



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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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NEWS RELEASE

FOR RELEASE _____ October 29, 2003

Contact: Andy Nielsen
515/281-5515

Auditor of State David A. Vaudt today released an audit report on the Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust) for the year ended June 30, 2003.

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 payment of higher education costs for designated beneficiaries. At June 30, 2003, the Trust had 39,314 participants and 59,889 beneficiaries.

Vaudt reported additions totaling \$251,487,263 for the year, a 20% increase from the prior year. Additions included \$224,632,118 of contributions from participants, \$1,320,258 of administrative fees from participants, investment income of \$69,431 and a net increase in fair value of investments of \$25,465,456. The increase in additions was primarily the result of the net increase in fair value of investments.

Deductions totaled \$10,449,020, a 275% increase from the prior year, and included \$9,271,776 in distributions to participants and beneficiaries and \$1,177,244 in administrative expenses. The significant increase in deductions was the result of an increase in distributions to beneficiaries reaching college age and participants choosing to move assets to other qualified state tuition plans.

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

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

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

JUNE 30, 2003

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

Officials

Name

Title

State

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

Governor
Director, Department of Management
Director, Legislative Services Agency

Agency

Honorable Michael L. Fitzgerald
Stefanie G. Devin
Karen Sinclair

Treasurer of State
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, 2003. 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, 2003, 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 fiduciary net assets of the Office of Treasurer of State, Iowa Educational Savings Plan Trust at June 30, 2003, and the changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also included our report dated September 26, 2003 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.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary 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.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 26, 2003

Management's Discussion and Analysis

The Office of Treasurer of State, Iowa Educational Savings Plan Trust (Trust) provides this Management's Discussion and Analysis of the Trust's annual financial statements. This narrative overview and analysis of the financial activities of the Trust is for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the Trust's financial statements, which follow this section.

USING THESE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Trust's financial statements, which consist of the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets (pages 10 and 11). These financial statements provide information about the activities of the Trust as a whole and are based on the flow of economic resources measurement focus and the accrual basis of accounting. The flow of economic resources refers to all of the assets available to the Trust for the purpose of fulfilling its responsibilities to the other parties in the fiduciary relationship. They also include the notes to financial statements which explain some of the information in the financial statements in greater detail and are further described as follows:

The Statement of Fiduciary Net Assets presents the assets, liabilities and net assets of the Trust.

The Statement of Changes in Fiduciary Net Assets summarizes the additions to, deductions from, and net increase or decrease in fiduciary net assets for the year.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found beginning on page 12.

FINANCIAL ANALYSIS OF THE TRUST

During fiscal year 2003, the Trust received \$224,632,118 in contributions from participants and distributed \$9,271,776 to participants and beneficiaries.

The Trust's financial activity for the year ended June 30, 2003 resulted in an increase in fiduciary net assets of \$241,038,243.

Management's Discussion and Analysis

Condensed financial information as of and for the years ended June 30, 2003 and 2002 is as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current assets	\$ 509,021,112	268,206,629
Capital assets, net	<u>31,514</u>	<u>43,342</u>
Total assets	<u>509,052,626</u>	<u>268,249,971</u>
Current liabilities	179,634	298,221
Long-term liabilities	<u>218,664</u>	<u>335,665</u>
Total liabilities	<u>398,298</u>	<u>633,886</u>
Net assets held for the payment of higher education costs for designated beneficiaries	<u>\$ 508,654,328</u>	<u>267,616,085</u>
	<u>Year Ended June 30, 2003</u>	<u>Year Ended June 30, 2002</u>
Additions:		
Contributions	\$ 224,632,118	224,270,282
Net increase (decrease) in fair value of investments	25,465,456	(15,490,595)
Other	<u>1,389,689</u>	<u>735,435</u>
Total additions	<u>251,487,263</u>	<u>209,515,122</u>
Deductions:		
Distributions	9,271,776	2,080,719
Administrative expenses	<u>1,177,244</u>	<u>706,304</u>
Total deductions	<u>10,449,020</u>	<u>2,787,023</u>
Net increase	241,038,243	206,728,099
Net assets beginning of year	<u>267,616,085</u>	<u>60,887,986</u>
Net assets end of year	<u>\$ 508,654,328</u>	<u>267,616,085</u>

The increase in distributions of \$7,191,057 is due to more beneficiaries reaching college age and participants choosing to move assets to other qualified state tuition plans (see Schedule 3). The net change in fair value of investments is due to increasing net asset values (NAV) during the year.

CONTACTING THE OFFICE OF TREASURER OF STATE - IOWA EDUCATIONAL SAVINGS PLAN TRUST

This financial report is designed to present users with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the funds held in custody. If you have questions about the report or need additional financial information, please contact the Office of Treasurer of State, State Capitol Building, Des Moines, IA 50319.

Financial Statements

Exhibit A

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Statement of Fiduciary Net Assets

June 30, 2003

Assets

Current assets:

Cash	\$ 2,687,834
Investments	506,193,148
Accounts receivable	138,430
Prepaid expenses	<u>1,700</u>
Total current assets	<u>509,021,112</u>

Noncurrent assets:

Capital assets, net (note 4)	<u>31,514</u>
Total assets	<u>509,052,626</u>

Liabilities

Current liabilities:

Accounts payable	62,633
Loan payable (note 5)	107,629
Capital lease (note 5)	<u>9,372</u>
Total current liabilities	<u>179,634</u>

Noncurrent liabilities:

Loan payable (note 5)	203,622
Capital lease (note 5)	<u>15,042</u>
Total noncurrent liabilities	<u>218,664</u>
Total liabilities	<u>398,298</u>

Net assets:

Held for the payment of higher education costs for designated beneficiaries	<u>\$ 508,654,328</u>
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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, 2003

Additions:	
Contributions from participants	\$ 224,632,118
Administrative fees from participants	1,320,258
Investment income	69,431
Net increase in fair value of investments	<u>25,465,456</u>
Total additions	<u>251,487,263</u>
Deductions:	
Distributions to participants and beneficiaries	9,271,776
Administrative expenses:	
Salaries	254,421
Travel	2,080
Supplies	113,668
Contractual services for outside consultants and independent contractors	378,338
Other contractual services	225,485
Advertising	107,465
Software maintenance	60,971
Interest expense	22,988
Depreciation	<u>11,828</u>
Total deductions	<u>10,449,020</u>
Net increase in fiduciary net assets	241,038,243
Net assets beginning of year	<u>267,616,085</u>
Net assets end of year	<u>\$ 508,654,328</u>

See notes to financial statements.

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Notes to Financial Statements

June 30, 2003

(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 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 governmental 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 designated 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 assets.

(2) Deposits and Investments

The Trust's deposits with the Office of Treasurer of State throughout the period and at June 30, 2003 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, 2003 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 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 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 \$239,000 (in 2003). The minimum amount of any one contribution is \$25. Contributions are not required to be made each year. However, the Code of Iowa requires a minimum of \$50 be contributed during any year in which a participant makes a contribution.

Participant contributions up to \$2,230 (in 2003) per account are deductible for State of Iowa 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. 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 activity for the year ended June 30, 2003 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Equipment	\$ 59,134	-	-	59,134
Less accumulated depreciation	(15,792)	(11,828)	-	(27,620)
Capital assets, net	<u>\$ 43,342</u>	<u>(11,828)</u>	<u>-</u>	<u>31,514</u>

Equipment costing \$45,813 was purchased under a capital lease agreement. Accumulated depreciation on this equipment totals \$24,734, including \$9,163 of depreciation for the year ended June 30, 2003.

(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
2004	\$ 107,629	15,441	123,070
2005	113,885	9,185	123,070
2006	89,737	2,567	92,304
Total	<u>\$ 311,251</u>	<u>27,193</u>	<u>338,444</u>

Principal of \$101,717 and interest of \$21,353 were paid under this loan for the year ended June 30, 2003.

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:

<u>Year ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 9,372	1,141	10,513
2005	9,892	620	10,512
2006	5,150	106	5,256
Total	<u>\$ 24,414</u>	<u>1,867</u>	<u>26,281</u>

Principal of \$8,878 and interest of \$1,635 were paid under this agreement for the year ended June 30, 2003.

Schedule 1

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Account Information by Investment Portfolio

June 30, 2003

	<u>Account Value</u>
Investment Portfolio:	
Aggressive Growth	\$ 232,732,327
Growth	100,529,842
Moderate Growth	86,258,873
Conservative Growth	51,464,146
Income	<u>35,207,960</u>
Total	<u>\$ 506,193,148</u>

Total Number of Participants - 39,314

Total Number of Beneficiaries - 59,889

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, 2003

<u>Type of Service</u>	<u>Amount</u>
Investment services	\$ 6,900
Legal consulting services	12,659
Programming services	<u>358,779</u>
Total	<u>\$ 378,338</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, 2003

<u>Type of Distribution</u>	<u>Amount</u>
Payments for educational expenses of beneficiaries	\$ 3,353,758
Payments to participants for cancellations	2,432,545
Rollover to other states' qualified state tuition plans	3,354,618
Refunds	<u>130,855</u>
 Total	 <u><u>\$ 9,271,776</u></u>

See accompanying independent auditor's report.



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

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Auditor of State

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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, 2003, and have issued our report thereon dated September 26, 2003. 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.

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 26, 2003

Office of Treasurer of State
Iowa Educational Savings Plan Trust

Staff

This audit was performed by:

Cynthia L. Weber, CPA, Manager
Kimberly M. Knight, Senior Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State