



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE July 8, 2003

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Auditor of State David A. Vaudt today released an audit report on the Iowa Petroleum Underground Storage Tank Board (UST Board), for the year ended June 30, 2002.

The responsibilities of the UST Board include expending moneys for remedial (cleanup) action, underground storage tank improvement and maintaining existing loan guarantees.

Vaudt reported the UST Board had total revenues of \$23,728,026 and include \$17,000,000 of motor vehicle use tax collections and \$6,056,305 of interest income. Expenses totaled \$18,117,737 and include \$7,499,783 for remedial claims, \$2,111,814, for innocent landowner claims, \$2,104,561 for program administrative costs, and \$5,411,806 for interest expense on revenue bonds.

Net assets restricted for underground storage tank remedial activities total \$56,922,170 at June 30, 2002. Revenue bonds outstanding at June 30, 2002 total \$76,816,860. Estimates of potential claims for clean-up charges total \$122.5 million.

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

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**IOWA PETROLEUM UNDERGROUND STORAGE TANK BOARD
STATE OF IOWA**

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

JUNE 30, 2002

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**Iowa Petroleum Underground Storage Tank Board
State of Iowa**

Officials

Name

Title

State

Honorable Thomas J. Vilsack	Governor
Cynthia P. Eisenhauer	Director, Department of Management
Dennis C. Prouty	Director, Legislative Services Agency

Board

Theresa M. Vaughan	Chairperson
Honorable Michael L. Fitzgerald	Member
Cathy A. Rottinghaus	Member
Jeffrey W. Robinson	Member
James M. Holcomb	Member
Jeffrey R. Vonk	Member

Administrator

Scott Scheidel	AON Risk Services, Inc.
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**Iowa Petroleum Underground Storage Tank Board
State of Iowa**



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STATE OF IOWA

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Independent Auditor's Report

To the Members of the Iowa Petroleum
Underground Storage Tank Board:

We have audited the accompanying financial statements of the governmental activities and the major fund of the Iowa Petroleum Underground Storage Tank Board as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Board'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 Iowa Petroleum Underground Storage Tank Board are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the State of Iowa that is attributable to the transactions of the Board. 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 respective financial position of the governmental activities and the major fund for the Iowa Petroleum Underground Storage Tank Board as of June 30, 2002, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 5 to the financial statements, for the year ended June 30, 2002, the Iowa Petroleum Underground Storage Tank Board adopted Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement Number 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; and Statement Number 38, Certain Financial Statement Note Disclosures.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2003 on our consideration of the Iowa Petroleum Underground Storage Tank Board’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 Schedule 1 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 to 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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 7, 2003

**Iowa Petroleum Underground Storage Tank Board
State of Iowa**

Financial Statements

Iowa Petroleum Underground Storage Tank Board
State of Iowa

Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2002

	General Fund	Adjustments	Statement of Net Assets
Assets			
Cash and investments	\$ 146,414,512	-	146,414,512
Accounts receivable	1,493,571	-	1,493,571
Interest receivable	488,261	-	488,261
Due from other state agencies	552,739	-	552,739
Total assets	\$ 148,949,083	-	148,949,083
Liabilities			
Accounts payable	\$ 1,175,803	-	1,175,803
Accrued interest payable (note 3)	-	3,290,541	3,290,541
Due to other state agencies	35,369	-	35,369
Revenue bonds payable (note 3):			
Due within one year	-	6,390,000	6,390,000
Due after one year	-	70,426,860	70,426,860
Total liabilities	1,211,172	80,107,401	81,318,573
Fund balances/Net assets			
Fund balances:			
Reserved for:			
Underground storage tank remedial activities	137,029,571	(137,029,571)	-
Payment on defaulted loans	1,071,290	(1,071,290)	-
Capital reserve	9,637,050	(9,637,050)	-
Total fund balances	147,737,911	(147,737,911)	-
Total liabilities and fund balances	\$ 148,949,083		
Net assets			
Restricted for:			
Underground storage tank remedial activities		56,922,170	56,922,170
Payment on defaulted loans		1,071,290	1,071,290
Capital reserve		9,637,050	9,637,050
Total net assets		67,630,510	67,630,510

See notes to financial statements.

Exhibit B

Iowa Petroleum Underground Storage Tank Board
State of Iowa
Statement of Activities and
Governmental Fund Revenues, Expenditures and Changes
in Fund Balance

Year ended June 30, 2002

	General Fund	Adjustments	Statement of Activities
Revenues:			
Motor vehicle use tax	\$ 17,000,000	-	\$ 17,000,000
Groundwater tank management fees	410,670	-	410,670
License and application fees	11,051	-	11,051
Environmental protection charges, cost recovery and community remediation buy-ins	250,000	-	250,000
Interest income	6,056,305	-	6,056,305
Total revenues	<u>23,728,026</u>	<u>-</u>	<u>23,728,026</u>
Expenditures/expenses:			
Administrative costs	2,104,561	-	2,104,561
Innocent landowner claims	2,111,814	-	2,111,814
Remedial claims	7,499,783	-	7,499,783
Tank closure claims	385,752	-	385,752
Payments to other state agencies	604,021	-	604,021
Debt service:			
Interest and trustee fees	1,665,445	3,746,361	5,411,806
Total expenditures/expenses	<u>14,371,376</u>	<u>3,746,361</u>	<u>18,117,737</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	<u>9,356,650</u>	<u>(3,746,361)</u>	<u>-</u>
Other financing uses:			
Transfers out to the:			
Iowa Department of Natural Resources for Administrative expenses	(75,000)	-	(75,000)
Iowa Department of Revenue and Finance for the Terminal Liability Health Insurance Fund	(9,000,000)	-	(9,000,000)
Department of Management for the Salary Adjustment Fund	(9,000,000)	-	(9,000,000)
Total transfers out	<u>(18,075,000)</u>	<u>-</u>	<u>(18,075,000)</u>
Deficiency of revenues under expenditures/expenses and other financing uses	(8,718,350)	8,718,350	-
Change in net assets	-	12,464,711	(12,464,711)
Fund balance/net assets:			
Beginning of year, as restated (note 5)	156,456,261	(76,361,040)	80,095,221
End of year	<u>\$ 147,737,911</u>	<u>(80,107,401)</u>	<u>67,630,510</u>

See notes to financial statements.

Iowa Petroleum Underground Storage Tank Board
State of Iowa

Revenues, Expenditures and Changes
in Fund Balance – Actual and Budget
General Fund

Year Ended June 30, 2002

	Actual	Budget	Favorable (Unfavorable) Variance
Revenues:			
Motor vehicle use tax	\$ 17,000,000	17,000,000	-
Groundwater tank management fees	410,670	418,000	(7,330)
License and application fees	11,051	13,476	(2,425)
Environmental protection charges, cost recovery and community remediation buy-ins	250,000	2,728,000	(2,478,000)
Interest income	6,056,305	4,941,700	1,114,605
Total revenues	23,728,026	25,101,176	(1,373,150)
Expenditures:			
Administrative costs	2,104,561	2,398,600	294,039
Innocent landowner claims	2,111,814	2,500,000	388,186
Remedial claims	7,499,783	33,062,342	25,562,559
Tank closure claims	385,752	500,000	114,248
Payments to other state agencies	604,021	251,600	(352,421)
Debt service:			
Principal repayment	-	6,245,000	6,245,000
Interest and trustee fees	1,665,445	3,321,942	1,656,497
Total expenditures	14,371,376	48,279,484	33,908,108
Excess (deficiency) of revenues over (under) expenditures	9,356,650	\$ (23,178,308)	32,534,958
Other financing uses:			
Transfers out:			
Iowa Department of Natural Resources for administrative expenses	(75,000)		
Iowa Department of Revenue and Finance for the Terminal Liability Health Insurance Fund	(9,000,000)		
Department of Management for the Salary Adjustment Fund	(9,000,000)		
Total transfers out	(18,075,000)		
Deficiency of revenues under expenditures and other financing uses	(8,718,350)		
Fund balance beginning of year	156,456,261		
Fund balance end of year	\$ 147,737,911		

See notes to financial statements.

Iowa Petroleum Underground Storage Tank Board

State of Iowa

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The statutory authority for the Iowa Petroleum Underground Storage Tank Board, State of Iowa, is found in Chapter 455G of the Code of Iowa. The Iowa Petroleum Underground Storage Tank Board's responsibilities include expending funds for remedial action and maintaining existing loan guarantees for remedial action and underground storage tank improvements.

The financial statements of the Iowa Petroleum Underground Storage Tank Board have been prepared in conformity with U.S. generally accepted accounting principles as applied to governmental units. The more significant of the Iowa Petroleum Underground Storage Tank Board's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the Iowa Petroleum Underground Storage Tank Board has included all funds. The Iowa Petroleum Underground Storage Tank Board 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 Iowa Petroleum Underground Storage Tank Board are such that exclusion would cause the Iowa Petroleum Underground Storage Tank Board'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 Board 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 Board. The Board has no component units which meet the Governmental Accounting Standards Board criteria.

B. Government-wide and Fund Financial Statements

The financial statements on pages 9 and 10 combine both a government-wide perspective and a governmental fund perspective.

The General Fund comprises the Iowa Petroleum Underground Storage Tank Board's (Board) governmental fund type. This fund is the general operating fund of the Board and the difference between assets and liabilities of the fund are referred to as "fund balance."

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Board. Governmental activities are those which normally are supported by taxes and intergovernmental revenues.

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation

The government-wide financial statements are reported using the “economic resources measurement focus” and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the “current financial resources measurement focus” and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgements, are recorded only when payment is due.

D. Budgets and Budgetary Accounting

The Administrator for the Iowa Petroleum Underground Storage Tank Board prepares an annual budget for the Board's general operations. This budget is approved and monitored by the Iowa Petroleum Underground Storage Tank Board.

E. Cash and Cash Equivalents

The cash balances of the Board are pooled and invested by the Treasurer of State.

F. Due from Other State Agencies

Receivables consist primarily of accrued interest on deposits invested by the State Treasurer.

G. Reserved Fund Balances/Restricted Net Assets

The portion of the fund balance reserved/restricted for “underground storage tank remedial activities” represents the amount available for cleanup of contamination caused by releases from underground storage tanks.

The portion reserved/restricted for “payment on defaulted loans” represents the amount available for the actual payment of claims on guaranteed loans in default status.

The reserved/restricted portion for "capital reserve" represents the amount set up to maintain the capital reserve requirement as specified in the Master Trust Indenture for bonds.

(2) Deposits and Investments

The Board’s deposits with the Treasurer of State throughout the period and at June 30 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. All interest income on money invested in the investment pool is retained in the fund holding the cash balance.

All investment operations are handled directly through the State Treasurer's investment department. Earned interest for the year ended June 30, 2002 totaled \$6,056,305.

(3) Revenue Bonds Payable

(a) Revenue Bonds Payable:

Iowa Underground Storage Tank Fund revenue bonds have been issued by the Iowa Finance Authority to fund the Iowa Petroleum Underground Storage Tank (UST) Fund established under Chapter 455G of the Code of Iowa. The UST Fund is administered by the UST Fund Board and its moneys and accounts are held by the State Treasurer. The revenue bonds are payable solely from specific pledged revenues and assets of the UST Fund, including portions of the State of Iowa's motor vehicle use tax and annual storage tank management fee.

The Iowa Petroleum Underground Storage Tank Fund revenue bonds payable at June 30, 2002 are as follows:

	Amount Outstanding	Maturities		Interest Rates
		First Year	Last Year	
Capital appreciation bonds	\$ 7,705,000	2001	2004	6.40-6.60%
Serial bonds	56,270,000	1991	2012	2.90-6.35%
Term bonds	13,155,000	2010	2015	5.13%
Total	<u>77,130,000</u>			
Less unamortized discount on capital appreciation bonds	<u>(313,140)</u>			
Total	<u>\$ 76,816,860</u>			

Debt service requirements to maturity for revenue bonds payable as of June 30, 2002, are as follows:

Year Ending June 30,	Principal	Interest	Total
2003	\$ 6,390,000	3,290,541	9,680,541
2004	6,480,000	3,138,518	9,618,518
2005	6,695,000	2,921,468	9,616,468
2006	6,910,000	2,651,163	9,561,163
2007	7,230,000	2,323,644	9,553,644
2008-2012	35,140,000	6,043,565	41,183,565
2013-2015	8,285,000	651,003	8,936,003
Total	<u>\$ 77,130,000</u>	<u>21,019,902</u>	<u>98,149,902</u>

(b) Advance Refunded Bonds:

In prior years, the Iowa Finance Authority defeased certain Iowa Underground Storage Tank Fund Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1990 and 1991 Series Term bonds. As a result, the 1990 and 1991 Series Term bonds are considered to be defeased and the liability for those bonds has been removed from the Statement of Net Assets.

At June 30, 2002, the outstanding revenue bonds that are considered defeased are as follows:

Revenue Bond Series 1990A	\$ 24,870,000
Revenue Bond Series 1991A	<u>14,815,000</u>
Total	<u>\$ 39,685,000</u>

(4) Commitments and Contingencies

The Iowa Underground Storage Tank Financial Responsibility Program provides payment for remediation claims of contamination of ground water sites due to leakage, spill or release of petroleum products by owner/operators. Potential claims for clean-up charges are estimated to total \$122.5 million. The payment of claims is limited to funds made available by charges to owner/operators and from the collection of environmental protection charges, underground storage tank fees, recoveries, Federal assistance and earnings of the General Fund.

(5) Accounting Change

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments; Statement Number 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement Number 38, Certain Financial Statement Note Disclosures were implemented during the year ended June 30, 2002. The statement requires that a Statement of Net Assets and a Statement of Activities be used to report the Board's financial activities.

Restatement of Beginning Statement of Activities Balance at July 1, 2001:

Fund balance as previously reported at June 30, 2001	\$156,456,261
Less: Revenue bonds payable	<u>(76,361,040)</u>
Net assets, July 1, 2001, restated	<u>\$ 80,095,221</u>

Explanations of the differences between the Governmental Fund Balance Sheet and the Statement of Net Assets and the difference between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities appear below.

Explanation of the Differences between the Governmental Fund Balance Sheet and the Statement of Net Assets

Total fund balance – General Fund	\$147,737,911
Long term liabilities applicable to the board’s governmental activities are not due and payable in the current period and, therefore, are not reported as fund liabilities.	(76,816,860)
Some interest expense reported in the statement of activities did not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental fund.	<u>(3,290,541)</u>
Net assets of governmental activities	<u>\$ 67,630,510</u>

Explanation of the Differences between the Governmental Fund Statement of Revenues, Expenses and Changes in Fund Balance and the Statement of Activities

Total expenditures of \$14,371,376 in the governmental fund differ from total expenses for governmental activities of \$18,117,737 in the statement of activities. The difference results primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds as follows:

Interest of \$3,746,361 was reported in the statement of activities but did not require the use of current financial resources and, therefore, was not reported as an expenditure in the governmental fund.

Supplemental Information

Iowa Petroleum Underground Storage Tank Board
State of Iowa

Expenditures by Object

General Fund

Year ended June 30, 2002

	Administrative Costs	Innocent Landowner Claims	Remedial Claims
Travel	\$ 1,570	-	-
Supplies and materials	460	-	-
Contractual services	2,101,857	58,698	7,499,783
Claims and miscellaneous	674	2,053,116	-
Total	\$ 2,104,561	2,111,814	7,499,783

See accompanying independent auditor's report.

Tank Closure Claims	Payments to other State Agencies	Debt Service - Interest and Trustee Fees	Total
-	-	-	1,570
-	-	-	460
385,752	604,021	-	10,650,111
-	-	1,665,445	3,719,235
385,752	604,021	1,665,445	14,371,376

**Iowa Petroleum Underground Storage Tank Board
State of Iowa**



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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 Members of the Iowa Petroleum
Underground Storage Tank Board:

We have audited the financial statements of the Iowa Petroleum Underground Storage Tank Board as of and for the year ended June 30, 2002 and have issued our report thereon dated March 7, 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 Iowa Petroleum Underground Storage Tank Board'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 Iowa Petroleum Underground Storage Tank Board'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 Iowa Petroleum Underground Storage Tank Board, citizens of the State of Iowa and other parties to whom the Iowa Petroleum Underground Storage Tank Board may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 7, 2003

Iowa Petroleum Underground Storage Tank Board
State of Iowa

Staff

This audit was performed by:

Kay F. Dunn, CPA, Manager,
Steven O. Fuqua, CPA, Senior Auditor
Mary Crystal A. Berg, CPA, Staff Auditor
Lora A. Van Essen, CPA, Staff Auditor
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