-	1,252,696
Total revenues	10,637	102,158,062	18,333,185	120,501,884	(10,338,797)	110,163,087
Expenditures/expenses:						
Federal Family Education Loan Program						
administration	-	-	4,337,076	4,337,076	11,673	4,348,749
Default collections remitted to USDE	-	7,149,766	-	7,149,766	-	7,149,766
Collection expenses	-	-	6,454,685	6,454,685	-	6,454,685
Payments on defaulted loans	-	68,367,449	-	68,367,449	-	68,367,449
Default aversion fees	-	1,318,558	-	1,318,558	(1,318,558)	-
Default aversion rebates	-	-	618,659	618,659	(618,659)	-
Payments for refunds and rehabbed loans	-	15,953,358	-	15,953,358	-	15,953,358
Fees and recoveries allocated to Guaranty						
Agency Operating Fund	-	8,401,580	-	8,401,580	(8,401,580)	-
Gear up grant expense	-	-	4,335,135	4,335,135	-	4,335,135
College access grant expense	-	-	1,215,320	1,215,320	-	1,215,320
Depreciation	-	-	-	-	12,603	12,603
Other	135,000	1,573,169	104,017	1,812,186	-	1,812,186
Total expenditures/expenses	135,000	102,763,880	17,064,892	119,963,772	(10,314,521)	109,649,251
Excess (deficiency) of revenues over (under)						
expenditures/expenses/change						
in net assets	(124,363)	(605,818)	1,268,293	538,112	(24,276)	513,836
Fund balances/net assets beginning						
of year, as restated	1,721,497	23,635,734	22,799,876	48,157,107	(696,839)	47,460,268
Fund balances/net assets end of year	\$ 1,597,134	23,029,916	24,068,169	48,695,219	(721,115)	47,974,104

See notes to financial statements.

Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission

Notes to Financial Statements

June 30, 2012

**(1) Summary of Significant Accounting Policies**

The Iowa Federal Family Education Loan Program Division (Division) of the Iowa College Student Aid Commission (Commission), an agency of the State of Iowa, was established under Chapter 261 of the Code of Iowa to guarantee loans made by eligible lenders to eligible students and to administer the program. The Commission is attached to the Iowa Department of Education for organizational purposes.

Organization of the Commission provides for a membership of fourteen commissioners, including representatives of the Board of Regents, the Iowa Department of Education and two from each house of the State Legislature. The Governor appoints eight members, including three to represent the general public and one to represent each of the following areas: the private institutions, Community Colleges, Iowa lending institutions, Iowa post-secondary students and an individual who is repaying or has repaid a student loan guaranteed by the Commission. The four legislative representatives are non-voting members of the Commission.

The Division is responsible for the determination of lender, school and student eligibility. It is responsible for the collection or payment of the federal default fee of one percent of the principal amount of any Stafford, PLUS or SLS loans guaranteed. The Commission's Board approved the Commission to pay the fee on behalf of the borrower until January 1, 2010. When Federal legislation eliminated the Federal Family Education Loan Program (FFELP), the Commission's Board chose to discontinue the payment of the default fee on any new loans guaranteed on or after January 1, 2010. After January 1, 2010, the fee was subtracted from each borrower's loan proceeds.

The Health Care and Education Reconciliation Act of 2010, H.R. 4872, included legislation to terminate the ability of FFELP lenders to originate new FFELP loans after July 1, 2010. As a guarantee agency, the Iowa College Student Aid Commission derives revenues from FFELP loan originations, through loan processing and issuance fees, account management fees on the guaranteed portfolio and collections on defaulted FFELP loans.

Beginning July 1, 2010, with the elimination of new FFELP loans, the Commission no longer receives loan processing and issuance fees. In addition, as loans held by various lenders/servicers remain in an active repayment status, the guaranteed portfolio will continue to decline, resulting in a reduction in account management fees.

The Division is also responsible for reimbursement to eligible lenders of principal and accrued interest on defaulted loans guaranteed by the Commission and to establish an effective system for the collection of delinquent loans.

The financial statements of the Iowa Federal Family Education Loan Program Division have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Iowa Federal Family Education Loan Program Division has included all funds, organizations, agencies, boards, commissions and authorities. The Division has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Division are such that exclusion would cause the Division's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Division to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Division. The Iowa Federal Family Education Loan Program Division has no component units which meet the Governmental Accounting Standards Board criteria.

B. Entity-wide and Fund Financial Statements

The financial statements on pages 8 and 9 combine both an entity-wide perspective and a governmental fund perspective.

The General Fund and the Special Revenue, Federal Student Loan Reserve and Guaranty Agency Operating Funds comprise the Division's major governmental funds. The difference between assets and liabilities of the funds is referred to as "fund balance".

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Division. Governmental activities are those which normally are supported by intergovernmental revenues.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the funds and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The entity-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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 Division considers revenues to be available if they are collected within 60 days of 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 are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

D. Cash and Cash Equivalents

The Division's cash balances are pooled and invested by the Treasurer of State.

E. Capital Assets

Capital assets, which include equipment with individual costs in excess of \$5,000, are recorded at historical cost. Donated assets are valued at their estimated fair value on the date donated. Depreciation of all exhaustible assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Capital assets are depreciated over a four-year life. The entity-wide Statement of Activities reports depreciation expense.

The cost of normal maintenance and repair which do not add to the value of the asset or materially extend asset lives are not capitalized.

F. Due to the Federal Government

Due to the federal government represents the amount owed to the U.S. Department of Education for collection on loans in default.

G. Compensated Absences

State employees accrue vacation, sick and compensatory leave at rates specified in the Code of Iowa and/or collective bargaining agreements. Accumulated unused vacation leave is payable upon termination of employment. Accumulated unused sick leave is payable only upon retirement and only to limits specified in the Code of Iowa and/or collective bargaining agreements. A liability is recorded when incurred in the entity-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The liabilities for compensated absences are based on rates of pay in effect at June 30, 2012.

H. Net Assets

The Statement of Net Assets presents the Division's assets and liabilities with the difference reported as net assets. Net assets are reported in the following categories.

*Invested in capital assets* consists of capital assets, net of accumulated depreciation.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

I. Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation. The fund balance restricted for the Iowa Federal Family Education Loan Program represents the amount available for actual payment of claims for defaulted loans and administration.

**(2) Cash and Investments**

The Division's deposits with the Treasurer of State throughout the year and at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Interest income from the investment pool is credited to the fund holding the cash balance. Interest earned for the year ended June 30, 2012 totaled \$169,924.

**(3) Capital Assets**

A summary of capital asset activity for the year ended June 30, 2012 is as follows:

	Balance			Balance
	Beginning			End
	of Year	Increases	Decreases	of Year
Equipment	\$ 63,805	5,576	-	69,381
Vehicles	93,009	-	-	93,009
Less: accumulated depreciation	(143,779)	(12,603)	-	(156,382)
Total	\$ 13,035	(7,027)	-	6,008

**(4) Pension and Retirement Benefits**

The Division contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. 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% of their annual covered salary and the Division is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Division's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$193,321, \$160,954 and \$173,398, respectively, equal to the required contribution for each year.

**(5) Compensated Absences and Other Postemployment Benefits**

Changes in compensated absences and other postemployment benefit obligations for the year ended June 30, 2012 are summarized as follows:

	Balance June 30, 2011			Balance June 30, 2012		Due Within One Year
		Additions	Deletions			
Compensated absences	\$ 372,367	236,631	210,955	398,043		245,841
Net OPEB liability	150,089	12,887	-	162,976		-
Total	\$ 522,456	249,518	210,955	561,019		245,841

Sick Leave Insurance Program

The Sick Leave Insurance Program (SLIP) is included in the compensated absences liability. The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the State's group health insurance plan after their retirement.

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

**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

The final calculated dollar value will be credited to the employee's Sick Leave Insurance Program (SLIP) account. Each month the Commission 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 Commission will continue to pay the employer's share of the health insurance premium each month until the converted value of the employee's sick leave balance is exhausted, until the employee is eligible for Medicare, until the employee waives the benefit or until the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer's share of health insurance premium payments. It has no cash value and it 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 by the Commission.



### State Employee Retirement Incentive Program (SERIP)

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

Participants in the SERIP will receive the following incentives:

- 1) Unused sick leave – A cash payment of the monetary value of the participant's accrued sick leave balance, not to exceed \$2,000. The payment is calculated by multiplying the number of hours of accrued sick leave by the participant's regular hourly rate of pay at the time of retirement. This payment was made in fiscal year 2010 on the participant's last pay check.
- 2) Health insurance – A minimum of five 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 leave 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 ten 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.

The SERIP is financed on a pay-as-you-go basis by Commission. Four employees retired under this program and the amounts due have been recorded as accounts payable. The liability for the expected future health insurance benefits at June 30, 2012 is \$103,760 and the liability for the unused vacation leave and years of service incentive installment payments at June 30, 2012 is \$62,344, or a total of \$166,104. The portion estimated to be due within one year is \$61,158.

### Other Postemployment Benefits

The Commission participates in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognizes the implicit rate subsidy for the OPEB Plan as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$377,900,000 for the State of Iowa at June 30, 2012. The Commission'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 Division recognized a net OPEB liability of \$162,976 for other postemployment benefits which represents the Division's portion of the State's net OPEB obligation. The Division's portion of the net OPEB obligation was calculated using the ratio of full time equivalent Division employees compared to all full time equivalent employees of the State of Iowa.

**(6) Commitments and Contingencies**

Loan Guarantees – The Division guarantees loans made to students. The U.S. Department of Education (USDE) reinsures the student loans up to 100% of their principal amounts based on the Division’s annual default rate. On loans made on or after October 1, 1993, the reinsurance percentage was reduced to 98% in accordance with the Omnibus Budget Reconciliation Act of 1993. At June 30, 2012, the Division was guarantor of \$2.482 billion of student loans. The state has no obligation under these student loan guarantees in the event of default.

Federal Agreements – Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the federal agencies for expenditures disallowed under terms of the agreements or the assessment of informal fines. The Division recognizes material disallowances when the loss becomes probable and reasonably estimable. As of June 30, 2012, the Division estimates any disallowances of recognized revenues would not be material to the financial statements.

**(7) 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 Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to State property (casualty losses).

**(8) Explanation of Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets**

The differences include liabilities for compensated absences, termination benefits payable and the net OPEB liability and capital assets, net of accumulated depreciation, which are not included in the governmental funds Balance Sheet but are included in the Statement of Net Assets, as follows:

Capital assets, net of accumulated depreciation	\$ 6,008
Net OPEB liability	(162,976)
Compensated absences	(398,043)
Termination benefits payable, included in accounts payable	<u>(166,104)</u>
Total	<u>\$ (721,115)</u>

**(9) Explanation of Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities**

The differences include the increase in the net OPEB liability, SLIP liability, compensated absences, capital assets, depreciation expense for capital assets and the decrease in the termination benefits payable which are not included in the Statement of Revenues, Expenditures and Changes in Fund Balances but are included in the Statement of Activities, as follows:

Increase in OPEB liability	\$	12,887
Increase in SLIP liability		13,057
Decrease in termination benefits payable		(21,314)
Increase in compensated absences		12,619
Increase in capital assets		(5,576)
Depreciation expense		12,603
Total	\$	<u>24,276</u>

**(10) Accounting Change/Restatement**

During fiscal year 2012, the Commission revalued student loan receivables and the related allowance for doubtful accounts. This resulted in the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities beginning fund balances/net assets for the Guaranty Agency Operating Fund increasing \$1,772,175.

	Guaranty Agency Operating Fund Balance	Governmental Activities Net Assets
Balance at June 30, 2011, as previously reported	\$21,027,701	45,688,093
Change in student loan receivables and related allowance for doubtful accounts	1,772,175	1,772,175
Balances at July 1, 2011, as restated	<u>\$22,799,876</u>	<u>47,460,268</u>

**(11) Subsequent Event**

On June 25, 2012, the Commission, after a year-long review of strategic options, voted to transfer its Federal Family Education Loan Program (FFELP) guarantee portfolio to the Great Lakes Higher Education Guaranty Corporation (Great Lakes). The Commission intends to work cooperatively and expeditiously with Great Lakes and the U.S. Department of Education to ensure a seamless transition of borrower accounts to Great Lakes on October 1, 2012. The financial impact of this move is uncertain. However, the Federal Student Loan Reserve Fund will be transferred to Great Lakes and closed May 16, 2013.

**Supplementary Information**

Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission

## Expenditures by Object

## Special Revenue Funds

Year ended June 30, 2012

	Special Revenue		Total
	Federal Student Loan Reserve	Guaranty Agency Operating	
Federal Family Education Loan Program administration:			
Personal services	\$ -	2,144,836	2,144,836
Travel	-	28,959	28,959
Supplies and materials	-	114,362	114,362
Contractual services	-	1,980,253	1,980,253
Equipment	-	64,830	64,830
Other	-	3,836	3,836
Subtotal	-	4,337,076	4,337,076
Default collections remitted to USDE	7,149,766	-	7,149,766
Collection expenses	-	6,454,685	6,454,685
Payments on defaulted loans	68,367,449	-	68,367,449
Default aversion fees	1,318,558	-	1,318,558
Default aversion rebates	-	618,659	618,659
Payments for refunds and rehabbed loans	15,953,358	-	15,953,358
Fees and recoveries allocated to Guaranty Agency Operating Fund	8,401,580	-	8,401,580
Gear Up grant expense	-	4,335,135	4,335,135
College access grant expense	-	1,215,320	1,215,320
Other	1,573,169	104,017	1,677,186
Total	\$ 102,763,880	17,064,892	119,828,772

See accompanying independent auditor's report.

**Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

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

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

To the Members of the  
Iowa College Student Aid Commission:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission as of and for the year ended June 30, 2012, which collectively comprise the Division's basic financial statements listed in the table of contents, and have issued our report thereon dated March 11, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

The management of the Iowa Federal Family Education Loan Program Division of the Iowa College Student Aid Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Iowa Federal Family Education Loan Program Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Iowa Federal Family Education Loan Program Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Federal Family Education Loan Program Division's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Federal Family Education Loan Program Division'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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

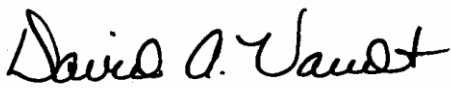
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Federal Family Education Loan Program Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and

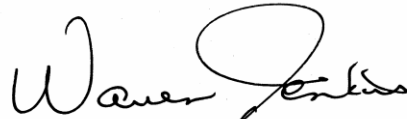
grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa College Student Aid Commission and other parties to whom the Iowa College Student Aid Commission may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa College Student Aid Commission during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 11, 2013



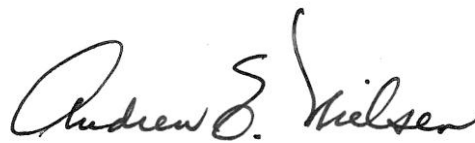
---

Iowa Federal Family Education Loan Program Division  
Iowa College Student Aid Commission

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager  
Karen L. Brustkern, CPA, Senior Auditor II  
David C. McQuarry, CPA, Staff Auditor  
Brooke A. Robb, Staff Auditor



Andrew E. Nielsen, CPA  
Deputy Auditor of State