



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

December 23, 2013

Contact: Andy Nielsen
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Auditor of State Mary Mosiman 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, 2013.

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. On October 1, 2012, the Division transferred the Federal Education Loan Program and the balance of the Federal Student Loan Reserve Fund to Great Lakes Higher Education Guaranty Corporation.

The Division had revenues of \$33,852,462 during the year ended June 30, 2013, a 69% decrease from the prior year. Revenues included \$19,341,435 from the U.S. Department of Education (USDE) for federal reinsurance payments and default collections of \$7,932,597. Other revenues included federal management fees of \$355,086 and interest income of \$18,114.

Expenses for the year ended June 30, 2013 totaled \$37,951,117, a 65% decrease from the prior year. Expenses included payments to lenders on defaulted loans of \$19,942,729, a 71% decrease from the prior year, and default collections remitted to USDE of \$1,422,920.

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/1460-2840-B000.pdf>.

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

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

JUNE 30, 2013

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**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
Frederick Moore	Member
Senator Herman C. Quirnbach	Member
Doug Shull	Member
Karolyn Wells	Member
Representative Cindy Winckler	Member
Roger Claypool	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**



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Independent Auditor's Report

To the Members of the
Iowa College Student Aid Commission:

Report on the Financial Statements

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, 2013, and the related Notes to Financial Statements, which collectively comprise the Commission'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 U.S. generally accepted auditing principles. 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 an opinion 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 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 Commission's preparation and fair presentation of the 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 Commission'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 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 net 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, 2013, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Iowa Federal Family Education Loan Program Division's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional 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 basic financial statements taken as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2013 on our consideration of the Iowa Federal Family Education Loan Program Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, the articles of incorporation 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 the audit performed in accordance with Government Auditing Standards in considering the Iowa Federal Family Education Loan Program Division's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 5, 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 Position

June 30, 2013

	Special Revenue			Total	Adjustments	Statement of Net Position
	General Default Prevention	Federal Student Loan Reserve	Guaranty Agency Operating			
Assets						
Cash and investments	\$1,445,594	12,360	20,660,811	22,118,765	-	22,118,765
Accounts receivable	-	-	29,703,238	29,703,238	-	29,703,238
Interest receivable	1,225	-	18,486	19,711	-	19,711
Due from the federal government	-	-	422,833	422,833	-	422,833
Prepaid expense	-	-	60,480	60,480	-	60,480
Capital assets, net of accumulated depreciation	-	-	-	-	2,790	2,790
Total assets	\$1,446,819	12,360	50,865,848	52,325,027	2,790	52,327,817
Liabilities						
Current liabilities:						
Accounts payable	\$ -	12,360	1,396,295	1,408,655	48,708	1,457,363
Deferred revenue	-	-	6,010,109	6,010,109	(6,010,109)	-
Compensated absences	-	-	-	-	154,914	154,914
Total current liabilities	-	12,360	7,406,404	7,418,764	(5,806,487)	1,612,277
Noncurrent liabilities:						
Accounts payable	-	-	-	-	47,115	47,115
Deferred revenue	-	-	20,626,195	20,626,195	(20,626,195)	-
Compensated absences	-	-	-	-	155,275	155,275
Net OPEB liability	-	-	-	-	96,294	96,294
Total noncurrent liabilities	-	-	20,626,195	20,626,195	(20,327,511)	298,684
Total liabilities	-	12,360	28,032,599	28,044,959	(26,133,998)	1,910,961
Fund balances/Net position						
Fund balances:						
Nonspendable	-	-	60,480	60,480	(60,480)	-
Restricted for the Iowa Federal Family Education Loan Program	1,446,819	-	22,772,769	24,219,588	(24,219,588)	-
Total fund balances	1,446,819	-	22,833,249	24,280,068	(24,280,068)	-
Total liabilities and fund balances	\$1,446,819	12,360	50,865,848	52,325,027		
Net Position						
Invested in capital assets					2,790	2,790
Restricted					50,414,066	50,414,066
Total net position					\$ 50,416,856	50,416,856

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, 2013

	Special Revenue			Total	Adjustments	Statement of Activities
	General Default Prevention	Federal Student Loan Reserve	Guaranty Agency Operating			
Revenues:						
Federal management fees	\$ -	-	355,086	355,086	-	355,086
Federal reinsurance payments	-	19,341,435	-	19,341,435	-	19,341,435
Default aversion fees	-	-	272,438	272,438	(272,438)	-
Default aversion rebates	-	178,953	-	178,953	(178,953)	-
Interest income	-	18,114	-	18,114	-	18,114
Default collections	-	7,700,462	232,135	7,932,597	-	7,932,597
Overpayments and repurchases	-	2,324,665	-	2,324,665	-	2,324,665
Federal default fees	-	447	517,538	517,985	-	517,985
Fees and recoveries allocated to Guaranty Agency Operating Fund	-	-	2,193,554	2,193,554	(2,193,554)	-
Gear up grant	-	-	2,806,826	2,806,826	82,476	2,889,302
Great Lakes collections	-	-	3,790,790	3,790,790	(3,790,790)	-
Other	-	7,798	465,480	473,278	-	473,278
Total revenues	-	29,571,874	10,633,847	40,205,721	(6,353,259)	33,852,462
Expenditures/expenses:						
Federal Family Education Loan Program administration	-	-	3,570,178	3,570,178	(211,523)	3,358,655
Default collections remitted to USDE	-	1,422,920	-	1,422,920	-	1,422,920
Collection expenses	-	-	1,821,505	1,821,505	-	1,821,505
Payments on defaulted loans	-	19,942,729	-	19,942,729	-	19,942,729
Default aversion fees	-	272,438	-	272,438	(272,438)	-
Default aversion rebates	-	-	178,953	178,953	(178,953)	-
Payments for refunds and rehabbed loans	-	4,104,667	-	4,104,667	-	4,104,667
Fees and recoveries allocated to Guaranty Agency Operating Fund	-	2,193,554	-	2,193,554	(2,193,554)	-
Gear up grant expense	-	-	5,081,635	5,081,635	-	5,081,635
Depreciation	-	-	-	-	3,218	3,218
Other	150,315	848,977	1,216,496	2,215,788	-	2,215,788
Total expenditures/expenses	150,315	28,785,285	11,868,767	40,804,367	(2,853,250)	37,951,117
Excess (deficiency) of revenues over (under) expenditures/expenses/change in net position	(150,315)	786,589	(1,234,920)	(598,646)	(3,500,009)	(4,098,655)
Special items:						
Gain (loss) on disposal of operations	-	(23,816,505)	-	(23,816,505)	30,357,912	6,541,407
Fund balances/net position beginning of year	1,597,134	23,029,916	24,068,169	48,695,219	(721,115)	47,974,104
Fund balances/net position end of year	\$ 1,446,819	-	22,833,249	24,280,068	26,136,788	50,416,856

See notes to financial statements.

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

Notes to Financial Statements

June 30, 2013

(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.

From July 1, 2010, with the elimination of new FFELP loans, the Commission no longer received loan processing and issuance fees. In addition, as loans held by various lenders/servicers remained in an active repayment status, the guaranteed portfolio continued to decline until being transferred to Great Lakes Higher Education Guaranty Corporation, resulting in a reduction in account management fees.

The Division was 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 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 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 Position 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. 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, 2013.

G. Deferred Revenue

The Commission has revenues from the agreement to transfer the balance of the Special Revenue, Federal Student Loan Reserve Fund to the Great Lakes Higher Education Guaranty Corporation which are measurable, but not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Those revenues are receivable over the ten year period ending June 30, 2022. Deferred revenue in the Special Revenue, Guaranty Agency Operating Fund financial statements represents the amount of assets which have been recognized, but the related revenue has not been recognized since the assets have not been collected within the current year or expected to be collected within sixty days after year end. Those assets have been recognized in the Statement of Net Position.

H. Net Position

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

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

Restricted net position result when constraints placed on net asset use are either externally imposed or are 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, 2013 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, 2013 totaled \$18,114.

(3) **Capital Assets**

A summary of capital asset activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Equipment	\$ 69,381	-	-	69,381
Vehicles	93,009	-	-	93,009
Less: accumulated depreciation	(156,382)	(3,218)	-	(159,600)
Total	\$ 6,008	(3,218)	-	2,790

(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 5.78% of their annual covered salary and the Division is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Division's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$158,316, \$193,321 and \$160,954, 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, 2013 are summarized as follows:

	Balance			Balance	
	June 30,			June 30,	Due
	2012	Additions	Deletions	2013	Within
					One Year
Compensated absences	\$ 398,043	180,829	268,683	310,189	154,914
Net OPEB liability	162,976	-	66,682	96,294	-
Total	\$ 561,019	180,829	335,365	406,483	154,914

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'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 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:	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

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 the 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 the 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, 2013 is \$54,261 and the liability for the unused vacation leave and years of service incentive installment payments at June 30, 2013 is \$41,562, or a total of \$95,823. The portion estimated to be due within one year is \$48,708.

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 \$233,200,000 for the State of Iowa at June 30, 2013. 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, 2013. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The Commission recognized a net OPEB liability of \$96,294 for other postemployment benefits which represents the Division's portion of the State's net OPEB obligation. The Commission's portion of the net OPEB obligation was calculated using the ratio of full time equivalent Commission 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, 2013, the Division was no longer the guarantor 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, 2013, 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 Position

The differences include liabilities for compensated absences, termination benefits payable and the net OPEB liability, deferred revenue 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 Position, as follows:

Capital assets, net of accumulated depreciation	\$ 2,790
Net OPEB liability	(96,294)
Compensated absences	(310,189)
Termination benefits payable, included in accounts payable	(95,823)
Deferred revenue	26,636,304
Total	<u>\$ 26,136,788</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 decrease in the net OPEB liability, termination benefits payable, compensated absences, the increase in the SLIP liability, depreciation expense for capital assets, deferred revenue and the gain on the sale of operations 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:

Decrease in net OPEB liability	\$ (66,682)
Increase in SLIP liability	18,256
Decrease in termination benefits payable	(70,281)
Decrease in compensated absences	(106,110)
Increase in deferred revenue	(26,636,304)
Loss on disposal of operations	30,357,912
Depreciation expense	3,218
Total	<u><u>\$ 3,500,009</u></u>

(10) Disposal of Operations

With approval from the U.S. Department of Education, the Federal Family Education Loan Program (FFELP) was transferred to Great Lakes Higher Education Guaranty Corporation (Great Lakes) on October 1, 2012. The agreement between the Commission and Great Lakes included transferring the balance of the Federal Student Loan Reserve Fund to Great Lakes. The agreement entitled the Commission to revenues based on future collections.

In accordance with GASB statement No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations*, a special item, loss on disposal of operations totaling \$23.8 million was reported in the Federal Student Loan Reserve Fund. In the Special Revenue, Guaranty Agency Operating Fund, a receivable and deferred revenue were recorded. In accordance with U.S. generally accepted accounting principles, the revenue was recognized in the Statement of Activities, resulting in a \$6.5 million gain on disposal of operations.

Supplementary Information

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

Expenditures by Object

Special Revenue Funds

Year ended June 30, 2013

	Special Revenue		Total
	Federal Student Loan Reserve	Guaranty Agency Operating	
Federal Family Education Loan Program administration:			
Personal services	\$ -	1,976,328	1,976,328
Travel	-	13,029	13,029
Supplies and materials	-	107,447	107,447
Contractual services	-	656,207	656,207
Equipment	-	82,626	82,626
Other	-	734,541	734,541
Subtotal	-	3,570,178	3,570,178
Default collections remitted to USDE	1,422,920	-	1,422,920
Collection expenses	-	1,821,505	1,821,505
Payments on defaulted loans	19,942,729	-	19,942,729
Default aversion fees	272,438	-	272,438
Default aversion rebates	-	178,953	178,953
Payments for refunds and rehabbed loans	4,104,667	-	4,104,667
Fees and recoveries allocated to Guaranty Agency Operating Fund	2,193,554	-	2,193,554
Gear Up grant expense	-	5,081,635	5,081,635
Other	848,977	1,216,496	2,065,473
Total	\$ 28,785,285	11,868,767	40,654,052

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

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements 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, 2013, and the related Notes to Financial Statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Federal Family Education Loan Program Division's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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 Iowa Federal Family Education Loan Program Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Federal Family Education Loan Program Division's internal control.

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 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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 and the articles of incorporation, 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.

Purpose of this Report

This purpose of this report is solely to describe the scope of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Division's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Division's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 5, 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
Jamie T. Reuter, Staff Auditor
Elissa R. Olson, Staff Auditor
Corey M. Vannausdle, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State