OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

NEWS RELEASE

Contact: Andy Nielsen
515/281-5834

FOR RELEASE November 14, 2013

Auditor of State Mary Mosiman today released an audit report on the Iowa Agricultural Development Authority for the year ended June 30, 2013.

The Iowa Agricultural Development Authority reported total revenues of $398,828 for the year ended June 30, 2013, a decrease of 7.4% from the prior year. Revenues included $204,514 from beginning farmer loan program fees, $99,679 from interest income on loans, $73,800 from tax credit program fees and $15,128 from interest income on cash and investments. Expenses of the Iowa Agricultural Development Authority for the year ended June 30, 2013 totaled $451,254, a 4.6% increase over the prior year, and included general and administrative expenses of $387,724 and direct expenses for the beginning farmer loan program of $57,763. The Authority reported a decrease in net position of $52,426 during the year.

As of July 1, 2013, the Authority became a division within the Iowa Finance Authority.

A copy of the audit report is available for review in the Agricultural Development Division's Office, in the Office of Auditor of State and on the Auditor of State's website at http://auditor.iowa.gov/reports/1460-0014-B000.pdf.

# # #

IOWA AGRICULTURAL DEVELOPMENT AUTHORITY

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

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Iowa Agricultural Development Authority

Officials

Governor

Honorable Terry E. Branstad

Director, Department of Management

David Roederer

Director, Legislative Services Agency

Glen P. Dickinson

Authority Board Members (Through June 30, 2013)

Name	Title
Jayme J. Ungs	Chair
Lisa Irlbeck	Treasurer
Cindy Hall	Member
Gregory Steelsmith	Member
Annette Townsley	Member
Lyle Borg	Member
John Fredrickson	Member
Mark Leonard	Member
Honorable Bill Northey	Member Ex-Officio
Honorable Michael L. Fitzgerald	Member Ex-Officio
Steve Ferguson	Executive Director

Agricultural Development Board

(Effective July 1, 2013)

Name	Title	Term Expires
Mark Leonard	Chair	2018
Lyle Borg	Vice Chair	2016
Annette Townsley	Member	2015
John Fredrickson	Member	2017
Stacie Euken	Member	2019
David Jamison	Member Ex-Officio	Indefinite

Iowa Agricultural Development Authority

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STATE OF IOWA

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Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

To the Board Members of the
Iowa Finance Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Iowa Agricultural Development Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Iowa Agricultural Development Authority'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 accounting 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 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 Authority'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 Authority'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa Agricultural Development Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1, the financial statements of the Iowa Agricultural Development Authority are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the component units of the State of Iowa that is attributable to the transactions of the Iowa Agricultural Development Authority. 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 and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10, House File 607 enacted by the 2013 General Assembly transferred the powers and duties of the Iowa Agricultural Development Authority to the Iowa Finance Authority, effective July 1, 2013.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis on pages 9 through 14 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 U.S. generally accepted auditing standards, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Agricultural Development Authority's basic financial statements. The supplementary information included in Schedules 1 through 4 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 records used to prepare the basic 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 financial statements or to the 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 financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 21, 2013 on our consideration of the Iowa Agricultural Development Authority'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 in considering the Iowa Agricultural Development Authority's internal control over financial reporting and compliance.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 21, 2013

Iowa Agricultural Development Authority

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Agricultural Development Authority (Authority) provides this Management's Discussion and Analysis of the Authority's annual financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- Total revenues of the Authority decreased 7.4%, or approximately $32,000, from fiscal year 2012. The decrease was due primarily to approximately $31,000 of lower Loan Participation Program loan interest and a decrease of approximately $14,000 because the Iowa Agricultural Youth Institute was not held during fiscal year 2013. There were few Loan Participation Program (LPP) applications in fiscal year 2013 as a result of lower interest rates available at the Farm Service Agency (FSA) and local banks and the LPP interest rate not being a competitive rate. The Authority's Board adjusted the interest rate on the LPP to 3.5% so more beginning farmers will be inclined to use this program.

- The dollar volume of bonds issued under the Beginning Farmer Loan Program (BFLP) increased to $14,220,207 compared to $13,129,399 in fiscal year 2012. The number of BFLP closings increased to 64 compared to 60 BFLP closings in fiscal year 2012. The Authority continues to lead the nation in both the number and dollar volume of loans. The BFLP loan fees represent the major portion of revenue for the Authority and we continually promote and market the program. Land prices continue to make it difficult for beginning farmers to purchase agricultural production assets and the BFLP represents an important tool in helping aspiring beginning farmers to reach their goal of farm ownership.

- In January 2007, the Authority began offering the Beginning Farmer Tax Credit Program. This program provides a state income tax credit to agricultural asset owners who lease their assets to qualified beginning farmers. This program has been hugely successful, with 1,265 applications received to date. This program had a positive effect on revenues as the Authority was able to implement and operate the program with existing staff.

- Expenses of the Authority increased 4.6%, or approximately $20,000, over fiscal year 2012. Approximately $54,000 of the increase is related to general and administrative expenses. This increase was attributable to an increase of approximately $29,000 in employee compensation due to employing an Executive Director for the entire year, an increase in rent of approximately $10,000 due to paying rent for the entire 2013 fiscal year compared to a six month abatement in fiscal year 2012 and an increase of approximately $12,000 due to paying the Iowa Department of Agriculture to process revenue and expenses for five months due to the Authority being without an accounting employee. Expenses decreased approximately $33,000 because the Iowa Agricultural Youth Institute was not held in fiscal year 2013 and a decrease in grants to agricultural development and education programs.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Iowa Agricultural Development Authority's basic financial statements. The Authority's basic financial statements consist of two basic areas. Income, expenses, assets and liabilities are allocated to the Administrative/BFLP Fund and the Rural Rehabilitation Trust Fund (RRTF). The RRTF is further divided between the Loan Participation Program (LPP) and the Trust Fund accounts. The tax credit programs are maintained within the Administrative/BFLP Fund.

The RRTF is managed by the Authority through a Use Agreement executed with the U.S. Department of Agriculture. The Use Agreement allows the Authority to use the fund for assistance to low income farmers, agricultural educational programs and administrative expenses. The fund is currently used for the Loan Participation Program. Also, the Use Agreement allows the Authority to annually use 3% of the fund for administrative expenses.

The Administrative/BFLP Fund consists of revenues generated from the Beginning Farmer Loan Program and the Beginning Farmer Tax Credit Program and general administrative expenses required to operate the office. Only program specific costs, such as legal fees, are allocated to the RRTF.

The Authority does not receive General Fund monies from the State of Iowa. The Authority is a self-funded agency which charges modest loan origination and closing fees. The fees and investment income pay the Authority's operating expenses.

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Authority's financial activities.

The Basic Financial Statements consist of a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows. These provide information about the activities of the Authority as a whole and present an overall view of the Authority's finances.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the individual funds. The Budgetary Comparison Schedule of Revenues and Expenses – Budget to Actual further explains and supports the financial statements with a comparison of the Authority's budget for the year.

COMPARISON WITH PRIOR YEAR AND SIGNIFICANT FINANCIAL FACTORS

The Statement of Net Position

The Statement of Net Position presents the assets, liabilities and net position of the Authority as a whole at the end of the fiscal year. The Statement of Net Position is a point-in-time financial statement. The purpose of this statement is to present a fiscal snapshot of the Authority to readers of the financial statements. The Statement of Net Position includes year-end information concerning current and noncurrent assets, current and noncurrent liabilities and net position. Over time, readers of the financial statements will be able to determine the Authority's financial position by analyzing the increases and decreases in net position. This statement is also a good source for readers to determine how much the Authority owes to outside vendors and creditors. The statement also presents the available assets which can be used to satisfy those liabilities.

Net Position

	June 30,	
	2013	2012
Current and other assets	$ 6,025,303	6,049,872
Capital assets, net of accumulated depreciation	7,732	11,472
Total assets	6,033,035	6,061,344
Current liabilities	85,272	43,255
Noncurrent liabilities	11,156	29,056
Total liabilities	96,428	72,311
Net position:		
Invested in capital assets	7,732	11,472
Restricted	5,250,693	5,299,998
Unrestricted	678,182	677,563
Total net position	$ 5,936,607	5,989,033

Total net position at year-end was $5,936,607, a decrease of $52,426 from the previous year-end. This decrease is due primarily because of lower interest earned on LPP's and CD's and increased expenses.

The RRTF represents 88.4% of the Authority's net position. Approximately 61.3% of these assets are liquid and available for additional program development. The remainder of the assets is loans to Iowa farmers which represent a significant investment in helping Iowa's low-income farmers. The net position of the RRTF decreased $49,305 in fiscal year 2013.

The Authority is very liquid, which can provide an operating cushion in adverse times. Likewise, this liquid position can potentially have an adverse or positive impact on earnings in times of interest rate volatility. The Authority continues to explore investment options to enhance the return on investable funds and will begin extending maturities on investments to maximize returns as the yield curve indicates. This will be done while maintaining safe, secure investments and complying with state investment guidelines and Authority policy.

Liabilities are limited to various accounts payable, unearned revenue and compensated absences. The accounts payable balance decreased from the previous year due a decrease in the liability associated with the State Employee Retirement Incentive Program (SERIP).

Statement of Revenues, Expenses and Changes in Fund Net Position

Changes in net position presented in the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Fund Net Position. The purpose of the statement is to present the revenues earned by the Authority, both operating and non-operating, and the expenses incurred by the Authority.

Changes in Net Position

	Year ended June 30, 2013	2012
Operating revenues:		
Interest on loans	$ 99,679	130,669
Program fees	280,614	262,309
Iowa Agricultural Youth Institute contributions	-	14,450
Miscellaneous	407	-
Decrease in the estimate of allowance for loan losses	3,000	7,000
Total operating revenues	383,700	414,428
Operating expenses:		
General and administrative	387,724	334,088
BFLP direct expenses	57,763	58,747
LPP direct expenses	-	417
Iowa Agricultural Youth Institute	-	26,996
Grants to agricultural development and education programs	4,750	11,235
Total operating expenses	450,237	431,483
Operating loss	(66,537)	(17,055)
Non-operating revenues (expenses):		
Interest on investments	15,128	16,255
Loss on disposal of capital assets	(1,017)	-
Net non-operating revenues	14,111	16,255
Change in net position	(52,426)	(800)
Net position beginning of year	5,989,033	5,989,833
Net position end of year	$ 5,936,607	5,989,033

The loan application and closing fees collected as part of the BFLP typically represent the largest source of revenue for the Authority. The BFLP volume was up for the year, creating an increase in revenues over fiscal year 2012, from $262,309 to $280,614.

Interest income from loans decreased 23.7% compared to the previous year and year end net loans outstanding decreased approximately $309,000 from the previous year-end. The decrease in outstanding loans is due to only one new loan being issued in fiscal year 2013. The decrease in loan activity is due primarily to the 3.5% fixed interest rate on loans the Authority issues. Borrowers are able to find more competitive interest rates by utilizing other programs.

The Authority had an increase in operating expenses of 4.3% in fiscal year 2013.

Statement of Cash Flows

The Statement of Cash Flows is an important tool in helping readers assess the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities.

Cash Flows

		Year ended June 30,	
		2013	2012
Cash provided (used) by:			
Operating activities	$	264,824	382,812
Capital and related financing activities		(1,634)	(1,622)
Investing activities		9,544	105,148
Net increase in cash		272,734	486,338
Cash and cash equivalents beginning of year		3,082,802	2,596,464
Cash and cash equivalents end of year		3,355,536	3,082,802
Investments		612,171	609,639
Cash, cash equivalents and investments end of year	$	3,967,707	3,692,441

Cash provided by operating activities includes investment activity, repayments and interest on loans, fees and contributions and grants made, net of payments to employees and suppliers. Cash used by capital and related financing activities represents the purchase of capital assets. Cash provided by investing activities includes the sale and purchase of certificates of deposit and investment income received. For the year ended June 30, 2013, the Authority originated one new LPP loan and received $461,530 in loan payments. The result was a net increase in cash.

ACTUAL VERSUS BUDGET

Revenues were below the final budget projections for the year by $3,466, mainly due to $7,650 less tax credit program fees received than budgeted and less BFLP program fees than budgeted. There also was a decrease in the estimate of allowance for loan losses which is not budgeted.

As indicated earlier, BFLP fee income represents a significant portion of total revenue. Continuing high land prices is affecting the volume of BFLP applications as BFLP volume was lower than the previous year and budget expectations. The Authority actively markets the BFLP program and promotes the use of budgeted companion programs which assist beginning farmers with down payment and interest rate reductions. Continued marketing efforts will be done in fiscal year 2014 in an attempt to increase BFLP volume. In addition, several enhancements made to the BFLP program in the summer of 2008 at both the state and federal level should increase the use of the program in future years.

Overall expenses were above budget projections by approximately $28,000, mainly due to more expenses related in employee compensation and legal fees of $14,313 and $13,259, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Farmland values have remained strong. In addition, it appears outside investor purchases of farmland have slowed, thus providing more opportunity for beginning farmers. This should have a positive effect on BFLP volume and income in the coming year.

We continue to see an increase in bankers using the Farm Service Agency (FSA) 50/45/5 program with the BFLP program. This program assists beginning farmers with down payments and also reduces the risk to the participating bank. Use of this program helps beginning farmers who otherwise might not qualify for credit and should further enhance our beginning farmer loan numbers. The Authority has a memorandum of understanding (MOU) with FSA whereby we cross-promote each other's programs. This has proven to be a very successful marketing arrangement for both parties.

During 2008, the maximum BFLP bond was increased from $250,000 to $450,000, or at the federal level. Subsequently, the loan maximum increased to $469,200 on January 1, 2009, to $471,100 on January 1, 2010, $477,000 on January 1, 2011 and $488,600 in 2012. For 2013, the maximum loan amount is indexed at $501,100. Also, the maximum net worth of a qualified beginning farmer was increased from $300,000 to $500,000 during 2008, to $600,000 for 2009, $555,600 for 2010, $577,825 for 2011 and $647,165 for 2012. For 2013, the maximum net worth is indexed at $691,172. This has increased the eligible pool of applicants for the program.

The Authority remains susceptible to investment rate risk due to our level of liquid assets. Investments in CD's have intentionally been kept short term the past few years based on the shape of the yield curve. The Authority is now well positioned to take advantage of rising interest rates in the future as the yield curve returns to a more normal shape.

It is anticipated the BFLP loan volume in fiscal year 2014 will increase from fiscal year 2013. The BFLP program continues to be the most successful program of its kind in the nation and is continually modeled by startup programs around the nation. In addition, the current ag real estate market prices are continuing to increase, which creates a challenge for beginning farmers.

As a result of House File 607 enacted by the 2013 General Assembly, the Authority became a division of the Iowa Finance Authority commencing July 1, 2013.

In summary, the Authority, now a division of the Iowa Finance Authority, is well positioned to provide assistance to Iowa's beginning farmers. These programs assist beginning farmers get their start in production agriculture, creating new businesses in Iowa.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and citizens of the State of Iowa with a general overview of the Iowa Agricultural Development Authority's finances and to show the Authority's accountability for monies under its discretion. If you have questions about the report or need additional financial information, contact the Agricultural Development Division, 2015 Grand Avenue, Des Moines, Iowa 50312.

Basic Financial Statements

Iowa Agricultural Development Authority

Iowa Agricultural Development Authority

Statement of Net Position

June 30, 2013

Assets	
Current assets:	
Cash	$ 137,668
Investments	408,703
Loans receivable, net	166,020
Accrued interest receivable	35,514
Other current assets	19,609
Total current assets	767,514
Noncurrent assets:	
Restricted cash	3,217,868
Investments	203,468
Loans receivable, net	1,836,453
Capital assets, net of accumulated depreciation	7,732
Total noncurrent assets	5,265,521
Total assets	6,033,035
Liabilities	
Current liabilities:	
Accounts payable	45,818
Unearned revenue	27,250
Compensated absences	12,204
Total current liabilities	85,272
Noncurrent liabilities:	
Accounts payable	7,773
Compensated absences	3,383
Total noncurrent liabilities	11,156
Total liabilities	96,428
Net Position	
Invested in capital assets	7,732
Restricted for Iowa Rural Rehabilitation	5,250,693
Unrestricted	678,182
Total net position	$ 5,936,607

See notes to financial statements.

Iowa Agricultural Development Authority

Statement of Revenues, Expenses and Changes in Fund Net Position

Year ended June 30, 2013

Operating revenues:	
Interest income on loans	$ 99,679
Beginning Farmer Loan Program (BFLP) fees	204,514
Loan Participation Program (LPP) fees	2,300
Tax Credit Program fees	73,800
Miscellaneous	407
Decrease in the estimate of allowance for loan losses	3,000
Total operating revenues	383,700
Operating expenses:	
General and administrative	387,724
BFLP direct expenses	57,763
Grants to agricultural development and education programs	4,750
Total operating expenses	450,237
Operating loss	(66,537)
Non-operating revenues (expenses):	
Interest income on cash and investments	15,128
Loss on disposal of capital assets	(1,017)
Net non-operating revenues	14,111
Change in net position	(52,426)
Net position beginning of year	5,989,033
Net position end of year	$ 5,936,607

See notes to financial statements.

Iowa Agricultural Development Authority

Statement of Cash Flows

Year ended June 30, 2013

Cash flows from operating activities:		
Investment in loans	$ (150,000)	
Repayments on loans	461,530	
Interest income on loans	113,645	
Fees and contributions	289,854	
Grants to agricultural development and education programs	(4,750)	
Cash paid to suppliers	(155,448)	
Cash paid to employees	(290,007)	
Net cash provided by operating activities		$ 264,824
Cash flows from capital and related financing activities:		
Acquisition of furniture and equipment		(1,634)
Cash flows from investing activities:		
Interest on cash and investments	12,076	
Sale of investments	224,300	
Purchase of investments	(226,832)	
Net cash provided by investing activities		9,544
Net increase in cash and cash equivalents		272,734
Cash and cash equivalents beginning of year		3,082,802
Cash and cash equivalents end of year		3,355,536
Investments		612,171
Cash and investments end of year		$ 3,967,707
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss		$ (66,537)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	$ 4,357	
Allowance for loan losses	(3,000)	
Changes in assets and liabilities:		
Decrease in accounts payable	(7,107)	
Decrease in investment in loans, net	311,530	
Increase in other current assets	(19,609)	
Decrease in accrued interest receivable on loans	13,966	
Increase in unearned revenue	27,250	
Increase in compensated absences	3,974	
Total adjustments		331,361
Net cash provided by operating activities		$ 264,824

See notes to financial statements.

(1) Summary of Significant Accounting Policies

The Iowa Agricultural Development Authority (the Authority), a component unit of the State of Iowa, was created in 1980 under Chapter 175 of the Code of Iowa as a public instrumentality and agency of the State of Iowa to undertake programs which assist beginning farmers in purchasing agricultural land and improvements and depreciable agricultural property for the purpose of farming. Chapter 175 of the Code of Iowa has been amended to include a Loan Participation Program and to expand the Beginning Farmer Loan Program to include an Individual Agricultural Development Bond Program. Chapter 175 of the Code of Iowa also includes an operating Loan Guarantee Program and an Agricultural Loan Assistance Program, which are currently inactive.

The Authority, under the Individual Agricultural Development Bond Program, issues federally approved tax-exempt development bonds, the proceeds of which are to provide authorized agricultural and soil conservation financing. The bonds are payable solely from repayments of the loans, which have been assigned, without recourse, to the participating lending institutions. Participating lending institutions receive a federal tax exemption for the interest earned on the loans. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements.

Under Chapter 175 of the Code of Iowa, the Authority applied to the Secretary of Agriculture of the United States and received the trust assets previously held by the United States for the dissolved Iowa Rural Rehabilitation Corporation (IRRC). The assets are subject to the provisions of an agreement which specify certain limitations on the use of such assets and the types of securities in which the assets may be invested.

In fiscal year 1997, the Authority started the Loan Participation Program. The Authority transferred $2,000,000 from the IRRC to the program. The program is designed to assist lenders and qualified farmers by participating on a last-in, last-out basis in a loan for the purchase of agricultural property. The Authority will participate in qualifying loans to low income farmers up to the lesser of $150,000 or 30% of the purchase price.

In fiscal year 2007, the Authority began administering the Beginning Farmer Tax Credit Program for the State of Iowa. To operate this program, the Authority receives application fees for each tax credit certificate issued.

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Authority has included all funds, organizations, boards, commissions and authorities. The Authority 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 Authority are such that exclusion would cause the Authority'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 Authority 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 Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The 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.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Assets

Cash, Cash Equivalents and Investments – The Authority considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2013 include certificates of deposit of $612,171.

Loans Receivable – Interest on loans is accrued and credited to operations based primarily on the principal amount outstanding. Accrual of interest income on any loan is discontinued when, in the opinion of management, there is reasonable doubt as to the ability to timely collect interest or principal.

Capital Assets – Furniture and equipment are recorded at cost and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from five to ten years.

Compensated Absences – Employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time for subsequent use or for payment upon termination, death or retirement. The cost of earned vacation, sick leave and compensatory time are recorded as liabilities. These liabilities for compensated absences are based on current rates of pay.

Allowance for Loan Losses – The allowance for loan losses is established through a provision for loan losses charged to operations. Loans are charged against the allowance for loan losses when management believes collection of the principal is unlikely.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan experience, current economic conditions and other relevant factors.

Beginning Farmer Loan Program Fees – Beginning Farmer Loan Program fees include application and closing fees received in conjunction with the Individual Agricultural Development Bond Program.

Loan Participation Program Fees – Loan Participation Program fees include application and closing fees received in conjunction with the Loan Participation Program.

Tax Credit Program Fees – Tax Credit Program fees include application fees received in conjunction with managing the Iowa Beginning Farmer Tax Credit Act.

Grants to Agricultural Development and Education Programs – Contributions in the form of grants are made to various agricultural development and educational programs. Grants are recorded as expended by the Authority and unexpended amounts revert to the Authority at the expiration of the grant period.

Budgets and Budgetary Accounting – Authority staff prepare an annual budget for general operations. The budget is approved and monitored by the Authority's Board.

(2) Cash, Cash Equivalents and Investments

The Authority's deposits in banks and with the Treasurer of State throughout the period 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.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority's Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Authority had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Furniture and equipment	$ 70,835	1,634	(34,232)	38,237
Less accumulated depreciation	(59,363)	(4,357)	33,215	(30,505)
Total capital assets, net	$ 11,472	(2,723)	(1,017)	7,732

(4) Lease Agreements

The Authority has entered into non-cancelable, operating leases for certain office equipment. The following is a schedule of the future minimum lease payments under the agreements in effect at June 30, 2013.

Year Ending June 30,	Amount
2014	$ 1,361
2015	1,361
2016	680
Total minimum lease payments	$ 3,402

Rent expense for the office equipment for the year ended June 30, 2013 totaled $1,361. The Authority rented office space during the year ended June 30, 2013 until the office moved to the Iowa Finance Authority, at which time, the lease was cancelled. Rent expense for the office space for the year ended June 30, 2013 totaled $19,953.

(5) Loans Receivable

The following is a summary of loans receivable at June 30, 2013:

Loans receivable	$ 2,022,473
Less allowance for loan losses	(20,000)
Net loans receivable	2,002,473
Less current portion	166,020
Noncurrent loans receivable	$ 1,836,453

(6) Pension and Retirement Benefits

The Authority 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 Authority is required to contribute 8.67% of covered payroll. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were $18,644, $16,319 and $16,322, respectively, equal to the required contributions for each year.

(7) Other Retirement Benefits

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 for 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.

SERIP is financed on a pay-as-you-go basis by the Authority. One Authority employee retired under this program and the amounts due have been recorded as accounts payable. The liability for the unused vacation leave and years of service incentive payments is $15,546 at June 30, 2013.

For the year ended June 30, 2013, one Authority employee received unused vacation leave and years of service incentive payments totaling $7,772 under SERIP.

(8) United States Department of Agriculture Use Agreement

Effective June 30, 1980, all of the trust assets held by the United States in trust for the dissolved Iowa Rural Rehabilitation Corporation were transferred to the Authority, subject to the provisions of an agreement specifying the use of such assets for loans (as defined in the agreement), grants, establishment of reserves and other rural rehabilitation purposes as agreed between the Authority and the Federal government. The agreement provides, among other things, the annual cost of administration of the program shall not exceed 3% of the book value thereof during any fiscal year without the prior written approval of the U.S. government. During the year ended June 30, 2013, the Authority transferred $152,000 to its Administration Fund for costs of administration. The calculated percentage was 2.89% for the year ended June 30, 2013. At June 30, 2013, net position related to the Iowa Rural Rehabilitation Corporation Program was $5,250,693.

(9) 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 for 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).

(10) Subsequent Event

House File 607 enacted by the 2013 General Assembly transferred the powers and duties from the Iowa Agriculture Development Authority to the Iowa Finance Authority, effective July 1, 2013. An Agricultural Development Division was created within the Iowa Finance Authority to administer Chapter 175 of the Code of Iowa by providing assistance to beginning farmers, agricultural producers, displaced farmers or other persons qualifying for assistance under Chapter 175 of the Code of Iowa. The Agricultural Development Division shall be administered in accordance with the policies of the Agricultural Development Board.

Supplementary Information

Iowa Agricultural Development Authority

Budgetary Comparison Schedule of Revenues and Expenses -
Budget to Actual

Year ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance Between Actual and Final Budget
Revenues:				
Interest income on loans	$ 120,000	97,662	99,679	2,017
Interest income on investments	20,000	16,199	15,128	(1,071)
Beginning Farmer Loan Program (BFLP) fees	300,000	206,738	204,514	(2,224)
Loan Participation Program (LPP) fees	6,650	200	2,300	2,100
Tax Credit Program fees	50,000	81,450	73,800	(7,650)
Iowa Agricultural Youth Institute sponsor donations	22,000	-	-	-
Iowa Agricultural Youth Institute registration fees	7,500	-	-	-
Other Income	500	45	407	362
Decrease in the estimate of allowance for loan losses	-	-	3,000	3,000
Total revenues	$ 526,650	402,294	398,828	(3,466)
Expenses:				
Employee compensation	$ 320,000	279,668	293,981	(14,313)
Travel	10,000	7,249	5,159	2,090
Supplies and other	4,000	3,210	3,418	(208)
Postage	3,000	1,781	1,358	423
Printing	800	1,198	1,342	(144)
Communication	3,000	2,537	3,649	(1,112)
Board expenses	11,000	11,616	11,462	154
Professional services	12,000	11,936	13,180	(1,244)
Office and computer equipment	10,000	5,885	5,478	407
Rent	12,500	21,354	21,931	(577)
Administrative services	12,000	17,477	14,254	3,223
Advertising and promotions	6,500	6,341	3,994	2,347
Legal fees	65,000	44,504	57,763	(13,259)
Public notices	1,350	997	-	997
Staff education and training	2,000	250	-	250
Iowa Agricultural Youth Institute	35,000	-	-	-
Miscellaneous	-	-	4,161	(4,161)
Grants to agricultural development and education programs	12,500	6,500	4,750	1,750
Depreciation	-	-	4,357	(4,357)
Loss on disposal of capital assets	-	-	1,017	(1,017)
Total expenses	$ 520,650	422,503	451,254	(28,751)

The Authority did not budget for depreciation, loss on disposal of capital assets or the decrease in the estimate of allowance for loan losses.

See accompanying independent auditor's report.

Iowa Agricultural Development Authority

Balance Sheet by Program Fund

June 30, 2013

	Administrative / BFLP Fund
Assets	
Current assets:	
Cash	$ 137,668
Investments	408,703
Loans receivable, net	-
Accrued interest receivable	12,253
Other current assets	12,518
Total current assets	571,142
Noncurrent assets:	
Restricted cash	-
Investments	203,468
Loans receivable, net	-
Furniture and equipment, net of accumulated depreciation	7,732
Total noncurrent assets	211,200
Total assets	$ 782,342
Liabilities	
Current liabilities:	
Accounts payable	$ 45,818
Unearned revenue	27,250
Compensated absences	12,204
Total current liabilities	85,272
Noncurrent liabilities:	
Accounts payable	7,773
Compensated absences	3,383
Total noncurrent liabilities	11,156
Total liabilities	96,428
Net Position	
Invested in capital assets	7,732
Restricted for Iowa Rural Rehabilitaiton	-
Unrestricted	678,182
Total net position	685,914
Total liabilities and net position	$ 782,342

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	-	-	137,668
-	-	-	408,703
-	166,020	166,020	166,020
325	22,936	23,261	35,514
-	7,091	7,091	19,609
325	196,047	196,372	767,514
730,679	2,487,189	3,217,868	3,217,868
-	-	-	203,468
-	1,836,453	1,836,453	1,836,453
-	-	-	7,732
730,679	4,323,642	5,054,321	5,265,521
731,004	4,519,689	5,250,693	6,033,035
-	-	-	45,818
-	-	-	27,250
-	-	-	12,204
-	-	-	85,272
-	-	-	7,773
-	-	-	3,383
-	-	-	11,156
-	-	-	96,428
-	-	-	7,732
731,004	4,519,689	5,250,693	5,250,693
-	-	-	678,182
731,004	4,519,689	5,250,693	5,936,607
731,004	4,519,689	5,250,693	6,033,035

Iowa Agricultural Development Authority

Schedule of Revenues, Expenses and Changes in Fund Net Position by Program Fund

Year ended June 30, 2013

	Administrative / BFLP Fund
Operating revenues:	
Interest income on loans	$ -
Beginning Farmer Loan Program (BFLP) fees	204,514
Loan Participation Program (LPP) fees	-
Tax Credit Program fees	73,800
Miscellaneous	407
Decrease in estimate of allowance for loan losses	-
Total operating revenues	278,721
Operating expenses:	
General and administrative	387,724
BFLP direct expenses	57,763
Grants to agricultural development and education programs	-
Total operating expenses	445,487
Operating income (loss)	(166,766)
Nonoperating revenues (expenses):	
Interest income on cash and investments	12,662
Loss on disposal of capital assets	(1,017)
Net non operating revenue	11,645
Change in net assets before transfers	(155,121)
Transfers in	152,000
Transfers out	-
Total transfers	152,000
Change in net position	(3,121)
Net position beginning of year	689,035
Net position end of year	$ 685,914

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund			
Trust	Loan Participation Program	Total	Grand Total
-	99,679	99,679	99,679
-	-	-	204,514
-	2,300	2,300	2,300
-	-	-	73,800
-	-	-	407
-	3,000	3,000	3,000
-	104,979	104,979	383,700
-	-	-	387,724
-	-	-	57,763
4,750	-	4,750	4,750
4,750	-	4,750	450,237
(4,750)	104,979	100,229	(66,537)
1,847	619	2,466	15,128
-	-	-	(1,017)
1,847	619	2,466	14,111
(2,903)	105,598	102,695	(52,426)
-	-	-	152,000
(152,000)	-	(152,000)	(152,000)
(152,000)	-	(152,000)	-
(154,903)	105,598	(49,305)	(52,426)
885,907	4,414,091	5,299,998	5,989,033
731,004	4,519,689	5,250,693	5,936,607

Iowa Agricultural Development Authority

Schedule of Operating Expenses by Program Fund

Year ended June 30, 2013

	General and Administrative	Beginning Farmer Loan Program
Employee compensation	$ 293,981	-
Travel	5,159	-
Supplies and other	3,418	-
Postage	1,358	-
Printing	1,342	-
Communications	3,649	-
Board expenses	11,462	-
Professional services	13,180	-
Office and computer equipment	5,478	-
Rent	21,931	-
Administrative services	14,254	-
Advertising and promotions	3,994	-
Legal fees	-	57,763
Miscellaneous	4,161	-
Grants to agricultural development and education programs	-	-
Depreciation	4,357	-
Total	$ 387,724	57,763

See accompanying independent auditor's report.

Iowa Rural Rehabilitation Fund	
Trust	Grand Total
-	293,981
-	5,159
-	3,418
-	1,358
-	1,342
-	3,649
-	11,462
-	13,180
-	5,478
-	21,931
-	14,254
-	3,994
-	57,763
-	4,161
4,750	4,750
-	4,357
4,750	450,237

Iowa Agricultural Development Authority

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, 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 Board Members of the
Iowa Finance Authority:

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Iowa Agricultural Development Authority, a component unit of the State of Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Agricultural Development Authority'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 Agricultural Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Agricultural Development Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

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 Agricultural Development Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in the Iowa Agricultural Development Authority's internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as item (B) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Agricultural Development Authority'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 required to be reported under Government Auditing Standards.

Iowa Agricultural Development Authority's Responses to the Findings

The Iowa Agricultural Development Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Iowa Agricultural Development Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Authority'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 Authority'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 Agricultural Development Authority and the Iowa Finance Authority 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

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 21, 2013

Iowa Agricultural Development Authority

Schedule of Findings

Year ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One or two individuals may have control over the following areas for which no compensating controls exist:

(a) There is a lack of segregation of duties in collecting, deposit preparation and recording cash.

(b) There is lack of segregation of duties in maintaining detailed accounts receivable records and posting receipts.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Authority should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Since moving over to the Iowa Finance Authority, segregation of duties have improved. The accounting department now handles all cash transactions.

Conclusion – Response accepted.

(B) Capital Assets – In June 2013, when the Iowa Agricultural Development Authority moved to the Iowa Finance Authority, a number of items previously reported as capital assets were disposed of. A listing of these disposals, along with the method of disposal, was not maintained. Therefore, there was no documentation the capital assets deleted were properly reviewed and approved by the Executive Director.

Recommendation – The Authority should ensure all capital asset deletions are properly documented and approved.

Response – The Iowa Finance Authority's Chief Operating Officer and the Iowa Agriculture Development Authority's Executive Director supervised and authorized the disposal of capital assets with a net book value of $1,017. These assets were not needed for the Iowa Agriculture Development Authority in its new location, and the market value was estimated at $0 for the disposed assets.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

No matters were noted.

Iowa Agricultural Development Authority

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Daniel J. Mikels, Staff Auditor
Philip A. Rethwisch, Staff Auditor
Leslie M. Downing, Assistant Auditor
Anthony M. Heilbult, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State