



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

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Auditor of State

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Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE

November 5, 2002

**Contact: Andy Nielsen
515/281-5515**

Auditor of State Richard Johnson today released an audit report on the Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust) for the year ended June 30, 2002.

The Trust was created by the General Assembly under Chapter 12D of the Code of Iowa to encourage and make possible the attainment of higher education by the greatest number of citizens of the state. The purpose of the Trust is to allow U.S. citizens to invest money for future application to the payment of higher education costs for designated beneficiaries. At June 30, 2002, the Trust had 26,632 participants and 39,579 beneficiaries.

Johnson reported additions totaling \$209,515,122 for the year, a 783% increase from the prior year. Additions included \$224,270,282 of contributions from participants, \$591,129 from administrative fees from participants, investment income of \$144,306 and a net decrease in fair value of investments of \$15,490,595. The increase in additions was primarily the result of an increase in the number of participants joining the Trust.

Deductions totaled \$2,787,023, an 84% increase from the prior year, and included \$2,080,719 in distributions to participants and beneficiaries and \$706,304 in administrative expenses. The significant increase in deductions was the result of an increase in distributions to participants and beneficiaries.

A copy of the audit report is available for review in the office of the Auditor of State and the office of the Treasurer of State.

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**OFFICE OF TREASURER OF STATE
IOWA EDUCATIONAL SAVINGS PLAN TRUST**

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2002

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**Office of Treasurer of State
Iowa Educational Savings Plan Trust**

Officials

Name

Title

State

Honorable Thomas J. Vilsack
Cynthia P. Eisenhower
Dennis C. Prouty

Governor
Director, Department of Management
Director, Legislative Fiscal Bureau

Agency

Honorable Michael L. Fitzgerald
Steven F. Miller
Stefanie G. Devin
Bret L. Mills

Treasurer of State
Deputy
Deputy
Deputy

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**



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Independent Auditor's Report

To the Honorable Michael L. Fitzgerald,
Treasurer of State:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust), as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Trust's management. 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Office of Treasurer of State, Iowa Educational Savings Plan Trust are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the Iowa Educational Savings Plan Trust. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2002, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Office of Treasurer of State, Iowa Educational Savings Plan Trust at June 30, 2002, and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 6 to the financial statements, for the year ended June 30, 2002, the Office of Treasurer of State, Iowa Educational Savings Plan Trust adopted Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

In accordance with Government Auditing Standards, we have also included our report dated October 18, 2002 on our consideration of the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2002

**Office of Treasurer of State
Iowa Educational Savings Plan Trust**

Financial Statements

Exhibit A

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Statement of Fiduciary Net Assets

June 30, 2002

Assets

Cash	\$ 7,667,076
Investments	260,447,935
Accounts receivable	89,623
Prepaid expenses	1,995
Capital assets, net (note 4)	43,342
	<hr/>
Total assets	268,249,971
	<hr/>

Liabilities

Liabilities:

Accounts payable	187,626
Loan payable (note 5)	412,968
Capital lease (note 5)	33,292
Total liabilities	633,886
	<hr/>
Net assets held for the payment of higher education costs for designated beneficiaries	\$ 267,616,085
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See notes to financial statements.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2002

Additions:

Contributions from participants	\$ 224,270,282
Administrative fees from participants	591,129
Investment income	144,306
Net decrease in fair value of investments	(15,490,595)
Total additions	<u>209,515,122</u>

Deductions:

Distributions to participants and beneficiaries	2,080,719
Administrative expenses:	
Salaries	125,172
Travel	5,144
Supplies	115,959
Contractual services for outside consultants and independent contractors	221,879
Other contractual services	144,096
Software maintenance	55,284
Interest expense	29,385
Depreciation	9,385
Total deductions	<u>2,787,023</u>

Net increase in fiduciary net assets 206,728,099

Net assets beginning of year, as restated (note 6) 60,887,986

Net assets end of year \$ 267,616,085

See notes to financial statements.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The Iowa Educational Savings Plan Trust (Trust) is a part of the Office of Treasurer of State of Iowa. The Trust was created by the General Assembly under Chapter 12D of the Code of Iowa, with the Treasurer of State as the trustee. The General Assembly finds that the general welfare and well-being of the state are directly related to educational levels and skills of the citizens of the state, and that a vital and valid public purpose is served by the creation and implementation of programs which encourage and make possible the attainment of higher education by the greatest number of citizens of the state.

The purpose of the Trust, is to allow participants to invest money for future application to the payment of higher education costs for designated beneficiaries.

The financial statements of the Trust have been prepared in conformity with U.S. generally accepted accounting principles as applied to government units. The more significant of the Trust's accounting policies are described below.

A. Reporting Entity

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

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Trust is accounted for 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.

In reporting the financial activity of the Trust, the Trust applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Trust is a fiduciary fund type and is classified as a private purpose trust for financial statement purposes. A private purpose trust is used to report a trust arrangement under which principal and income benefit individuals, private organizations or other governments. The Trust is used to account for resources which may be expended only for higher education costs of beneficiaries.

C. Capital Assets

Capital assets are defined by the Trust as assets with individual costs in excess of \$5,000. Such assets are recorded at historical cost. 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 five year life.

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

D. Administrative Fees

Iowa Code Chapter 12D.2 allows the Treasurer of State, as trustee, to establish, impose and collect administrative fees from participants. The Treasurer has assessed an asset-based fee of 0.65%, which is deducted from the underlying funds assets.

(2) **Deposits and Investments**

The Trust's deposits with the Office of Treasurer of State throughout the period and at June 30, 2002 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Office of Treasurer of State has an agreement with the Vanguard Group to invest funds for the Iowa Educational Savings Plan Trust in specified investment portfolios.

Investments are stated at fair value. The Trust's investments at June 30, 2002 are all in mutual funds. Due to the nature of investments in mutual funds, there is no assurance that the accounts under the Trust will generate any specific rate of return and there is no assurance that the accounts will not decrease in value. Mutual funds are not subject to risk categorization. The Office of Treasurer of State has determined that the Trust accounts will initially be invested in the Vanguard Portfolios according to the Savings Track selected by the participant and based on the beneficiary's age as follows:

Ages	Savings Track 1	Savings Track 2	Savings Track 3	Savings Track 4
Age 5 and younger	Aggressive Growth	Aggressive Growth	Aggressive Growth	Growth
Age 6 through 10	Aggressive Growth	Aggressive Growth	Growth	Moderate Growth
Age 11 through 15	Aggressive Growth	Growth	Moderate Growth	Conservative Growth
Age 16 through 18	Moderate Growth	Moderate Growth	Conservative Growth	Income
Age 19 and older	Income	Income	Income	Income

Participant accounts will be exchanged (units held will be exchanged for a number of units of equal value) for the next Portfolio in the year the beneficiary reaches the minimum qualifying age for the next Portfolio. The Office of Treasurer of State may change the investments at any time.

(3) Participant Contributions

Any United States citizen age 18 years or older with a valid Social Security number and a desire to save for the future educational expenses of a young person may be a participant. The amount that a participant may contribute is unlimited, except to the extent that no contribution may cause the aggregate balance of all accounts held on behalf of a single beneficiary to exceed \$146,000 (in 2002). The minimum amount of any one contribution is \$25. Contributions are not required to be made each year. However, the Code of Iowa requires that if a participant makes a contribution, a minimum of \$50 must be contributed during that year.

Participant contributions up to \$2,180 (in 2002) per account are deductible for Iowa state income tax purposes. Earnings are tax exempt for state income tax purposes if the funds are spent for specified qualified higher education expenses of a beneficiary. A similar federal tax benefit does not exist for the participant's contributions. However, the federal tax liability for participant earnings is deferred until such funds are paid out for specified qualified higher education expenses. Prior to January 1, 2002, the federal tax liability on earnings was transferred to the beneficiary as the funds were paid to the institution of higher learning. Beginning January 1, 2002, earnings are exempt for federal income tax purposes if funds are spent for specified qualified higher education expenses.

(4) Capital Assets

A summary of capital assets at June 30, 2002 is as follows:

	Balance Beginning of Year as restated (note 6)	Additions	Deletions	Balance End of Year
Equipment	\$ 45,813	13,321	-	59,134
Less accumulated depreciation	(6,407)	(9,385)	-	(15,792)
Capital assets, net	\$ 39,406	3,936	-	43,342

Equipment costing \$45,813 was purchased under a capital lease agreement. Accumulated depreciation on this equipment totals \$15,571, including \$9,164 of depreciation for the fiscal year ended June 30, 2002.

(5) Loan Payable and Capital Lease

Loan Payable

On November 1, 2000, the Trust borrowed \$598,682 from the Iowa Department of Management, Innovation Fund, and used the proceeds for software license fees and implementation of new computer software. The loan is for a period of 5 years with an interest rate of 5.69% per annum. The loan payments are to be paid from the Trust. The following is a schedule by year of the future minimum payments required:

Year ending June 30,	Principal	Interest	Total
2003	\$ 101,717	21,353	123,070
2004	107,629	15,441	123,070
2005	113,885	9,185	123,070
2006	89,737	2,567	92,304
Total	\$ 412,968	48,546	461,514

Principal of \$99,625 and interest of \$27,282 were paid under this loan for the year ended June 30, 2002.

Capital Lease

The Trust has entered into an agreement to lease computer equipment. The agreement has an interest rate of 5.45% per annum and expires before June 30, 2006. The following is a schedule by year of the future minimum lease payments required:

Year ending June 30,	Principal	Interest	Total
2003	\$ 8,878	1,635	10,513
2004	9,372	1,141	10,513
2005	9,892	620	10,512
2006	5,150	106	5,256
Total	\$ 33,292	3,502	36,794

Principal of \$8,410 and interest of \$2,103 were paid under this agreement for the year ended June 30, 2002.

(6) Accounting Change

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments was implemented during the year ended June 30, 2002. The statement requires that fiduciary fund financial statements be used to report the Trust’s financial activities.

As a result, the beginning net asset amount has been restated to include amounts previously reported in a General Fund which are now accounted for in the Trust, capital assets and long-term liabilities at July 1, 2001.

Net assets of fiduciary fund type at June 30, 2001	\$ 60,821,602
Adjustments:	
General Fund net assets	581,273
Capital assets, net of accumulated depreciation of \$6,407	39,406
Long-term liabilities	<u>(554,295)</u>
Net assets, as restated, July 1, 2001	<u>\$ 60,887,986</u>

Schedule 1

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Account Information by Investment Portfolio

June 30, 2002

	<u>Account Value</u>
Investment Portfolio:	
Aggressive Growth	\$ 110,027,438
Growth	55,480,355
Moderate Growth	46,283,450
Conservative Growth	31,876,702
Income	<u>16,779,990</u>
Total	<u><u>\$ 260,447,935</u></u>

Total Number of Participants - 26,632

Total Number of Beneficiaries - 39,579

See accompanying independent auditor's report.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Summary of Expenses for Outside Consultants and Independent Contractors

Year ended June 30, 2002

Type of Service	Amount
Investment services	\$ 5,000
Legal consulting services	8,203
Programming services	<u>208,676</u>
Total	<u>\$ 221,879</u>

See accompanying independent auditor's report.

Schedule 3

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Summary of Distributions to Participants and Beneficiaries

Year ended June 30, 2002

Type of Distribution	Amount
Payments for educational expenses of beneficiaries	\$ 1,103,229
Payments to participants for cancellations	392,849
Rollover to other states' qualified state tuition plans	583,274
Refunds	<u>1,367</u>
Total	<u><u>\$ 2,080,719</u></u>

See accompanying independent auditor's report.



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Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Michael L. Fitzgerald,
Treasurer of State:

We have audited the financial statements of the Office of Treasurer of State, Iowa Educational Savings Plan Trust, as of and for the year ended June 30, 2002, and have issued our report thereon dated October 18, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office of Treasurer of State, Iowa Educational Savings Plan Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of Treasurer of State, Iowa Educational Savings Plan Trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Office of Treasurer of State, Iowa Educational Savings Plan Trust, citizens of the State of Iowa and other parties to whom the Office of Treasurer of State, Iowa Educational Savings Plan Trust may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Office of Treasurer of State, Iowa Educational Savings Plan Trust 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.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 18, 2002

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Steven O. Fuqua, CPA, Senior Auditor
Kimberly M. Knight, Staff Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State