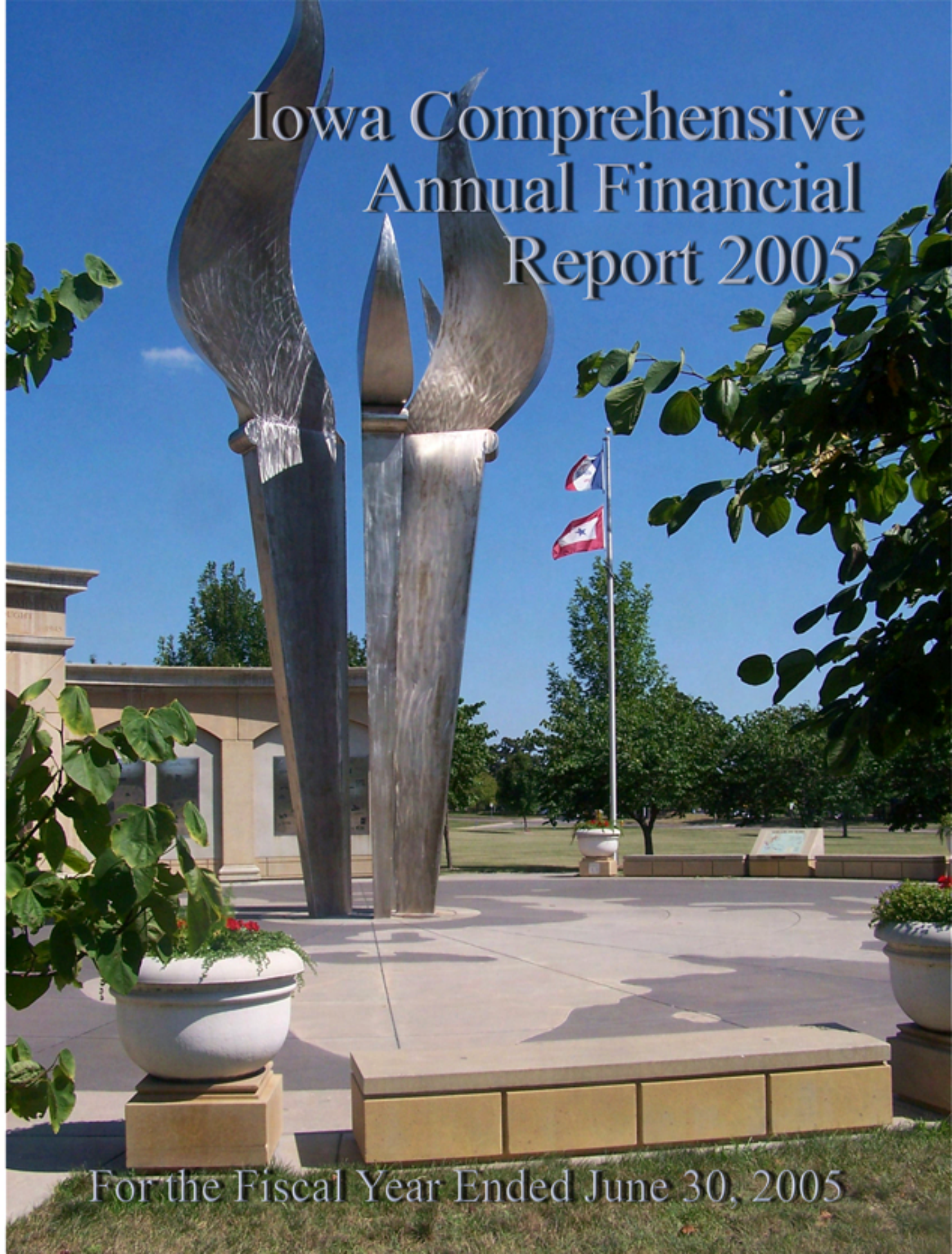




Iowa Comprehensive Annual Financial Report 2005

For the Fiscal Year Ended June 30, 2005

The cover photo illustrates the second newest memorial on the Iowa State Capitol grounds - the World War II Memorial Plaza, located between the Lucas and Grimes buildings and dedicated in 1997. The purpose of this memorial is to honor all those who served so valiantly during World War II and to provide posterity with knowledge about the compelling reason for the USA's involvement in the war.... the preservation of freedom around the world. The centerpiece of the **"Freedom Flame"** monument is a fifty-foot-high stainless steel stylized flame. Leading up to the flame is **"Freedom Walk,"** a walkway through time, beginning with Pearl Harbor. The Plaza floor is comprised of a global map showing the five major theaters of operation. The **"Wall of Memories"** is an appropriate backdrop for the Freedom Flame. The total cost of this monument was \$735,000, this sum includes a fund to ensure the memorial's future maintenance.

To learn more, go to: <http://das.gse.iowa.gov/Monuments/mon26.html>.

Photo by Mike Steven, Iowa Department of Administrative Services

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



For the Fiscal Year
Ended June 30, 2005

GOVERNOR:
Thomas J. Vilsack

PREPARED BY:
The Iowa Department of Administrative Services- State Accounting Enterprise

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ACKNOWLEDGEMENTS

I N T R O D U C T O R Y S E C T I O N



December 19, 2005

TO THE CITIZENS, GOVERNOR AND MEMBERS OF THE IOWA GENERAL ASSEMBLY

In accordance with Iowa Code Section 8A.502(8) we are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Iowa for the fiscal year ended June 30, 2005.

The report is presented in three sections as follows:

- The **Introductory Section** includes this transmittal letter, the Government Finance Officers Association (GFOA) Certificate of Achievement for the fiscal year 2004 CAFR, an organizational chart of State government, and a list of principal State officials.
- The **Financial Section** contains the independent auditor's report on the Basic Financial Statements, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, and Notes to the Financial Statements. The Financial Section also contains Required Supplementary Information (RSI), other than the MD&A, and supplementary information in the form of combining financial statements and schedules. This letter is intended to be read in conjunction with the MD&A.
- The **Statistical Section** highlights selected financial and demographic information, generally presented on a multi-year basis.

The Department of Administrative Services is responsible for both the accuracy of the presented data, and the completeness and fairness of the presentation. We believe the information presented is accurate in all material respects and the necessary disclosures have been made which enable the reader to obtain an understanding of the State's financial activity.

This report has been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB).

As a part of the statewide accounting system upgrade during fiscal year 2005, the implementation team performed a comprehensive review of the adequacy of internal controls and budgetary controls of the system. The team determined that internal controls continue to be in place to provide reasonable, but not absolute, assurance that assets are safeguarded against unauthorized use or disposition, and that financial records from all appropriate sources are reliable for preparing financial statements and maintaining accountability. The concept of reasonable assurance recognizes the cost of internal controls should not exceed the benefits likely to be derived from their use. To monitor the adequacy of internal controls, the Auditor of State reviews internal control procedures as an integral part of departmental audits.

The Auditor of State is required by Chapter 11 of the Code of Iowa to audit annually all departments of the State. The accompanying basic financial statements of the State of Iowa have been audited by the Auditor of State 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. His report appears elsewhere herein.

In addition, the Auditor of State conducts a single audit under the requirements set forth in the Single Audit Act of 1984, the Single Audit Amendments of 1996, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. This report is issued separately.

This letter of transmittal is designed to complement Management's Discussion and Analysis (MD&A), and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

All activities that would generally be considered part of the State of Iowa are included in this report. These activities provide a range of services including education, health and human services, transportation, agriculture and natural resources, law enforcement, public safety, economic development, legislative, judicial, and administrative services.

This report includes all of the fund types, departments and agencies of the State, as well as boards, commissions, authorities, and universities for which the State's executive, legislative, and judicial branches are financially accountable. The criterion considered in establishing financial accountability, as set forth by the GASB include: appointing a voting majority of the organization's governing body, and either (1) the ability to impose its will on the organization or (2) the potential for the organization to provide specific financial benefits to, or impose financial burdens on the State. It also includes component units where the nature and significance of their relationship with the State are such that their exclusion would cause the financial statements to be misleading or incomplete. The reader is directed to Note 1.B in the Notes to the Financial Statements for a more complete description of the factors used to define the reporting entity.

State Budget and Budgetary Controls. The State's budget is prepared by the Governor on an annual basis and is required to be submitted along with proposed appropriation bills to the General Assembly by the first of February prior to the new fiscal year. When both houses of the General Assembly pass an appropriation bill, the bill is enrolled and sent to the Governor. The Governor may sign it into law or veto it in whole or in part on a line item basis. Funds may be disbursed only after the Department of Management, subject to the review of the Governor, has allotted appropriations, with the exception of standing unlimiteds and certain receipts that the Departments are authorized to expend.

Departments may request revisions to allotments, appropriations transfers, or supplemental appropriations. The Department of Management approves revised allotments within an appropriation, subject to the Governor's review. The Governor and the Department of Management approve all appropriation transfers. The General Assembly and the Governor act on supplemental appropriation bills in a manner similar to original appropriations. General Fund supplemental appropriations totaled \$87,013,573 for fiscal year 2005. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the state treasury, unless otherwise provided.

Budgetary controls are incorporated into State accounting systems. The annual budget of the State is established through separate appropriations to individual departments for specific purposes, special outlays and/or operating expenditures. Budgetary control is essentially maintained at the departmental level except for certain grant and aid programs where control is maintained at the program level.

The statewide accounting system performs various edits to assure appropriation authorizations are not exceeded. In addition to these centralized controls, each department director is required by statute to maintain expenditures within appropriated limits.

Extensive use is made of on-line tables and reports, updated on a daily basis, to provide detailed and management level reports to State departments, budget authorities, and the State Legislature. Departments also have the ability to extract selected information and prepare customized reports as needed. Detailed monthly reports are prepared to assure expenditures are being executed according to plan, deviations are identified and budget or spending modifications are made on a continuing basis.

ECONOMIC CONDITION AND OUTLOOK

Personal Income. The University of Iowa Institute for Economic Research's latest outlook is for personal income in Iowa to grow by 5.2% in 2005, 4.9% in 2006, and 5.2% in 2007. According to the Bureau of Economic Analysis, in the last two quarters of 2004-05 fiscal year, Iowa's personal income, seasonally adjusted, grew at a rate of 0.9% and 1.3% respectively; which was close to the nation as a whole, with personal income growth of 0.6% and 1.5%.

Iowa's personal income for calendar year 2004 grew at the second highest rate in the nation, with Nevada the only state having a higher percentage of growth. Iowa's personal income grew at 8.9%, compared to the national average of 6.0%. Contributing to Iowa's personal income was higher growth in construction (10.5%), transportation and warehouse (8.3%), finance and insurance (7.9%), manufacturing (6.7%), health care and social assistance (6.4%) and higher farm income.

Employment. Iowa continues to have an average unemployment rate below the rate of the nation as a whole. Over the past 10 years, Iowa's unemployment rate has been between one and two percentage points below the national average. The U.S. unemployment rate for October 2005 was 4.5%, compared to 5.5% in October 2004. The seasonally adjusted percent unemployed for the State in October 2005 was 4.5%, compared to 5.0% in October 2004. The October 2005 unemployment rate decreased 0.1% from September 2005.

In October 2005, there were 1,577,300 employed Iowans. This compares with the record level of 1,630,500 employed Iowans in September 2002.

Exports. The rise in exporting industries has been an important factor in Iowa economic growth since the 1990's. Growth in exports of industrial machinery, instruments and measurement devices, electronics, specialized transportation equipment, chemicals and pharmaceuticals, and processed food products have helped diversify Iowa's economy. When combined with traditional farm commodities and livestock, total exports from Iowa increased by 22%, 11% and 13% in the years 1995 through 1997. A combination of factors contributed to declines of 3% and 16% in 1998 and 1999.

Subsequent years have seen steady and strong growth. Iowa's export of value-added and manufacturing goods has increased since 2000 by 4.4% in 2001, 2.0% in 2002, 10.1% in 2003 and 22.1% in 2004. Canada continues to be Iowa's largest trading partner, followed by Mexico and Japan. In 2003 and 2004, Mexico replaced Japan as the second leading export country, partially due to the increase of value-added products shipped to Mexico.

Iowa's record level of exports has been fueled by large percentage increases in machinery, electrical machinery, cereals, milling and organic chemicals. Overall, for the second quarter 2005, exports are up 16.1%.

Gross State Product. In 2004, Iowa's gross state product was \$111.1 billion, which reflected 8.5% growth over the previous year. The largest shares of the Iowa gross state product were manufacturing (20.6%), services (11.3%), and finance, insurance, and real estate (10.7%). Agriculture accounted for just 4.6% of Iowa's gross state product. The gross state product is the U.S. Commerce Department's measure of the value of all goods and services produced in the State each year. The nation's gross domestic product (\$11.7 trillion) grew by 4.3% between 2003 and 2004.

Farmland Values. The most recent survey of area bankers indicates that farmland values continue to rise. The Federal Reserve Bank of Chicago surveys farm bankers in the area four times a year to determine their best estimates of farmland values. In their July 2005 survey, Iowa farmland values had risen 11% compared to the 2004 survey. Gains were registered throughout each region in the State, with the South Central region growing the most (17%), and the West region showing the smallest increase (8%). In their July 2004 survey, Iowa farmland values had risen 12% compared to the July 2003 survey. The 2003, 2002, 2001 surveys showed increases of 7%, 7%, and 2% respectively.

MAJOR INITIATIVES AND ISSUES

Grow Iowa Values Fund. During the 2003 session, the Legislature adopted Governor Vilsack's recommendation that the State make a significant new investment in economic development. The Grow Iowa Values Fund was created to invest \$503 million in five key areas with the goal of creating 50,000 quality, good paying jobs in the next four years. These investments will be made in four key areas: business development and assistance, university research and development, workforce training, and quality of life.

The Legislature appropriated \$59 million in fiscal year 2004 and \$41 million in fiscal year 2005 to the Grow Iowa Values Fund. These were made from the entirety of the State of Iowa's allocation of federal flexible spending grant money appropriated by Congress in June, 2004. The Legislature also made contingent appropriations of \$5.0 million in FY 2004, \$23.0 million in FY 2005, and \$75.0 million a year in FY 2006 through FY 2010. These appropriations are contingent on sales and use tax receipts growing by more than 2.0% in each of the respective fiscal years.

However, on June 16, 2004, the Iowa Supreme Court ruled that the legislation creating the Grow Iowa Values Fund was invalid. Because the State had already entered into contracts for several projects, the State Appeal Board on August 27, 2004 approved claims totaling \$10,749,754 to cover these contractual obligations.

On September 7, 2004, the general assembly met in special session and approved HF 2581 and SF 2311, which were signed by the Governor. Among other things, these bills created the Federal Economic Stimulus and Jobs Holding Fund and deposited the proceeds from the 2003 Federal Jobs and Growth Tax Relief Reconciliation Act into the Fund. SF 2311 also appropriated a total of \$100.0 million from the Fund to economic development programs previously funded by the Grow Iowa Values Fund.

The original Grow Iowa Values Fund appropriations were repealed by SF 2311. These appropriations totaled \$277.5 million over a four-year period from fiscal year 2004 to fiscal year 2007.

During the 2005 session, for FY 2006, the Legislature appropriated a total of \$500.0 million over 10 years from the General Fund to a reconstituted Grow Iowa Values Fund. \$50.0 million per year is appropriated from the Fund for economic development purposes.

Class Size Reduction and Intervention. During fiscal year 2005, \$30.0 million was appropriated to local school districts to reduce class sizes in kindergarten through the third grade, with the goal of achieving average class sizes of 17 students per teacher. This flexible initiative also allows school districts to use funding to support other proven methods to improve reading and other basic skills for elementary school students.

These and other educational efforts have allowed Iowa to reverse a decade-long decline in student test scores. Reading proficiency improved at the 4th, 8th, and 11th grade levels, and math proficiency improved at the 4th and 11th grade levels.

Teachers' Compensation. During a previous legislative session, a bill was passed and signed by the Governor establishing the Student Achievement and Teacher Quality Program. This multi-year program includes statewide mentoring, a new career path compensation strategy, redesigned professional development and new Iowa Teaching Standards which begin to define good teaching for purposes of evaluation and professional development. In fiscal year 2005, \$45.3 million was appropriated to continue this program.

Local Early Childhood Initiatives. Early learning is critical to success in school, and Iowa's community empowerment initiative allows local governments and service providers a flexible method to tailor local services to meet local needs. Originally funded in fiscal year 1998 at \$5.4 million, the level of funding has increased, and in fiscal year 2005, the funding from the General Fund and other funds totaled \$26.8 million. The additional funding is targeted at children from birth to age 5 and to parent education initiatives.

FINANCIAL INFORMATION

Cash Management. The cash management function is the responsibility of the State Treasurer. Funds of State agencies, which are temporarily available for investment, are pooled together and invested in certificates of deposit, U.S. Treasury bills and notes, U.S. Government Agency and instrumentality obligations, repurchase agreements, and corporate debt instruments as allowed by law and the Treasurer's investment policy. The three goals of the investment policy, in order of importance, are 1) safety of funds; 2) liquidity; and 3) return. A custodial bank is utilized to safekeep investments and to provide payment and collection services for investment transactions. All investment transactions occur on a payment versus delivery basis. It is the policy of the Treasurer's Office that all deposits under its control are insured or collateralized in accordance with Chapter 12C of the Iowa Code.

Presented below is comparative data for the State's investment pool for the last four fiscal years. Interest Earnings do not include any unrealized gains or losses on investments. The Annual Rates of Return shown are calculated by dividing Interest Earnings by the Pool Average Daily Investment Balance. The amounts below are expressed in thousands:

	FY05	FY04	FY03	FY02
Interest Earnings*	\$ 47,567	\$ 32,709	\$ 38,834	\$ 74,444
Average Daily Investment Balance	\$ 1,788,237	\$ 1,540,147	\$ 1,373,979	\$ 1,500,726
Annual Rate of Return	2.66%	2.12%	2.83%	4.96%

* Safekeeping and banking expenses have been deducted from Interest Earnings.

Debt Administration. The Constitution of the State of Iowa prohibits the State from exceeding a maximum of \$250 thousand in general obligation debt without voter approval. However, State law authorizes the issuance of Tax and Revenue Anticipation Notes (TRANS), provided that the total issuance does not exceed anticipated revenue receipts for the fiscal year and that the total issuance matures during the fiscal year. The State issued and repaid Tax and Revenue Anticipation Notes of \$375.0 million during fiscal year 2005.

Revenue bonds issued by various authorities of the State totaled \$2,590.0 million outstanding at fiscal year-end. This amount consisted of \$866.4 million of component unit – proprietary funds revenue bonds (housing and higher education), \$757.8 million in revenue bonds issued by the three State universities and Iowa Lottery Authority (for equipment & facilities), \$627.9 million in revenue bonds issued by the Tobacco Settlement Authority and \$337.8 million in various bonds issued by the Iowa Finance Authority for the Vision Iowa Program, the School Infrastructure Loan Program, the Underground Storage Tank Program, and the Department of Corrections. These bonds are backed by the revenues of the issuing program or authority.

Certificates of Participation (COPS), issued by the State and outstanding at fiscal year-end, amounted to \$2.0 million. COPS represent an ownership interest of the certificate holder in a lease purchase agreement.

The State has also entered into capital leases and other financing agreements for various purposes. Total long-term capital leases and other financing agreements outstanding on June 30, 2005, was \$135.9 million.

Pension Trust Funds. The latest actuarial valuations of the separately funded and independent pension plans disclose the following information: the Iowa Public Employees Retirement System (IPERS) has an Unfunded Actuarial Accrued Liability (UAAL) of \$2,288.6 million which represents a funding ratio of 88.69%; the Peace Officers' Accident and Disability System (PORS) has an UAAL of \$91.3 million which represents a funded ratio of 73.39%; and the Judicial Retirement System (JRS) has a UAAL of \$23.9 million which represents a funded ratio of 77.37%. Schedules of Funding Progress for PORS and JRS are presented in the Required Supplementary Information Section. The funding policies of the Pension Trust funds are discussed in detail in the Notes to the Financial Statements (NOTE 16 - PENSION PLANS).

Risk Management. It is the policy of the State not to purchase commercial insurance, with the exception of limited third-party coverage for specific potential losses, for the risks of losses to which it is exposed. Instead, the State's management believes that it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service funds or to pay claims from the General Fund. The State is self-insured for risks related to property and casualty, workers' compensation, and general liability. For further information refer to the Notes to the Financial Statements (NOTE 19 – RISK MANAGEMENT).

OTHER INFORMATION

Certificate of Achievement – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a “Certificate of Achievement for Excellence in Financial Reporting” to the State of Iowa for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. This is the twelfth consecutive year the State of Iowa has received this award. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA. We are committed to continue this effort, and we intend to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgment. The preparation of this report on a timely basis requires the collective efforts of numerous finance personnel throughout the State and is made possible only with the cooperation and support of the Executive, Legislative, and Judicial branch agencies, universities, and component units of the State.

The report could not have been accomplished without the professionalism and dedication of the staff in the Department of Management, the State Accounting Enterprise within Administrative Services, the Auditor of State’s Office, and the financial and management personnel throughout State government.

This report, issued for the seventeenth consecutive year, continues our commitment to the citizens of the State of Iowa, the Governor, the Legislature, and the financial community, to maintain our financial statements in conformance with the highest standards of financial accountability.

Respectfully submitted,

Mollie K. Anderson, Director
Department of Administrative Services

Michael L. Tramontina, Director
Department of Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



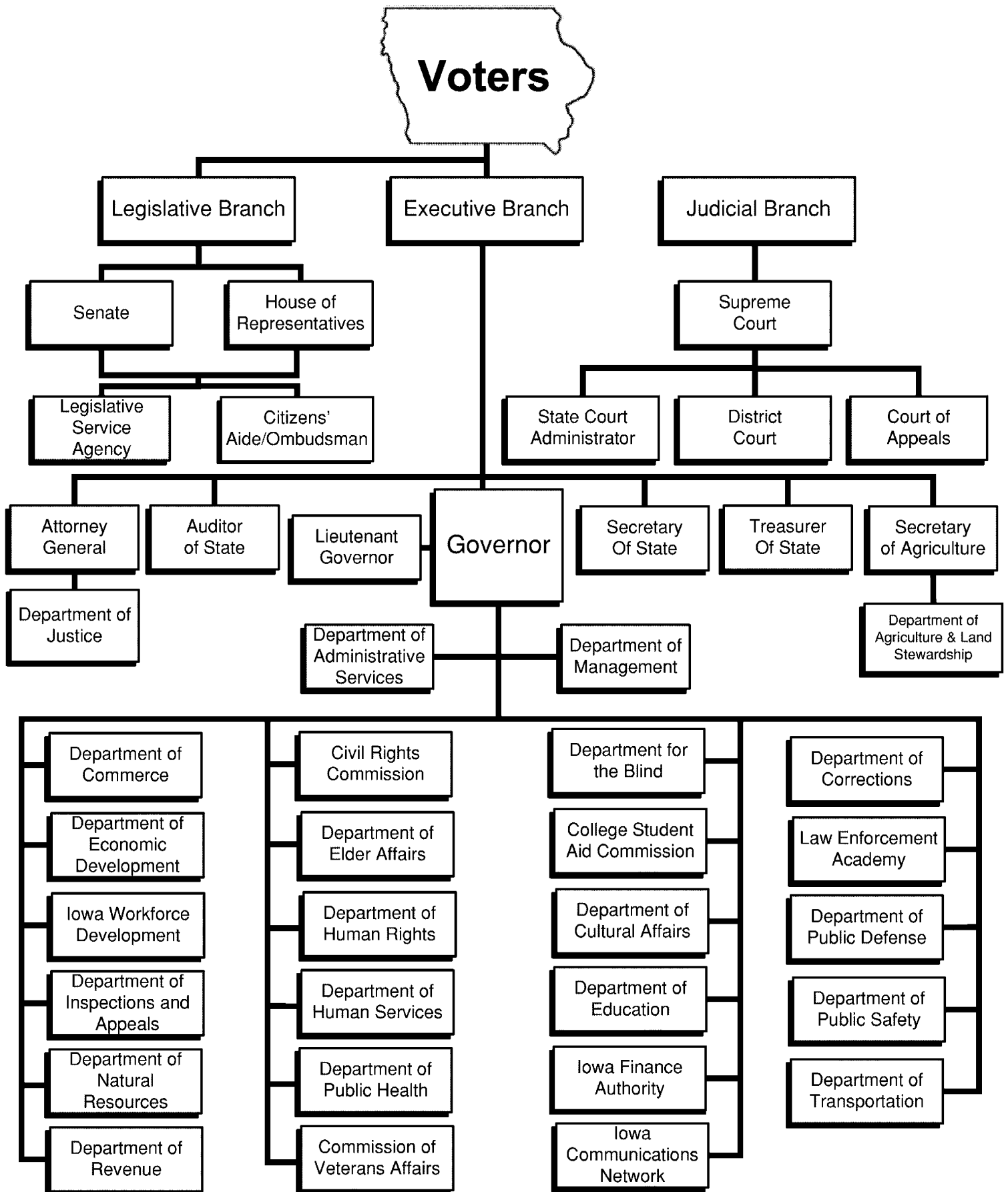
Nancy L. Ziehl

President

Jeffrey R. Enos

Executive Director

State of Iowa Organizational Chart



P R I N C I P A L O F F I C I A L S

Elected Officials

GOVERNOR - **Thomas J. Vilsack**
LIEUTENANT GOVERNOR - **Sally J. Pederson**
SECRETARY OF STATE - **Chester J. Culver**
AUDITOR OF STATE - **David A. Vaudt**
TREASURER OF STATE - **Michael L. Fitzgerald**
SECRETARY OF AGRICULTURE - **Patty J. Judge**
ATTORNEY GENERAL - **Thomas J. Miller**

Legislative Branch

CO-PRESIDENTS OF THE SENATE - **John P. Kibbie**
Jeff M. Lamberti
SPEAKER OF THE
HOUSE OF REPRESENTATIVES - **Christopher C. Rants**

Judicial Branch

CHIEF JUSTICE OF
THE SUPREME COURT - **Louis A. Lavorato**

**F I N A N C I A L
S E C T I O N**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the Governor and Members of the General Assembly:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain discretely presented component units, which statements reflect 98% of assets and 95% of revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for these discretely presented component units is based on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Iowa Higher Education Loan Authority and the Universities Foundations were not audited in accordance with Government Auditing Standards. 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 our audit and the reports of the other auditors provide a reasonable basis for our opinions.

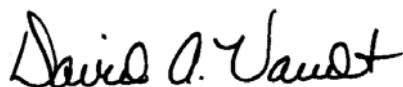
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

For the year ended June 30, 2005, appropriations of \$21,747,377 were made from the Rebuild Iowa Infrastructure Fund for items inconsistent with the fund's legislatively established purpose to be used for public vertical infrastructure-related expenditures. These items included, but were not limited to, transfers to the General Fund, support of various technology programs, routine maintenance of state buildings, relocation and facility lease costs and the establishment of loan programs. Expenditures for these items during the year ended June 30, 2005 totaled \$12,694,095 of which \$3,335,837 was funded from previous years' appropriations from the Rebuild Iowa Infrastructure Fund. These items have been reported as expenditures in the General Fund in the basic financial statements.

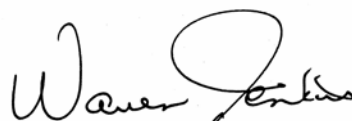
Management's Discussion and Analysis, Budgetary Comparison Information and Schedules of Funding Progress on pages 4 through 13 and 78 through 84 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Iowa's basic financial statements. The other supplementary information and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with Government Auditing Standards, our report on the State of Iowa'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 will be issued under separate cover in the Single Audit Report. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Iowa's *Comprehensive Annual Financial Report* (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended on June 30, 2005. Readers are encouraged to consider this information in conjunction with the letter of transmittal located at the front of the CAFR, and the State's financial statements, which follow this part of the CAFR.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

- The assets of the State of Iowa exceeded its liabilities at the close of fiscal year 2005 by \$10,790.4 million (net assets). Of this amount \$895.1 million (unrestricted net assets) is available to be used to meet the State's ongoing obligations to citizens and creditors.
- Total net assets increased by \$444.4 million in the fiscal year ended June 30, 2005. Net assets of governmental activities increased by \$229.7 million or 3.38 percent, while net assets of business-type activities increased by \$214.7 million or 6.1 percent.
- In the State's governmental activities, revenues increased slightly to \$10,441.7 million while expenses increased 4.2 percent to \$9,710.6 million.
- For business-type activities, revenues increased 2.4 percent to \$2,994.8 million while expenses decreased 1.9 percent to \$3,281.5 million.
- For fiscal year 2005, transfers include \$618.1 million, which was previously reported as State Aid to Universities. To enhance comparability, \$635.5 million of fiscal year 2004 business-type activities' revenues and governmental activities' expenses for State Aid to Universities has been restated as transfers.

Fund Highlights

- The State's governmental funds reported a combined ending fund balance of \$2,317.8 million, a \$29.7 million decrease from the restated prior year. Of this amount, \$647.9 million represents unreserved fund balance and the remaining \$1,669.9 million is reserved for specific purposes.
- The General Fund total fund balance increased \$55.0 million to \$1,924.5 million and the unreserved fund balance increased \$114.2 million to \$559.8 million at June 30, 2005.
- The proprietary funds reported net assets at year-end of \$3,772.8 million, an increase of \$214.6 million.

Long-term Debt

- The State's total long-term debt increased by \$6.2 million to \$1,861.4 million during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of the CAFR consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements, required supplementary information*, and an optional section that presents *supplementary information*.

Basic Financial Statements

The basic financial statements include the government-wide financial statements, the fund financial statements, and the notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are intended to provide a broad view of the State's financial activity. These statements are prepared using the accrual basis of accounting and the economic resources measurement focus, in a manner similar to private-sector business.

- The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- The Statement of Activities presents information about the change in the State's net assets. This statement is formatted to report direct expenses, program revenues and the net revenue or expense for each of the State's governmental functions and business-type activities. This format identifies the extent to which each function is self-financed or is supported by the general revenues of the State.

The government-wide financial statements of the State are divided into three categories:

- *Governmental activities*—Most services generally associated with State government, such as administration & regulation, education, health & human rights, human services, justice & public defense, economic development, transportation, and agriculture & natural resources, are included in this category.
- *Business-type activities*—State operations such as the Universities and the Unemployment Insurance Fund that charge fees to external customers and function similarly to private business are included here.
- *Component units*—These are operations that are legally separate from the State, but for which the State is financially accountable. The State's discretely presented component units are:
 - Iowa Finance Authority (Business-type)
 - Iowa Higher Education Loan Authority (Business-type)
 - Iowa Agricultural Development Authority (Business-type)
 - Iowa State Fair Authority (Business-type)
 - Universities Foundations (Business-type)

Additional information about the State's component units is presented in NOTE 1-B of the Notes to the Financial Statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. The State has three kinds of funds:

- *Governmental funds*—Most of the basic services provided by the State are accounted for in governmental funds. Governmental funds use the modified accrual basis of accounting and the flow of current financial resources measurement focus. Modified accrual accounting is used to show the flow of financial assets of the funds and the balances available for spending at year-end. These statements provide a detailed *short-term* view that assists in determining whether there are adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliation schedules accompany the governmental funds statements. The General Fund is the State's major governmental fund. Nonmajor governmental funds are reported by fund type in the Combining Financial Statements – Nonmajor funds.
- *Proprietary funds*—Services for which the State charges customers a fee are generally reported in proprietary funds. Proprietary funds use the accrual basis of accounting and, like the government-wide statements, provide both long- and short-term financial information.
 - The State's enterprise funds (one type of proprietary fund) are used to report activities, such as universities, that are presented as business-type activities in the government-wide statements.
 - The State's internal service funds (the other kind of proprietary fund) are used to account for activities that provide supplies and services for other State programs and activities—such as the Workers' Compensation Fund.

- *Fiduciary Funds*—These funds are used to show assets held by the State as trustee or agent for others outside the State, such as the Iowa Public Employees' Retirement System and the Iowa Educational Savings Plan Trust. Similar to proprietary funds, these funds use the accrual basis of accounting. Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed above.

Table 1

Major Features of the State's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as Human Services and Transportation	Activities the State operates similar to private businesses: the universities and the Iowa Communications Network	Instances in which the State is the trustee or agent for someone else's resources, such as the retirement plan for public employees
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net assets • Statement of revenues, expenses, and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the State's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the government-wide and fund financial statements. The notes also explain some of the information contained in the financial statements and present more detail than is practical in the financial statements.

Required Supplementary Information

In addition to this Management's Discussion and Analysis, Required Supplementary Information (RSI) includes the Budgetary Comparison Schedule. This schedule presents both the original and final appropriated budget of major funds. The Budgetary Comparison Schedule is accompanied by a budget to GAAP Reconciliation and by Notes to RSI. Schedules of funding progress for the Iowa Judicial Retirement System and the Peace Officers' Retirement, Accident and Disability System are also presented.

Supplementary Information

The Supplementary Information includes combining financial statements for non-major governmental funds, non-major enterprise funds, internal service funds and fiduciary funds, which are added together and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's combined net assets (government and business-type activities) totaled \$10,790.4 million at the end of 2005, compared to \$10,346.0 million at the end of the previous year, as indicated in Table 2.

Table 2 Net Assets (In Millions)							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2005	2004	2005	2004	2005	2004	2004 - 2005
Current and other assets	\$ 3,520.5	\$ 3,407.1	\$ 2,860.8	\$ 2,798.2	\$ 6,381.3	\$ 6,205.3	2.8%
Capital assets	5,727.4	5,543.7	2,561.3	2,378.7	8,288.7	7,922.4	4.6%
Total assets	9,247.9	8,950.8	5,422.1	5,176.9	14,670.0	14,127.7	3.8%
Long-term liabilities	1,060.6	1,061.9	992.1	974.9	2,052.7	2,036.8	0.8%
Other liabilities	1,162.9	1,094.2	664.0	650.7	1,826.9	1,744.9	4.7%
Total liabilities	2,223.5	2,156.1	1,656.1	1,625.6	3,879.6	3,781.7	2.6%
Net assets							
Invested in capital assets, net of related debt	5,681.4	5,465.0	1,783.5	1,621.4	7,464.9	7,086.4	5.3%
Restricted	1,209.1	1,382.4	1,221.3	1,181.2	2,430.4	2,563.6	-5.2%
Unrestricted	133.9	(52.7)	761.2	748.7	895.1	696.0	28.6%
Total net assets	<u>\$ 7,024.4</u>	<u>\$ 6,794.7</u>	<u>\$ 3,766.0</u>	<u>\$ 3,551.3</u>	<u>\$ 10,790.4</u>	<u>\$ 10,346.0</u>	4.3%

Net assets of the State's governmental activities increased 3.4 percent to \$7,024.4 million. The largest component (80.9%) of the State's net assets is invested in capital assets (e.g. land, buildings, equipment, infrastructure, and others), net of related outstanding debt that was used to acquire or construct the assets. Restricted net assets is the next largest component (17.2%). These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets is the remaining portion (1.9%) and may be used at the State's discretion, but often have limitations on use based on State statutes.

The net assets of business-type activities increased 6.0 percent to \$3,766.0 million. The State generally can only use these net assets to finance the continuing operations of the universities, unemployment insurance and other business-type activities.

Capital assets increased 4.6 percent to \$8,288.7 million. This is the result of on-going construction activity on Interstate 235 and the Avenue of the Saints by the Department of Transportation, the addition of the Iowa Laboratories Facility, the Lottery Authority building and facilities at the State Universities.

Changes in Net Assets

The State's total net assets increased by \$444.4 million during the year, as indicated in Table 3.

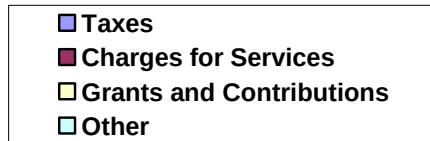
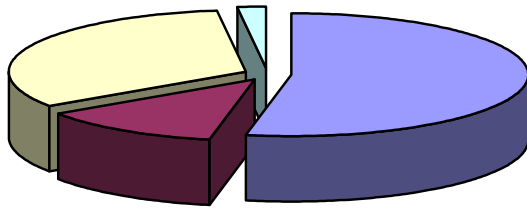
Table 3
Changes in Net Assets
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2004 - 2005
	2005	2004	2005	2004	2005	2004	
Program Revenues:							
Charges for Service	\$ 1,308.8	\$ 1,323.3	\$ 2,386.3	\$ 2,292.2	\$ 3,695.1	\$ 3,615.5	2.2%
Operating Grants and Contributions	3,391.7	3,314.5	448.5	427.6	3,840.2	3,742.1	2.6%
Capital Grants and Contributions	5.3	4.3	28.9	58.0	34.2	62.3	-45.1%
General Revenues:							
Personal Income Tax	2,263.6	2,090.7	-	-	2,263.6	2,090.7	8.3%
Corporate Income Tax	177.0	97.8	-	-	177.0	97.8	81.0%
Sales & Use Tax	1,761.2	1,688.9	-	-	1,761.2	1,688.9	4.3%
Other Taxes	596.7	598.2	-	-	596.7	598.2	-0.3%
Restricted for Transportation Purposes:							
Motor Fuel Tax	482.2	435.4	-	-	482.2	435.4	10.7%
Road Use Tax	252.6	252.3	-	-	252.6	252.3	0.1%
Unrestricted Investment Earnings	72.2	62.1	88.0	88.9	160.2	151.0	6.1%
Other	130.4	167.0	43.1	58.1	173.5	225.1	-22.9%
Total Revenues	10,441.7	10,034.5	2,994.8	2,924.8	13,436.5	12,959.3	3.7%
Expenses							
Administration & Regulation	903.4	972.6	-	-	903.4	972.6	-7.1%
Education	2,796.2	2,650.6	-	-	2,796.2	2,650.6	5.5%
Health & Human Rights	337.5	317.9	-	-	337.5	317.9	6.2%
Human Services	3,633.3	3,429.6	-	-	3,633.3	3,429.6	5.9%
Justice & Public Defense	693.6	663.1	-	-	693.6	663.1	4.6%
Economic Development	208.7	202.1	-	-	208.7	202.1	3.3%
Transportation	918.6	906.1	-	-	918.6	906.1	1.4%
Agriculture & Natural Resources	167.1	155.2	-	-	167.1	155.2	7.7%
Interest Expense	52.2	19.1	-	-	52.2	19.1	173.3%
Universities	-	-	2,656.3	2,644.0	2,656.3	2,644.0	0.5%
Unemployment Insurance	-	-	299.1	389.9	299.1	389.9	-23.3%
Other Business-type	-	-	326.1	310.5	326.1	310.5	5.0%
Total Expenses	9,710.6	9,316.3	3,281.5	3,344.4	12,992.1	12,660.7	2.6%
Increase in Net Assets Before							
Transfers and Special Item	731.1	718.2	(286.7)	(419.6)	444.4	298.6	48.8%
Transfers	(501.4)	(513.4)	501.4	513.4	-	-	0.0%
Special Item	-	102.3	-	-	-	102.3	N/A
Increase (Decrease) in Net Assets	229.7	307.1	214.7	93.8	444.4	400.9	10.9%
Net Assets July 1	6,794.7	6,487.6	3,551.3	3,457.5	10,346.0	9,945.1	4.0%
Net Assets June 30	\$ 7,024.4	\$ 6,794.7	\$ 3,766.0	\$ 3,551.3	\$ 10,790.4	10,346.0	4.3%

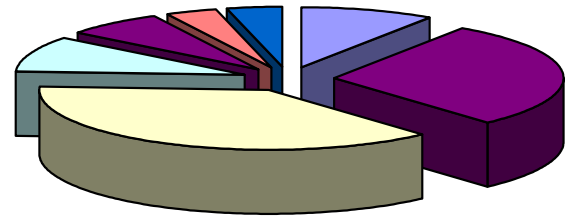
Note: State Aid to Universities, previously reported as revenue in business-type activities and an expense in governmental activities, is reported as transfers for fiscal year 2005. Fiscal year 2004 amounts have been restated to enhance comparability.

Governmental Activities

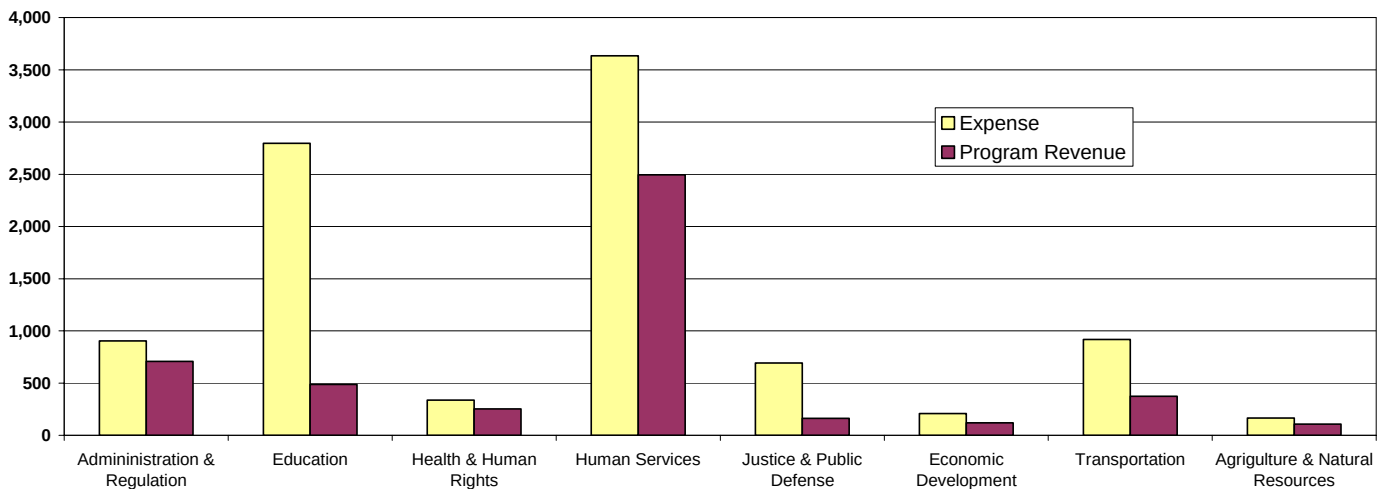
**FY05 Revenues -
Governmental Activities**



**FY05 Functional Expenditures -
Governmental Activities**



**Expenses and Program Revenues – Governmental Activities
(In Millions)**



The cost of all governmental activities this year was \$9,710.6 million.

- However, the amount that taxpayers paid for these activities through State taxes was \$5,533.3 million. Some of the cost was paid by:
 - Those who directly benefited from the programs (\$1,308.8 million), or
 - Other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$3,397.0 million).

Business-type Activities

- Universities had \$2,656.3 million in expenses and \$2,108.1 million in program revenues for net expenses of \$548.2 million.
- Unemployment Insurance had \$299.1 million in expenses and \$318.6 million in program revenues for net revenues of \$19.5 million.

In total, business-type activities had net expenses of \$417.8 million with \$632.6 million in net general revenues and transfers, an increase of \$214.7 million, to end with net assets of \$3,766.0 million.

Expenses decreased approximately \$62.9 million or 1.9 percent in fiscal year 2005. The decrease is mainly attributable to a drop in Unemployment insurance benefit payments to clients of approximately \$90.8 million.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The governmental funds reported total fund balances of \$2,317.8 million, with \$559.9 million in unreserved fund balance. Net revenues totaled \$10,390.1 million with expenditures of \$9,918.1 million.

General Fund

The General Fund is the chief operating fund of the State. At the end of the year, the total fund balance was \$1,924.5 million and the unreserved fund balance was \$559.9 million. The unreserved fund balance included \$225.8 million of "rainy day" funds. The net change in fund balance was an increase of \$55.0 million. Revenues exceeded expenditures by \$443.9 million, while other financing uses exceeded sources by \$388.9 million.

General Fund Budgetary Highlights

Over the course of the year, the State revised the budget several times. These budget amendments fall into two categories:

- Supplemental appropriations - \$87,013,573
- Adjustments to standing appropriations - \$54,584,474

The originally enacted General Fund budget of \$4,464.6 million was predicated on 1.5% growth in General Fund revenues, as projected by the State's Revenue Estimating Conference (REC) on December 8, 2003. While General Fund revenue growth had been either negative or estimated at zero the previous two fiscal years, the estimate reflected the expectation that revenue growth would return with the end of the recession; the National Bureau of Economic Research determined that the national economy returned to economic expansion in November 2001.

At its October 11, 2004 meeting, the REC revised its fiscal year 2005 General Fund revenue estimate upward to \$4,726.5 million. This was based upon the revised base of FY 2004 actual revenue growth of 4.5% and continued expectation that revenue growth would return to a more normal pattern. On December 14, 2004, the REC again increased the revenue estimate to \$4,746.2 million. The small increase from the October 2004 meeting reflected an acknowledgement that year-to-date revenues were growing faster than expected. An additional revision was made at the April 8, 2005 meeting to increase the General Fund revenue estimate to \$4.825.7 million.

On September 7, 2004, the General Assembly met in special session and approved HF 2581 and SF 2311, which were signed by the Governor. Among other things, the legislation provided for a general fund supplemental appropriation for field offices in the Department of Workforce Development for \$6.5 million.

During the 2005 legislative session, the General Assembly approved \$80.5 million in General Fund supplemental appropriations. The largest supplemental appropriation was to the Medical Assistance Program (Medicaid) in the Department of Human Services for \$70.0 million. Most of the other supplemental appropriations were to help in general operations of various departments. All of these were signed into law by Governor Vilsack.

Also during this legislative session, the General Assembly approved the transfer of \$159.7 million of the ending General Fund balance to the Property Tax Credit Fund for FY06 expenditures, prior to the transfer to the Cash Reserve Fund. This was signed into law by Governor Vilsack.

The State of Iowa has various statutory standing appropriations where a fixed amount is not appropriated. These are either formula-driven (in the case of the largest General Fund appropriation, for school foundation aid to local school districts), or for items like paying claims against the State through the State Appeal Board. For fiscal year 2005, these standing appropriations exceeded the original estimates by \$54.6 million. The largest variance was an appropriation from the General Fund to the Cash Reserve Fund that is triggered when the Cash Reserve Fund balance is below the cash reserve goal percentage of 7.5% of the adjusted revenue estimate. This appropriation was for \$45.5 million. The next largest variance was for Appeal Board claims, which were \$7.2 million over the estimate. The budget for the General Assembly exceeded its estimate by \$1.0 million. A variety of other appropriations made up the balance of the changes to standing appropriations.

On June 16, 2004, the Iowa Supreme Court ruled that the legislation creating the Grow Iowa Values Fund during the 2003 session was invalid, which also invalidated appropriations to that fund of \$59.0 million in fiscal year 2004 and \$41.0 million in fiscal year 2005. These were made from the entirety of the State of Iowa's allocation of federal flexible spending grant money appropriated by Congress in June, 2003. The Legislature also made contingent appropriations of \$5.0 million in FY 2004, \$23.0 million in FY 2005, and \$75.0 million a year in FY 2006 through FY 2010. These appropriations were contingent on sales and use tax receipts growing by more than 2.0% in each of the respective fiscal years.

On September 7, 2004, the General Assembly met in special session and approved HF 2581 and SF 2311, which were signed by the Governor. Among other things, these bills created the Federal Economic Stimulus and Jobs Holding Fund and deposited the proceeds from the 2003 Federal Jobs and Growth Tax Relief Reconciliation Act into the Fund. SF 2311 also appropriated a total of \$100.0 million from the Fund to economic development programs previously funded by the Grow Iowa Values Fund. The original Grow Iowa Values Fund appropriations were repealed by SF 2311. These appropriations totaled \$277.5 million over a four-year period from fiscal year 2005 to fiscal year 2007.

During April, May and June, and throughout the accrual period, actual General Fund revenue collections continued to exceed the official REC projections. At the close of the fiscal year, revenue collections totaled \$4,926.9 million which was 5.2% growth. As a consequence, after the transfer to the Property Tax Credit Fund, discussed earlier, the General Fund ending balance for fiscal year 2005 totaled \$166.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the State had \$8,288.7 million invested in capital assets, net of accumulated depreciation of \$5,490.7 million. Depreciation charges totaled \$529.0 million in 2005. The details of these assets are presented in Table 4. Additional information about the State's capital assets is presented in NOTE 6 of the financial statements.

Table 4
Capital Assets, Net of Depreciation
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2004 - 2005
	2005	2004	2005	2004	2005	2004	
Land	\$572.5	\$565.1	\$28.8	\$27.3	\$601.3	\$592.4	1.5%
Building and Improvements	534.3	466.6	1,394.2	1,319.7	1,928.5	1,786.3	8.0%
Equipment	146.0	140.9	322.7	296.6	468.7	437.5	7.1%
Land Improvements	6.3	6.7	30.2	29.0	36.5	35.7	2.2%
Works of Art and Collections	0.8	0.9	251.8	238.5	252.6	239.4	5.5%
Infrastructure	4,426.9	4,286.4	215.6	222.4	4,642.5	4,508.8	3.0%
Construction in progress	40.6	77.1	318.0	245.2	358.6	322.3	11.3%
Total	\$5,727.4	\$5,543.7	\$2,561.3	\$2,378.7	\$8,288.7	\$7,922.4	4.6%

Long-term Debt

At year-end the State had \$1,861.4 million in bonds, certificates of participation, and leases and other financing arrangements outstanding, as shown in Table 5. More detailed information about the State's long-term liabilities is presented in NOTE 8 to the financial statements.

Table 5
State of Iowa's Outstanding Debt
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2004 - 2005
	2005	2004	2005	2004	2005	2004	
Revenue Bonds	\$ 965.7	\$ 991.2	\$ 757.8	\$ 700.3	\$ 1,723.5	\$ 1,691.5	1.9%
Certificates of Participation	2.0	2.5	-	36.3	2.0	38.8	-94.8%
Leases and Other Financing Arrangements*	7.2	7.6	128.7	117.3	135.9	124.9	8.8%
Total	\$ 974.9	\$ 1,001.3	\$ 886.5	\$ 853.9	\$1,861.4	\$1,855.2	0.3%

*To enhance comparability leases and other financing arrangements outstanding at June 30, 2004 are included in this table

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Along with most other states, Iowa enjoyed improved fiscal health in fiscal year 2005, with the first half of the fiscal year showing a strong rebound in revenue collections, leveling out in the second half of the year. Iowa's 5.2 % General Fund revenue growth was the second year of growth, reversing a previous two year decline in General Fund revenue collections. This was the trend nationally as well, with revenue collections for all states increasing by 13.3% in the April-June 2005 quarter, according to the Rockefeller Institute of Government, the highest quarterly growth since the Institute has been tracking state revenues in 1991.

The Governor and General Assembly worked beyond the 110 day session in 2005, fashioning the General Fund budget for FY 2006. Amounts available for appropriation in the General Fund budget were \$4,990.2 million. General Fund appropriations totaled \$4,938.5 million, an increase of \$332.4 million from the actual 2005 General Fund budget.

At REC meetings in October, the fiscal year 2006 revenue estimate was increased to \$5,024.1 million, largely as a result of adjusting the base to reflect actual revenue collections in fiscal year 2005. The revised estimate reflects projected revenue growth of 2.0% compared to actual revenues for the previous fiscal year. This revised revenue projection coupled with current General Fund appropriations would leave an ending balance of \$98.1 million at the close of fiscal year 2006.

Recent revenue performance is encouraging despite the natural disasters of Hurricanes Katrina and Rita. Iowa's unemployment rate was at 4.5% in October 2005, which tied the lowest monthly unemployment rate during the calendar year.

Nationally, the effects of Hurricanes Katrina and Rita do not appear to have as big an impact on the economy as first forecasted. Growth in the gross domestic product (GDP) for the third quarter of 2005 is now estimated at 4.3%, a full percentage point ahead of the second quarter growth for 2005. Economy.com, a national economic forecasting company, expects GDP to slow to 3.5% in the fourth quarter of 2005, reflecting a pause in hiring by companies in October 2005 due to reaction to the Hurricanes. However, the underlying economy appears to be sturdy and growth is expected to reaccelerate early next year, with GDP estimated to growth at 4.2% for the first half of 2006.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, legislators, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the:

Iowa Department of Administrative Services
Hoover State Office Building
Des Moines, IA 50319



**BASIC
FINANCIAL
STATEMENTS**

STATE OF IOWA

Statement of Net Assets

June 30, 2005
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash & Investments	\$ 1,900,647	\$ 1,769,675	\$ 3,670,322	\$ 1,326,873
Cash & Investments - Restricted	-	38,593	38,593	579
Deposits With Trustees	4,848	21,836	26,684	-
Accounts Receivable (Net)	1,315,415	410,622	1,726,037	60,234
Interest Receivable	466	3,959	4,425	8,231
Loans Receivable (Net)	11,994	6,289	18,283	27,999
Internal Balances	17,957	(17,957)	-	-
Inventory	20,855	51,776	72,631	157
Prepaid Expenses	16,172	8,467	24,639	125
Deferred Charges	1,193	-	1,193	-
Other Assets	-	1,223	1,223	2,030
Investment In Prize Annuity	-	8,844	8,844	-
Total Current Assets	3,289,547	2,303,327	5,592,874	1,426,228
Noncurrent Assets:				
Cash & Investments	-	408,396	408,396	598,283
Cash & Investments - Restricted	-	-	-	326,625
Deposits With Trustees	-	81	81	-
Accounts Receivable (Net)	96,160	31,012	127,172	95,511
Interest Receivable	-	633	633	-
Loans Receivable (Net)	128,292	64,073	192,365	398,713
Capital Assets - nondepreciable	613,116	563,871	1,176,987	5,369
Capital Assets - depreciable (Net)	5,114,292	1,997,439	7,111,731	66,563
Prepaid Expenses	-	610	610	-
Deferred Charges	1,366	-	1,366	-
Other Assets	5,094	22,382	27,476	7,714
Investment In Prize Annuity	-	25,993	25,993	-
Prize Deposit	-	4,243	4,243	-
Total Noncurrent Assets	5,958,320	3,118,733	9,077,053	1,498,778
TOTAL ASSETS	9,247,867	5,422,060	14,669,927	2,925,006

The notes are an integral part of the financial statements.

(continued on next page)

STATE OF IOWA

(continued)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	924,134	272,487	1,196,621	30,650
Interest Payable	6,722	19,451	26,173	16,794
Deferred Revenue	102,802	75,566	178,368	67,739
Compensated Absences	105,204	70,537	175,741	-
Capital Leases	1,205	5,752	6,957	510
Bonds Payable	22,090	53,873	75,963	32,500
Other Financing				
Arrangements Payable	728	1,138	1,866	-
Annuities Payable	-	8,974	8,974	-
Lottery Prizes Payable	-	2,839	2,839	-
Funds Held In Custody	-	153,342	153,342	-
Total Current Liabilities	1,162,885	663,959	1,826,844	148,193
Noncurrent Liabilities:				
Accounts Payable & Accruals	72,208	15,864	88,072	67,766
Interest Payable	-	3,634	3,634	-
Deferred Revenue	73	2,994	3,067	6,298
Compensated Absences	37,354	62,198	99,552	184
Capital Leases	3,185	118,109	121,294	8,555
Bonds Payable	943,634	703,927	1,647,561	833,931
Other Financing				
Arrangements Payable	4,127	3,700	7,827	-
Annuities Payable	-	25,993	25,993	-
Lottery Prizes Payable	-	4,243	4,243	-
Funds Held In Custody	-	51,436	51,436	-
Other	-	5	5	7,573
Total Noncurrent Liabilities	1,060,581	992,103	2,052,684	924,307
TOTAL LIABILITIES	2,223,466	1,656,062	3,879,528	1,072,500
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	5,681,408	1,783,485	7,464,893	59,300
Restricted for:				
Transportation	623,434	-	623,434	-
Underground Storage Tank Program	85,511	-	85,511	-
Education	64,565	-	64,565	-
Health & Human Rights	155,196	-	155,196	-
Debt Service	173,630	-	173,630	-
Universities	-	390,707	390,707	-
Permanent Funds - Nonexpendable	10,596	-	10,596	-
Unemployment Benefits	-	830,626	830,626	-
Other	96,177	-	96,177	1,215,855
Unrestricted	133,884	761,180	895,064	577,351
TOTAL NET ASSETS	\$ 7,024,401	\$ 3,765,998	\$ 10,790,399	\$ 1,852,506

STATE OF IOWA

Statement of Activities

For the Year Ended June 30, 2005
(Expressed in Thousands)

			Program Revenue	
			Operating	Capital
	Expenses	Charges for Service	Grants and Contributions	Grants and Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
Administration & Regulation	\$ 903,378	\$ 698,923	\$ 9,002	\$ -
Education	2,796,158	26,118	460,733	643
Health & Human Rights	337,542	38,885	213,833	-
Human Services	3,633,297	387,762	2,107,509	-
Justice & Public Defense	693,606	72,045	90,848	-
Economic Development	208,720	3	118,755	-
Transportation	918,557	19,833	352,919	-
Agriculture & Natural Resources	167,101	65,227	38,055	4,673
Interest Expense	52,241	-	-	-
Total Governmental Activities	9,710,600	1,308,796	3,391,654	5,316
Business-type Activities:				
Universities	2,656,318	1,642,343	448,517	17,292
Unemployment Insurance	299,086	318,607	-	-
Other	326,060	425,261	-	11,620
Total Business-type Activities	3,281,464	2,386,211	448,517	28,912
Total Primary Government	\$ 12,992,064	\$ 3,695,007	\$ 3,840,171	\$ 34,228
Component Units:				
Iowa Finance Authority	\$ 61,021	\$ 12,498	\$ 26,549	\$ -
Iowa Higher Education Loan Authority	1,229	1,237	-	-
Iowa Agricultural Development Authority	410	365	13	-
Iowa State Fair Authority	15,168	14,670	2,030	-
Universities Foundations	119,925	-	146,802	360
Total Component Units	\$ 197,753	\$ 28,770	\$ 175,394	\$ 360
General Revenues				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel Tax				
Road Use Tax				
Unrestricted Investment Earnings				
Other				
Gain on Sale of Assets				
Contribution to Permanent Fund Principal				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - July 1, Restated				
Net Assets - June 30				

The notes are an integral part of the financial statements.

STATE OF IOWA

Net (Expenses) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
\$ (195,453)	\$ -	\$ (195,453)	\$ -	
(2,308,664)	-	(2,308,664)	-	
(84,824)	-	(84,824)	-	
(1,138,026)	-	(1,138,026)	-	
(530,713)	-	(530,713)	-	
(89,962)	-	(89,962)	-	
(545,805)	-	(545,805)	-	
(59,146)	-	(59,146)	-	
(52,241)	-	(52,241)	-	
(5,004,834)	-	(5,004,834)	-	
-	(548,166)	(548,166)	-	
-	19,521	19,521	-	
-	110,821	110,821	-	
-	(417,824)	(417,824)	-	
(5,004,834)	(417,824)	(5,422,658)	-	
				(21,974)
				8
				(32)
				1,532
				27,237
				6,771
2,263,561	-	2,263,561	-	
176,997	-	176,997	-	
1,761,195	-	1,761,195	-	
596,707	-	596,707	-	
482,194	-	482,194	-	
252,599	-	252,599	-	
72,166	88,036	160,202	141,138	
129,486	43,102	172,588	250	
972	3	975	-	
62	-	62	-	
(501,415)	501,415	-	-	
5,234,524	632,556	5,867,080	141,388	
229,690	214,732	444,422	148,159	
6,794,711	3,551,266	10,345,977	1,704,347	
\$ 7,024,401	\$ 3,765,998	\$ 10,790,399	\$ 1,852,506	



GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major Funds

General Fund – This is the state’s operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

Nonmajor Governmental Funds are presented, by fund type, beginning on page 86.

STATE OF IOWA

Balance Sheet Governmental Funds

June 30, 2005
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Current Assets:			
Cash & Investments	\$ 1,450,581	\$ 422,501	\$ 1,873,082
Deposits with Trustees	4,262	586	4,848
Accounts Receivable (Net)	1,282,674	32,382	1,315,056
Loans Receivable (Net)	11,994	-	11,994
Due From Other Funds	41,379	9,455	50,834
Inventory	10,665	66	10,731
Prepaid Expenditures	14,633	108	14,741
Total Current Assets	<u>2,816,188</u>	<u>465,098</u>	<u>3,281,286</u>
Noncurrent Assets:			
Accounts Receivable (Net)	91,121	5,039	96,160
Loans Receivable (Net)	128,292	-	128,292
Total Noncurrent Assets	<u>219,413</u>	<u>5,039</u>	<u>224,452</u>
TOTAL ASSETS	<u>\$ 3,035,601</u>	<u>\$ 470,137</u>	<u>\$ 3,505,738</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable & Accruals	\$ 862,276	\$ 27,826	\$ 890,102
Due To Other Funds	69,304	25,655	94,959
Deferred Revenue	161,992	23,282	185,274
Total Current Liabilities	<u>1,093,572</u>	<u>76,763</u>	<u>1,170,335</u>
Noncurrent Liabilities:			
Accounts Payable & Accruals	1,483	-	1,483
Due To Other Funds/Advances From Other Funds	3,568	-	3,568
Deferred Revenue	12,526	-	12,526
Total Noncurrent Liabilities	<u>17,577</u>	<u>-</u>	<u>17,577</u>
TOTAL LIABILITIES	<u>1,111,149</u>	<u>76,763</u>	<u>1,187,912</u>
FUND BALANCE			
Reserved for:			
Encumbrances & Contracts	20,802	-	20,802
Inventory & Prepaid Expenditures	25,298	174	25,472
Noncurrent Receivables	219,413	5,039	224,452
Specific Purposes	1,099,075	300,173	1,399,248
Unreserved Fund Equity	559,864	-	559,864
Unreserved, reported in:			
Nonmajor special revenue funds	-	83,978	83,978
Nonmajor capital projects funds	-	4,010	4,010
TOTAL FUND BALANCE	<u>1,924,452</u>	<u>393,374</u>	<u>2,317,826</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,035,601</u>	<u>\$ 470,137</u>	<u>\$ 3,505,738</u>

The notes are an integral part of the financial statements.

STATE OF IOWA

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

June 30, 2005
(Expressed in Thousands)

Total Fund Balances-Governmental funds \$ 2,317,826

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets, excluding internal service funds, is \$8,846,597,000 and the accumulated depreciation is (\$3,204,201,000). 5,642,396

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 120,767

Certain revenues are earned but not available and therefore deferred in the funds. 102,649

Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a current available resource and is not reported in the funds. 5,094

Deferred issue costs are reported as current expenditures in the funds. However, deferred issue costs are amortized over the life of the bonds and are included as deferred charges in the governmental activities in the Statement of Net Assets. 2,559

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(965,724)	
Accrued Interest Payable	(6,722)	
Compensated Absences	(140,019)	
Capital Leases	(4,100)	
Other Financing Arrangements Payable	(4,855)	
Early Retirement Liability	(14,980)	
Risk Management Liability	(11,500)	
Net Pension Liability	(6,307)	
Other Long-term Liabilities	(12,683)	
Total Long-term liabilities		(1,166,890)

Net assets of governmental activities \$ 7,024,401

The notes are an integral part of the financial statements.

STATE OF IOWA

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 6,216,356	\$ 69,074	\$ 6,285,430
Receipts from Other Entities	3,554,749	30,428	3,585,177
Investment Income	56,503	15,376	71,879
Fees, Licenses & Permits	634,058	5,623	639,681
Refunds & Reimbursements	276,774	72,910	349,684
Sales, Rents & Services	24,447	4,288	28,735
Miscellaneous	198,133	8,238	206,371
Contributions	-	62	62
GROSS REVENUES	10,961,020	205,999	11,167,019
Less Revenue Refunds	775,391	963	776,354
NET REVENUES	10,185,629	205,036	10,390,665
EXPENDITURES:			
Current:			
Administration & Regulation	858,444	16,642	875,086
Education	2,743,731	46,866	2,790,597
Health & Human Rights	332,329	461	332,790
Human Services	3,622,747	230	3,622,977
Justice & Public Defense	650,354	3,329	653,683
Economic Development	203,039	1,009	204,048
Transportation	379,960	1,746	381,706
Agriculture & Natural Resources	142,352	7,756	150,108
Capital Outlay	775,979	53,019	828,998
Debt Service:			
Bond Principal Retirement	19,061	6,120	25,181
Bond Interest & Fiscal Charges	13,696	39,203	52,899
TOTAL EXPENDITURES	9,741,692	176,381	9,918,073
REVENUES OVER (UNDER) EXPENDITURES	443,937	28,655	472,592
OTHER FINANCING SOURCES (USES):			
Transfers In	226,259	38,709	264,968
Transfers Out	(616,570)	(152,113)	(768,683)
Leases, Installment Purchases, & Other	1,115	-	1,115
Debt Refunding Proceeds	20,799	-	20,799
Payment to Refund Debt	(20,550)	-	(20,550)
TOTAL OTHER FINANCING SOURCES (USES)	(388,947)	(113,404)	(502,351)
NET CHANGE IN FUND BALANCE	54,990	(84,749)	(29,759)
FUND BALANCE JULY 1, RESTATED	1,869,462	478,123	2,347,585
FUND BALANCE JUNE 30	\$ 1,924,452	\$ 393,374	\$ 2,317,826

The notes are an integral part of the financial statements.

STATE OF IOWA

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2005
(Expressed in Thousands)

Net change in fund balances-total governmental funds \$ (29,759)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	519,714	
Depreciation expense	(334,860)	
Excess of capital outlay over depreciation expense		184,854

In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (5,566)

Some capital additions were financed through capital leases, other financing arrangements, and installment purchases. In governmental funds, these financing arrangements are considered a source of funding, but in the statement of net assets, the obligations are reported as liabilities. In the current year, these amounts consist of :

Revenue bonds	(19,765)	
Capital leases	(1,115)	
Total		(20,880)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	44,745	
Capital lease payments	1,164	
Other financing arrangements payments	785	
Total long-term debt repayment		46,694

Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 4,367

Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered available revenues and are deferred in the governmental funds. 47,449

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The (increases) decreases in these activities consist of :

Compensated absences	(2,352)	
Early retirement liability	8,553	
Pension Liability	(8,494)	
Other	4,824	
Total additional expenditures		2,531

Change in net assets of governmental activities \$ 229,690

The notes are an integral part of the financial statements.



PROPRIETARY FUND FINANCIAL STATEMENTS

Major Funds

University Funds are maintained to account for the operations of the State's public institutions of higher education. The State University of Iowa, Iowa State University, and the University of Northern Iowa comprise this group.

Unemployment Benefits Fund receives federal funds and contributions from employers to provide benefits to eligible unemployed workers.

Nonmajor Proprietary Funds are presented by fund, beginning on page 108.

STATE OF IOWA
Statement of Net Assets
Proprietary Funds
June 30, 2005
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
ASSETS					
Current Assets:					
Cash & Investments	\$ 1,010,652	\$ 723,576	\$ 34,342	\$ 1,768,570	\$ 28,670
Cash & Investments - Restricted	38,593	-	-	38,593	-
Deposits With Trustees	21,836	-	-	21,836	-
Accounts Receivable (Net)	293,020	104,158	13,444	410,622	827
Interest Receivable	3,834	-	125	3,959	-
Loans Receivable (Net)	6,289	-	-	6,289	-
Due From Other Funds/Advances					
To Other Funds	-	790	3,244	4,034	60,072
Inventory	42,907	-	8,869	51,776	10,123
Prepaid Expenses	7,747	-	720	8,467	1,432
Other Assets	1,223	-	-	1,223	-
Investment In Prize Annuity	-	-	8,844	8,844	-
Total Current Assets	<u>1,426,101</u>	<u>828,524</u>	<u>69,588</u>	<u>2,324,213</u>	<u>101,124</u>
Noncurrent Assets:					
Cash & Investments	408,396	-	-	408,396	-
Deposits With Trustees	81	-	-	81	-
Accounts Receivable	19,512	11,500	-	31,012	-
Interest Receivable	633	-	-	633	-
Loans Receivable (Net)	64,073	-	-	64,073	-
Due From Other Funds/Advances					
To Other Funds	-	3,299	-	3,299	269
Capital Assets - nondepreciable	562,113	-	1,758	563,871	-
Capital Assets - depreciable, net	1,938,521	-	58,918	1,997,439	85,012
Prepaid Expenses	26	-	584	610	-
Other Assets	22,382	-	-	22,382	-
Investment In Prize Annuity	-	-	25,993	25,993	-
Prize Deposit	-	-	4,243	4,243	-
Total Noncurrent Assets	<u>3,015,737</u>	<u>14,799</u>	<u>91,496</u>	<u>3,122,032</u>	<u>85,281</u>
TOTAL ASSETS	<u>4,441,838</u>	<u>843,323</u>	<u>161,084</u>	<u>5,446,245</u>	<u>186,405</u>
LIABILITIES					
Current Liabilities:					
Accounts Payable & Accruals	245,144	10,281	16,306	271,731	17,304
Due To Other Funds/Advances					
From Other Funds	-	218	17,906	18,124	1,857
Interest Payable	19,430	-	21	19,451	-
Deferred Revenue	72,785	2,198	583	75,566	7,724
Compensated Absences	69,378	-	1,159	70,537	2,539
Capital Leases	5,752	-	-	5,752	63
Bonds Payable	51,873	-	2,000	53,873	-
Other Financing					
Arrangements Payable	1,138	-	-	1,138	-
Annuities Payable	-	-	8,974	8,974	-
Lottery Prizes Payable	-	-	2,839	2,839	-
Funds Held In Custody	153,342	-	-	153,342	-
Total Current Liabilities	<u>618,842</u>	<u>12,697</u>	<u>49,788</u>	<u>681,327</u>	<u>29,487</u>
Noncurrent Liabilities:					
Accounts Payable & Accruals	15,864	-	-	15,864	42,744
Interest Payable	3,634	-	-	3,634	-
Deferred Revenue	2,994	-	-	2,994	-
Compensated Absences	61,456	-	742	62,198	-
Capital Leases	118,109	-	-	118,109	227
Bonds Payable	698,427	-	5,500	703,927	-
Other Financing					
Arrangements Payable	3,700	-	-	3,700	-
Annuities Payable	-	-	25,993	25,993	-
Lottery Prizes Payable	-	-	4,243	4,243	-
Funds Held In Custody	51,436	-	-	51,436	-
Other	-	-	5	5	-
Total Noncurrent Liabilities	<u>955,620</u>	<u>-</u>	<u>36,483</u>	<u>992,103</u>	<u>42,971</u>
TOTAL LIABILITIES	<u>1,574,462</u>	<u>12,697</u>	<u>86,271</u>	<u>1,673,430</u>	<u>72,458</u>
NET ASSETS					
Invested in Capital Assets,					
Net of Related Debt	1,730,310	-	53,176	1,783,486	84,722
Restricted For:					
Expendable	323,733	-	-	323,733	-
Nonexpendable	66,974	-	-	66,974	-
Unemployment Benefits	-	830,626	-	830,626	-
Unrestricted	746,359	-	21,637	767,996	29,225
TOTAL NET ASSETS	<u>\$ 2,867,376</u>	<u>\$ 830,626</u>	<u>\$ 74,813</u>	3,772,815	<u>\$ 113,947</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(6,817)	
Net assets of business-type activities				<u>\$ 3,765,998</u>	

The notes are an integral part of the financial statements.

STATE OF IOWA

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2005

(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
OPERATING REVENUES:					
Employer Contributions	\$ -	\$ 313,897	\$ -	\$ 313,897	\$ -
Receipts from Other Entities	83	4,710	21	4,814	93,046
Fees, Licenses & Permits	1,059,178	-	9,941	1,069,119	6
Refunds & Reimbursements	-	-	126	126	43,657
Sales, Rents & Services	223,971	-	413,507	637,478	1,716
Grants & Contracts	513,241	-	-	513,241	-
Independent /Auxiliary Operations	189,573	-	-	189,573	-
Miscellaneous	46,198	-	1,666	47,864	4,457
TOTAL OPERATING REVENUES	2,032,244	318,607	425,261	2,776,112	142,882
OPERATING EXPENSES:					
General & Administrative	-	-	34,531	34,531	-
Scholarship & Fellowship	33,112	-	-	33,112	-
Depreciation	170,226	-	11,532	181,758	12,383
Direct Expense	-	-	38,823	38,823	-
Prize Expense	-	-	113,456	113,456	-
Personal Services	1,683,819	-	17,858	1,701,677	27,654
Travel & Subsistence	28,765	-	782	29,547	13,458
Supplies & Materials	332,594	-	327	332,921	37,076
Contractual Services	74,784	-	5,030	79,814	12,791
Equipment & Repairs	266,619	-	1,554	268,173	20,088
Claims & Miscellaneous	16,820	-	96,513	113,333	17,558
Licenses, Permits & Refunds	1,623	-	547	2,170	15
State Aids & Credits	-	299,086	2,851	301,937	-
TOTAL OPERATING EXPENSES	2,608,362	299,086	323,804	3,231,252	141,023
OPERATING INCOME (LOSS)	(576,118)	19,521	101,457	(455,140)	1,859
NONOPERATING REVENUES					
(EXPENSES)					
Gifts	95,319	-	-	95,319	-
Taxes	-	-	5,693	5,693	-
Investment Income	49,266	37,554	1,216	88,036	286
Interest Expense	(40,548)	-	(1,325)	(41,873)	-
Miscellaneous Nonoperating Revenue	265	-	-	265	-
Miscellaneous Nonoperating Expense	(239)	-	(590)	(829)	-
Gain on Sale of Capital Assets	-	-	3	3	35
Loss on Sale of Capital Assets	(7,226)	-	(400)	(7,626)	-
NET NONOPERATING REVENUES (EXPENSES)	96,837	37,554	4,597	138,988	321
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(479,281)	57,075	106,054	(316,152)	2,180
Capital Contributions and Grants	17,292	-	11,620	28,912	-
Transfers In	618,109	-	312	618,421	2,375
Transfers Out	-	(4,855)	(112,151)	(117,006)	(75)
Additions to Endowments	440	-	-	440	-
CHANGE IN NET ASSETS	156,560	52,220	5,835	214,615	4,480
TOTAL NET ASSETS - JULY 1, RESTATED	2,710,816	778,406	68,978		109,467
TOTAL NET ASSETS - JUNE 30	\$ 2,867,376	\$ 830,626	\$ 74,813		\$ 113,947

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Change in net assets of business-type activities

117
\$ 214,732

The notes are an integral part of the financial statements.

STATE OF IOWA
Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received From Customers/Students	\$ 1,508,192	\$ -	\$ 419,227	\$ 1,927,419	\$ -
Cash Received From Miscellaneous	28,934	238	1,305	30,477	-
Cash Received From Employers	-	312,320	-	312,320	-
Cash Received From Other Entities	609,823	4,710	-	614,533	8,611
Cash Received From Reciprocal Interfund Activity	-	-	-	-	133,198
Cash Payments To Suppliers For Goods & Services	(859,910)	-	(176,712)	(1,036,622)	(86,073)
Cash Payments To Employees/Students For Services	(1,660,207)	-	(17,983)	(1,678,190)	(39,269)
Cash Payments For Prizes	-	-	(123,946)	(123,946)	-
Cash Payments For Unemployment Claims	-	(299,116)	-	(299,116)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	(373,168)	18,152	101,891	(253,125)	16,467
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers In From Other Funds	602,792	-	305	603,097	2,375
Transfers Out To Other Funds	-	(4,854)	(110,060)	(114,914)	(93)
Receipts From Grants & Contributions	-	-	-	-	-
Receipts From Related Agencies	546,399	-	-	546,399	-
Payments To Related Agencies	(560,116)	-	-	(560,116)	-
Other Receipts	432,796	-	-	432,796	-
Other Payments	(410,362)	-	-	(410,362)	-
Proceeds From Noncapital Gifts	2,264	-	-	2,264	-
Tax Receipts	-	-	17,108	17,108	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	613,773	(4,854)	(92,647)	516,272	2,282
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition & Construction of Capital Assets	(312,153)	-	(12,494)	(324,647)	(16,808)
Interest Payments	(37,738)	-	(2,611)	(40,349)	-
Debt Payments	(102,830)	-	(37,577)	(140,407)	-
Capital Grants & Contributions	44,998	-	205	45,203	-
Debt Proceeds	150,449	-	8,800	159,249	-
Proceeds From Sale of Capital Assets	1,263	-	65	1,328	-
Other	(143)	-	-	(143)	-
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(256,154)	-	(43,612)	(299,766)	(16,808)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest & Dividends On Investments	48,753	37,555	1,160	87,468	286
Proceeds From Sale & Maturities Of Investments	527,034	-	-	527,034	-
Purchase Of Investments	(597,522)	-	-	(597,522)	-
Other	-	-	9,901	9,901	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	(21,735)	37,555	11,061	26,881	286

STATE OF IOWA

(continued)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS		
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(37,284)	50,853	(23,307)	(9,738)	2,227
CASH & CASH EQUIVALENTS JULY 1, RESTATED	418,050	672,723	57,649	1,148,422	26,443
CASH & CASH EQUIVALENTS JUNE 30	380,766	723,576	34,342	1,138,684	28,670
INVESTMENTS	1,098,792	-	-	1,098,792	-
LESS DEPOSITS WITH TRUSTEES	(21,917)	-	-	(21,917)	-
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 1,457,641</u>	<u>\$ 723,576</u>	<u>\$ 34,342</u>	<u>\$ 2,215,559</u>	<u>\$ 28,670</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (576,118)	\$ 19,521	\$ 101,457	\$ (455,140)	\$ 1,859
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:					
Depreciation	170,226	-	11,532	181,758	12,383
Loss on Disposal of Assets	-	-	400	400	-
Gain on Sale of Capital Assets	-	-	(19)	(19)	-
(Increase) Decrease In Accounts Receivable	14,941	(1,311)	(3,692)	9,938	(91)
(Increase) Decrease In Due From	3,614	(12)	(1,184)	2,418	(1,763)
(Increase) Decrease In Inventory	(1,563)	-	626	(937)	(1,276)
(Increase) Decrease In Prepaid Expenses	(992)	-	(305)	(1,297)	182
(Increase) Decrease In Loans Receivable	1,303	-	-	1,303	90
(Increase) Decrease In Other Assets	39	-	-	39	-
Increase (Decrease) In Accounts Payable	12,223	(629)	1,796	13,390	1,485
Increase (Decrease) In Due To	-	160	1,562	1,722	1,379
Increase (Decrease) In Deferred Revenue	9,908	423	144	10,475	372
Increase (Decrease) In Compensated Absences And Other Benefits	1,218	-	97	1,315	1,847
Increase (Decrease) In Prizes Payable	-	-	(618)	(618)	-
Increase (Decrease) In Prize Annuity	-	-	(9,901)	(9,901)	-
Increase (Decrease) In Other Liability	(7,967)	-	(4)	(7,971)	-
Net Cash Provided By Operating Activities	<u>\$ (373,168)</u>	<u>\$ 18,152</u>	<u>\$ 101,891</u>	<u>\$ (253,125)</u>	<u>\$ 16,467</u>

Noncash capital financing activities:

Capital assets acquired through capital lease and notes were \$25,646,000 and gifts of capital assets of \$1,596,000 were received by the enterprise funds.

The notes are an integral part of the financial statements.



FIDUCIARY FUND FINANCIAL STATEMENTS

Fiduciary Funds are presented by fund, beginning on page 120

STATE OF IOWA

Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2005
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash & Cash Equivalents	\$ 125,300	\$ 1,794	\$ 117,300
Receivables:			
Accounts (Net)	-	1	164,110
Contributions	37,463	-	-
Investments Sold	602,098	-	-
Foreign Exchange Contracts	9,847	-	-
Interest & Dividends	65,085		
Total Receivables	714,493	1	164,110
Investments, at Fair Value:			
Fixed Income Securities	6,134,548	-	-
Equity Investments	8,773,840	1,122,823	-
Real Estate Partnerships	1,232,598	-	-
Investment in Private Equity/Debt	1,176,490	-	-
Securities Lending Collateral Pool	2,001,233	-	-
Securities on Loan with Brokers	2,056,623	-	-
Total Investments	21,375,332	1,122,823	-
Capital Assets:			
Land	500	-	-
Capital Assets (Net)	3,651	45	-
Total Capital Assets	4,151	45	-
Other Assets	-	17	-
Total Assets	22,219,276	1,124,680	281,410
LIABILITIES			
Accounts Payable & Accruals	54,357	21	281,410
Payable for Investments Purchased	1,053,105	-	-
Payable to Brokers For Rebate & Collateral	2,000,155	-	-
Total Liabilities	3,107,617	21	281,410
NET ASSETS			
Held in Trust for:			
Employees' Benefits	19,111,659	-	-
Individuals, Organizations, and Other Governments	-	1,124,659	-
Total Net Assets	\$ 19,111,659	\$ 1,124,659	\$ -

The notes are an integral part of the financial statements.

STATE OF IOWA

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
Member/Participant Contributions	\$ 315,689	\$ 247,899
Employer Contributions	210,090	-
Buy-Back/Buy-In Contributions	11,217	-
Gifts, Bequests, & Endowments	-	123
Contributions	<u>536,996</u>	<u>248,022</u>
Investment Income:		
Net Increase in Fair Value of Investments	1,614,747	74,192
Interest	227,851	50
Dividends	69,530	-
Other	123,191	-
Investment Income	<u>2,035,319</u>	<u>74,242</u>
Less Investment Expense	<u>92,298</u>	<u>-</u>
Net Investment Income	<u>1,943,021</u>	<u>74,242</u>
Miscellaneous Non-Investment Income	<u>42</u>	<u>-</u>
Total Additions	<u>2,480,059</u>	<u>322,264</u>
DEDUCTIONS:		
Pension and Annuity Benefits	889,092	-
Distributions to Participants	-	27,629
Payments in Accordance with Agreements	1,021	-
Administrative Expense	8,288	-
Refunds	43,124	-
Other	-	566
Total Deductions	<u>941,525</u>	<u>28,195</u>
Change in Net Assets held in Trust for:		
Employees' Benefits	1,538,534	-
Individuals, Organizations and Other Governments	-	294,069
Net Assets - July 1	<u>17,573,125</u>	<u>830,590</u>
Net Assets - June 30	<u>\$ 19,111,659</u>	<u>\$ 1,124,659</u>

The notes are an integral part of the financial statements.



COMPONENT UNIT FINANCIAL STATEMENTS

Iowa Finance Authority issues bonds to assist in attainment of adequate housing for special needs individuals such as the low to moderate income and the disabled, and to provide limited types of financing to small businesses.

Iowa Higher Education Loan Authority provides for the financing of educational loans for students attending private educational institutions in the state and financing for acquisition, construction, and renovation of educational facilities.

Iowa Agricultural Development Authority undertakes programs which assist beginning farmers in purchasing land, improvements and property for agricultural purposes and provides financing for agricultural and soil conservation development, and other various agricultural development programs.

Iowa State Fair Authority conducts the annual State Fair and Exposition and other interim events on the Iowa State Fairgrounds.

Universities Foundations act primarily as fund-raising organizations to supplement the resources available to the state universities.

STATE OF IOWA

Statement of Net Assets Component Units

June 30, 2005
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITIES FOUNDATIONS	TOTAL COMPONENT UNITS
ASSETS						
Current Assets:						
Cash & Investments	\$ 458,086	\$ 1,152	\$ 694	\$ 9,775	\$ 857,166	\$ 1,326,873
Cash & Investments - Restricted	-	579	-	-	-	579
Accounts Receivable	-	-	6	593	59,635	60,234
Interest Receivable Unrestricted	7,890	136	48	5	152	8,231
Loans Receivable (Net)	25,836	2,056	107	-	-	27,999
Inventory	-	-	-	157	-	157
Prepaid Expenses	-	102	-	-	23	125
Other	1,473	-	-	-	557	2,030
Total Current Assets	<u>493,285</u>	<u>4,025</u>	<u>855</u>	<u>10,530</u>	<u>917,533</u>	<u>1,426,228</u>
Noncurrent Assets:						
Cash & Investments	556,816	-	-	-	41,467	598,283
Cash & Investments - Restricted	-	20,612	3,697	-	302,316	326,625
Accounts Receivable	-	-	-	-	95,511	95,511
Loans Receivable (Net)	383,468	13,944	1,301	-	-	398,713
Capital Assets - nondepreciable	-	-	-	4,409	960	5,369
Capital Assets - depreciable, net	717	3	20	38,473	27,350	66,563
Other	2,037	-	-	151	5,526	7,714
Total Noncurrent Assets	<u>943,038</u>	<u>34,559</u>	<u>5,018</u>	<u>43,033</u>	<u>473,130</u>	<u>1,498,778</u>
TOTAL ASSETS	<u>1,436,323</u>	<u>38,584</u>	<u>5,873</u>	<u>53,563</u>	<u>1,390,663</u>	<u>2,925,006</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	6,293	411	73	628	23,245	30,650
Interest Payable	16,688	106	-	-	-	16,794
Deferred Revenues	663	37	-	-	-	700
Capital Leases	-	-	-	-	510	510
Bonds Payable	31,464	910	-	-	126	32,500
Funds Held in Custody	-	-	-	-	67,039	67,039
Total Current Liabilities	<u>55,108</u>	<u>1,464</u>	<u>73</u>	<u>628</u>	<u>90,920</u>	<u>148,193</u>
Noncurrent Liabilities:						
Accounts Payable and Accruals	-	-	-	-	67,766	67,766
Deferred Revenues	6,138	160	-	-	-	6,298
Compensated Absences	-	-	-	184	-	184
Capital Leases	-	-	-	-	8,555	8,555
Bonds Payable	795,490	35,000	-	-	3,441	833,931
Funds Held In Custody	7,466	-	-	107	-	7,573
Total Noncurrent Liabilities	<u>809,094</u>	<u>35,160</u>	<u>-</u>	<u>291</u>	<u>79,762</u>	<u>924,307</u>
TOTAL LIABILITIES	<u>864,202</u>	<u>36,624</u>	<u>73</u>	<u>919</u>	<u>170,682</u>	<u>1,072,500</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	717	3	20	42,882	15,678	59,300
Restricted for Specific Purposes	542,427	801	5,116	1,379	666,132	1,215,855
Unrestricted	<u>28,977</u>	<u>1,156</u>	<u>664</u>	<u>8,383</u>	<u>538,171</u>	<u>577,351</u>
TOTAL NET ASSETS	<u>572,121</u>	<u>1,960</u>	<u>5,800</u>	<u>52,644</u>	<u>1,219,981</u>	<u>1,852,506</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,436,323</u>	<u>\$ 38,584</u>	<u>\$ 5,873</u>	<u>\$ 53,563</u>	<u>\$ 1,390,663</u>	<u>\$ 2,925,006</u>

The notes are an integral part of the financial statements

STATE OF IOWA

Statement of Activities Component Units

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITIES FOUNDATIONS	TOTAL COMPONENT UNITS
Expenses	\$ 61,021	\$ 1,229	\$ 410	\$ 15,168	\$ 119,925	\$ 197,753
Program Revenues:						
Charges for Service	12,498	1,237	365	14,670	-	28,770
Operating Grants						
and Contributions	26,549	-	13	2,030	146,802	175,394
Capital Grants and Contributions	-	-	-	-	360	360
Total Program Revenues	39,047	1,237	378	16,700	147,162	204,524
Net Program (Expense) Revenue	(21,974)	8	(32)	1,532	27,237	6,771
General Revenues:						
Investment Income	62,584	-	14	69	78,471	141,138
Other	-	-	-	250	-	250
Total General Revenue	62,584	-	14	319	78,471	141,388
Change in Net Assets	40,610	8	(18)	1,851	105,708	148,159
NET ASSETS - JULY 1, RESTATED	531,511	1,952	5,818	50,793	1,114,273	1,704,347
NET ASSETS - JUNE 30	\$ 572,121	\$ 1,960	\$ 5,800	\$ 52,644	\$ 1,219,981	\$ 1,852,506

The notes are an integral part of the financial statements.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements of the State of Iowa have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

B. Financial Reporting Entity

For financial reporting purposes, the State of Iowa includes all funds, departments, agencies and universities of the State. The State 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 State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB 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 State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by GAAP, these financial statements present the State of Iowa (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. The individual component unit financial statements can be obtained by contacting: Iowa Department of Administrative Services, State Accounting Enterprise, 3rd Floor, Hoover State Office Bldg., Des Moines, IA 50319.

Blended Component Units

These component units are entities which are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State's primary government and are blended with the appropriate funds.

- Iowa Public Television Foundation (Special Revenue and Permanent funds) serves as a funding medium for Iowa Public Television. It solicits and manages gifts of money or property, for the exclusive purpose of granting gifts of money or property to Iowa Public Television. Iowa Public Television has sole discretion as to the use of the money or property. The State appoints a voting

majority of the Foundation's board and has the ability to impose its will on the organization, as it can make personnel decisions regarding the management of the Foundation.

- Tobacco Settlement Authority (Special Revenue fund) was created to issue bonds to securitize payments due to the State pursuant to the Master Settlement Agreement between the State and the five largest tobacco manufacturers. The Authority's board consists of the Treasurer of State, Auditor of State and the Director of the Department of Management. The State has the ability to impose its will on the Authority and its sole purpose is to provide a secure and stable source of revenue from the tobacco settlement for the State.
- Iowa Lottery Authority (Enterprise fund) was created to operate the State Lottery. The five members of the board of directors are appointed by the governor and confirmed by the Senate. The State has the ability to impose its will on the Authority and its purpose is to produce the maximum amount of net revenues for the State in a dignified manner that maintains the general welfare of the people.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or its relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units include the financial data of these entities.

- Iowa Finance Authority (Proprietary) issues bonds to assist in attainment of adequate housing for special needs individuals such as the low to moderate income and the disabled, and to provide limited types of financing to small businesses. The nine members of the Board of Directors are appointed by the Governor and confirmed by the Senate.
- Iowa Higher Education Loan Authority (Proprietary) provides for the financing of educational loans for students attending private educational institutions in the State and financing for the acquisition,

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

construction, and renovation of educational facilities. The five members of the Board of Directors are appointed by the Governor and confirmed by the Senate. The State has the ability to impose its will upon the Authority.

- Iowa Agricultural Development Authority (Proprietary) undertakes programs which assist beginning farmers in purchasing land, improvements and property for agricultural purposes, and provides financing for agricultural and soil conservation development, and other various agricultural development programs. The State appoints a voting majority of the organization and is able to impose its will on the Authority.
- Iowa State Fair Authority (Proprietary) conducts the annual State Fair and Exposition and other interim events on the Iowa State Fairgrounds. The State must approve any bonds issued by the Authority (October 31 year end).
- Universities Foundations (foundations) are legally separate, tax-exempt entities. They act primarily as fund-raising organizations to supplement the resources available to the State Universities (universities) in support of their programs. Although the State does not control the timing or amount of receipts from the foundations, the majority of the resources or income thereon they hold and invest is restricted to the activities of the universities by the donors. Because the majority of these restricted resources can only be used by, or for the benefit of the universities, they are considered a component unit of the State and are discretely presented in the financial statements.

During the year ended June 30, 2005, the foundations distributed \$69,655,172 to the State Universities for academic and institutional support.

The foundations are private nonprofit organizations that report under FASB standards, including FASB Statement No. 117, (*Financial Reporting for Not-for-Profit Organizations*). As such, certain revenue recognition criteria and presentation features are different from GASB revenue

recognition criteria and presentation features. No modifications have been made to the foundations' financial information; however, the foundation's assets and liabilities and revenues and expenses were reformatted to correspond to the State's reporting format for the Statement of Net Assets and Statement of Activities.

Related Organizations

These related organizations are excluded from the reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organizations' board members. Financial statements are available from the respective organizations.

- Iowa Student Loan Liquidity Corporation
- Iowa Comprehensive Health Association
- Turkey Marketing Council
- Iowa Business Development Finance Corporation
- Community Health Management Information System

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

D. Financial Statement Presentation

The State reports the following major governmental fund:

The *General Fund* is the State's principal operating fund. It accounts for all financial resources except those accounted for in another fund.

The State reports the following major enterprise funds:

The *University Funds* account for the operations of the State's public institutions of higher education. The State University of Iowa, Iowa State University and the University of Northern Iowa comprise this group.

The *Unemployment Benefits Fund* receives federal funds and contributions from employers to provide benefits to eligible unemployed workers.

In addition, the State reports the following fund types:

Governmental Funds

Special Revenue Funds account for the proceeds of specific revenue sources (other than permanent or capital projects) that are legally restricted to expenditures for a specified purpose.

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds account for resources that are legally restricted to the extent that only earnings, and not principal may be used for the benefit of the government or its citizenry.

Proprietary Funds

Enterprise Funds account for the activities for which fees are charged to external users for goods and services. This fund type is also used when the activity is financed with debt that is secured with fees and charges, as well as when the pricing policy of the activity is designated to recover its costs.

Internal Service Funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the State, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds account for resources that are required to be held for the members and beneficiaries of the State's defined benefit pension plans and other post employment benefit plans. The pension plans included are the Iowa Public Employees' Retirement System (IPERS), Peace Officers' Retirement, Accident and Disability System, and the Judicial Retirement System.

Private Purpose Trust Funds account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

Agency Funds account for resources held by the State in a purely custodial capacity.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

E. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide 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 cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Most revenues, including taxes, fees, charges for service, refunds and reimbursements, and receipts from other entities, are considered by the State to be available if collected within 60 days of the end of the fiscal year. Revenues that the State earns by incurring obligations are recognized in the same period as the obligations are recognized. Investment earnings are recorded as earned since they are measurable and available.

Expenditures are recognized when the related fund liability is incurred. An exception to the general modified accrual expenditure recognition criteria is the principal and interest on general long-term debt which is recognized when due. Income tax refunds are accrued for claims related to tax periods ended by June 30, of the fiscal year, and paid within sixty days.

Proprietary and fiduciary fund statements are reported using the economic resources measurement focus (except for agency funds which have no 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 cash flows. Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

In reporting the financial activity of its proprietary funds, the State 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.

In fiscal year 2005, the State of Iowa implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk, and concentration of credit risk. This pronouncement requires additional disclosure to be presented in the notes but has no impact on the net assets of the State.

Lottery Revenues and Prizes

The Lottery uses an on-line instant verification system for the sale and validation of instant tickets. Instant ticket sales are recognized when a retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents. Revenues for Lotto games are recognized after the jackpot drawings are held. Deferred revenue represents lotto tickets sold for future prize drawings.

The prize liabilities for the Lotto games are determined by actual matches and are recognized after the jackpot drawings are held.

F. Cash, Investments, and Securities Lending

Cash in most funds is held in the state treasury and is commingled in State bank accounts and investments. The moneys of most funds are pooled together and invested as an investment pool by the Treasurer of State. However, moneys of some funds may be invested separately from the investment pool where permitted by statute.

Investment earnings of the investment pool are allocated to the individual funds as provided by statute. Income of \$18,659,177 associated with certain funds has been assigned to other funds for fiscal year 2005.

The Treasurer's deposits in financial institutions throughout the year and at year end were entirely covered by the Federal Deposit Insurance Corporation, or collateral held by the Treasurer of State's custodial banks in the Treasurer of State's name, or by the bank assessment provisions of Section 12C.23 of the Code of Iowa.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The Treasurer of State may invest in obligations of the United States government, its agencies and instrumentalities; certificates of deposit in Iowa financial institutions; prime bankers acceptances, commercial paper or other short-term corporate debt; perfected repurchase agreements; money market mutual funds organized in trust form; and other investments as permitted by Section 12B.10 of the Code of Iowa.

Investments are valued at fair value in accordance with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value is calculated at market price at the close of business on June 30 by independent pricing services utilized by the Treasurer's custodian bank. However, certain cash equivalent investments such as commercial paper, bankers acceptances, certificates of deposit, guaranteed investment contracts, and discount notes issued by government agencies are valued using purchase price. The Iowa Public Employees Retirement System (IPERS) has derivatives that are reported on the Statement of Fiduciary Net Assets at fair value. (For Pension plans, See NOTE 16).

Certain State institutions participate in the Iowa Public Agency Investment Trust (IPAIT), a state and local government pooled investment account, created by Iowa Code Chapter 28E. IPAIT is managed by Investors Management Group and is registered with the Securities and Exchange Commission. IPAIT follows established money market mutual fund parameters designed to maintain a \$1 per unit net asset value.

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, investments readily convertible to known amounts of cash, and investments so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. In the statements of cash flows, investments with an original maturity of three months or less are considered cash equivalents.

IPERS and the Iowa Peace Officers' Retirement, Accident, and Disability System (PORS) (together the "Systems") participate in a securities lending program with the State's custodian bank. The participation of IPERS is authorized by the Code of Iowa and the participation of PORS is authorized by its Board of

Trustees. The custodian bank is responsible for operating the program and is permitted to lend any of the securities it holds in custody for the Systems to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit.

A borrower is required to initially deliver collateral in an amount equal to 102 percent of the market value of any U.S. securities lent and 105 percent of the market value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income. Securities received as collateral cannot be sold or pledged unless the borrower defaults.

At year-end IPERS had \$306,171 in credit risk exposure to borrowers because the amounts they owed IPERS exceeded the amounts IPERS owed them on 10 separate loans. At year-end PORS had \$141,742 in credit risk exposure to borrowers because the amounts they owed PORS exceeded the amount owed them on 7 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contracts with the custodian bank requires it to indemnify the Systems if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. As of June 30, 2005, the Systems had securities on loan, including accrued interest income, with a total value of \$1,948,778,380 against collateral with a total value of \$2,000,154,602.

The majority of securities loans are open loans, i.e. one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the Systems or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the Systems. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans. (See NOTE 2.)

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The effective duration of the cash collateral pool at June 30, 2005 for IPERS was 26 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2005 for IPERS are as follows (expressed in thousands):

Securities Lending Collateral Pool Years to Maturity

Investment Type	Fair Value	Investment Maturities (years)	
		Less Than 1	1 to 5
Corporate Bonds	\$ 664,945	\$ 27,041	\$ 637,904
Corporate Asset Backed	409,530	30,811	378,719
Corporate	1,074,475	57,852	1,016,623
Repurchase Agreements	505,568	505,568	-
Certificate of Deposit	137,989	63,989	74,000
Bank Note	223,045	-	223,045
Total	\$ 1,941,077	\$ 627,409	\$ 1,313,668

Securities Lending Collateral Pool Credit Risk - S & P Quality Ratings

Investment Type	Total	AAA	AA	A	NR
Corporate Bonds	\$ 664,945	\$ 80,047	\$ 365,703	\$ 219,195	\$ -
Corporate Asset Backed	409,530	409,530	-	-	-
Corporate	1,074,475	489,577	365,703	219,195	-
Repurchase Agreements	505,568	-	-	-	505,568
Certificate of Deposit	137,989	-	25,000	112,989	-
Bank Note	223,045	-	107,011	116,034	-
Total	\$ 1,941,077	\$ 489,577	\$ 497,714	\$ 448,218	\$ 505,568

G. Accounts Receivable

Accounts receivable have been established and offset with proper provisions for estimated uncollectible accounts where applicable. Practically all receivables of governmental funds are due from other governmental entities, primarily the federal government, and are considered collectible. Receivables in other funds have arisen in the ordinary course of business.

Taxes receivable represent amounts due to the State at June 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" is recorded as revenue; the remainder is recorded as deferred revenue.

H. Inventories

Inventories are valued at cost, which approximates market. The first-in/first-out (FIFO) cost flow method is used for the majority of inventories. Throughout the year costs of inventories are recorded as expenditures when purchased. For financial reporting purposes, expenditures are adjusted at fiscal year end for material inventory amounts to correlate with the consumption method. Inventory asset amounts are not available for budgetary appropriation as they have been charged to expenditures when purchased rather than when used.

I. Capital Assets

Capital assets are reported in the government-wide financial statements and proprietary fund statements at historical cost. Donated capital assets are reported at their estimated fair market value at the time of acquisition. Capital assets utilized in governmental funds are reported as expenditures when purchased in the governmental fund financial statements. Reportable capital assets are defined by the State as assets above the following thresholds:

Infrastructure	\$1 million
Land, Building and Improvements	\$ 50,000
Equipment (non-Regent institutions)	\$ 5,000
Equipment (Regents)	\$ 2,000

Capital assets are depreciated over their useful lives using the straight-line depreciation method. The government-wide financial statements, proprietary fund statements, and component unit financial statements report depreciation expense. The following useful lives are used:

Infrastructure	10-50 years
Buildings	20-50 years
Improvements Other Than Buildings	20-50 years
Equipment	2-20 years
Vehicles	3-10 years

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

J. Long-term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond discounts and issuance costs for propriety fund types are generally deferred and amortized over the terms of the bonds using the bonds-outstanding method or straight-line method, which approximates the effective interest method.

In governmental fund types, bond discount and issuance costs are recognized in the current period.

Long-term liabilities that are due within one year of the date of the statements are classified as current liabilities.

K. Interfund Activity and Balances

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

L. Encumbrances

The State utilizes encumbrance accounting for budgetary control purposes. Obligations incurred for goods or services that have not been received or rendered, are recorded to reserve that portion of the applicable fund balance. Section 8.33, unnumbered paragraph 2, of the Code of Iowa, states, "No payment of an obligation for goods or services shall be charged to an appropriation subsequent to the last day of the fiscal year for which the appropriation is made unless the goods or services are received on or before the last day of the fiscal year, except that repair projects, purchase of specialized equipment and furnishings, and other contracts for services and capital expenditures for the purchase of land or the erection of buildings or new construction or

remodeling, which were committed and in progress prior to the end of the fiscal year are excluded from this provision". That is, except for the above stated exceptions, the State must have received the goods or services on or before June 30, creating an actual liability, or the encumbrance is cancelled against that fiscal year. If the encumbrances are still valid after June 30, they become expenditures / expenses of the next fiscal year.

M. Budgeting and Budgetary Control

There are no material violations of finance – related legal and contractual provisions. Budgetary comparison schedules and related disclosures are reported as Required Supplementary Information (RSI).

NOTE 2 – CASH, INVESTMENTS AND SECURITIES LENDING

Primary Government and Fiduciary

Investments of the primary government and fiduciary funds at June 30, 2005, are scheduled as follows (expressed in thousands):

Primary Government

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 154,086
U.S. Government Agency Mortgage Backed Securities	1,176,958
Corporate CMO's	95,094
Corporate Bonds	648
Corporate Asset Backed	355,660
Private Placement	6,397
Guaranteed Investment Contracts	40,872
Municipals	20,618
Commercial Paper	2,064
Certificate of Deposit	410,408
Agencies	30,907
Other Short Term	35,840
	41,152
Equity:	
U.S.	106,739
Non-U.S.	1,762
Absolute Return	145
Real Estate	536
Commingled Funds	
U.S. Equity	152,175
Non-U.S. Equity	18,589
U.S. Fixed Income	450,798
Money Market Funds	174,237
Investment Pools	1,464
Other Investments	99,078
Total Invested Assets	<u>\$3,376,227</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Fiduciary Funds

Investment Type	Fair Value		
Fixed:		Equity:	
U.S. Government Treasuries,		U.S.	1,897,478
Notes, Bonds	\$ 955,865	Non-U.S.	1,449,751
U.S. Government TIPS	212,294	Private Equity	1,174,902
U.S. Government Agency	185,223	Real Estate	1,005,620
Mortgage Backed-Government		Commingled Funds	
Pass-Through	726,120	Balanced	636,179
Mortgage Backed-Corporate		U.S. Equity	5,078,675
Pass-Through	205,381	Non-U.S.	1,376,918
Government CMO's	61,711	U.S. Fixed Income	2,197,349
Corporate CMO's	85,533	Money Market Funds	365,480
Corporate Bonds	1,607,315	Derivatives	3,426
Corporate Asset Backed	293,005	Investment Pools	42
Private Placements	332,986		
Yankee Bonds	43,720	Total Invested Assets	<u>\$20,647,146</u>
Supernationals	2,280		
Non-U.S. Fixed Income			
Developed Markets –			
Government/Sovereign	93,311		
Developed Markets –			
Corporate	204,580		
Emerging Markets –			
Government/Sovereign	162,140		
Emerging Markets –			
Corporate	50,914		
Commercial Paper	183,017		
Certificate of Deposit	15,076		
Agencies	37,000		
Other Short Term	3,855		

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the State.

State law limits the Treasurer's investment pool's investments in domestic commercial paper, maturing within 270 days from the date of purchase, to the highest rating of either Standard & Poor's or Moody's' on the date of purchase, provided that no investment has a split rating. Investments in short term corporate debt, other than commercial paper, maturing within 270 days from the date of purchase, are limited to one of the two highest ratings of either Standard & Poor's or Moody's on the date of purchase, provided that at the time of purchase no more than 5% of amounts invested in short term corporate debt or commercial paper are rated in the second highest rating. Investments in obligations or guaranteed investment contracts of domestic corporations with maturities greater than 270 days from the date of purchase, are limited to long-term ratings of not less than A2 by Moody's and not less than A by Standard & Poor's. Investments in asset-backed securities are limited to those rated AAA by Standard & Poor's or Aaa by Moody's.

The State Board of Regents establishes policy and sets objectives for the Universities' investments. Credit quality limitations for investments of operating funds are: the weighted average credit quality of each institution's operating portfolio shall be AA or Aa as rated by Standard & Poor's or Moody's, respectively; up to 20 percent of each institution's operating portfolio may be invested in bonds rated A and BBB in order to enhance portfolio yield; commercial paper or other short-term corporate debt that matures within two hundred seventy days that is rated within the two highest classifications, as established by at least one of the standard rating services, provided that at the time of purchase no more than five percent of all amounts invested in commercial paper and other short-term corporate debt shall be invested in paper and debt rated in the second highest classification; corporate debt with a maturity of greater than 270 days that is rated investment grade by Standards & Poor's or Moody's (at least BBB- or Baa3, respectively), or by another Nationally Recognized Statistical Rating Organization (NRSRO), including Rule 144A Securities that are deemed to be of investment grade credit quality by the external or internal investment manager, at the time of purchase.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Credit quality limitations for the Universities endowment funds are: the weighted average credit quality of each institution's endowment fixed income portfolio shall be AA or Aa as rated by Standard & Poor's or Moody's respectively; up to 20 percent of each institution's operating portfolio may be invested in bonds rated A and BBB in order to enhance portfolio yield.

There are no policy limitations for credit risk exposures within the investment portfolios of the retirement systems. Each IPERS portfolio is managed in accordance with an investment contract that is specific as to permissible quality ranges and the average credit quality of the overall portfolios. Policies related to credit risk pertaining to IPERS' and PORS' securities lending program is found under the securities lending disclosures found in Note 1 F of these notes.

The State's exposure to credit risk for the fixed income investment portfolio of the primary government and fiduciary funds at June 30, 2005, is summarized by credit quality ratings, as follows (expressed in thousands):

Credit Risk - S&P Quality Ratings

Primary Government

Investment Type	TSY	AGY	AAA	AA	A	BBB	A-1	NR
U.S. Government Treasuries, Notes, Bonds	\$ 153,867	\$ -	\$ 219	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Agency	-	45,545	1,131,413	-	-	-	-	-
Mortgage Backed Securities	-	1,197	93,897	-	-	-	-	-
Corporate CMO's	-	-	537	-	-	-	-	111
Corporate Bonds	-	-	52,767	43,930	258,180	783	-	-
Corporate Asset Backed	-	-	6,327	-	-	-	-	70
Private Placements	-	-	-	19,237	18,480	-	-	3,155
Guaranteed Investment Contracts	-	-	4,948	15,670	-	-	-	-
Municipals	-	-	-	79	-	-	-	1,985
Commercial Paper	-	-	18,866	-	-	-	164,144	227,398
Certificate of Deposit	-	-	-	-	-	-	29,600	1,307
Agencies	-	-	-	-	-	-	35,840	-
Other Short Term	-	-	39,233	-	-	-	-	1,919
Total	\$ 153,867	\$ 46,742	\$ 1,348,207	\$ 78,916	\$ 276,660	\$ 783	\$ 229,584	\$ 235,945

Fiduciary

Investment Type	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
U.S. Government Treasuries, Notes, Bonds	\$ 955,865	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government TIPS	211,090	-	1,204	-	-	-	-	-	-	-
U.S. Government Agency	-	7,977	173,598	1,060	-	-	-	-	-	2,588
Mortgage Backed - Government Pass-Through	-	726,120	-	-	-	-	-	-	-	-
Mortgage Backed - Corporate Pass-Through	-	-	155,734	3,608	6,673	396	194	-	-	38,776
Government CMO's	-	61,711	-	-	-	-	-	-	-	-
Corporate CMO's	-	-	65,421	6,182	5,402	-	-	-	490	8,038
Corporate Bonds	-	-	75,044	79,360	220,072	334,924	409,583	432,148	49,241	6,943
Corporate Asset Backed	-	-	230,272	11,129	23,862	12,654	-	431	7,623	7,034
Private Placements	-	-	17,920	22,420	30,060	29,332	69,556	155,358	6,405	1,935
Yankee Bonds	-	-	-	-	2,882	28,547	9,410	810	2,071	-
Supernationals	-	-	-	-	2,280	-	-	-	-	-
Non-U.S. Fixed Income:	-	-	-	-	-	-	-	-	-	-
Developed Markets - Government/Sovereign	-	-	89,821	3,490	-	-	-	-	-	-
Developed Markets - Corporate	-	-	5,353	17,751	39,404	34,291	35,267	43,222	822	28,470
Emerging Markets - Government/Sovereign	-	-	-	-	11,036	78,044	56,122	9,323	4,679	2,936
Emerging Markets - Corporate	-	-	4,302	-	9,075	17,959	3,598	12,287	68	3,625
Commercial Paper	-	-	-	-	-	-	-	-	-	183,017
Certificate of Deposit	-	-	-	-	-	-	-	-	-	15,076
Agencies	-	37,000	-	-	-	-	-	-	-	-
Other Short Term	-	-	-	-	-	-	-	-	-	3,855
Total	\$ 1,166,955	\$ 832,808	\$ 818,669	\$ 145,000	\$ 350,746	\$ 536,147	\$ 583,730	\$ 653,579	\$ 71,399	\$ 302,293

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Treasurer manages interest rate risk by utilizing a buy-and-hold strategy, maturity limitations, and diversification parameters and liquidity requirements set by the Investment Committee.

Maturity Limitations: No investment shall be made in a U.S. Treasury note or bond with a maturity that exceeds 10 years, a U.S. government agency note or bond, or a U.S. government instrumentality note or bond with a maturity that exceeds sixty-one months at the time of purchase. No investment shall be made in a U.S. government agency or instrumentality mortgage-backed security that has an expected average life greater than four years at the time of purchase. (The 61-month maturity limitation for U.S. Treasury, government agency or instrumentality securities does not apply to such securities if accepted as collateral under a repurchase agreement.) No investment shall be made in an asset-based security that has an expected average life greater than two years at the time of purchase. The maturities of commercial paper and bankers acceptances shall not exceed 270 days at the time of purchase. The maturities of all other investments shall not exceed twenty-five months at the time of purchase.

Maturity Diversification: The Committee shall set permitted maximum dollar amounts that can be invested in specific maturity sectors that are consistent with the overall portfolio strategy and this investment policy.

Liquidity Reserve: The Committee shall specify how much liquidity shall be reserved to ensure that adequate cash is available to meet any unexpected expenditures that may occur. The liquidity reserve should be continuously invested in money market mutual funds money market accounts with Iowa financial institutions or short-term money market accounts.

The Universities policy for the operating portfolio prohibits investment in securities that at the time of purchase have effective maturities exceeding sixty-three month and that the maximum duration of each portfolio shall not exceed the duration of the Merrill 1-3 Government/Corporate Index by more than 20%. There is no explicit limit on the average maturity of fixed income securities in the endowment portfolio.

IPERS manages interest rate risk within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much a greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All the system's fixed income portfolios are managed in accordance with investment contracts that require that the effective duration of the portfolio shall always remain between 80% and 120% of the effective duration measure of the Index.

The State's exposure to interest rate risk for the fixed income investment portfolio of the primary government and the fiduciary funds at June 30, 2005, is summarized using the effective duration method, as follows (expressed in thousands):

STATE OF IOWA
NOTES TO THE FINANCIAL STATEMENTS

Primary Government

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes, Bonds	\$ 154,086	2.59
U.S. Government Agency	1,176,958	1.32
Mortgage Backed Securities	95,094	1.88
Corporate CMO's	648	0.42
Corporate Bonds	355,660	1.36
Corporate Asset Backed	6,397	1.20
Private Placements	40,872	0.58
Guaranteed Investment Contracts	20,618	15.27
Municipals	2,064	0.04
Commercial Paper	410,408	0.15
Certificate of Deposit	30,907	0.12
Agencies	35,840	0.06
Other Short Term	<u>41,152</u>	<u>0.18</u>
Total	<u>\$2,370,704</u>	<u>0.78</u>

Fiduciary Funds

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes, Bonds	\$ 955,865	4.63
U.S. Government TIPS	212,294	6.81
U.S. Government Agency	185,223	3.38
Mortgage Backed – Government Pass-Through	726,120	2.45
Mortgage Backed – Corporate Pass-Through	205,381	3.87
Government CMO's	61,711	2.98
Corporate CMO's	85,533	3.33
Corporate Bonds	1,607,315	4.33
Corporate Asset Backed	293,005	2.11
Private Placements	332,986	4.73
Yankee Bonds	43,720	6.14
Supernationals	2,280	5.34
Non-U.S. Fixed Income		
Developed Markets – Government/ Sovereign	93,311	7.28
Developed Markets – Corporate	204,580	4.43
Emerging Markets – Government/ Sovereign	162,140	8.42
Emerging Markets – Corporate	50,914	6.60
Commercial Paper	183,017	0.00
Certificate of Deposit	15,076	0.00
Agencies	37,000	0.00
Other Short Term	<u>3,855</u>	<u>0.00</u>
Total	<u>\$5,461,326</u>	<u>4.08</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. From time to time, IPERS' external managers may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar. IPERS' currency policy is to manage the non-dollar portion of the global fixed income allocation against a 100 percent hedged benchmark and may allow its non-dollar equity managers to hedge on a selective basis for the protection of the asset values. IPERS will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure) in its portfolio, except as it related to specific cross-hedging activity, which may be permitted in certain investment guidelines. Foreign Currency Risk by Investment type for the pension system fiduciary funds, at June 30, 2005 follows (expressed in thousands):

STATE OF IOWA
NOTES TO THE FINANCIAL STATEMENTS

	Total	Fixed Income	Equity	Alternative Investments	Derivatives	Cash
Argentine Peso	\$ 86	\$ -	\$ 86	\$ -	\$ -	\$ -
Australian Dollar	88,369	13	88,029	-	-	327
Brazilian Real	13,002	8,043	4,907	-	-	52
British Pound Sterling	180,662	790	166,924	8,852	-	4,096
Canadian Dollar	1,591	497	1,074	-	-	20
Chilean Peso	1,221	-	1,241	-	-	(20)
Colombian Peso	1,332	-	1,293	-	-	39
Czech Koruna	248	-	248	-	-	-
Danish Krone	8,620	-	8,620	-	-	-
Euro Currency	520,376	82,613	392,756	139,519	(112,767)	18,255
Hong Kong Dollar	40,825	-	40,825	-	-	-
Hungarian Forint	669	-	669	-	-	-
Indonesian Rupiah	3,017	-	3,017	-	-	-
Israeli Shekel	4,122	-	4,122	-	-	-
Japanese Yen	385,997	15,334	370,647	-	-	16
Malaysian Ringgit	10,690	-	10,724	-	-	(34)
Mexican Nuevo Peso	2,287	14,740	2,751	-	(15,912)	708
New Turkish Lira	4,526	-	4,526	-	-	-
New Taiwan Dollar	41,823	-	41,785	-	-	38
Pakistani Rupee	396	-	396	-	-	-
Philippine Peso	710	-	710	-	-	-
Polish Zloty	1,272	-	1,272	-	-	-
Renminbi Yuan	636	-	636	-	-	-
Russian New Ruble	254	-	254	-	-	-
Singapore Dollar	23,863	-	23,864	-	-	(1)
South African Rand	20,031	-	20,031	-	-	-
South Korean Won	50,397	-	50,011	-	-	386
Swedish Krona	17,173	4,820	15,038	-	(2,939)	254
Swiss Franc	42,861	87	42,688	-	-	86
Thai Baht	8,953	-	8,953	-	-	-
Venezuelan Bolivar	3,055	3,055	-	-	-	-
TOTAL	\$ 1,479,064	\$ 129,992	\$ 1,308,097	\$ 148,371	\$ (131,618)	\$ 24,222

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. Policies of the Treasurer, Universities and pension systems in any single issuer or corporate entity to no more than 5% of the market value of the portfolio or account. The policy does not apply to investments in U.S. Treasuries, government agencies or instrumentalities.

Custodial Credit Risk

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the State's deposit may not be returned to it. The Treasurer's investment policy effectively prevents exposure to custodial credit risk. The Universities and the pension systems have no formal policy for custodial credit risk. The \$1,129,042,580 total combined bank deposits of the primary government and fiduciary funds at June 30, 2005, was exposed to custodial credit risk for \$226,382,229 of uninsured and uncollateralized bank deposits.

Investments

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, the State will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The State Treasurer, the Universities and the pension systems have no formal policy for investment custodial credit risk. Of the \$24,023,373,000 total combined investments of the primary government and fiduciary funds at June 30, 2005, \$1,451,000 was exposed to custodial credit risk as uninsured and unregistered, with the securities held by the counterparty, or by its trust department or agent but not in the State's name.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Component Units

Investments of the component units at June 30, 2005, are scheduled as follows (expressed in thousands):

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 7,185
U.S. Government TIPS	11,134
U.S. Government Agency	104,334
Mortgage Backed-Government Pass Through	518,438
Guaranteed Investment Contracts	260,250
Investment Agreements	20,612
Equity:	
Money Market Funds – Commingled	103,009
Total Invested Assets	<u>\$1,024,962</u>

The Universities Foundations' Cash and Investments of \$1,200,949,000 are not subject to GASB disclosure requirements.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the component units. The component units have no formal policy to manage credit risk. The exposure to credit risk for the component units fixed income investment portfolio at June 30, 2005, is summarized by credit quality ratings, as follows:

Investment Type	TSY	AGY	AAA	AA
U.S. Government Treasuries, Notes, Bonds	\$ 7,185	\$ -	\$ -	\$ -
U.S. Government TIPS	11,134	-	-	-
U.S. Government Agency	-	104,334	-	-
Mortgage Backed- Government Pass-through	-	-	518,438	-
Guaranteed Investment Contracts	-	-	58,543	201,707
Investment Agreements	-	-	-	20,612
Total	<u>\$ 18,319</u>	<u>\$ 104,334</u>	<u>\$ 576,981</u>	<u>\$ 222,319</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units do not have formal policies that limit investment maturities as a means of managing exposure to credit risk. The component units exposure to interest rate risk for the fixed income investment portfolio at June 30, 2005, is summarized using the weighted average maturity method, as follows (expressed in thousands):

Investment Type	Fair Value	Weighted Average Maturity (Years)
Fixed:		
U.S. Government Treasuries, Notes, Bonds	\$ 7,185	9.70
U.S. Government TIPS	11,134	7.20
U.S. Government Agency	104,334	1.59
Mortgage Backed-Government Pass Through	518,438	24.98
Guaranteed Investment Contracts	260,250	23.50
Investment Agreements	20,612	1.61
Total	<u>\$ 921,953</u>	<u>21.06</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – TRANSFERS

Interfund transfers for the year ended June 30, 2005, consisted of the following (expressed in thousands):

Transferred Out	Transferred In					Total
	General	Nonmajor Governmental Funds	University Funds	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 21,614	\$ 592,269	\$ 312	\$ 2,375	\$ 616,570
Nonmajor Governmental Funds	109,178	17,095	25,840	-	-	152,113
Unemployment Benefits	4,855	-	-	-	-	4,855
Nonmajor Enterprise Funds	112,151	-	-	-	-	112,151
Internal Service	75	-	-	-	-	75
Total	<u>\$ 226,259</u>	<u>\$ 38,709</u>	<u>\$ 618,109</u>	<u>\$ 312</u>	<u>\$ 2,375</u>	<u>\$ 885,764</u>

Transfers are used to move: 1) revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization, 3) Tobacco Settlement Authority bond proceeds to the State, and 4) profits from the Iowa Lottery Fund and Liquor Control Fund as required by law.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2005, consisted of the following (expressed in thousands):

	Governmental Funds	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds	Component Units
Accounts Receivable				
Taxes	\$ 441,520	\$ -	\$ -	\$ -
Pledges	-	-	-	159,952
Interest	9,007	-	-	-
Benefit Overpayment	-	31,937	-	-
Employer Contributions	-	106,835	-	-
Grants & Contracts	937,435	102,301	-	-
Other	353,289	468,807	827	25,320
Less Allowance For Doubtful Accounts	330,035	268,246	-	5,976
Less Discount To Present Value	-	-	-	23,551
Accounts Receivable Net	<u>\$ 1,411,216</u>	<u>\$ 441,634</u>	<u>\$ 827</u>	<u>\$ 155,745</u>
Current	\$ 1,315,056	\$ 410,622	\$ 827	\$ 60,234
Non-Current	96,160	31,012	-	95,511
Total	<u>\$ 1,411,216</u>	<u>\$ 441,634</u>	<u>\$ 827</u>	<u>\$ 155,745</u>
Loan Receivable				
Loans Receivable	\$ 189,237	\$ 73,303	-	\$ 430,942
Less Allowance For Doubtful Accounts	48,951	2,941	-	4,230
Loans Receivable Net	<u>\$ 140,286</u>	<u>\$ 70,362</u>	<u>\$ -</u>	<u>\$ 426,712</u>
Current	\$ 11,994	\$ 6,289	-	27,999
Non-Current	128,292	64,073	-	398,713
Total	<u>\$ 140,286</u>	<u>\$ 70,362</u>	<u>\$ -</u>	<u>\$ 426,712</u>

STATE OF IOWA
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – INTERFUND BALANCES

Interfund balances for the year ended June 30, 2005, consisted of the following (expressed in thousands):

Due To Other Funds	Due From Other Funds					Total
	General	Nonmajor Governmental Funds	Unemployment Benefits	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 6,612	\$ 790	\$ 2,800	\$ 59,102	\$ 69,304
Nonmajor Governmental Funds	22,458	2,843	-	141	213	25,655
Unemployment Benefits	218	-	-	-	-	218
Nonmajor Enterprise Funds	17,836	-	-	25	45	17,906
Internal Service	867	-	-	278	712	1,857
Total	<u>\$ 41,379</u>	<u>\$ 9,455</u>	<u>\$ 790</u>	<u>\$ 3,244</u>	<u>\$ 60,072</u>	<u>\$ 114,940</u>

\$49.6 million is due from the General Fund to the Workers Compensation Fund (an Internal Service Fund) to fund the cost of claims incurred, \$14.5 million is due from the Iowa Lottery Authority (an Enterprise Fund) to the General Fund to transfer lottery profits as required by law. Remaining interfund balances result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payment between funds are made.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: \$.27 million due from the General Fund to the Innovation Fund (an Internal Service Fund) for amounts loaned for the purpose of stimulating and encouraging innovation in State government and \$3.3 million due from the General Fund to the Unemployment Benefits Fund (an Enterprise Fund) for amounts loaned for various projects per the Reed Act distribution under Section 903 of the Social Security Act.

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005, was as follows (expressed in thousands):

	Balances July 1, 2004	Reclassifications	Increases	Decreases	Balances June 30, 2005
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 565,110	\$ -	\$ 11,748	\$ 4,346	\$ 572,512
Construction in Progress	77,127	(81,456)	44,933	-	40,604
Total Capital Assets Not Being Depreciated	<u>642,237</u>	<u>(81,456)</u>	<u>56,681</u>	<u>4,346</u>	<u>613,116</u>
Capital Assets Being Depreciated:					
Infrastructure	6,692,687	-	440,800	49,841	7,083,646
Works of Art and Historical Treasures	928	-	-	-	928
Land Improvements	7,825	-	-	-	7,825
Building and Improvements	862,839	79,971	7,293	767	949,336
Machinery, Equipment and Vehicles	372,059	1,485	35,977	30,805	378,716
Total Capital Assets Being Depreciated	<u>7,936,338</u>	<u>81,456</u>	<u>484,070</u>	<u>81,413</u>	<u>8,420,451</u>
Less Accumulated Depreciation for:					
Infrastructure	2,406,235	-	300,253	49,841	2,656,647
Works of Art and Historical Treasures	73	-	10	-	83
Land Improvements	1,153	-	284	-	1,437
Buildings and Improvements	396,187	-	19,599	428	415,358
Machinery, Equipment and Vehicles	231,207	-	27,097	25,670	232,634
Total Accumulated Depreciation	<u>3,034,855</u>	<u>-</u>	<u>347,243</u>	<u>75,939</u>	<u>3,306,159</u>
Total Capital Assets Being Depreciated, Net	<u>4,901,483</u>	<u>81,456</u>	<u>136,827</u>	<u>5,474</u>	<u>5,114,292</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,543,720</u>	<u>\$ -</u>	<u>\$193,508</u>	<u>\$ 9,820</u>	<u>\$ 5,727,408</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities	Balances July 1, 2004	Reclassifications	Increases	Decreases	Balances June 30, 2005
Capital Assets Not Being Depreciated:					
Land	\$ 27,276	\$ -	\$ 1,583	\$ 21	\$ 28,838
Land Improvements	5,459	-	-	143	5,316
Construction in Progress	245,242	(154,300)	227,147	111	317,978
Works of Art	27,959	-	691	18	28,632
Library Collections	171,495	-	12,161	549	183,107
Total Capital Assets Not Being Depreciated	<u>477,431</u>	<u>(154,300)</u>	<u>241,582</u>	<u>842</u>	<u>563,871</u>
Capital Assets Being Depreciated:					
Infrastructure	516,981	21,507	147	8,614	530,021
Library Collections	167,686	-	9,247	550	176,383
Land Improvements	45,322	1,252	1,309	259	47,624
Buildings and Improvements	2,436,168	130,405	21,000	2,187	2,585,386
Machinery, Equipment and Vehicles	831,828	1,136	101,035	91,411	842,588
Total Capital Assets Being Depreciated	<u>3,997,985</u>	<u>154,300</u>	<u>132,738</u>	<u>103,021</u>	<u>4,182,002</u>
Less Accumulated Depreciation for:					
Infrastructure	294,631	-	23,836	4,092	314,375
Library Collections	128,649	-	8,231	550	136,330
Land Improvements	21,739	-	1,168	259	22,648
Buildings and Improvements	1,116,437	-	76,705	1,830	1,191,312
Machinery, Equipment and Vehicles	535,250	-	71,818	87,170	519,898
Total Accumulated Depreciation	<u>2,096,706</u>	<u>-</u>	<u>181,758</u>	<u>93,901</u>	<u>2,184,563</u>
Total Capital Assets Being Depreciated, Net	<u>1,901,279</u>	<u>154,300</u>	<u>(49,020)</u>	<u>9,120</u>	<u>1,997,439</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,378,710</u>	<u>\$ -</u>	<u>\$192,562</u>	<u>\$ 9,962</u>	<u>\$ 2,561,310</u>

Depreciation was charged to functions of the primary government as follows (expressed in thousands):

Administration & Regulation	\$ 4,456
Education	3,024
Health & Human Rights	2,376
Human Services	2,877
Justice & Public Defense	15,618
Economic Development	427
Transportation	300,338
Agriculture & Natural Resources	<u>5,744</u>
Subtotal	334,860
Depreciation on Capital Assets held by the State's Internal Service Funds is allocated to the various functions based on their use of the assets	<u>12,383</u>
Total Depreciation Expense-Governmental	<u>\$347,243</u>
Business-type Activities: Enterprise	<u>\$181,758</u>
Discrete Component Units	
Land	\$ 4,804
Construction in Progress	<u>565</u>
Total Capital Assets Not Being Depreciated	<u>5,369</u>
Infrastructure	4,990
Buildings and Improvements	79,227
Land Improvements	27
Machinery, Equipment and Vehicles	<u>13,515</u>
Total Capital Assets Being Depreciated	97,759
Less Accumulated Depreciation	<u>31,196</u>
Total Capital Assets Being Depreciated, Net	<u>66,563</u>
Discretely Presented Component Units Capital Assets, Net	<u>\$ 71,932</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – INVESTMENT IN PRIZE ANNUITIES AND ANNUITY PRIZES PAYABLE

Assets totaling \$34,994,272 which includes \$157,895 of cash, are held by the Iowa Lottery Authority for the purpose of paying installment prizes which have already been won but will not be completely paid until 2018. Annuity Prizes Payable does not include an additional liability of \$27,395 to taxing authorities. The following is a schedule of future payments (expressed in thousands):

Year Ending June 30,	Current	Noncurrent	Total Payments
2006	\$ 9,356	\$ -	\$ 9,356
2007	-	8,152	8,152
2008	-	6,340	6,340
2009	-	4,377	4,377
2010	-	2,895	2,895
2011-2015	-	8,119	8,119
2016-2018	-	3,282	3,282
Total Future Value	9,356	33,165	42,521
Less: Unamortized Discount	(382)	(7,172)	(7,554)
Present Value of Payments	<u>\$ 8,974</u>	<u>\$ 25,993</u>	<u>\$ 34,967</u>

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows (expressed in thousands):

	Balances July 1, 2004	Additions	Deductions	Balances June 30, 2005	Amounts due within one year
Governmental Activities					
Compensated Absences	\$ 137,667	\$114,168	\$ 111,816	\$ 140,019	\$ 102,665
Capital Leases	4,149	1,115	1,164	4,100	1,142
Other Financing Arrangements	5,640	-	785	4,855	728
Revenue Bonds	991,156	19,765	45,197	965,724	22,090
Early Retirement	23,533	-	8,553	14,980	10,109
Risk Management	11,500	11,604	11,604	11,500	4,255
Other Liabilities	20,730	9,325	11,065	18,990	3,024
Total	<u>1,194,375</u>	<u>155,977</u>	<u>190,184</u>	<u>1,160,168</u> *	<u>144,013</u>

* The General Fund has been typically used to liquidate most long-term liabilities, except for \$627.9 million of Revenue Bonds to be liquidated by the Tobacco Settlement Authority, a Special Revenue fund.

Allocation of Internal Service

Funds Liability:

Capital Leases	349	-	59	290	63
Compensated Absences	692	1,971	124	2,539	2,539
Early Retirement	118	-	44	74	29
Total	<u>1,159</u>	<u>1,971</u>	<u>227</u>	<u>2,903</u>	<u>2,631</u>
Total Primary Government - Governmental Activities	<u>\$ 1,195,534</u>	<u>\$ 157,948</u>	<u>\$ 190,411</u>	<u>\$ 1,163,071</u>	<u>\$ 146,644</u>
Business-type Activities					
Compensated Absences	\$ 131,353	\$ 71,549	\$ 70,167	\$ 132,735	\$ 70,537
Revenue Bonds	700,257	131,755	74,212	757,800	53,873
Capital Leases	108,645	25,489	10,273	123,861	5,752
Other Financing Arrangements	44,941	1,686	41,789	4,838	1,138
Total	<u>\$ 985,196</u>	<u>\$ 230,479</u>	<u>\$ 196,441</u>	<u>\$ 1,019,234</u>	<u>\$ 131,300</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – CAPITAL LEASES

The State has entered into agreements to lease various equipment and property. The agreements have interest rates ranging from 2.00% to 12.59% and expire before June 30, 2030.

The State has also entered into a few installment purchase agreements. Because the amounts involved are not material, and the accounting treatment is similar, such agreements are reported together with capital leases.

Primary Government – Governmental Activities

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 1,205	\$ 205
2007	1,038	150
2008	728	103
2009	298	74
2010	192	60
2011-2015	696	146
2016-2020	209	39
2021-2025	<u>24</u>	<u>1</u>
Total	<u>\$ 4,390</u>	<u>\$ 778</u>

The historical cost of assets acquired under capital leases and included in capital assets on the government-wide statements at June 30 follows (expressed in thousands):

Buildings and Improvements	\$ 787
Equipment	<u>2,415</u>
Total	3,202
Accumulated Depreciation	<u>(921)</u>
Net	<u>\$ 2,281</u>

Primary Government – Business-Type Activities

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 5,752	\$ 6,238
2007	4,894	6,027
2008	5,435	5,795
2009	5,032	5,553
2010	16,366	5,314
2011-2015	28,768	19,703
2016-2020	30,208	12,208
2021-2025	14,301	5,946
2026-2030	<u>13,105</u>	<u>2,018</u>
Total	<u>\$ 123,861</u>	<u>\$ 68,802</u>

The historical cost of assets acquired under capital leases and included in capital assets on the financial statements at June 30 follows (expressed in thousands):

Land	\$ 455
Construction in Progress	55,402
Buildings	109,578
Equipment	<u>9,972</u>
Total	175,407
Accumulated Depreciation	<u>(31,386)</u>
Net	<u>\$ 144,021</u>

Component Units

The State University of Iowa Foundation has entered into a lease agreement with the University for a leasehold interest in a building.

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal
2006	\$ 510
2007	535
2008	560
2009	575
2010	590
2011-2015	<u>6,295</u>
Total	<u>\$ 9,065</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – OTHER FINANCING ARRANGEMENTS PAYABLE

Loans and Contracts Payable

Primary Government – Governmental Activities

The Iowa Department of Natural Resources has entered into agreements for facilities and land for a total of \$6,763,823 with interest rates ranging from 3.92% to 9.35%. The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 253	\$ 134
2007	268	119
2008	286	102
2009	179	85
2010	187	77
2011-2015	818	273
2016-2020	645	117
2021-2025	<u>184</u>	<u>11</u>
Total	<u>\$ 2,820</u>	<u>\$ 918</u>

Primary Government – Business-Type Activities

Iowa State University, University of Northern Iowa and the University of Iowa have entered into agreements for buildings and equipment for a total of \$10,698,608. The agreements are for periods of 5 to 13 years with interest rates ranging from 2.24% to 6.50%.

The following is a schedule by year of future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 1,138	\$ 210
2007	1,030	159
2008	923	111
2009	280	72
2010	297	55
2011-2015	789	59
2016-2020	75	–
2021-2025	<u>306</u>	<u>–</u>
Total	<u>\$ 4,838</u>	<u>\$ 666</u>

Certificates of Participation

Primary Government – Governmental Activities

The Third, Fifth and Sixth Judicial Districts have sold certificates of participation for land and facilities for \$4,535,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over periods from 7 to 20 years with interest rates ranging from 3.00% to 4.87%.

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 475	\$ 92
2007	540	72
2008	440	49
2009	185	29
2010	195	20
2011-2015	<u>200</u>	<u>10</u>
Total	<u>\$ 2,035</u>	<u>\$ 272</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – BONDS PAYABLE

Revenue bonds payable at June 30, 2005, are as follows (expressed in thousands):

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
PRIMARY GOVERNMENT – Governmental Activities:					
Revenue Bonds					
<i>Term Bonds</i>					
Department of Corrections	1994-2002	\$ 33,510	Variable	2008-2014	\$ 1,515
Tobacco Settlement Authority	2002	582,935	5.30-6.79	2003-2027	<u>578,150</u>
Total					<u>579,665</u>
<i>Serial Bonds</i>					
Underground Storage Tank	1997 & 2004	\$ 62,375	Variable	1998-2014	53,850
Department of Corrections	1994-2002	118,770	Variable	2007-2016	62,755
Vision Iowa	2002	196,375	2.25-5.50	2002-2020	168,745
School Infrastructure	2002	48,585	3.50-5.50	2002-2021	37,875
Tobacco Settlement Authority	2002	61,310	5.50	2011-2014	<u>61,310</u>
Total					<u>384,535</u>
Unamortized Premium					14,070
Unamortized Discounts					<u>(12,546)</u>
Total Governmental Activities					<u>\$965,724</u>
PRIMARY GOVERNMENT – Business-Type Activities:					
Revenue Bonds					
University of Northern Iowa	1967-2005	\$ 142,336	1.80-8.25	1968-2024	\$120,925
University of Iowa	1967-2005	512,460	2.00-9.00	1970-2031	348,330
Iowa State University	1968-2005	329,390	2.00-6.85	1975-2030	281,600
Iowa Lottery	2004	8,800	3.28	2005-2019	<u>7,500</u>
Total					758,355
Unamortized Discount					<u>(555)</u>
Total Business-type Activities					<u>\$ 757,800</u>
COMPONENT UNITS:					
Revenue Bonds					
Iowa Finance Authority	1977-2005	\$1,190,700	Variable	1979-2035	\$828,137
Iowa Higher Education Loan Authority	1984-1996	50,630	Variable	1999-2016	35,910
Universities Foundations	2002	3,850	5.25	2003-2012	<u>3,567</u>
Total					867,614
Unamortized Issuance Costs and Discounts					<u>(1,183)</u>
Total Component Units					<u>\$866,431</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Bonds Payable

Primary Government – Governmental Activities

Underground Storage Tank

The Iowa Finance Authority has issued term bonds and serial bonds to finance the Underground Storage Tank Financial Responsibility Program. The program provides payment for remediation claims of contamination of ground water sites due to leakage, spill or release of petroleum products by owner/operators. The bonds are payable solely from specific revenues and assets of the Underground Storage Tank Fund.

The obligations do not constitute a debt of the State of Iowa nor of the Iowa Finance Authority and neither is liable for any repayments.

During the year, the Iowa Finance Authority issued \$19,765,000 of Iowa Underground Storage Tank Revenue Refunding Bonds, 2004 Series A, with an interest range of 2.50-5.00% to advance refund \$23,480,000 of outstanding Iowa Underground Storage Tank Fund Revenue Bonds, 1994 Series A.

Net proceeds of \$20,550,050 were placed in an irrevocable escrow account with the Iowa Finance Authority as the trustee. The issue was called in December 2004, and the bonds were redeemed in their entirety by June 30, 2005.

The current refunding resulted in the recognition of an accounting gain of \$985,683 for the year ended June 30, 2005, a decrease in aggregate debt service of \$6,065,265 over the next ten years and an economic gain (difference between present value of the old and new debt service payments) of \$5,123,211.

Iowa Department of Corrections

The Iowa Finance Authority has issued term and serial bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional facilities and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund maintained by the Treasurer of State, currently required by state law to be the first \$9,500,000 of monies remitted to the Treasurer of State each fiscal year from certain fees and fines collected from the clerks of district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefore under the bond indenture. These obligations do not constitute a debt of the State of Iowa, nor of the Iowa Finance Authority, and neither is liable for any repayments.

In prior years, the Iowa Finance Authority defeased certain Corrections Bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the bonds are considered to be defeased and the asset and liability for those bonds have been removed from the Statement of Net Assets. As of June 30, 2005 bonds totaling \$21,165,000 were considered defeased.

Vision Iowa

The State of Iowa has issued Vision Iowa Special Fund bonds to provide grants or loans to communities to enhance local recreational, cultural and entertainment opportunities.

The bonds are secured by certain amounts to be deposited in the Vision Iowa Fund, including a Standing Appropriation of \$15,000,000 annually from gaming revenues, certain earnings on the Vision Iowa Fund and the Bond Reserve Fund, and to the extent of any shortfall in gaming revenues, Lottery revenues.

The bonds are not debts of the State or any political subdivision of the State, and do not constitute a pledge of the faith and credit of the State or a charge against the general credit or General Fund of the State. The bonds are payable solely and only from certain revenues deposited in the Vision Iowa Fund and from the Bond Reserve Fund.

School Infrastructure

The State of Iowa has issued School Infrastructure Special Fund Bonds Series to assist local schools districts with the construction and renovation of facilities. The fund will provide grants limited to \$1 million and requires a local match.

The bonds are secured by certain amounts to be deposited in the School Infrastructure Fund, including a Standing Appropriation of \$5,000,000 annually from gaming revenues, certain earnings on the Iowa School Infrastructure Fund and the Bond Reserve Fund, and, to the extent of any shortfall in gaming revenues, Lottery revenues.

The bonds are not debts of the State or any political subdivision of the State, and do not constitute a pledge of the faith and credit of the State or a charge against the general credit or General Fund of the State. The bonds are payable solely and only from certain revenues deposited in the School Infrastructure Fund and from the Bond Reserve Fund.

Tobacco Settlement Authority

The Tobacco Settlement Authority has issued \$40,000,000 of Tobacco Settlement Asset-Backed Bonds, Series A (Federally Taxable) and \$604,245,000 Tobacco Settlement Asset-Backed Bonds, Series B with interest rates of 5.30-6.79%.

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The bonds were issued by the Tobacco Settlement Authority (the "Authority"), a public instrumentality and agency of the State of Iowa (the "State"), separate and distinct from the State, exercising public and essential governmental functions, and created by the Tobacco Settlement Authority Act (the "Act"). Pursuant to a Sales Agreement, dated as of October 1, 2001 (the "Sales Agreement"), between the State and Authority, the State sold to the Authority, on the Closing Date, all of its right, title and interest in certain amounts payable to the State under the Master Settlement Agreement (the "MSA") entered into by participating cigarette manufacturers (the "PMs"), 46 states (including the State) and six other U.S. jurisdictions in November 1998 in the settlement of certain smoking-related litigation, including the State's right to receive future initial, annual and strategic contribution fund payments (the "TSRs"), to be made by the PMs under the MSA.

The bonds are secured by and are payable solely from (i) 78% of the TSRs payable to the Authority in the future as of the effective date of the Sales Agreement (the "Pledged TSRs"), (ii), investment earnings on certain accounts pledged under the Indenture, (iii) amounts held in the debt service reserve account (the "Debt Service Reserve Account") and the trapping account (the "Trapping Account") established under the Indenture (the "Reserves"), (iv) amounts held in the other accounts established under the Indenture, and (v) certain rights of the Authority as specified in the Sales Agreement. Pledged TSRs, represent a pro rata portion of every TSR dollar received by the Authority pursuant to the Sales Agreement.

The bonds are special revenue obligations of the Authority secured by, and payable solely and only out of, the moneys, assets or revenues pledged by the Authority pursuant to the indenture, are not a general obligation or general indebtedness of the authority, and do not constitute an obligation or indebtedness of the State or any political subdivision of the State.

Future bond debt service requirements of the Primary Government – Governmental Activities are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 22,930	\$ 51,736
2007	24,555	50,564
2008	39,670	49,443
2009	44,315	47,325
2010	47,945	44,897
2011-2015	261,130	186,095
2016-2020	215,620	119,088
2021-2025	193,565	63,420
2026-2030	<u>114,470</u>	<u>10,405</u>
Total	<u>\$ 964,200</u>	<u>\$ 622,973</u>

Primary Government – Business-Type Activities Universities

Iowa State University, the University of Northern Iowa and the University of Iowa have issued revenue bonds for the construction of buildings, facilities, utilities and equipment. The bonds are payable principally from tuition and user fee revenues.

During the current fiscal year, the University of Iowa issued \$25,000,000 of Academic Building Revenue Bonds, Series S.U.I. 2004 with an interest rate range of 4.00-4.50%, \$10,960,000 of Iowa Memorial Union Revenue Bonds with an interest rate range of 3.50-4.30%, \$15,435,000 of Athletic Facilities Revenue Bonds, Series 2005 with an interest rate range of 3.00-4.25% to defray the cost of constructing various academic buildings, facilities, remodeling the Iowa Memorial Union, constructing, equipping and furnishing a new field house and renovating the existing field house.

During the current fiscal year, the University of Iowa issued a \$9,595,000 of Center for University Advancement Revenue Refunding Bonds, Series 2004, with an interest rate range of 3.75-4.75% to advance refund \$9,845,000 of outstanding University Advancement Revenue Bonds, Series S.U.I. 1995 with an interest rate range of 4.75-5.40%.

Net bond proceeds of \$9,625,000 were placed in an irrevocable escrow account with the University as trustee.

The advance refunding resulted in the recognition of an accounting gain \$250,000 for the year ended June 30, 2005, an increase in aggregate debt service of \$1,581,000 over the next fifteen years and an economic loss (difference between present value of the old and new debt service payments) of \$125,000.

During the current fiscal year, the University of Iowa issued \$9,565,000 of Athletic Facilities Revenue Bonds, Series S.U.I. 2005, with an average interest rate range of 3.00-4.25% to advance refund \$9,460,000 of outstanding Academic Building Revenue Bonds, Series S.U.I. 2000 with interest rate range of 4.50-5.15%.

Net bond proceeds of \$9,474,000 were placed in an irrevocable escrow account with the University as trustee.

The advance refunding resulted in the recognition of an accounting loss of \$105,000 for the year ended June 30, 2005, a decrease in aggregate debt service of \$224,000 over the next seventeen years and an economic gain (difference between present values of the old and new debt service payments) of \$807,000.

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NOTES TO THE FINANCIAL STATEMENTS

Also, during the current fiscal year, the University of Iowa issued \$15,200,000 of Academic Building Revenue Refunding Bonds, Series 2005 with an interest rate range of 3.50–5.00% to advance refund \$8,440,000 of outstanding Academic Building Revenue Bonds, Series S.U.I. 1995 with an interest rate range of 5.75–6.00% and \$7,660,000 Academic Building Revenue Bonds, Series S.U.I. 1996 with an interest rate range of 4.55– 6.00%.

Net bond proceeds of \$15,327,000 were placed in an irrevocable escrow account with the University as trustee.

The advance refunding resulted in the recognition of an accounting gain of \$900,000 for the year ended June 30, 2005, a decrease in aggregate debt service of \$2,023,000 over the next sixteen years and an economic gain (difference between present value of the old and new debt service payments) of \$3,006,000.

In prior years, the University of Iowa defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 2005, bonds totaling \$35,660,000 for the University of Iowa were considered defeased.

During the current fiscal year, the University of Northern Iowa issued \$12,575,000 of Revenue Bonds Series 2005 with an interest rate range of 3.00-5.00% to defray the cost for construction of academic buildings (\$5,110,000), and to pay the costs of constructing and equipping a Field House (\$7,465,000).

During the current fiscal year, Iowa State University issued \$24,625,000 of Revenue Bonds with an interest rate range of 2.50-4.625% to improve, remodel, repair, and construct additions to the Memorial Union Building and Parking Facility.

Iowa Lottery Authority

The Iowa Lottery Authority issued \$8,800,000 of Iowa Lottery Authority Bonds, Series 2004 with an interest rate of 3.284% to finance the purchase and installation of instant ticket and pull-tab vending machines and the purchase and renovation of a building to be used as the lottery headquarters.

Future bond debt service requirements for bonds of the Primary Government – Business-Type Activities are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 53,873	\$ 36,179
2007	44,450	34,470
2008	45,557	32,611
2009	42,722	31,119
2010	42,578	26,689
2011-2015	204,188	100,425
2016-2020	154,617	58,996
2021-2025	119,020	25,467
2026-2030	47,900	5,529
2031-2035	<u>3,450</u>	<u>76</u>
Total	<u>\$ 758,355</u>	<u>\$ 351,561</u>

Component Units

Iowa Finance Authority

The Iowa Finance Authority is authorized and has issued bonds, the proceeds of which are used to provide authorized mortgage financing. The bonds are payable principally from repayments of such mortgage loans. The obligations do not constitute a debt of the State of Iowa and the State is not liable for any repayments.

The bonds are secured, as described in the applicable bond resolution, by the revenues, monies, investments, loans, and other assets in the funds and accounts established by the respective bond resolutions. The line of credit under the Single Family Bond Program Funds is secured by investments held by a custodial financial institution in an amount equal to or exceeding 102% of the outstanding advances as required by the credit agreement. The line of credit under the Finance Authority's General Fund is secured by investments held by a custodial financial institution in an amount no less than \$2 million and is a general obligation of the Authority.

The Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multi-Family Bond Resolution contain covenants which require the Authority to make payments of principal and interest from amounts available in the Finance Authority's General Fund should deficiencies occur in the funds established for such payments by the respective bond resolutions. The Single Family Mortgage Revenue Bond Resolution, the credit agreement under the Single Family Bond program Funds, the Multi-Family Housing Refunding Revenue Bond Resolution, and the bond resolutions for the Clean Water Program Funds and Drinking Water Program Funds do not contain these covenants.

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NOTES TO THE FINANCIAL STATEMENTS

During the current year, the Finance Authority issued Single Family Mortgage Bonds, 2005 Series A, B, And C, in the par amount of \$65,460,000 with interest rates of 2.9% to 5.00%, in part to refund and defease \$5,460,000 of Single Family Mortgage Bonds, 1995 Series C, D, and E, with interest rates of 5.7% to 6.65%. Proceeds of \$5,460,000 were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2005 redemption of all remaining 1995 CDE bonds. The Authority decreased its future debt service payments by \$3.5 million and received a present value savings of \$1.2 million.

In prior years, the Authority defeased certain Iowa State Revenue bonds by placing the proceeds of new bonds along with certain Federal Capitalization Grants and revenues in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Housing Agency Defeased Bonds Series 1995, 1996, 1997, 1998, 1999 and 2000A of Iowa Revolving Fund Revenue bonds. As of June 30, 2005, bonds totaling \$85,790,000 are considered defeased.

Iowa Higher Education Loan Authority

The Iowa Higher Education Loan Authority is authorized and has issued bonds to provide educational loans to students and facility loans to private educational institutions in the State of Iowa. The bonds are payable primarily from interest and principal payments of the educational and facility loans.

The Iowa Higher Education Loan Authority has no taxing authority and bonds issued do not constitute a debt, liability, or obligation of the State of Iowa or any political subdivision thereof.

Universities Foundations

The Foundation of Iowa State University in prior years issued \$3,850,000 of bonds to purchase and remodel the Foundation Advancement Center building. The bonds are collateralized with a mortgage on the building and other real estate owned by the Foundation.

The Foundation has no taxing authority and bonds issued do not constitute a debt, liability, or obligation of the State of Iowa or any political subdivision thereof.

Future bond debt service requirements for the bonds of the component units are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest
2006	\$ 32,283	\$ 37,670
2007	29,774	37,084
2008	30,906	35,739
2009	31,684	34,288
2010	31,872	32,847
2011-2015	197,771	139,437
2016-2020	114,020	104,468
2021-2025	125,925	75,744
2026-2030	130,315	46,766
2031-2035	<u>143,064</u>	<u>16,256</u>
Total	<u>\$ 867,614</u>	<u>\$ 560,299</u>

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable & accruals at June 30, 2005, consisted of the following (expressed in thousands):

Primary Government

Government Activities

	Current	Noncurrent
Salaries and fringes	\$ 58,507	\$ –
Early retirement	10,138	4,916
Pension	–	6,307
Risk management	4,255	7,245
State aid	278,821	–
Trade and other payable	<u>572,413</u>	<u>53,740</u>
Total	<u>\$ 924,134</u>	<u>\$ 72,208</u>

Business-type Activities

	Current	Noncurrent
Salaries and fringes	\$ 103,880	\$ –
Early retirement	8,605	13,096
General claims	17,125	–
Unemployment benefits	10,281	–
Trade and other payables	<u>132,596</u>	<u>2,768</u>
Total	<u>\$ 272,487</u>	<u>\$ 15,864</u>

Component Units

	Current	Noncurrent
Annuity and Life Income		
Obligations	\$ –	\$ 56,221
Pledges Due to University	11,124	5,690
Other	<u>19,526</u>	<u>5,855</u>
Total	<u>\$ 30,650</u>	<u>\$ 67,766</u>

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – FUND BALANCE - RESERVED FOR SPECIFIC PURPOSES

The Reserve for Specific Purposes Fund Balance in the Governmental Funds represents the portion of fund balance legally segregated for a specific future use. A summary of these reserves at June 30, 2005, follows (expressed in thousands):

Major Funds

General Fund:

Primary Road	\$ 355,247
Senior Living Trust	148,547
Vision Iowa	86,817
Road Use Tax	80,942
Iowa Infrastructure	76,005
Farm to Market Road Funds	56,592
Motor Vehicle Fuel Tax Unapportioned	39,794
Revitalize Iowa's Sound Economy	39,423
Unassigned Revenue	34,638
UST Innocent Landowners	26,400
Safety Improvement Program	19,725
Terminal Liability Health Insurance	16,711
Health Insurance Premium Operating	13,884
School Infrastructure and Reserve	9,909
Resource Enhancement & Protection	9,501
UST Revenue	8,941
UST Capital Reserve	6,283
UST Remedial	5,924
Fish and Game Fund	4,448
County Bridge Construction	4,255
DOT Clearing Account	3,886
Dental Insurance Premium Operating	3,406
Value Added Products	3,146
Health Insurance Premium Reserve	3,065
ICSAC-Default Reduction Act	2,607
Life Insurance Optional Premium Reserve	2,213
Hawk I Trust	2,118
Other	<u>34,648</u>
Total General Fund	<u>1,099,075</u>

Nonmajor Governmental Funds:

Tobacco Tax-Exempt Bond Proceeds	107,169
Tobacco Settlement Authority	86,813
Permanent School Principal	7,657
Iowa Public Television Foundation	
Endowment	1,448
Iowa Veterans Trust	1,004
Iowa Cultural Trust	476
Iowa Public Television	
Foundation	273
Other	<u>95,333</u>
Total Nonmajor Governmental Funds	<u>300,173</u>
Total	<u>\$ 1,399,248</u>

NOTE 14 – OPERATING LEASES

The State has leased office space and equipment. These leases have been classified as operating leases and expire before June 30, 2041. In most cases, management expects that the leases will be renewed or replaced by other leases. The future minimum lease payments for these leases are as follows (expressed in thousands):

Primary Government – Governmental Activities:

Year ending June 30,

2006	\$ 11,636
2007	8,549
2008	6,335
2009	4,838
2010	3,999
2011-2015	8,198
2016-2020	260
2021-2025	273
2026-2030	257
2031-2035	251
2036-2040	277
Thereafter	<u>71</u>
Total	<u>\$ 44,944</u>

All leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the legislature.

Rental expense for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$14,332,776.

Primary Government – Business-Type Activities:

A summary of operating lease commitments to maturity are as follows (expressed in thousands):

Year ending June 30,

2006	\$ 6,246
2007	4,412
2008	2,456
2009	1,022
2010	621
2011-2015	<u>433</u>
Total	<u>\$ 15,190</u>

Rental expense for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$10,865,228.

Component Units:

A summary of operating lease commitments to maturity are as follows (expressed in thousands):

Year ending June 30,

2006	<u>\$ 11</u>
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STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Rental expense for the year ended June 30, 2005 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$23,033.

NOTE 15 – LESSOR OPERATING LEASES

The Iowa Department of Natural Resources leases tracts of land valued at \$11,820,493 for agricultural purposes. Glenwood Resource Center leases building space valued at \$1,389,688. Iowa Public Television leases antenna and building space, no value has been assigned to the leased portions. The Iowa Department of Transportation leases land valued at \$2,831,857. Iowa State University leases building space valued at \$172,159, equipment valued at \$1,373,609, and tracts of land for agriculture purposes, for which no value has been assigned to the leased portion. The University of Northern Iowa leases buildings valued at \$463,578 (net of accumulated depreciation of \$66,566) and tracts of land valued at \$523,155 have been leased for agricultural purposes. The following is a schedule by year of minimum future rentals on operating leases as of June 30, 2005 (expressed in thousands):

Year ending June 30,		
2006	\$	2,410
2007		1,623
2008		1,023
2009		605
2010		398
2011-2015		1,220
2016-2020		329
2021-2025		186
2026-2030		46
2031-2035		<u>5</u>
Total	\$	<u>7,845</u>

NOTE 16 – PENSION PLANS

Iowa Public Employees' Retirement System

Plan Description

The Iowa Public Employees' Retirement System (IPERS) was created in 1953 by the Iowa Legislature, to replace Iowa Old Age and Survivors' Insurance System. Effective July 1, 2003, Chapter 97B of the Iowa Code established IPERS as an independent agency within the Executive Branch of State government.

IPERS is a cost-sharing defined benefit multi-employer public employee retirement system. Participation in IPERS is mandatory for most state, county, and local public employees, employees of school districts, and certain elected officials. Membership is optional for some individuals, including the members of the Iowa Legislature. Excluded from membership are members of other retirement systems supported by Iowa public funds.

June 30, 2005

Employer members:

City	1,280
County	463
School	389
State	22
Other	<u>234</u>
Total	<u>2,388</u>

IPERS' vesting requirements are four years of service or age 55. Effective July 1, 2005 members must be age 55 and terminate covered employment or have four years of service upon termination in order to be considered vested. Normal retirement age is 65, or when the member's age plus years of service equals or exceeds 88. A member may also take early retirement between the ages of 55 and 65 with reduced benefits. At retirement, a member chooses one of six benefit options.

IPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to IPERS, 7401 Register Drive, P. O. Box 9117, Des Moines, IA 50306-9117, or available at info@ipers.org, or by calling 515-281-0020.

Funding Policy

Member and employer contribution rates are established by statute. In general, IPERS' members contribute 3.70%, and employers contribute 5.75% of the covered wage base. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and protection occupations contribute at slightly higher rates as shown in the following table. Wages are covered up to the federal limit of \$210,000 for calendar year 2005.

	Contribution Rates as of June 30, 2005		
	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County)	8.535%	8.535%	17.07%
Protection Occupations*	6.16%	9.23%	15.39%

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

* Protection Occupations: City Marshals/Police or Fire Fighters in towns under 8,000 population, State and County Conservation Peace Officers, State Correctional Officers, State Airport Safety Officers, Airport Firefighters, DOT Peace Officers, Airport Security Officers, and Fire Prevention Inspector Peace Officers.

A valuation of the liabilities and reserves of the IPERS Trust Fund is performed annually by IPERS' actuary in accordance with Iowa Code Section 97B.4(4)(d). The Iowa statutes provide that most IPERS members shall contribute 3.70% of pay and employers shall contribute 5.75%, for a total of 9.45%. The valuation is performed to determine whether the statutory rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in IPERS funding policy (maximum amortization period of 30 years). The statutory rate is first applied to fund the normal cost. The remaining contribution rate is used to amortize the unfunded actuarial liability as a level percentage of payroll, which in turn determines the amortization period. As a result, the remaining amortization period varies with each actuarial valuation.

The amount of actuarially determined contribution requirement was approximately \$599,460,517. The total amount of contributions made during the fiscal year ended June 30, 2005, was \$513,449,599 with \$310,842,387 coming from employers and \$202,607,212 from employees. This resulted in a 85.6% funding ratio. The difference between the actuarially required contribution and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

The State of Iowa's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$65,233,569, \$62,955,419, and \$58,545,880, respectively, equal to 100% of the statutorily required contributions for each year.

Beginning with the June 30, 1996 actuarial valuation, the annual valuation of liabilities is calculated using the entry age normal cost method. The entry age normal cost method requires the calculation of an Unfunded Actuarial Accrued Liability, \$2,288,608,596 at June 30, 2005. Based on the current Unfunded Actuarial Accrued Liability amount and amortization payment, the amortization period is infinite. Additional information is available in IPERS' separately issued report.

Summary of Significant Accounting Policies

IPERS' financial statements are prepared using the accrual basis of accounting. Revenues are recognized when they are earned and become measurable. Expenses are recognized when the liability is incurred. As such, plan members contributions are recognized in the period in which the contributions are due. Employers' contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate, private equity/debt partnerships, and direct real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of variation margin.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization, other than the U.S. government and its instrumentalities, whose market value exceeds five percent of the net assets available for benefits.

Peace Officers' Retirement, Accident and Disability System

Plan Description

The Peace Officers' Retirement, Accident and Disability System was created under Chapter 97A of the Code of Iowa to provide retirement and other benefits for the peace officers of the Iowa Department of Public Safety. The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined benefit public employee retirement system.

A member may retire with a service allowance after completing 22 years credited service and attaining the minimum service retirement age of 55. Plan benefits include: service retirement benefits, ordinary disability retirement benefits, accidental disability benefits, ordinary death benefits, accidental death benefits, and line of duty death benefits.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The Peace Officers' Retirement, Accident and Disability System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Peace Officers' Retirement, Accident and Disability System, Iowa Department of Public Safety, Wallace State Office Building, Des Moines, IA 50319.

Funding Policy

The contributions to the System are made pursuant to Chapter 97A of the Code of Iowa, and are not based upon actuarial determinations.

Member contribution rates are established by statute at 9.35%. However, the System shall increase the member's contribution rate as necessary to cover any increase in cost to the System resulting from statutory changes which are enacted by any session of the General Assembly meeting after January 1, 1991, if the increase cannot be absorbed within the contribution rates established, but subject to a maximum employee contribution rate of 11.30%. After the employee contribution reaches 11.30%, sixty percent of the additional cost of such statutory changes shall be paid by employers and forty percent of the additional cost shall be paid by employees. This is deducted from the member's salary and remitted by the employer.

The employer is obligated by statute to contribute an amount of 17.00% of covered payroll. Contribution provisions are established by State law and may be amended only by the State legislature. The State of Iowa has historically followed a contribution policy of appropriating funds based upon a percentage of the current salaries for which funds are appropriated.

The member contribution required and contributed was \$2,993,823, representing 9.35% of the current year covered payroll. The State contribution required by statute was \$5,442,868 and the amount actually contributed was \$5,442,868. Costs of administering the plan are financed through employer contributions and investment income.

Summary of Significant Accounting Policies

The Peace Officers' Retirement, Accident and Disability System's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Pension benefits and annuities are recognized when due and payable in accordance with the terms of the plan.

Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization, other than the U.S. government and its instrumentalities, where market value exceeds five percent of the net assets held in trust for pension benefits.

Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation to the Peace Officers' Retirement, Accident and Disability System for the current year were as follows:

Annual required contribution	\$ 11,577,021
Interest on net pension obligation	(899,356)
Adjustment to annual required contribution	<u>913,080</u>
Annual pension cost	11,590,745
Contributions made	<u>5,442,868</u>
Increase in net pension obligation	6,147,877
(Assets in excess of) net pension obligation beginning of year	<u>(11,241,945)</u>
(Assets in excess of) net pension obligation end of year	<u>\$ (5,094,068)</u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the System's actual contributions for fiscal years 1988 through 2005.

The annual required contribution for the current year was determined as part of the July 1, 2004, actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases of 10.00% for the first year, 5.00% for each of the next 4 years and 5.50% thereafter, (c) an inflation rate of 4.00%, and (d) post retirement benefits based on expected payroll

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

growth and provision of the law. The actuarial value of assets was determined using a smoothing method. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005 was 16 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2003	\$7,831,041	70.75%	\$ (15,204,612)
2004	9,465,385	58.13%	(11,241,945)
2005	11,590,745	46.96%	(5,094,068)

Judicial Retirement System

Plan Description

The Judicial Retirement System is the administrator of a single-employer defined benefit public employee retirement system.

The Judicial Retirement System was established to provide pension benefits to Judges serving on the Supreme Court, District Courts and the Court of Appeals.

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least six years of service as a judge of one or more of the above courts and is at least sixty-five years of age or who has served twenty-five years of consecutive service as a judge of one or more of the above courts shall qualify for an annuity. The annual annuity of a judge under this system is an amount equal to three percent of the judge's average annual basic salary for the judge's highest three years as a judge multiplied by the judge's years of service, or, for a member who meets the definition of a senior judge under Chapter 602.9202 of the Code of Iowa, three percent of the basic senior judge salary multiplied by the judge's years of service, limited to a specified percentage of the highest basic annual salary or basic senior judge salary, as applicable, which the judge is receiving or had received as of the time the judge became separated from service. The specified percentage is as follows: (1) fifty percent for judges who retired prior to July 1, 1998; (2) fifty-two percent for judges who retired and received an annuity on or after July 1, 1998 but before July 1, 2000; (3) fifty-six percent for judges who retired and received an annuity on or after July 1, 2000 but before July 1,

2001; and (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001. Any member who has served as a judge for a total of six years or more and deemed permanently incapacitated, mentally or physically, to perform his/her duties shall be entitled to an annuity that would be the same as computed under a retirement annuity.

The Judicial Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Judicial Retirement System, Iowa Judicial Branch, 1111 East Court Avenue, Des Moines, IA 50319.

Funding Policy

The contributions to the Iowa Judicial Retirement System are made pursuant to Section 602.9104 of the Code of Iowa, and are not based upon actuarial determinations.

The member contribution required and contributed was \$1,042,199, representing 5.00% of the current year covered payroll. The State contribution required by statute and the amount contributed was \$2,039,664. The State share is to be based on 9.71% of the current year covered payroll. Costs of administering the plan are financed through State appropriation, member contributions and investment income.

Summary of Significant Accounting Policies

The Iowa Judicial Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. System contributions are recognized when due and the System has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

STATE OF IOWA

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Investments in governmental bonds and treasury notes constitute approximately 1.71% of net assets held in trust for pension benefits. The System has no investments in the stocks or bonds of any commercial or industrial organization where market value exceeds 5.00% or more of the net assets held in trust for pension benefits.

Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation for the Iowa Judicial Retirement System for the current year were as follows:

Annual required contribution	\$ 4,394,389
Interest on net pension obligation	504,527
Adjustment to annual required contribution	<u>(513,429)</u>
Annual pension cost	4,385,487
Contributions made	<u>2,039,664</u>
Increase in net pension obligation	2,345,823
Net Pension obligation beginning of year	<u>3,960,761</u>
Net pension obligation end of year	<u>\$ 6,306,584</u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The net pension obligation was calculated by the actuary as the cumulative difference between the System's annual required contributions and the System's actual contributions for fiscal years 1988 through 2005.

The annual required contribution for the current year was determined as part of the July 1, 2005, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return and (b) projected salary and inflationary increases of 5.00% per year. The assumptions included post retirement benefit increases in accordance with the law. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized using a level dollar amortization method on an open basis. The remaining amortization period at June 30, 2005, was 30 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2003	\$ 4,025,065	50.67%	\$1,602,515
2004	4,397,910	46.38%	3,960,761
2005	4,385,487	46.51%	6,306,584

Teachers Insurance and Annuity Association Retirement Program

The Universities, Board of Regents, the Iowa Braille and Sight Saving School, and the Iowa School for the Deaf contribute to the Teachers Insurance and Annuity Association (TIAA) retirement program. The above, by contributing to TIAA, participate in a defined contribution retirement plan.

A defined contribution retirement plan provides retirement benefits in return for services rendered, provides individual annuities for each plan participant, and specifies how contributions to an individual's annuity are to be determined instead of specifying the amount of benefits the participant is to receive. Under a defined contribution retirement plan, the benefits a participant will receive depend solely on the amount contributed to the participant's annuity, and the returns earned on investments of those contributions. As required by the Iowa State Board of Regent's policy, all eligible employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract agreement with TIAA, each employee through the fifth year of employment contributes 3.33% of the first \$4,800 of earnings and 5.00% on the balance of earnings. The employer through the fifth year of employment, contributes 6.67% of the first \$4,800 of earnings and 10.00% on earnings above the \$4,800. Upon completion of five years of service, the participant contributes 5.00% and the employer 10.00% on all earnings. During fiscal year 2005, the employers' contributions amounted to \$115,065,107. Employees' contributions amounted to \$56,200,572.

No retirement plan provisions changed during the year that affected the Institutions' or employees' required contributions

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – BEGINNING BALANCE ADJUSTMENTS

During fiscal year 2005, the State reclassified the Information Technology Revolving and the Iowa Management Training funds from General Fund to Internal Service Funds. The reclassification resulted in the following changes to beginning Fund Balance, Net Assets and Cash & Cash equivalents as follows (expressed in thousands):

	Fund Statements Governmental Fund	Statement of Net Assets Internal Service Funds	Statement of Cash Flows Internal Service Cash & Cash Equivalents
June 30, 2004	\$ 2,354,837	\$ 102,215	\$ 20,192
Reclassifications	<u>(7,252)</u>	<u>7,252</u>	<u>6,251</u>
July 1, 2004 restated	<u>\$ 2,347,585</u>	<u>\$ 109,467</u>	<u>\$ 26,443</u>

During fiscal year 2005, the Higher Education Loan Authority refunded interest overcharges on loan repayments received in prior years. This resulted in an adjustment to beginning balances as follows (expressed in thousands):

Component Units

June 30, 2004	\$ 1,704,808
Adjustment	<u>(461)</u>
July 1, 2004 restated	<u>\$ 1,704,347</u>

NOTE 18 – OTHER POST EMPLOYMENT BENEFITS

On November 8, 2001, the Legislature passed an Early Retirement Termination Program during the special legislative session. The program requires the sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2002, equals or exceeds seventy-five. Employees were required to sign up before January 31, 2002 and leave State employment on or before February 1, 2002.

The Early Retirement Incentive is calculated as the total dollar value of accrued vacation and sick leave balances at the time of termination. However, the sick leave cannot exceed 2080 hours (the amount of annual salary). The vacation and sick leave will be paid out in five installments, with 10 percent paid with the last regular payroll warrant, 20 percent paid each August in 2002, 2003, and 2004, and the remaining 30 percent paid to the employee or their beneficiary in August 2005.

On May 28, 2002, the Legislature passed a Sick Leave and Vacation Incentive Program Extension during the special legislative session held on that day. The program requires the sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace

Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2003, to be equal to or exceed seventy-five. Eligible employees were required to sign up on or before August 14, 2002, and leave State employment between the dates of July 8, 2002 and August 15, 2002.

The Sick Leave and Vacation Incentive is calculated as the total dollar value of accrued vacation and sick leave balances at the time of termination. However, the sick leave cannot exceed 2080 hours (the amount of regular annual salary). The vacation and sick leave will be paid out in five installments, with 30 percent of the total cash value paid with the last regular payroll warrant in 2002, 20 percent paid each August in 2003, 2004, and 2005, and the remaining 10 percent paid to the employee or their beneficiary in August 2006.

On April 2, 2004, the Governor signed into law a sick leave and vacation incentive program for eligible executive branch employees. The program requires the sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2004, equals or exceeds seventy-five. Employees were required to sign up by May 21, 2004 and to leave State employment no earlier than July 2, 2004, but no later than August 12, 2004.

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The incentive is calculated as the total dollar of accrued vacation at the time of termination plus the lesser of 75 percent of the employee's accumulated and unused sick leave or 75 percent of the employee's annual salary. The vacation and sick leave will be paid out in five installments, with 30 percent paid with the employee's last regular payroll warrant, 20 percent paid August in 2005, 2006, 2007, and the remaining 10 percent in August 2008. In the event a program participant dies prior to receiving the total cash value of the incentive, the participant's designated beneficiary or beneficiaries shall receive the remaining payments on the schedule developed for such payments.

Participants of all of the programs may not accept permanent part-time or permanent full-time employment with the State, other than as an elected official, after termination.

All incentives are financed on a pay-as-you-go basis by the department from which the employee terminated. Amounts due for all of the programs have been recorded as a liability in the government-wide financial statements. Early Out costs for fiscal year 2005 for 1,019 participants totaled \$8,552,768 for government funds and \$59,485 for other funds.

The Board of Regents approved an Early Retirement Incentive Program (ERIP) in June 1986, with modifications July 1990 and July 1992; and in July 2001 the Board of Regents approved discontinuation of the program upon its expiration on June 30, 2002. The Board of Regents has authorized each institutional head to exercise discretion as to whether employees who are qualified at June 30, 2002 may have two years after expiration of the program to request participation. This program expired June 30, 2004.

Those eligible for participation were faculty, professional-scientific employees, institutional officials, staff of the Board Office, and all merit system employees employed by the Board of Regents for a period of at least fifteen years and who have attained the age of 57 by June 30, 2002. The employee's department head and the appropriate administrative officers approved the employee's participation.

All incentive payments are financed on a pay-as-you-go basis, except at the University of Northern Iowa. At the University of Northern Iowa, the policy requires departments to fully fund the ERIP liability upon signing new ERIP contracts, and the policy requires previously executed contracts be funded by June 30, 2003. No contributions were funded during the fiscal year ended June 30, 2005.

An employee approved for participation in the program will receive the following incentives until age 65, unless otherwise specified:

- 1) Health & Dental Insurance – The employer's contributions are made until the employee is eligible for Medicare coverage.
- 2) Group Life Insurance – The employer provides a paid-up life insurance policy which varies in amounts between \$2,000 and \$4,000.
- 3) TIAA/CREF Contributions – The employer's and employee's contributions are made for up to three (3) years; and employer's contributions are payable for a maximum of five (5) years or until the employee is eligible for full Social Security benefits, whichever occurs first.
- 4) IPERS Contributions – The employee may elect lump sum payment

The employee may have elect, prior to approval of participation in the program, to accept the present value of all or part of the incentives as a lump sum payment on the beginning date of participation in the program. The rate of interest used to calculate the present value is established annually by the board. The rate approved for fiscal year 2004 was 1.00%. There are no future rates since the program ended June 30, 2004.

The Board of Regents Institutions' contributions for the fiscal year ended June 30, 2005, amounted to \$11,135,548 for 1,083 participants.

The State Police Officers Council (SPOC) Collective Bargaining Agreement provides upon retirement, including disability retirement, credit for all unused sick leave as follows:

Accumulated, unused sick leave in both the active and banked sick leave accounts shall be converted at current value and credited to the employee's account for the purpose of paying the cost of the monthly premiums of a health insurance and/or life insurance policy.

Upon written authority from or upon the death of a retired employee, or upon the death of an active employee, the spouse or the surviving spouse shall be entitled to the value of the sick leave bank in both the active and banked sick leave accounts as converted in the previous paragraph for the purpose of paying the cost of monthly premiums of the health insurance and/or life insurance policy for the employee's spouse or dependents.

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If the carrier of either the health or life insurance policy is not a current contracted carrier with the State of Iowa, or the council or any of its sub organizations, the employee or spouse shall be eligible for reimbursement of a premium payment to that carrier upon submission of proof of payment. If there is dissolution of marriage or divorce, it is the employee's responsibility to withdraw their authority.

The benefits are funded on a pay-as-you go basis for Department of Public Safety retirees and fully funded for Department of Natural Resources retirees.

For the year ended June 30, 2005, 200 SPOC retirees received benefits totaling \$1,010,787.

NOTE 19 – RISK MANAGEMENT

INSURANCE/TRANSFER OF RISK

State employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial insurers. The State also insures with outside parties for certain liabilities. The State assumes liability for any deductibles and claims in excess of coverage limitations. Iowa State University and the University of Iowa assume responsibility for aircraft liability claims in excess of \$10.0 million and \$2.0 million, respectively, and Workforce Development assumes fire liability on buildings and contents in excess of \$15.4 million.

The University of Northern Iowa assumes liability in excess of \$250.0 million for the Residence System Buildings, Maucker Union, General Fund Buildings, Early Childhood Center and boiler and machinery per event. Each building has individual limits of coverage and a \$2.0 million deductible, Residence Halls \$214.4 million, Residence Apartments \$51.3 million, Maucker Union \$24.4 million, General Buildings \$250.0 million, and Early Childhood Center \$2.5 million. The University also assumes liability for physical damage to the UNI-Dome buildings for the first \$150,000 and in excess of \$47.1 million and medical liability at the Laboratory School in excess of \$5.0 million.

The University of Iowa assumes liability for damage to buildings and contents for the first \$2.0 million and in excess of \$750.0 million per event, pharmacy products liability for the first \$10,000 and in excess of \$7.0 million, student interns professional liability in excess of \$3.0 million, losses at the Museum of Art in excess of \$117.2 million, criminal fidelity liability for the first \$100,000 and in excess of \$10.0 million; and construction job site liability for the first \$250,000 and in excess of \$50.0 million.

The University also assumes liability for wrestling camps excess of \$3.0 million, liability for gymnastics camps, youth camps, outreach clinics and special events in excess of \$2.0 million. It also assumes liability for property damage to the Hawkeye Express in excess of \$2.9 million, liability in excess of \$3.0 million and liability for the Hawkeye Express Railroad in excess of \$25.0 million.

Iowa State University assumes liability for damage to buildings and contents in excess of \$2,673.7 million, damage to boilers and machinery in excess of \$327.8 million, damage to electronic data processing, telecommunications equipment in excess of \$37.0 million and business interruption in excess of \$26.9 million.

Glenwood Resource Center assumes liability for volunteers' accident and personal liability of \$1.0 million per occurrence and \$3.0 million annually. The Iowa Braille and Sight Saving School assumes liability for the first \$1.0 million and in excess of \$30.2 million for catastrophic losses.

The First, Second, Third, Fourth, Fifth, Sixth, Seventh and Eighth Judicial Districts assume liability for physical damage to buildings and contents in excess of \$11.9 million, \$4.0 million, \$3.4 million, \$3.2 million, \$15.1 million, \$9.5 million, \$2.3 million and \$2.5 million, respectively. The Fifth Judicial District assumes liability for boiler equipment breakdown in excess of \$4.5 million. The First Judicial District assumes liability in excess of \$6.0 million blanket coverage for boilers.

The State maintains an employee fidelity bond where the first \$100,000 in losses and any losses exceeding \$2.0 million becomes the responsibility of the State. Iowa State University maintains an additional policy and assumes liability in excess of \$4.0 million.

There were no settlements in excess of coverage for the past three fiscal years.

SELF-INSURANCE/RETENTION OF RISK

It is the policy of the State not to purchase commercial insurance, except as detailed above, for the risks of losses to which it is exposed. Instead, State management believes that it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service funds or to pay claims from the General Fund.

Specific claim adjustment expenditures/expenses and estimated recoveries on unsettled claims are included in the determination of claims liability. Other allocated or unallocated claim adjustment expenditures/expenses are not included.

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NOTES TO THE FINANCIAL STATEMENTS

The State is self-insured for various risks of loss related to work injuries of its employees. The Workers' Compensation Fund, an internal service fund, services workers' compensation claims. The liability for unpaid claims is estimated based on the average cost per claim-type determined from an actuarial review. Changes in the balances for estimated claims liabilities in fiscal years 2004 and 2005 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 04	\$53,230	14,616	17,231	\$50,615
FY 05	50,615	16,422	16,120	50,917

The State is self-insured for various risks of loss related to its motor vehicle fleet. The Vehicle Dispatcher Self-Insurance Fund, an internal service fund, services liability and property damage claims. The liability for unpaid claims is estimated based on historical experience and the application of an industry standard of forty percent for IBNR claims. Changes in the balances for estimated claims liabilities in fiscal years 2004 and 2005 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 04	\$ 509	34	276	\$ 267
FY 05	267	157	74	350

The State is self-insured for various risks of loss related to the operation of the Board of Regents institutions' motor vehicle fleets. The Regent's Motor Vehicle Liability Self-Insurance Fund, an internal service fund, services liability and property damage claims. The liability for unpaid claims is estimated based on statistical techniques that reflect recent settlements, similar claim history, and other economic and social factors. Changes in the balances for estimated claims liabilities in fiscal years 2004 and 2005 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 04	\$ 945	(262)	409	\$ 274
FY 05	274	721	241	754

The State is self-insured for risks of loss related to property damage and torts. All claims must be filed with the State Appeal Board which has the authority to approve or reject claims. Claims allowed in an amount greater than five thousand dollars require the unanimous approval of all the members of the Board, the Attorney General, and the District Court of the State of Iowa for Polk County. The liability for unpaid claims is estimated based on historical experience and analysis. Changes in the balances for estimated claims liabilities in fiscal years 2004 and 2005 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 04	\$ 11,500	24,243	24,243	\$11,500
FY 05	11,500	11,604	11,604	11,500

The Universities retain risk liability for medical faculty malpractice; medical, dental, unemployment, and workers' compensation coverage for some employees; and various property damage not covered as described above. The estimates of claim liabilities for faculty medical malpractice, and employee medical, dental, unemployment, and workers' compensation are based on actuarial analysis. The estimates of the claim liability for various property damage is based on historical analysis. Changes in the balances for estimated claims liabilities in fiscal years 2004 and 2005 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 04	\$ 19,772	119,187	114,965	\$23,994
FY 05	23,994	123,012	128,126	18,880

NOTE 20 – LITIGATION, CONTINGENCIES, AND COMMITMENTS

The Iowa *Department of Revenue* has pending litigation regarding income tax cases. The cases *could* possibly result in refunds estimated at \$7.0 million.

The Iowa *Department of Transportation* has estimated the State's share of contractual obligations for construction and other contracts at \$320.0 million at June 30, 2005.

The *University of Iowa* has outstanding construction contract commitments of \$114.6 million at June 30, 2005.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Iowa State University has outstanding construction contract commitments of \$19.2 million at June 30, 2005.

The Department of Natural Resources has outstanding construction contract commitments of \$2.4 million at June 30, 2005.

The University of Northern Iowa has outstanding construction contract commitments of \$24.0 million at June 30, 2005.

The Department of Administrative Services has outstanding construction contract commitments of \$29.6 million at June 30, 2005.

The Iowa Finance Authority has signed loan agreements with municipalities and water systems totaling \$78.8 million as of June 30, 2005.

The Iowa Department of Economic Development has commitments of \$135.6 million at June 30, 2005.

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 120.4 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 tanks fees, recoveries, Federal assistance and earnings of the General Fund.

The Iowa Department of Vocational Rehabilitation Services has outstanding construction and other contracts of \$1.4 million at June 30, 2005.

NOTE 21 – TAX AND REVENUE ANTICIPATION NOTES

Pursuant to the Code of Iowa, Section 12.26, the State of Iowa issued Tax and Revenue Anticipation Notes (TRANS).

The TRANS were issued for the purpose of meeting the State's cash flow requirements. They were issued on November 9, 2004, with an interest rate of 3.00% and were repaid on June 30, 2005.

The following is a schedule of TRANS activity for the year ended June 30, 2005 (expressed in thousands):

	Beginning			Ending
	Balance	Issued	Redeemed	Balance
TRANS	\$ -	\$ 375,000	\$ 375,000	\$ -

NOTE 22 – SUBSEQUENT EVENTS

In July of 2005, the Board of Regents, called Academic Building Revenue Bonds, Series U.N.I. 1995 in the amount of \$5,360,000 and Field House Revenue Bonds, Series U.N.I. 1997 in the amount of \$7,645,000 to take advantage of lower interest rates.

In September of 2005, the Board of Regents, issued \$12,800,000 of Academic Building Revenue Bonds, Series U.N.I. 2005. Proceeds of the sale of the bonds will be used to partially fund Science Buildings Renovation and Russell Hall Renovation projects. In addition to project costs, bond proceeds will be used for a debt service reserve, underwriters discount and issuance costs. An additional bond issue, tentatively scheduled for calendar year 2007, will finance additional costs of these projects.

In September of 2005, an agreement was signed between the Board or Regents and the University of Northern Iowa Foundation. In the agreement, the Foundation agreed to transfer \$1,165,000 of gift income to the University to assist with the construction of the McLeod Center. This Amendment #2 is an addition to the initial \$17,000,000 gift funding agreement that was signed on February 27, 2004 and Amendment #1 in the amount of \$2,660,000 that was signed on October 29, 2004.

In September of 2005, the Board of Regents approved the sale of \$25,000,000 in Athletic Facilities Revenue Bonds, Series S.U.I. 2005A and \$15,000,000 in Athletic Facilities Taxable Revenue Bonds, Series S.U.I. 2005B to defray a portion of the costs of the renovations to Kinnick Stadium on the University of Iowa's campus.

In October of 2005, the Board of Regents approved the terms of a capital lease with the University of Iowa Facilities Corporation (UIFC) that matched the terms of a \$13,530,000 revenue bond issue by UFCF. The proceeds of the bonds will be used to purchase, renovate and equip commercial condominium space which will provide space for several departments of the University of Iowa.

In December of 2005, the Board of Regents, issued \$20,000,000 of Academic Building Revenue Bonds, Series I.S.U. 2005. The bonds bear interest at varying rates between 4.0% and 4.5% and will mature in varying amounts from July 1, 2008 through July 1, 2027. The proceeds of the bonds will be used to pay a portion of the costs of constructing additions and improving, remodeling, repairing, and equipping the veterinary teaching hospital and diagnostic lab and Coover Hall, and for fire safety

STATE OF IOWA

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costs on Iowa State University campus, funding a debt service reserve, and paying the costs of issuance. The bonds will be payable solely out of gross student fees and charges collected by the University and institutional income received by the University.

In December of 2005, the State of Iowa issued Tax and Revenue Anticipation Notes (TRANS) of \$450,000,000 at an interest rate of 4.50%, priced to yield 3.22%. The notes have a maturity date of June 30, 2006.

In November of 2005, the Tobacco Settlement Authority, a public instrumentality and agency of the State of Iowa, separate and distinct from the state, exercising public and essential governmental functions and created by the Tobacco Settlement Authority Act issued \$831,962,030 of Tobacco Settlement Asset Backed Bonds (Series 2005 Bonds). The Series 2005 Bonds are comprised of five series – the Series 2005A Bonds, which are federally taxable turbo term bonds, the Series 2005B Bonds, which are federally tax-exempt turbo convertible capital appreciation bonds, the Series 2005C Bonds, which are federally tax-exempt turbo term bonds, the Series 2005D Bonds, which are federally tax-exempt turbo capital appreciation bonds and are payable only when no Current Interest Bond or Convertible Capital Appreciation Bond remains outstanding, and Series 2005E Bonds, which are federally tax-exempt turbo capital appreciation bonds and are payable only when no Current Interest Bond, Convertible Capital Appreciation Bond or Series 2005D Bond remains outstanding.

The Series 2005 Bonds are being issued (1) to refund \$40,000,000 of the Authority's Tobacco Settlement Asset-Backed Bonds, Series 2001A and \$604,245,000 of Series 2001B, (2) to provide additional funds to or for the benefit of the State, (3) to fund the Debt Service Reserve account, (4) and to pay the cost of issuance of the Series 2005 Bonds.



**R E Q U I R E D
S U P P L E M E N T A R Y
I N F O R M A T I O N**

STATE OF IOWA

Budgetary Comparison Schedule Required Supplementary Information

For the Year Ended June 30, 2005
(Expressed in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
SPECIAL TAXES:				
Personal Income Tax	\$ 2,628,000	\$ 2,747,200	\$ 2,794,631	\$ 47,431
Sales/Use Tax	1,715,800	1,797,400	1,806,755	9,355
Corporation Income Tax	199,500	249,200	281,101	31,901
Inheritance Tax	71,900	72,600	77,003	4,403
Insurance Premium Tax	114,400	131,700	131,183	(517)
Cigarette Tax	84,100	87,100	87,427	327
Tobacco Tax	8,300	7,900	8,650	750
Beer & Liquor Tax	14,000	14,000	14,062	62
Franchise Tax	43,000	36,300	36,594	294
Miscellaneous Tax	1,500	1,100	623	(477)
TOTAL SPECIAL TAXES	4,880,500	5,144,500	5,238,029	93,529
REIMBURSEMENTS & FEES:				
Institutional Reimbursements	13,700	10,900	15,118	4,218
Liquor Transfers	54,000	59,000	60,275	1,275
Interest	4,400	7,000	10,749	3,749
Fees	64,700	68,800	73,375	4,575
Judicial Revenue	58,100	56,600	59,131	2,531
Miscellaneous Receipts	37,600	39,800	47,650	7,850
Racing & Gaming Receipts	60,000	60,000	60,000	-
TOTAL RECEIPTS	5,173,000	5,446,600	5,564,327	117,727
Transfers	63,000	63,900	61,536	(2,364)
TOTAL APPROPRIATED REVENUE	5,236,000	5,510,500	5,625,863	115,363
RECEIPTS CREDITED TO APPROPRIATIONS:				
Sales Tax Monthly	3	3	2	(1)
Multi Suspense	10,600	3,701	3,620	(81)
Federal Support	1,993,965	2,115,880	2,143,522	27,642
Local Governments	113,024	113,026	150,080	37,054
Other States	1	1	-	(1)
Internal Service Transfers	530,715	541,241	444,788	(96,453)
Internal Service Reimbursements	20,300	17,237	22,628	5,391
Interest	-	-	94	94
Fees, Licenses, & Permits	8,066	8,299	21,455	13,156
Refunds & Reimbursements	137,089	259,686	289,741	30,055
Sale of Equipment & Salvage	18	27	40	13
Rents & Leases	2,790	2,787	2,712	(75)
Agricultural Sales	2	2	1	(1)
Other Sales & Services	3,157	3,163	3,956	793
Unearned Receipts	2,869	2,892	358	(2,534)
Other	93,245	95,342	109,050	13,708
TOTAL APPROPRIATED RECEIPTS	2,915,844	3,163,287	3,192,047	28,760
TOTAL ALL REVENUE	8,151,844	8,673,787	8,817,910	144,123
REFUNDS OF TAXES COLLECTED	(696,000)	(684,700)	(696,900)	(12,200)
TOTAL REVENUES AVAILABLE	7,455,844	7,989,087	8,121,010	131,923

(continued on next page)

STATE OF IOWA

(continued)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
EXPENDITURES:				
Administration & Regulation	223,615	261,580	264,817	(3,237)
Agriculture & Natural Resources	122,807	124,216	121,190	3,026
Economic Development	32,993	42,657	34,057	8,600
Education	3,018,446	3,022,150	3,028,032	(5,882)
Health & Human Rights	150,364	154,576	152,796	1,780
Human Services	3,270,680	3,597,928	3,631,459	(33,531)
Justice	548,991	559,848	561,236	(1,388)
Transportation	6,959	10,605	1,800	8,805
TOTAL EXPENDITURES	7,374,855	7,773,560	7,795,387	(21,827)
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	80,989	215,527	325,623	110,096
OTHER FINANCING SOURCES (USES):				
Balances Credited To Appropriations	7,018	21,479	20,633	(846)
Unexpended Appropriations	(112)	(1,239)	(20,395)	(19,156)
TOTAL OTHER FINANCING SOURCES (USES)	6,906	20,240	238	(20,002)
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES & OTHER ITEMS	87,895	235,767	325,861	90,094
BEGINNING FUND BALANCE (BUDGETARY)	-	-	-	-
REMAINING FUND BALANCE (BUDGETARY)	\$ 87,895	\$ 235,767	\$ 325,861	\$ 90,094
ENDING FUND BALANCE (BUDGETARY)		\$ 235,767	\$ 325,861	
AUTHORIZED TRANSFER TO THE PROPERTY TAX CREDIT FUND		(159,664)	(159,664)	
REMAINING FUND BALANCE (BUDGETARY)		\$ 76,103	166,197	
AMOUNT STATUTORILY REQUIRED TO BE TRANSFERRED TO CASH RESERVE FUND			(166,197)	
ENDING FUND BALANCE AVAILABLE FOR APPROPRIATION			\$ -	

STATE OF IOWA

Budgetary Comparison Schedule - Budget to GAAP Reconciliation General Fund Required Supplementary Information

June 30, 2005
(Expressed in Thousands)

	GENERAL FUND
Fund Balance - Budgetary/Legal	\$ 325,861
Basis Of Accounting Differences:	
Balance Sheet Accounts:	
Accounts Receivable	140,405
Loans Receivable	4,648
Due From Other Funds	1,185
Prepaid Expenditures	7,133
Accounts Payable & Accruals	(103,252)
Due To Other Funds	(63,118)
Deferred Revenue	(71,896)
Reserved Encumbrances	20,395
Timing Differences:	
Petty Cash & Inventory Expensed In Budgetary Accounting	17,978
Perspective Differences	<u>1,645,113</u>
Total Fund Balance - GAAP Basis	1,924,452
Less: Reserved Fund Balance - GAAP Basis	<u>1,364,588</u>
Fund Balance Unreserved - GAAP Basis	<u><u>\$ 559,864</u></u>

STATE OF IOWA

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

Budgetary Expenditures in Excess of Appropriations

Actual expenditures exceeded budgeted expenditures as a result of the receipt and legal expenditure of federal and other non-state funds which had been received for restricted purposes. In the General Fund this occurred in the Department of Human Services for Medical Assistance, for standing unlimited appropriations, and increased inter-appropriation transfers within the Department of Corrections.

Budgetary Presentation

The budget encompasses the General Fund of the State and some Special Revenue Funds, (Real Estate Education, Inspection and Appeals Use Tax Clearing, Unclaimed Winnings, Federal Economic Stimulus and Jobs Holding Fund, Environment First, Healthy Iowan's Tobacco Trust Fund, Underground Storage Tank Unassigned Revenue, Tobacco Tax-Exempt Bond Proceeds, Endowment For Iowa's Health Account, Resources Enhancement and Protection, Land Recycling Fund, Fish and Game Trust Fund, Conservation Administration Fund, Forestry Management Enhancement Fund, Water Quality Protection Fund, Grow Iowa Fund, Workforce Development Withholding, Local Housing Assistance, Special Contingency Fund, Administrative Contribution Surcharge, School Infrastructure Fund, Stafford Loan Program, Gambling Treatment Program, Hospital Trust Fund, Primary Road Fund, and Pooled Technology Account. There is a perspective difference between budget and financial reporting due to the difference in fund structures. The budgetary presentation will vary from the financial presentation for funds displayed in the supplementary information due to this difference. The General Fund is displayed in the Required Supplementary Information (RSI) Budgetary Comparison Schedule. The Nonmajor Special Revenue Funds are displayed with the combining financial statements and schedules for nonmajor funds. The nonmajor special revenue funds are reported in the supplementary information section. Capital Project Funds are budgeted on a project-length basis.

The original budget and related estimated revenues and expenditures represent the spending authority enacted into law by the appropriations bills as of July 1, 2004 and includes estimated approved budgetary carry-forwards from the prior fiscal year.

The final appropriations budget represents original and supplemental appropriations, actual budgetary carry-forwards, approved transfers, executive order reductions and timing differences.

The State's budget is prepared annually by the Governor on a modified cash basis, except for the accrual of county receivables, and is required to be submitted along with proposed appropriation bills to the General Assembly by the first of February prior to the new fiscal year. When an appropriation bill is passed by both houses of the General Assembly, the bill is enrolled and sent to the Governor. The Governor may sign it into law or veto it in whole or in part on a line item basis. Funds may be disbursed only after appropriations have been allotted by the Department of Management, subject to the review of the Governor, with the exception of standing unlimiteds and certain receipts that the Departments are authorized to expend. Appropriations are allotted for expenditure on a quarterly basis.

Departments may request revisions to quarterly allotments, appropriations transfers, or supplemental appropriations. The Department of Management approves revised allotments within an appropriation, subject to the Governor's review. The Governor and the Department of Management approve all appropriation transfers. The General Assembly and the Governor act on supplemental appropriation bills in a manner similar to original appropriations. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the State treasury, unless otherwise provided.

STATE OF IOWA

Required Supplementary Information

The State utilizes encumbrance accounting for budgetary control purposes. Obligations incurred for goods or services that have not been received or rendered, are recorded to reserve that portion or the applicable fund balance. Section 8.33, unnumbered paragraph 2, of the Code of Iowa, states, "No payment of an obligation for goods or services shall be charged to an appropriation subsequent to the last day of the fiscal year for which the appropriation is made unless the goods or services are received on or before the last day of the fiscal year, except that repair projects, purchase of specialized equipment and furnishings, and other contracts for services and capital expenditures for the purchase of land or the erection of buildings or new construction or remodeling, which were committed and in progress prior to the end of the fiscal year are excluded from this provision." That is, except for the above stated exceptions, the State must have received the goods or services on or before June 30, creating an actual liability or the encumbrance is cancelled against that fiscal year. If the encumbrances are still valid after June 30, they become expenditures / expenses of the next fiscal year.

Budgetary control is essentially maintained at the department fund level except for certain grant and aid programs where control is maintained at a program level.

Revenues and expenditures are monitored on a continuing basis. State law authorizes the Governor to impose across-the-board pro rata reductions in allotments to ensure revenues and other available funds are sufficient to pay expenses of a given fiscal year.

Separate reports for the General and budgeted Special Revenue funds presenting detail of the legal level of control and actual expenditures are available from the Department of Management.

General Fund Expenditure Limitation

The Code of Iowa, section 8.54, establishes a General Fund expenditure limitation of ninety-nine percent of the adjusted revenue estimate. The adjusted revenue estimate is the appropriate revenue estimate for the General Fund for the following fiscal year as determined by the Revenue Estimating Conference, adjusted by subtracting estimated tax refunds payable from that estimated revenue and as determined by the Conference, adding any new revenues which may be considered to be eligible for deposit in the General Fund. *New revenues* means moneys which are received by the state due to increased tax rates and fees or newly created taxes and fees over and above those moneys which are received due to state taxes and fees which are in effect as of January 1 following the December Revenue Estimating Conference. "*New revenues*" also includes moneys received by the General Fund of the state due to new transfers over and above those moneys received by the General Fund of the state due to transfers which are in effect as of January 1 following the December Revenue Estimating Conference. The Department of Management shall obtain concurrence from the Revenue Estimating Conference on the eligibility of transfers to the General Fund which are to be considered as new revenue in determining the General Fund expenditure limitation.

This limitation shall be used by the Governor in the preparation of the budget and by the General Assembly in the budget process. If a source for new revenues is proposed, the budget revenue projection used for that new revenue source for the period beginning on the effective date of the new revenue source and ending in the fiscal year in which the source is included in the revenue base shall be an amount determined by subtracting estimated tax refunds payable from the projected revenue from that new revenue source, multiplied by ninety-five percent. If a new revenue source is established and implemented, the original General Fund expenditure limitation amount shall be readjusted to include ninety-five percent of the estimated revenue from the new revenue source.

For fiscal years in which the Iowa Economic Emergency Fund transfers money to the General Fund, the original General Fund expenditure limitation amount provided for shall be readjusted to include the moneys which are so transferred.

STATE OF IOWA

Required Supplementary Information

The scope of the expenditure limitation shall not encompass federal funds, donations, constitutionally dedicated moneys, and moneys in expenditures from state retirement system moneys. The Governor shall submit and the General Assembly shall pass a budget that does not exceed the state General Fund expenditure limitation. The Governor in submitting the budget and the General Assembly in passing a budget, shall not have recurring expenditures in excess of recurring revenues. The Governor shall not submit and the General Assembly shall not pass a budget which in order to balance assumes reversion of a specific amount of the total of the appropriations included in the budget.

Reserve Funds

The ***Iowa Economic Emergency Fund*** was created in Iowa Code section 8.55. The fund is separate from the General Fund of the state and the balance in the fund is not to be considered part of the balance of the General Fund of the state. The moneys in the fund do not revert to the General Fund, unless and to the extent the fund exceeds the maximum balance. The maximum balance of the fund is the amount equal to five percent of the adjusted revenue estimate for the fiscal year. If the amount of moneys in the Iowa Economic Emergency Fund is equal to the maximum balance, moneys in excess of this amount shall be transferred to the General Fund. The moneys in this fund may be appropriated by the General Assembly only in the fiscal year for which the appropriation is made. The moneys shall only be appropriated by the General Assembly for emergency expenditures. However, except as provided in section 8.58, the balance in the Iowa Economic Emergency Fund may be used in determining the cash position of the General Fund of the state for the payment of state obligations. Interest or earnings on moneys deposited in the Iowa Economic Emergency Fund are credited to the Rebuild Iowa Infrastructure Fund.

The ***Cash Reserve Fund*** was created in Iowa Code section 8.56. The fund is separate from the General Fund of the state and is not considered to be part of the General Fund of the state except in determining the cash position of the state. The moneys in the Cash Reserve Fund can not be transferred, used, obligated, appropriated, or otherwise encumbered except as provided under Iowa Code section 8.56. Interest or earnings on moneys deposited in the Cash Reserve Fund are credited to the Rebuild Iowa Infrastructure Fund. Moneys in this fund may be used for cash flow purposes provided that any moneys so allocated are returned to the Cash Reserve Fund by the end of each fiscal year. The maximum balance of the fund is equal to the cash reserve goal percentage, multiplied by the adjusted revenue estimate for the General Fund of the state for the current fiscal year. The moneys in this fund may only be appropriated by the General Assembly for nonrecurring emergency expenditures and shall not be appropriated for payment of any collective bargaining agreement or arbitrator's decision negotiated or awarded. The balance in the Cash Reserve Fund may be used in determining the cash position of the General Fund of the state for payment of state obligations. An appropriation shall not be made from the Cash Reserve Fund if the appropriation would cause the fund's balance to be less than three percent of the adjusted revenue estimate for the year for which the appropriation is made unless the bill or joint resolution is approved by vote of at least three-fifths of the members of both chambers of the General Assembly and is signed by the Governor. Also, the appropriation must be contained in a bill or joint resolution in which the appropriation is the only subject matter of the bill or joint resolution, and the bill or joint resolution states the reasons the appropriation is necessary.

STATE OF IOWA

Schedules of Funding Progress Required Supplementary Information

(Expressed in Thousands)

Iowa Judicial Retirement System

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
July 1, 2003	\$ 70,018	\$ 93,561	\$ 23,543	74.84%	\$ 20,712	113.67%
July 1, 2004	78,023	99,124	21,101	78.71%	20,894	100.99%
July 1, 2005	81,605	105,472	23,867	77.37%	20,684	115.39%

The increase in unfunded AAL for the July 1, 2005 valuation was primarily due to lower than expected rate of return on investments.

Peace Officers' Retirement, Accident and Disability System

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY*	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
July 1, 2003	\$ 246,443	\$ 306,098	\$ 59,655	80.51%	\$ 33,019	180.67%
July 1, 2004	244,161	338,799	94,638	72.07%	32,520	291.01%
July 1, 2005	251,829	343,117	91,288	73.39%	33,337	273.83%

* This amount is based on the Projected Unit Credit Method. The Aggregate Cost Method is used to determine the required contribution. This is provided for informational purposes only.

The decrease in unfunded AAL for the July 1, 2005 valuation was primarily due to a higher than expected rate of return on investments.

Pension Trust funds are discussed in detail in the Notes to the Financial Statements (NOTE 16 – PENSION PLANS.)

**S U P P L E M E N T A R Y
I N F O R M A T I O N**

STATE OF IOWA

Combining Balance Sheet Nonmajor Governmental Funds – By Fund Type

June 30, 2005
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Current Assets:				
Cash & Investments	\$ 409,119	\$ 2,790	\$ 10,592	\$ 422,501
Deposit with Trustees	-	586	-	586
Accounts Receivable (net)	31,696	686	-	32,382
Due From Other Funds	5,923	3,528	4	9,455
Inventory	66	-	-	66
Prepaid Expenditures	108	-	-	108
Total Current Assets	<u>446,912</u>	<u>7,590</u>	<u>10,596</u>	<u>465,098</u>
Noncurrent Assets:				
Accounts Receivable (net)	<u>5,039</u>	<u>-</u>	<u>-</u>	<u>5,039</u>
TOTAL ASSETS	<u>\$ 451,951</u>	<u>\$ 7,590</u>	<u>\$ 10,596</u>	<u>\$ 470,137</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	\$ 24,256	\$ 3,570	\$ -	\$ 27,826
Due To Other Funds	25,645	10	-	25,655
Deferred Revenue	<u>23,282</u>	<u>-</u>	<u>-</u>	<u>23,282</u>
TOTAL LIABILITIES	<u>73,183</u>	<u>3,580</u>	<u>-</u>	<u>76,763</u>
FUND BALANCE				
Reserved for:				
Inventory & Prepaid Expenditures	174	-	-	174
Noncurrent Receivables	5,039	-	-	5,039
Specific Purposes	289,577	-	10,596	300,173
Unreserved Fund Equity	<u>83,978</u>	<u>4,010</u>	<u>-</u>	<u>87,988</u>
TOTAL FUND BALANCE	<u>378,768</u>	<u>4,010</u>	<u>10,596</u>	<u>393,374</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 451,951</u>	<u>\$ 7,590</u>	<u>\$ 10,596</u>	<u>\$ 470,137</u>

STATE OF IOWA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds – By Fund Type

For the Year Ended June 30, 2005
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$ 69,074	\$ -	\$ -	\$ 69,074
Receipts from Other Entities	29,199	1,229	-	30,428
Investment Income	14,862	358	156	15,376
Fees, Licenses & Permits	5,623	-	-	5,623
Refunds & Reimbursements	72,910	-	-	72,910
Sales, Rents & Services	4,288	-	-	4,288
Miscellaneous	8,238	-	-	8,238
Contributions	-	-	62	62
GROSS REVENUES	204,194	1,587	218	205,999
Less Revenue Refunds	963	-	-	963
NET REVENUES	203,231	1,587	218	205,036
EXPENDITURES:				
Current:				
Administration & Regulation	16,642	-	-	16,642
Education	46,866	-	-	46,866
Health & Human Rights	461	-	-	461
Human Services	230	-	-	230
Justice & Public Defense	2,823	506	-	3,329
Economic Development	1,009	-	-	1,009
Transportation	1,746	-	-	1,746
Agriculture & Natural Resources	3,840	3,916	-	7,756
Capital Outlay:				
Administration & Regulation	24,167	2	-	24,169
Education	4,425	-	-	4,425
Health & Human Rights	484	395	-	879
Human Services	2,962	-	-	2,962
Justice & Public Defense	3,483	8,835	-	12,318
Economic Development	65	-	-	65
Transportation	-	72	-	72
Agriculture & Natural Resources	1,765	6,364	-	8,129
Debt Service:				
Principal	1,490	4,630	-	6,120
Interest	35,651	3,552	-	39,203
TOTAL EXPENDITURES	148,109	28,272	-	176,381
REVENUES OVER (UNDER) EXPENDITURES	55,122	(26,685)	218	28,655
OTHER FINANCING SOURCES (USES):				
Transfers In	9,692	28,017	1,000	38,709
Transfers Out	(151,749)	(212)	(152)	(152,113)
TOTAL OTHER FINANCING SOURCES (USES)	(142,057)	27,805	848	(113,404)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(86,935)	1,120	1,066	(84,749)
FUND BALANCE JULY 1	465,703	2,890	9,530	478,123
FUND BALANCE JUNE 30	\$ 378,768	\$ 4,010	\$ 10,596	\$ 393,374



COMBINING FINANCIAL STATEMENTS

Nonmajor Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Tobacco Tax-Exempt Bond Proceeds Fund accounts for the proceeds received from the Tobacco Settlement Authority to provide appropriations to various programs.

Federal Economic Stimulus and Jobs Holding Fund receives federal receipts under the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 to be used as provided in the federal law.

Tobacco Settlement Authority accounts for bond proceeds securitized by payments due to the State pursuant to the Master Settlement Agreement between the State and the five largest tobacco manufacturers.

Iowa Public Television Foundation is a non-profit corporation that solicits and manages gifts of money and property for Iowa Public Television.

Other Special Revenue Funds are aggregated for reporting purposes and account for various other revenues which must be used for specific purposes.

STATE OF IOWA

Combining Balance Sheet Nonmajor Special Revenue Funds

June 30, 2005
(Expressed in Thousands)

	TOBACCO TAX-EXEMPT BOND PROCEEDS FUND	FEDERAL ECONOMIC STIMULUS & JOBS HOLDING FUND	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 135,539	\$ 83,171	\$ 86,348	\$ 5,338	\$ 98,723	\$ 409,119
Accounts Receivable (Net)	2,589	-	18,188	546	10,373	31,696
Due From Other Funds	289	2,786	-	205	2,643	5,923
Inventory	-	-	-	-	66	66
Prepaid Expenditures	45	-	-	38	25	108
Total Current Assets	138,462	85,957	104,536	6,127	111,830	446,912
Noncurrent Assets:						
Accounts Receivable (Net)	-	-	-	-	5,039	5,039
TOTAL ASSETS	\$ 138,462	\$ 85,957	\$ 104,536	\$ 6,127	\$ 116,869	\$ 451,951
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ 22,911	\$ -	\$ 189	\$ 164	\$ 992	\$ 24,256
Due To Other Funds	8,008	16,327	-	456	854	25,645
Deferred Revenue	329	-	17,534	505	4,914	23,282
TOTAL LIABILITIES	31,248	16,327	17,723	1,125	6,760	73,183
FUND BALANCE						
Reserved for:						
Inventory & Prepaid Expenditures	45	-	-	38	91	174
Noncurrent Receivables	-	-	-	-	5,039	5,039
Specific Purposes	107,169	-	86,813	273	95,322	289,577
Unreserved Fund Equity	-	69,630	-	4,691	9,657	83,978
TOTAL FUND BALANCE	107,214	69,630	86,813	5,002	110,109	378,768
TOTAL LIABILITIES & FUND BALANCE	\$ 138,462	\$ 85,957	\$ 104,536	\$ 6,127	\$ 116,869	\$ 451,951

STATE OF IOWA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	TOBACCO TAX-EXEMPT BOND PROCEEDS FUND	FEDERAL ECONOMIC STIMULUS & JOBS HOLDING FUND	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 69,074	\$ 69,074
Receipts from Other Entities	990	-	-	-	28,209	29,199
Investment Income	5,382	2,285	3,177	361	3,657	14,862
Fees, Licenses & Permits	-	-	-	-	5,623	5,623
Refunds & Reimbursements	55	-	43,421	-	29,434	72,910
Sales, Rents & Services	-	-	-	-	4,288	4,288
Miscellaneous	221	-	-	6,441	1,576	8,238
GROSS REVENUES	6,648	2,285	46,598	6,802	141,861	204,194
Less Revenue Refunds	-	-	-	-	963	963
NET REVENUES	6,648	2,285	46,598	6,802	140,898	203,231
EXPENDITURES:						
Current:						
Administration & Regulation	13,448	-	370	-	2,824	16,642
Education	64	-	-	2,860	43,942	46,866
Health & Human Rights	-	-	-	-	461	461
Human Services	-	-	-	-	230	230
Justice & Public Defense	290	-	-	-	2,533	2,823
Economic Development	-	404	-	-	605	1,009
Transportation	1,746	-	-	-	-	1,746
Agriculture & Natural Resources	2,495	-	-	-	1,345	3,840
Capital Outlay:						
Administration & Regulation	24,164	-	-	-	3	24,167
Education	4,316	-	-	-	109	4,425
Health & Human Rights	483	-	-	-	1	484
Human Services	2,962	-	-	-	-	2,962
Justice & Public Defense	3,425	-	-	-	58	3,483
Economic Development	65	-	-	-	-	65
Agriculture & Natural Resources	1,765	-	-	-	-	1,765
Debt Service:						
Principal	-	-	1,490	-	-	1,490
Interest	-	-	35,651	-	-	35,651
TOTAL EXPENDITURES	55,223	404	37,511	2,860	52,111	148,109
REVENUES OVER (UNDER) EXPENDITURES	(48,575)	1,881	9,087	3,942	88,787	55,122
OTHER FINANCING SOURCES (USES):						
Transfers In	448	-	-	-	9,244	9,692
Transfers Out	(42,099)	(21,888)	-	(3,910)	(83,852)	(151,749)
TOTAL OTHER FINANCING SOURCES (USES)	(41,651)	(21,888)	-	(3,910)	(74,608)	(142,057)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(90,226)	(20,007)	9,087	32	14,179	(86,935)
FUND BALANCE JULY 1	197,440	89,637	77,726	4,970	95,930	465,703
FUND BALANCE JUNE 30	\$ 107,214	\$ 69,630	\$ 86,813	\$ 5,002	\$ 110,109	\$ 378,768

STATE OF IOWA

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Budgetary Basis Nonmajor Special Revenue Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	PRIMARY ROAD FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 517,253	\$ 517,253	\$ 520,094	\$ 2,841
TOTAL APPROPRIATED REVENUE	517,253	517,253	520,094	2,841
RECEIPTS CREDITED TO				
APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	5	5	5	-
Federal Support	197,800	197,800	261,929	64,129
Local Governments	4,600	4,600	2,091	(2,509)
Other States	75	74	2,349	2,275
Reimbursements From Other Agencies	652	161	232	71
Interest	1	1	3	2
Bonds & Loans	-	1	731	730
Fees, Licenses, & Permits	860	860	1,164	304
Refunds & Reimbursements	4,010	4,010	785	(3,225)
Sale of Real Estate	1,710	1,710	5,293	3,583
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	16	16	28	12
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	-	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	2,750	2,750	9,968	7,218
TOTAL APPROPRIATED RECEIPTS	212,479	211,988	284,578	72,590
TOTAL REVENUES AVAILABLE	729,732	729,241	804,672	75,431
EXPENDITURES:				
Administration & Regulation	-	-	-	-
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Transportation	479,624	483,706	507,100	(23,394)
TOTAL EXPENDITURES	479,624	483,706	507,100	(23,394)
Transfers	254,575	244,031	243,151	880
TOTAL EXPENDITURES AND TRANSFERS	734,199	727,737	750,251	(22,514)
REVENUES AVAILABLE OVER (UNDER)				
EXPENDITURES AND TRANSFERS	(4,467)	1,504	54,421	52,917
FUND BALANCE JULY 1 (BUDGETARY)	(707)	99,082	99,082	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ (5,174)	\$ 100,586	\$ 153,503	\$ 52,917

STATE OF IOWA

ENDOWMENT FOR IOWA'S HEALTH FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
70,000	70,000	69,074	(926)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
750	750	1,026	276
-	-	-	-
-	-	926	926
15,704	15,704	14,883	(821)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
86,454	86,454	85,909	(545)
86,454	86,454	85,909	(545)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
74,795	74,795	74,795	-
74,795	74,795	74,795	-
11,659	11,659	11,114	(545)
27,939	27,187	27,187	-
\$ 39,598	\$ 38,846	\$ 38,301	\$ (545)

(continued on next page)

STATE OF IOWA

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Budgetary Basis Nonmajor Special Revenue Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

(continued)

	TOBACCO TAX-EXEMPT BOND PROCEEDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ -	\$ 20	\$ 38	\$ 18
TOTAL APPROPRIATED REVENUE	-	20	38	18
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	-	-	-	-
Federal Support	800	800	308	(492)
Local Governments	-	-	-	-
Other States	-	-	-	-
Reimbursements From Other Agencies	-	-	1,622	1,622
Interest	3,816	7,476	7,595	119
Bonds & Loans	-	-	-	-
Fees, Licenses, & Permits	-	-	-	-
Refunds & Reimbursements	-	1,000	539	(461)
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	-	-	-	-
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	100	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	-	-	-	-
TOTAL APPROPRIATED RECEIPTS	4,716	9,276	10,064	788
TOTAL REVENUES AVAILABLE	4,716	9,296	10,102	806
EXPENDITURES:				
Administration & Regulation	73,459	100,032	41,619	58,413
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Transportation	-	-	-	-
TOTAL EXPENDITURES	73,459	100,032	41,619	58,413
Transfers	40,320	70,872	64,052	6,820
TOTAL EXPENDITURES AND TRANSFERS	113,779	170,904	105,671	65,233
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(109,063)	(161,608)	(95,569)	66,039
FUND BALANCE JULY 1 (BUDGETARY)	110,149	219,839	219,839	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 1,086	\$ 58,231	\$ 124,270	\$ 66,039

STATE OF IOWA

UNDERGROUND STORAGE TANK UNASSIGNED REVENUE

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 10,000	\$ 10,000	\$ 7,913	\$ (2,087)
10,000	10,000	7,913	(2,087)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
5,400	5,400	1,547	(3,853)
-	-	-	-
15	15	9	(6)
-	100	1,669	1,569
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	100	37	(63)
5,415	5,615	3,262	(2,353)
15,415	15,615	11,175	(4,440)
2,376	2,437	2,556	(119)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
2,376	2,437	2,556	(119)
16,200	16,200	506	15,694
18,576	18,637	3,062	15,575
(3,161)	(3,022)	8,113	11,135
16,388	25,657	25,657	-
\$ 13,227	\$ 22,635	\$ 33,770	\$ 11,135

(continued on next page)

STATE OF IOWA

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - Budgetary Basis Nonmajor Special Revenue Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

(continued)

	OTHER			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 137,474	\$ 250,716	\$ 229,862	(20,854)
TOTAL APPROPRIATED REVENUE	137,474	250,716	229,862	(20,854)
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	1,424	1,424	1,424	-
Other Taxes	7,291	2,686	2,993	307
Wagering Tax Receipts	8,100	8,100	9,783	1,683
Individual Income Tax Quarterly	4,000	4,000	4,000	-
Sales Tax - DOT	-	-	-	-
Federal Support	55,629	15,814	15,410	(404)
Local Governments	217	142	94	(48)
Other States	-	-	-	-
Reimbursements From Other Agencies	525	525	729	204
Interest	1,157	2,590	3,222	632
Bonds & Loans	-	-	-	-
Fees, Licenses, & Permits	26,250	26,516	27,364	848
Refunds & Reimbursements	35,768	35,114	27,191	(7,923)
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	45	45	-	(45)
Rents & Leases	5	5	16	11
Agricultural Sales	10	10	1	(9)
Other Sales & Services	1,087	1,087	823	(264)
Unearned Receipts	402	402	335	(67)
Income Tax Checkoffs	150	150	137	(13)
Other	585	587	331	(256)
TOTAL APPROPRIATED RECEIPTS	142,645	99,197	93,853	(5,344)
TOTAL REVENUES AVAILABLE	280,119	349,913	323,715	(26,198)
EXPENDITURES:				
Administration & Regulation	32,122	47,604	22,677	24,927
Agriculture & Natural Resources	14,315	14,315	12,038	2,277
Economic Development	30,152	34,221	23,374	10,847
Education	16,894	18,275	11,972	6,303
Transportation	-	-	-	-
TOTAL EXPENDITURES	93,483	114,415	70,061	44,354
Transfers	209,238	309,522	226,594	82,928
TOTAL EXPENDITURES AND TRANSFERS	302,721	423,937	296,655	127,282
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(22,602)	(74,024)	27,060	101,084
FUND BALANCE JULY 1 (BUDGETARY)	35,976	97,282	97,282	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 13,374	\$ 23,258	\$ 124,342	\$ 101,084

* Actual expenditures exceeded budgeted expenditures as a result of the receipt and legal expenditure of other non-state funds which have been received for restricted purposes. In the Special Revenue funds this occurred in the Primary Road Fund in the Department of Transportation and the Underground Storage Tank Authority's Unassigned Revenue Program.

STATE OF IOWA

TOTAL			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 664,727	\$ 777,989	\$ 757,907	\$ (20,082)
664,727	777,989	757,907	(20,082)
1,424	1,424	1,424	-
7,291	2,686	2,993	307
78,100	78,100	78,857	757
4,000	4,000	4,000	-
5	5	5	-
254,229	214,414	277,647	63,233
4,817	4,742	2,185	(2,557)
75	74	2,349	2,275
1,177	686	2,583	1,897
11,124	16,217	13,393	(2,824)
-	1	731	730
27,125	27,391	29,463	2,072
55,482	55,928	45,067	(10,861)
1,710	1,710	5,293	3,583
45	45	-	(45)
21	21	44	23
10	10	1	(9)
1,087	1,087	823	(264)
502	402	335	(67)
150	150	137	(13)
3,335	3,437	10,336	6,899
451,709	412,530	477,666	65,136
1,116,436	1,190,519	1,235,573	45,054
107,957	150,073	66,852	83,221
14,315	14,315	12,038	2,277
30,152	34,221	23,374	10,847
16,894	18,275	11,972	6,303
479,624	483,706	507,100	(23,394)
648,942	700,590	621,336	79,254
595,128	715,420	609,098	106,322
1,244,070	1,416,010	1,230,434	185,576
(127,634)	(225,491)	5,139	230,630
189,745	469,047	469,047	-
\$ 62,111	\$ 243,556	\$ 474,186	\$ 230,630



COMBINING FINANCIAL STATEMENTS

Nonmajor Capital Projects Funds

Capital Projects Funds are used to account for the construction of major capital facilities other than those financed by proprietary funds and trust funds.

General Services Capitals Fund is used to account for various building projects.

Corrections Capitals Fund is used to account for the construction of correctional services facilities.

Motor Vehicle Fuel Tax Capitals Fund is used to account for the acquisition of water access, development projects, water safety stations, marinas, and any other project which improves water recreation.

Fish and Game Capitals Fund is used to account for land acquisition and capital projects related to fish and wildlife.

Other Capital Projects Funds are aggregated for reporting purposes and account for construction of various armories, prison expansion programs, and other specific projects.

STATE OF IOWA

Combining Balance Sheet Nonmajor Capital Projects Funds

June 30, 2005
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	CORRECTIONS CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 1,492	\$ -	\$ 587	\$ 80	\$ 631	\$ 2,790
Deposits with Trustees	-	586	-	-	-	586
Accounts Receivable	251	-	427	8	-	686
Due From Other Funds	1,838	-	1,000	690	-	3,528
TOTAL ASSETS	\$ 3,581	\$ 586	\$ 2,014	\$ 778	\$ 631	\$ 7,590
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ 2,099	\$ -	\$ 913	\$ 558	\$ -	\$ 3,570
Due To Other Funds	1	-	9	-	-	10
TOTAL LIABILITIES	2,100	-	922	558	-	3,580
FUND BALANCE						
Unreserved Fund Equity	1,481	586	1,092	220	631	4,010
TOTAL LIABILITIES & FUND BALANCE	\$ 3,581	\$ 586	\$ 2,014	\$ 778	\$ 631	\$ 7,590

STATE OF IOWA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Capital Projects Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	CORRECTIONS CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
REVENUES:						
Receipts from Other Entities	\$ 251	\$ -	\$ 586	\$ -	\$ 392	\$ 1,229
Investment Income	-	357	-	-	1	358
TOTAL REVENUES	251	357	586	-	393	1,587
EXPENDITURES:						
Current:						
Justice & Public Defense	-	87	-	-	419	506
Agriculture & Natural Resources	-	-	219	3,697	-	3,916
Capital Outlay:						
Administration & Regulation	2	-	-	-	-	2
Health & Human Rights	395	-	-	-	-	395
Justice & Public Defense	8,835	-	-	-	-	8,835
Transportation	-	-	-	-	72	72
Agriculture & Natural Resources	-	-	2,397	3,967	-	6,364
Debt Services:						
Principal	-	4,630	-	-	-	4,630
Interest	-	3,552	-	-	-	3,552
TOTAL EXPENDITURES	9,232	8,269	2,616	7,664	491	28,272
REVENUES OVER (UNDER) EXPENDITURES	(8,981)	(7,912)	(2,030)	(7,664)	(98)	(26,685)
OTHER FINANCING SOURCES (USES):						
Transfers In	9,859	7,500	3,000	7,640	18	28,017
Transfers Out	-	-	(212)	-	-	(212)
TOTAL OTHER FINANCING SOURCES (USES)	9,859	7,500	2,788	7,640	18	27,805
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	878	(412)	758	(24)	(80)	1,120
FUND BALANCE JULY 1	603	998	334	244	711	2,890
FUND BALANCE JUNE 30	\$ 1,481	\$ 586	\$ 1,092	\$ 220	\$ 631	\$ 4,010



COMBINING FINANCIAL STATEMENTS

Nonmajor Permanent Funds

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the government or its citizens.

Iowa Cultural Trust Fund accounts for assets held for the Iowa Cultural Trust. The principal is preserved and applicable interest is transferred to the Cultural Grant fund to be used for purposes consistent with the Trust.

Iowa Veterans Trust Fund accounts for assets held for the benefit of veterans. The principal is maintained and the applicable interest is transferred to the Veterans Affairs Commission to be used for purposes consistent with the trust.

Iowa Public Television Foundation Endowment is used to hold a restricted gift made to Iowa Public Television. While the corpus of the gift is not available to spend, the earnings of the gift are restricted for the acquisition and/or production of quality family programming. Earnings are transferred to the Iowa Public Television Foundation.

Permanent School Principal Fund accounts for the principal derived from the sale of specific land. The interest is to be used for educational purposes.

Other Permanent Funds aggregates the Henry Albert Trust Fund which accounts for trust money for the Department of Public Health, and the Pilot Grove Trust Fund which accounts for a \$10,000 donation in support and maintenance of the Pilot Grove area.

STATE OF IOWA

Combining Balance Sheet Nonmajor Permanent Funds

June 30, 2005
(Expressed in Thousands)

	IOWA CULTURAL TRUST FUND	IOWA VETERANS TRUST FUND	IOWA PUBLIC TELEVISION FOUNDATION ENDOWMENT	PERMANENT SCHOOL PRINCIPAL FUND	OTHER	TOTAL NONMAJOR PERMANENT FUNDS
ASSETS						
Current Assets:						
Cash & Investments	\$ 476	\$ 1,000	\$ 1,448	\$ 7,657	\$ 11	\$ 10,592
Due From Other Funds	-	4	-	-	-	4
TOTAL ASSETS	\$ 476	\$ 1,004	\$ 1,448	\$ 7,657	\$ 11	\$ 10,596
FUND BALANCE						
Reserved for:						
Specific Purposes	476	1,004	1,448	7,657	11	10,596
TOTAL LIABILITIES & FUND BALANCE	\$ 476	\$ 1,004	\$ 1,448	\$ 7,657	\$ 11	\$ 10,596

STATE OF IOWA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Permanent Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA CULTURAL TRUST FUND	IOWA VETERANS TRUST FUND	IOWA PUBLIC TELEVISION FOUNDATION ENDOWMENT	PERMANENT SCHOOL PRINCIPAL FUND	OTHER	TOTAL NONMAJOR PERMANENT FUNDS
REVENUES:						
Investment Income	\$ -	\$ 4	\$ 152	\$ -	\$ -	\$ 156
Contributions	-	-	-	62	-	62
	<u>-</u>	<u>-</u>	<u>-</u>	<u>62</u>	<u>-</u>	<u>62</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>4</u>	<u>152</u>	<u>62</u>	<u>-</u>	<u>218</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	-	1,000	-	-	-	\$ 1,000
Transfers Out	-	-	(152)	-	-	(152)
	<u>-</u>	<u>-</u>	<u>(152)</u>	<u>-</u>	<u>-</u>	<u>(152)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>1,000</u>	<u>(152)</u>	<u>-</u>	<u>-</u>	<u>848</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	1,004	-	62	-	1,066
FUND BALANCE JULY 1	<u>476</u>	<u>-</u>	<u>1,448</u>	<u>7,595</u>	<u>11</u>	<u>9,530</u>
FUND BALANCE JUNE 30	<u>\$ 476</u>	<u>\$ 1,004</u>	<u>\$ 1,448</u>	<u>\$ 7,657</u>	<u>\$ 11</u>	<u>\$ 10,596</u>



COMBINING FINANCIAL STATEMENTS

Nonmajor Enterprise Funds

Enterprise funds account for activities for which fees are charged to external users for goods and services. This fund type is also used when the activity is financed with debt that is secured with fees and charges, as well as when the pricing policy of the activity is designated to recover its costs.

Iowa Communications Network accounts for a statewide telecommunications system and its related revenues and expenditures.

Iowa Lottery Authority is used to account for lottery revenues, administrative and operating expenses of the Lottery Authority, and the distribution of revenue to the General Fund.

Iowa State Prison Industries accounts for the revenues and expenses related to the sale of products made by the various prison industries.

Liquor Control Act is used to account for the revenues and expenses related to the sale of alcoholic beverages.

Other Enterprise Funds are aggregated for reporting purposes and account for other miscellaneous activities that meet the definition of Enterprise funds.

STATE OF IOWA

Combining Statement of Net Assets Nonmajor Enterprise Funds

June 30, 2005
(Expressed in Thousands)

	IOWA COMMUNI- ACTIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
ASSETS						
Current Assets:						
Cash & Investments	\$ 7,867	\$ 16,910	\$ 2,470	\$ 6,452	\$ 643	\$ 34,342
Accounts Receivable (Net)	2,751	3,949	2,713	4,010	21	13,444
Interest Receivable	-	125	-	-	-	125
Due From Other Funds	3,231	-	-	13	-	3,244
Inventory	475	1,096	5,789	959	550	8,869
Prepaid Expenses	-	84	10	495	131	720
Investment In Prize Annuity	-	8,844	-	-	-	8,844
Total Current Assets	<u>14,324</u>	<u>31,008</u>	<u>10,982</u>	<u>11,929</u>	<u>1,345</u>	<u>69,588</u>
Noncurrent Assets:						
Capital Assets - nondepreciable	443	568	107	210	430	1,758
Capital Assets - depreciable, net	45,448	7,862	4,804	-	804	58,918
Prepaid Expenses	584	-	-	-	-	584
Investment In Prize Annuity	-	25,993	-	-	-	25,993
Prize Deposit	-	4,243	-	-	-	4,243
Total Noncurrent Assets	<u>46,475</u>	<u>38,666</u>	<u>4,911</u>	<u>210</u>	<u>1,234</u>	<u>91,496</u>
TOTAL ASSETS	<u>60,799</u>	<u>69,674</u>	<u>15,893</u>	<u>12,139</u>	<u>2,579</u>	<u>161,084</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	2,908	1,858	1,683	9,822	35	16,306
Due To Other Funds	1,697	14,906	-	1,303	-	17,906
Interest Payable	-	21	-	-	-	21
Deferred Revenue	325	202	-	-	56	583
Compensated Absences	536	568	-	25	30	1,159
Bonds Payable	-	2,000	-	-	-	2,000
Annuities Payable	-	8,974	-	-	-	8,974
Lottery Prizes Payable	-	2,839	-	-	-	2,839
Total Current Liabilities	<u>5,466</u>	<u>31,368</u>	<u>1,683</u>	<u>11,150</u>	<u>121</u>	<u>49,788</u>
Noncurrent Liabilities:						
Compensated Absences	-	232	510	-	-	742
Bonds Payable	-	5,500	-	-	-	5,500
Annuities Payable	-	25,993	-	-	-	25,993
Lottery Prizes Payable	-	4,243	-	-	-	4,243
Other	-	5	-	-	-	5
Total Noncurrent Liabilities	<u>-</u>	<u>35,973</u>	<u>510</u>	<u>-</u>	<u>-</u>	<u>36,483</u>
TOTAL LIABILITIES	<u>5,466</u>	<u>67,341</u>	<u>2,193</u>	<u>11,150</u>	<u>121</u>	<u>86,271</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	45,891	930	4,911	210	1,234	53,176
Unrestricted	9,442	1,403	8,789	779	1,224	21,637
TOTAL NET ASSETS	<u>\$ 55,333</u>	<u>\$ 2,333</u>	<u>\$ 13,700</u>	<u>\$ 989</u>	<u>\$ 2,458</u>	<u>\$ 74,813</u>

STATE OF IOWA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Nonmajor Enterprise Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
OPERATING REVENUES:						
Receipts from Other Entities	\$ -	\$ -	\$ -	\$ -	\$ 21	\$ 21
Fees, Licenses & Permits	-	61	-	9,880	-	9,941
Refunds & Reimbursements	-	-	-	126	-	126
Sales, Rents & Services	36,131	210,669	19,364	146,835	508	413,507
Miscellaneous	-	276	39	929	422	1,666
TOTAL OPERATING REVENUES	36,131	211,006	19,403	157,770	951	425,261
OPERATING EXPENSES:						
General & Administrative	1,421	33,094	16	-	-	34,531
Depreciation	10,190	625	593	-	124	11,532
Direct Expense	23,174	-	15,581	-	68	38,823
Prize Expense	-	113,456	-	-	-	113,456
Personal Services	7,585	7,516	1,161	1,250	346	17,858
Travel & Subsistence	107	389	13	269	4	782
Supplies & Materials	-	103	68	104	52	327
Contractual Services	103	2,685	813	1,261	168	5,030
Equipment & Repairs	-	1,502	9	35	8	1,554
Claims & Miscellaneous	-	-	823	95,654	36	96,513
Licenses, Permits & Refunds	-	-	-	547	-	547
State Aids & Credits	-	-	-	2,851	-	2,851
TOTAL OPERATING EXPENSES	42,580	159,370	19,077	101,971	806	323,804
OPERATING INCOME (LOSS)	(6,449)	51,636	326	55,799	145	101,457
NONOPERATING REVENUES						
(EXPENSES):						
Taxes	422	-	-	5,271	-	5,693
Investment Income	509	609	98	-	-	1,216
Interest Expense	(1,114)	(211)	-	-	-	(1,325)
Miscellaneous Nonoperating Expense	(590)	-	-	-	-	(590)
Gain on Sale of Capital Assets	-	-	-	-	3	3
Loss on Sale of Capital Assets	(400)	-	-	-	-	(400)
NET NONOPERATING						
REVENUES (EXPENSES)	(1,173)	398	98	5,271	3	4,597
INCOME (LOSS) BEFORE						
CONTRIBUTIONS AND TRANSFERS	(7,622)	52,034	424	61,070	148	106,054
Capital Contributions and Grants	11,620	-	-	-	-	11,620
Transfers In	-	-	-	311	1	312
Transfers Out	-	(51,094)	-	(61,055)	(2)	(112,151)
CHANGE IN NET ASSETS	3,998	940	424	326	147	5,835
TOTAL NET ASSETS - JULY 1	51,335	1,393	13,276	663	2,311	68,978
TOTAL NET ASSETS - JUNE 30	\$ 55,333	\$ 2,333	\$ 13,700	\$ 989	\$ 2,458	\$ 74,813

STATE OF IOWA

Combining Statement of Cash Flows Nonmajor Enterprise Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received From Customers	\$ 33,743	\$ 209,933	\$ 18,373	\$ 156,235	\$ 943	\$ 419,227
Cash Received From Miscellaneous	-	318	-	929	58	1,305
Cash Payments To Suppliers For Goods & Services	(21,787)	(37,532)	(16,885)	(100,068)	(440)	(176,712)
Cash Payments To Employees for Services	(7,586)	(7,371)	(1,146)	(1,498)	(382)	(17,983)
Cash Payments for Prizes	-	(123,946)	-	-	-	(123,946)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,370</u>	<u>41,402</u>	<u>342</u>	<u>55,598</u>	<u>179</u>	<u>101,891</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers In From Other Funds	-	-	-	305	-	305
Transfers Out To Other Funds	-	(50,212)	-	(59,848)	-	(110,060)
Tax Receipts	11,837	-	-	5,271	-	17,108
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>11,837</u>	<u>(50,212)</u>	<u>-</u>	<u>(54,272)</u>	<u>-</u>	<u>(92,647)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	(3,106)	(8,810)	(466)	-	(112)	(12,494)
Interest Payments	(2,421)	(190)	-	-	-	(2,611)
Debt Payments	(36,277)	(1,300)	-	-	-	(37,577)
Capital Contributions and Grants	205	-	-	-	-	205
Debt Proceeds	-	8,800	-	-	-	8,800
Proceeds From Sale of Capital Assets	-	65	-	-	-	65
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(41,599)</u>	<u>(1,435)</u>	<u>(466)</u>	<u>-</u>	<u>(112)</u>	<u>(43,612)</u>

(continued on next page)

STATE OF IOWA

(continued)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM INVESTING						
ACTIVITIES:						
Interest & Dividends On Investments	512	550	98	-	-	1,160
Other	-	9,901	-	-	-	9,901
NET CASH PROVIDED BY INVESTING	512	10,451	98	-	-	11,061
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(24,880)	206	(26)	1,326	67	(23,307)
CASH & CASH EQUIVALENTS JULY 1	32,747	16,704	2,496	5,126	576	57,649
CASH & CASH EQUIVALENTS JUNE 30	7,867	16,910	2,470	6,452	643	34,342
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	\$ 7,867	\$ 16,910	\$ 2,470	\$ 6,452	\$ 643	\$ 34,342
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (6,449)	\$ 51,636	\$ 326	\$ 55,799	\$ 145	\$ 101,457
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities						
Depreciation	10,190	625	593	-	124	11,532
Loss on Disposal Of Assets	400	-	-	-	-	400
Gain on Sale of Capital Assets	-	(19)	-	-	-	(19)
(Increase) Decrease In Accounts Receivable	(1,239)	(826)	(1,030)	(605)	8	(3,692)
(Increase) Decrease In Due From	(1,220)	-	-	-	36	(1,184)
(Increase) Decrease In Inventory	864	5	(187)	(16)	(40)	626
(Increase) Decrease In Prepaid Expenses	90	24	35	(438)	(16)	(305)
(Increase) Decrease In Other Assets	-	-	-	-	-	-
Increase (Decrease) In Accounts Payable	52	366	577	838	(37)	1,796
Increase (Decrease) In Due To	1,610	(39)	-	-	(9)	1,562
Increase (Decrease) In Deferred Revenue	70	76	-	(1)	(1)	144
Increase (Decrease) In Compensated Absences	2	77	28	21	(31)	97
Increase (Decrease) In Prizes Payable	-	(618)	-	-	-	(618)
Increase (Decrease) In Prize Annuity	-	(9,901)	-	-	-	(9,901)
Increase (Decrease) In Other Liability	-	(4)	-	-	-	(4)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,370	\$ 41,402	\$ 342	\$ 55,598	\$ 179	\$ 101,891



COMBINING FINANCIAL STATEMENTS

Internal Service Funds

Internal Service funds account for State activities that provide goods and services to other State departments or agencies on a cost reimbursement basis.

Workers' Compensation Fund receives funds associated with the workers' compensation program to pay claims and administrative support costs.

Materials and Equipment Revolving Fund accounts for the purchase, repair, maintenance, and replacement of equipment, machinery, and supplies used by the Department of Transportation.

Depreciation Revolving Fund receives monthly depreciation payments from State departments owning vehicles. The money is used to purchase replacement vehicles for the departments.

Information Technology Revolving Fund provides data processing services to other State departments or agencies.

Other Internal Service Funds are aggregated for reporting purposes and account for other miscellaneous activities that meet the definition of Internal Service funds.

STATE OF IOWA

Combining Statement of Net Assets Internal Service Funds

June 30, 2005
(Expressed in Thousands)

	WORKERS' COMPEN- SATION FUND	MATERIALS & EQUIPMENT REVOLVING FUND	DEPRECIATION REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 1,075	\$ 5,548	\$ 5,143	\$ 7,241	\$ 9,663	\$ 28,670
Accounts Receivable (Net)	7	-	50	50	720	827
Due From Other Funds/Advances						
To Other Funds	49,844	471	1,664	3,209	4,884	60,072
Inventory	-	5,253	3,566	55	1,249	10,123
Prepaid Expenses	-	52	-	533	847	1,432
Total Current Assets	<u>50,926</u>	<u>11,324</u>	<u>10,423</u>	<u>11,088</u>	<u>17,363</u>	<u>101,124</u>
Noncurrent Assets:						
Due From Other Funds/Advances						
To Other Funds	-	-	-	-	269	269
Capital Assets - depreciable (Net)	-	79,375	-	3,027	2,610	85,012
Total Noncurrent Assets	<u>-</u>	<u>79,375</u>	<u>-</u>	<u>3,027</u>	<u>2,879</u>	<u>85,281</u>
TOTAL ASSETS	<u>50,926</u>	<u>90,699</u>	<u>10,423</u>	<u>14,115</u>	<u>20,242</u>	<u>186,405</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	8,545	1,954	1,394	1,502	3,909	17,304
Due To Other Funds/Advances						
From Other Funds	6	208	73	728	842	1,857
Deferred Revenue	-	-	7,724	-	-	7,724
Compensated Absences	-	473	-	935	1,131	2,539
Capital Leases	-	-	-	-	63	63
Total Current Liabilities	<u>8,551</u>	<u>2,635</u>	<u>9,191</u>	<u>3,165</u>	<u>5,945</u>	<u>29,487</u>
Noncurrent Liabilities:						
Accounts Payable & Accruals	42,375	-	-	-	369	42,744
Capital Leases	-	-	-	-	227	227
Total Noncurrent Liabilities	<u>42,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>596</u>	<u>42,971</u>
TOTAL LIABILITIES	<u>50,926</u>	<u>2,635</u>	<u>9,191</u>	<u>3,165</u>	<u>6,541</u>	<u>72,458</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	-	79,375	-	3,027	2,320	84,722
Unrestricted	-	8,689	1,232	7,923	11,381	29,225
TOTAL NET ASSETS	<u>\$ -</u>	<u>\$ 88,064</u>	<u>\$ 1,232</u>	<u>\$ 10,950</u>	<u>\$ 13,701</u>	<u>\$ 113,947</u>

STATE OF IOWA

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets Internal Service Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	WORKERS' COMPEN- SATION FUND	MATERIALS & EQUIPMENT REVOLVING FUND	DEPRECIATION REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND	OTHER	TOTAL
OPERATING REVENUES:						
Receipts from Other Entities	\$ 18,343	\$ 1,319	\$ 7,715	\$ 24,417	\$ 41,252	\$ 93,046
Fees, Licenses & Permits	-	-	-	-	6	6
Refunds & Reimbursements	205	42,790	70	-	592	43,657
Sales, Rents & Services	-	-	1,643	-	73	1,716
Miscellaneous	-	3,194	-	1,071	192	4,457
TOTAL OPERATING REVENUES	18,548	47,303	9,428	25,488	42,115	142,882
OPERATING EXPENSES:						
Depreciation	-	10,442	-	1,249	692	12,383
Personal Services	-	4,385	1	11,100	12,168	27,654
Travel & Subsistence	-	7,382	-	40	6,036	13,458
Supplies & Materials	-	21,466	4	74	15,532	37,076
Contractual Services	2,373	1,701	111	2,320	6,286	12,791
Equipment & Repairs	-	3,913	9,176	6,775	224	20,088
Claims & Miscellaneous	16,151	205	-	19	1,183	17,558
Licenses, Permits & Refunds	-	12	-	-	3	15
TOTAL OPERATING EXPENSES	18,524	49,506	9,292	21,577	42,124	141,023
OPERATING INCOME (LOSS)	24	(2,203)	136	3,911	(9)	1,859
NONOPERATING REVENUES (EXPENSES):						
Investment Income	-	-	-	163	123	286
Gain on Sale of Capital Assets	-	-	-	-	35	35
NET NONOPERATING REVENUES (EXPENSES)	-	-	-	163	158	321
INCOME (LOSS) BEFORE TRANSFERS	24	(2,203)	136	4,074	149	2,180
Transfers In	51	359	-	-	1,965	2,375
Transfers Out	(75)	-	-	-	-	(75)
CHANGE IN NET ASSETS	-	(1,844)	136	4,074	2,114	4,480
TOTAL NET ASSETS - JULY 1, RESTATED	-	89,908	1,096	6,876	11,587	109,467
TOTAL NET ASSETS - JUNE 30	\$ -	\$ 88,064	\$ 1,232	\$ 10,950	\$ 13,701	\$ 113,947

STATE OF IOWA

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	WORKERS' COMPEN- SATION FUND	MATERIALS & EQUIPMENT REVOLVING FUND	DEPRECIATION REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND	OTHER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received From Other Entities	\$ 198	\$ 4,725	\$ 1,664	\$ 1,071	\$ 953	\$ 8,611
Cash Received From Reciprocal Interfund Activity	18,633	43,797	8,097	23,483	39,188	133,198
Cash Payments To Suppliers For Goods & Services	(18,619)	(28,193)	(8,966)	(8,961)	(21,334)	(86,073)
Cash Payments To Employees For Services	-	(11,729)	(5)	(10,205)	(17,330)	(39,269)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>212</u>	<u>8,600</u>	<u>790</u>	<u>5,388</u>	<u>1,477</u>	<u>16,467</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers In From Other Funds	51	359	-	-	1,965	2,375
Transfers Out To Other Funds	(93)	-	-	-	-	(93)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>(42)</u>	<u>359</u>	<u>-</u>	<u>-</u>	<u>1,965</u>	<u>2,282</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	-	(11,431)	-	(4,276)	(1,101)	(16,808)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(11,431)</u>	<u>-</u>	<u>(4,276)</u>	<u>(1,101)</u>	<u>(16,808)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest & Dividends On Investments	-	-	-	163	123	286
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>163</u>	<u>123</u>	<u>286</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	170	(2,472)	790	1,275	2,464	2,227
CASH & CASH EQUIVALENTS JULY 1, RESTATED	905	8,020	4,353	5,966	7,199	26,443
CASH & CASH EQUIVALENTS JUNE 30	<u>1,075</u>	<u>5,548</u>	<u>5,143</u>	<u>7,241</u>	<u>9,663</u>	<u>28,670</u>
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 1,075</u>	<u>\$ 5,548</u>	<u>\$ 5,143</u>	<u>\$ 7,241</u>	<u>\$ 9,663</u>	<u>\$ 28,670</u>

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STATE of IOWA

(continued)

	WORKERS' COMPEN- SATION FUND	MATERIALS & EQUIPMENT REVOLVING FUND	DEPRECIATION REVOLVING FUND	INFORMATION TECHNOLOGY REVOLVING FUND	OTHER	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 24	\$ (2,203)	\$ 136	\$ 3,911	\$ (9)	\$ 1,859
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities						
Depreciation	-	10,442	-	1,249	692	12,383
(Increase) Decrease In Accounts Receivable	(7)	132	(49)	(37)	(130)	(91)
(Increase) Decrease In Due From	290	812	(34)	(897)	(1,934)	(1,763)
(Increase) Decrease In Inventory	-	(1,143)	-	21	(154)	(1,276)
(Increase) Decrease In Prepaid Expenses	-	(52)	(467)	42	659	182
Increase (Decrease) in Loans Receivable	-	-	-	-	90	90
Increase (Decrease) In Accounts Payable	(95)	379	788	(396)	809	1,485
Increase (Decrease) In Due To	-	195	44	560	580	1,379
Increase (Decrease) In Deferred Revenue	-	-	372	-	-	372
Increase (Decrease) In Compensated Absences And Other Benefits	-	38	-	935	874	1,847
Net Cash Provided By Operating Activities	<u>\$ 212</u>	<u>\$ 8,600</u>	<u>\$ 790</u>	<u>\$ 5,388</u>	<u>\$ 1,477</u>	<u>\$ 16,467</u>



COMBINING FINANCIAL STATEMENTS

Pension and Other Employee Benefit Trust Funds

Pension Trust funds account for transactions, assets, liabilities, and net assets available for plan benefits of the various State employee retirement systems. See Note 16 - Pension Plans.

Insurance Trust Fund receives converted sick leave dollars of Department of Public Safety retirees under the Peace Officers contract to pay health and /or life benefits.

SPOC Insurance Trust Fund receives converted sick leave dollars of Department of Natural Resources retirees under the Peace Officers contract to pay health and/or life benefits.

STATE OF IOWA

Combining Statement of Fiduciary Net Assets Pension and Other Employee Benefit Trust Funds

June 30, 2005
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE TRUST FUND	SPOC INSURANCE TRUST FUND	TOTAL
ASSETS						
Cash & Cash Equivalents	\$ 104,137	\$ 12,120	\$ 6,503	\$ 924	\$ 1,616	\$ 125,300
Receivables:						
Contributions	36,915	335	39	174	-	37,463
Investments Sold	598,746	3,150	202	-	-	602,098
Foreign Exchange Contracts	9,847	-	-	-	-	9,847
Interest & Dividends	64,243	833	-	9	-	65,085
Total Receivables	709,751	4,318	241	183	-	714,493
Investments, at Fair Value:						
Fixed Income Securities	6,033,468	76,094	24,986	-	-	6,134,548
Equity Investments	8,598,594	123,346	51,900	-	-	8,773,840
Real Estate Partnerships	1,232,598	-	-	-	-	1,232,598
Investment in Private Equity/Debt	1,176,490	-	-	-	-	1,176,490
Securities Lending Collateral Pool	1,946,543	54,690	-	-	-	2,001,233
Securities on Loan with Brokers	2,003,037	53,586	-	-	-	2,056,623
Total Investments	20,990,730	307,716	76,886	-	-	21,375,332
Capital Assets:						
Land	500	-	-	-	-	500
Other Capital Assets (Net)	3,651	-	-	-	-	3,651
Total Capital Assets	4,151	-	-	-	-	4,151
Total Assets	21,808,769	324,154	83,630	1,107	1,616	22,219,276
LIABILITIES						
Accounts Payable & Accruals	53,885	317	152	-	3	54,357
Payable for Investments Purchased	1,042,190	9,042	1,873	-	-	1,053,105
Payable to Brokers For Rebate & Collateral	1,945,465	54,690	-	-	-	2,000,155
Total Liabilities	3,041,540	64,049	2,025	-	3	3,107,617
NET ASSETS HELD IN TRUST FOR EMPLOYEES' BENEFITS	\$ 18,767,229	\$ 260,105	\$ 81,605	\$ 1,107	\$ 1,613	\$ 19,111,659

STATE OF IOWA

Combining Statement of Changes in Fiduciary Net Assets Pension and Other Employee Benefit Trust Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE TRUST FUND	SPOC INSURANCE TRUST FUND	TOTAL
ADDITIONS						
Contributions:						
Member Contributions	\$ 310,842	\$ 2,994	\$ 1,042	\$ 510	\$ 301	\$ 315,689
Employer Contributions	202,607	5,443	2,040	-	-	210,090
Buy-Back/Buy-In Contributions	11,217	-	-	-	-	11,217
	<u>524,666</u>	<u>8,437</u>	<u>3,082</u>	<u>510</u>	<u>301</u>	<u>536,996</u>
Contributions						
Investment Income:						
Net Increase (Decrease) in Fair Value of Investments	1,591,474	19,450	3,823	-	-	1,614,747
Interest	220,332	6,031	1,463	25	-	227,851
Dividends	67,280	1,650	600	-	-	69,530
Other	123,191	-	-	-	-	123,191
	<u>2,002,277</u>	<u>27,131</u>	<u>5,886</u>	<u>25</u>	<u>-</u>	<u>2,035,319</u>
Investment Income						
Less Investment Expense	89,787	2,125	386	-	-	92,298
	<u>1,912,490</u>	<u>25,006</u>	<u>5,500</u>	<u>25</u>	<u>-</u>	<u>1,943,021</u>
Net Investment Income						
Miscellaneous Non-Investment Income	42	-	-	-	-	42
	<u>2,437,198</u>	<u>33,443</u>	<u>8,582</u>	<u>535</u>	<u>301</u>	<u>2,480,059</u>
Total Additions						
DEDUCTIONS:						
Pension and Annuity Benefits	868,558	15,542	4,992	-	-	889,092
Payments In Accordance with Agreements	-	-	-	761	260	1,021
Administrative Expense	8,215	65	8	-	-	8,288
Refunds	43,113	11	-	-	-	43,124
	<u>919,886</u>	<u>15,618</u>	<u>5,000</u>	<u>761</u>	<u>260</u>	<u>941,525</u>
Total Deductions						
Change in Net Assets held in Trust for Employees' Pension Benefits	1,517,312	17,825	3,582	(226)	41	1,538,534
Fund Balance - Reserved for Employees' Benefits July 1	17,249,917	242,280	78,023	1,333	1,572	17,573,125
Fund Balance - Reserved for Employees' Benefits June 30	<u>\$ 18,767,229</u>	<u>\$ 260,105</u>	<u>\$ 81,605</u>	<u>\$ 1,107</u>	<u>\$ 1,613</u>	<u>\$ 19,111,659</u>



COMBINING FINANCIAL STATEMENTS

Private Purpose Trust Funds

Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Iowa Educational Savings Plan Trust receives contributions from participants for investment for future application towards payment of higher education costs for designated beneficiaries.

Veterans Affairs receives donations and fund raising receipts to be spent for the benefit of the Veteran residents.

Health Organization Insolvency Fund has received a \$10,000 remittance from each established HMO and LSO per law. This nonrefundable fund is invested to cover the cost of administration if an HMO or LSO declares bankruptcy.

Wagner Award Fund received a bequest by Ruth Wagner to present an annual recognition to the outstanding soil district commissioner who is 40 years or younger to be presented each year at the annual state conference.

Braille and Sight Saving School receives donations and contributions to be spent for the benefit of the students.

STATE OF IOWA

Combining Statement of Fiduciary Net Assets Private Purpose Trust Funds

June 30, 2005
(Expressed in Thousands)

	IOWA EDUCATIONAL SAVINGS PLAN TRUST	VETERANS AFFAIRS	HEALTH ORGANIZATION INSOLVENCY FUND	WAGNER AWARD FUND	BRAILLE & SIGHT SAVING SCHOOL	TOTAL
ASSETS						
Cash	\$ 1,157	\$ 352	\$ 230	\$ 12	\$ 43	\$ 1,794
Investments	1,122,823	-	-	-	-	1,122,823
Accounts Receivable (Net)	-	1	-	-	-	1
Capital Assets (Net)	8	37	-	-	-	45
Prepaid Expense	2	1	-	-	-	3
Inventory	-	14	-	-	-	14
Total Assets	<u>1,123,990</u>	<u>405</u>	<u>230</u>	<u>12</u>	<u>43</u>	<u>1,124,680</u>
LIABILITIES						
Accounts Payable & Accruals	<u>18</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>
Total Liabilities	<u>18</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>
NET ASSETS						
Held for Individuals, Organizations and Other Governments	<u>\$ 1,123,972</u>	<u>\$ 402</u>	<u>\$ 230</u>	<u>\$ 12</u>	<u>\$ 43</u>	<u>\$ 1,124,659</u>

STATE OF IOWA

Combining Statement of Changes in Fiduciary Net Assets Private Purpose Trust Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	IOWA EDUCATIONAL SAVINGS PLAN TRUST	VETERANS AFFAIRS	HEALTH ORGANIZATION INSOLVENCY FUND	WAGNER AWARD FUND	BRAILLE & SIGHT SAVING SCHOOL	TOTAL
ADDITIONS						
Contributions:						
Participant Contributions	\$ 247,738	\$ 151	\$ 10	\$ -	\$ -	\$ 247,899
Gifts, Bequests, & Endowments	-	85	-	-	38	123
	<u>247,738</u>	<u>236</u>	<u>10</u>	<u>-</u>	<u>38</u>	<u>248,022</u>
Contributions						
Investment Income:						
Net Increase (decrease) in Fair Value of Investments	74,193	-	-	-	(1)	74,192
Interest	39	6	-	1	4	50
	<u>74,232</u>	<u>6</u>	<u>-</u>	<u>1</u>	<u>3</u>	<u>74,242</u>
Investment Income						
Total Additions	<u>321,970</u>	<u>242</u>	<u>10</u>	<u>1</u>	<u>41</u>	<u>322,264</u>
DEDUCTIONS:						
Distributions to Participants	27,629	-	-	-	-	27,629
Other	344	219	-	-	3	566
	<u>27,973</u>	<u>219</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>28,195</u>
Total Deductions						
Change in Net Assets held in Trust for Individuals, Organizations and Other Governments	293,997	23	10	1	38	294,069
Net Assets - Beginning	<u>829,975</u>	<u>379</u>	<u>220</u>	<u>11</u>	<u>5</u>	<u>830,590</u>
Net Assets - Ending	<u>\$ 1,123,972</u>	<u>\$ 402</u>	<u>\$ 230</u>	<u>\$ 12</u>	<u>\$ 43</u>	<u>\$ 1,124,659</u>



COMBINING FINANCIAL STATEMENTS

Agency Funds

Agency funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or organizations.

Local Sales & Services Tax Fund is used to account for local option sales taxes collected by retailers and deposited with the State. The taxes are then distributed back to the counties which have jurisdictions imposing local option sales tax.

Centralized Payroll Trustee Fund is used to account for accumulation of all voluntary and discretionary payroll deductions from the centralized payroll process.

Judicial-Clerks of District Court act as a collecting agency for many fees and taxes that are then distributed to the proper local government or recipient.

School District Surtax Clearing Fund collects and distributes surtax to the school districts according to the surtax formula set by the districts.

Other Agency Funds are aggregated for reporting purposes and represent amounts held for inmates and residents of State institutions, miscellaneous clearing accounts, and other deposits.

STATE OF IOWA

Combining Statement of Fiduciary Net Assets Agency Funds

June 30, 2005
(Expressed in Thousands)

	LOCAL SALES & SERVICES TAX FUND	CENTRALIZED PAYROLL TRUSTEE FUND	JUDICIAL - CLERKS OF DISTRICT COURT	SCHOOL DISTRICT SURTAX CLEARING FUND	OTHER	TOTAL
ASSETS						
Cash	\$ 273	\$ 6,809	\$ 17,207	\$ 62,498	\$ 30,513	\$ 117,300
Accounts Receivable (Net)	77,711	31,338	-	3,424	51,637	164,110
Total Assets	\$ 77,984	\$ 38,147	\$ 17,207	\$ 65,922	\$ 82,150	\$ 281,410
LIABILITIES						
Accounts Payable & Accruals	\$ 77,984	\$ 38,147	\$ 17,207	\$ 65,922	\$ 82,150	\$ 281,410
Total Liabilities	\$ 77,984	\$ 38,147	\$ 17,207	\$ 65,922	\$ 82,150	\$ 281,410

STATE OF IOWA

Combining Statement of Changes in Assets and Liabilities Agency Funds

For the Year Ended June 30, 2005
(Expressed in Thousands)

	BALANCE JULY 1, 2004	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2005
<u>LOCAL SALES & SERVICES TAX FUND</u>				
ASSETS				
Cash	\$ 39	\$ 449,977	\$ 449,743	\$ 273
Accounts Receivable	59,631	77,711	59,631	77,711
Total Assets	<u>\$ 59,670</u>	<u>\$ 527,688</u>	<u>\$ 509,374</u>	<u>\$ 77,984</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 59,670	\$ 527,688	\$ 509,374	\$ 77,984
Total Liabilities	<u>\$ 59,670</u>	<u>\$ 527,688</u>	<u>\$ 509,374</u>	<u>\$ 77,984</u>
<u>CENTRALIZED PAYROLL TRUSTEE FUND</u>				
ASSETS				
Cash	\$ 5,602	\$ 609,509	\$ 608,302	\$ 6,809
Accounts Receivable	5	31,338	5	31,338
Total Assets	<u>\$ 5,607</u>	<u>\$ 640,847</u>	<u>\$ 608,307</u>	<u>\$ 38,147</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 5,607	\$ 640,847	\$ 608,307	\$ 38,147
Total Liabilities	<u>\$ 5,607</u>	<u>\$ 640,847</u>	<u>\$ 608,307</u>	<u>\$ 38,147</u>
<u>JUDICIAL-CLERKS OF DISTRICT COURT</u>				
ASSETS				
Cash	\$ 16,143	\$ 290,768	\$ 289,704	\$ 17,207
Total Assets	<u>\$ 16,143</u>	<u>\$ 290,768</u>	<u>\$ 289,704</u>	<u>\$ 17,207</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 16,143	\$ 290,768	\$ 289,704	\$ 17,207
Total Liabilities	<u>\$ 16,143</u>	<u>\$ 290,768</u>	<u>\$ 289,704</u>	<u>\$ 17,207</u>
<u>SCHOOL DISTRICT SURTAX CLEARING</u>				
ASSETS				
Cash	\$ 52,624	\$ 69,024	\$ 59,150	\$ 62,498
Accounts Receivable	3,812	3,424	3,812	3,424
Total Assets	<u>\$ 56,436</u>	<u>\$ 72,448</u>	<u>\$ 62,962</u>	<u>\$ 65,922</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 56,436	\$ 72,448	\$ 62,962	\$ 65,922
Total Liabilities	<u>\$ 56,436</u>	<u>\$ 72,448</u>	<u>\$ 62,962</u>	<u>\$ 65,922</u>
<u>OTHER AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 23,677	\$ 1,100,289	\$ 1,093,453	\$ 30,513
Accounts Receivable	47,147	51,503	47,013	51,637
Total Assets	<u>\$ 70,824</u>	<u>\$ 1,151,792</u>	<u>\$ 1,140,466</u>	<u>\$ 82,150</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 70,824	\$ 1,151,792	\$ 1,140,466	\$ 82,150
Total Liabilities	<u>\$ 70,824</u>	<u>\$ 1,151,792</u>	<u>\$ 1,140,466</u>	<u>\$ 82,150</u>
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 98,085	\$ 2,519,567	\$ 2,500,352	\$ 117,300
Accounts Receivable	110,595	163,976	110,461	164,110
Total Assets	<u>\$ 208,680</u>	<u>\$ 2,683,543</u>	<u>\$ 2,610,813</u>	<u>\$ 281,410</u>
LIABILITIES				
Accounts Payable & Accruals	\$ 208,680	\$ 2,683,543	\$ 2,610,813	\$ 281,410
Total Liabilities	<u>\$ 208,680</u>	<u>\$ 2,683,543</u>	<u>\$ 2,610,813</u>	<u>\$ 281,410</u>

STATE OF IOWA

Schedule of Current and Capital Outlay Expenditures General Fund

For the Year Ended June 30, 2005
(Expressed in Thousands)

	PERSONAL SERVICES	TRAVEL & SUBSISTENCE	SUPPLIES	CONTRACTUAL SERVICES
ADMINISTRATION & REGULATION	\$ 116,346	\$ 5,028	\$ 5,767	\$ 81,665
EDUCATION	70,247	1,466	6,620	29,953
HEALTH & HUMAN RIGHTS	89,187	1,969	13,417	176,873
HUMAN SERVICES	299,431	2,974	17,318	138,367
JUSTICE & PUBLIC DEFENSE	474,489	8,955	32,699	98,451
ECONOMIC DEVELOPMENT	59,725	1,630	1,739	40,190
TRANSPORTATION	192,565	21,005	36,400	92,681
AGRICULTURE & NATURAL RESOURCES	87,017	4,384	6,038	29,615
TOTAL	<u><u>\$ 1,389,007</u></u>	<u><u>\$ 47,411</u></u>	<u><u>\$ 119,998</u></u>	<u><u>\$ 687,795</u></u>

STATE OF IOWA

CLAIMS & MISCELLANEOUS	LICENSES PERMITS & REFUNDS	STATE AID	CAPITAL OUTLAY	TOTAL
\$ 22,878	\$ 27	\$ 626,733	\$ 9,088	\$ 867,532
1,908	-	2,633,537	4,301	2,748,032
332	86	50,465	3,810	336,139
5,606	12	3,159,039	12,104	3,634,851
5,692	124	29,944	43,900	694,254
9,707	6	90,042	4,010	207,049
638	87	36,584	680,748	1,060,708
710	-	14,588	18,018	160,370
\$ 47,471	\$ 342	\$ 6,640,932	\$ 775,979	\$ 9,708,935



**S T A T I S T I C A L
S E C T I O N**

STATE OF IOWA

Revenues By Source All Governmental Fund Types

For the Last Ten Years
(Expressed in Thousands)

	1996	1997	1998	1999
Taxes	\$ 4,825,953	\$ 5,042,531	\$ 5,304,243	\$ 5,394,206
Receipts From Other				
Entities	2,096,544	2,113,538	2,141,475	2,304,812
Investment Income	63,393	81,212	102,804	89,797
Fees, Licenses & Permits	458,710	438,849	470,968	504,882
Refunds & Reimbursements	171,742	186,697	180,994	176,285
Sales, Rents & Services	11,054	11,420	12,091	15,924
Miscellaneous	51,404	55,772	66,223	78,233
Contributions	-	-	-	-
GROSS REVENUES	7,678,800	7,930,019	8,278,798	8,564,139
Less Revenue Refunds	431,673	454,442	519,292	568,831
TOTAL REVENUES	<u>\$ 7,247,127</u>	<u>\$ 7,475,577</u>	<u>\$ 7,759,506</u>	<u>\$ 7,995,308</u>

Expenditures By Function All Governmental Fund Types

For the Last Ten Years
(Expressed in Thousands)

	1996	1997	1998	1999
Current:				
Administration & Regulation	\$ -	\$ -	\$ -	\$ -
General Government & Regulation	772,197	822,372	782,362	889,787
Education	1,929,444	2,130,301	2,233,579	2,320,096
Health & Human Rights	-	-	-	-
Human Services	-	-	-	-
Health & Human Services	2,153,052	2,170,097	2,389,458	2,487,124
Justice & Public Defense	-	-	-	-
Law, Justice & Public Safety	425,073	465,623	504,596	559,546
Economic Development	150,263	158,382	161,905	172,962
Transportation	776,091	782,816	803,174	857,384
Agriculture & Natural				
Resources	101,912	109,664	113,238	129,541
Capital Outlay	45,360	72,273	58,068	31,082
Debt Service Payments	-	-	-	-
TOTAL EXPENDITURES	<u>\$ 6,353,392</u>	<u>\$ 6,711,528</u>	<u>\$ 7,046,380</u>	<u>\$ 7,447,522</u>

Expenditures reported as State Aid to Universities have been reclassified to transfers for 2002-2005. Debt Service Payments were included in current expenditures prior to 2005.

STATE OF IOWA

	2000		2001		2002		2003		2004		2005
\$	5,725,416	\$	5,679,340	\$	5,646,505	\$	5,624,307	\$	5,939,586	\$	6,285,430
	2,638,996		2,774,345		3,257,685		3,461,978		3,591,798		3,585,177
	84,798		118,650		97,054		63,133		62,235		71,879
	527,687		530,202		554,847		575,901		615,684		639,681
	259,611		242,693		949,930		778,389		435,380		349,684
	17,764		17,845		27,383		26,093		30,954		28,735
	104,369		104,559		141,491		158,192		193,171		206,371
	-		-		1,450		26		12		62
	9,358,641		9,467,634		10,676,345		10,688,019		10,868,820		11,167,019
	585,580		619,317		743,777		726,338		793,070		776,354
\$	8,773,061	\$	8,848,317	\$	9,932,568	\$	9,961,681	\$	10,075,750	\$	10,390,665

	2000		2001		2002		2003		2004		2005
\$	-	\$	-	\$	1,136,471	\$	1,225,770	\$	974,624	\$	875,086
	943,355		958,731		-		-		-		-
	2,476,234		2,572,970		2,610,508		2,630,481		2,650,005		2,790,597
	-		-		282,234		300,504		311,742		332,790
	-		-		3,439,265		3,383,339		3,417,491		3,622,977
	2,658,728		2,920,150		-		-		-		-
	-		-		636,188		639,298		629,246		653,683
	604,067		633,205		-		-		-		-
	183,675		188,226		177,567		184,017		196,917		204,048
	1,071,919		988,743		1,012,886		1,022,586		348,494		381,706
	144,150		156,111		170,606		149,625		140,581		150,108
	34,499		28,827		26,891		14,663		749,346		828,998
	-		-		-		-		-		78,080
\$	8,116,627	\$	8,446,963	\$	9,492,616	\$	9,550,283	\$	9,418,446	\$	9,918,073

STATE OF IOWA

PUBLIC EDUCATION

For the Last Ten Years

Public School Enrollment

GRADES	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
K-8	331,949	330,088	326,621	326,051	324,566	321,854	321,553	315,776	318,124	318,061
9-12	152,491	154,912	155,528	155,834	155,506	155,073	153,856	152,147	152,565	154,150
Special Education	20,065	20,523	22,981	20,649	18,484	17,364	14,114	19,098	14,322	11,124
TOTAL	504,505	505,523	505,130	502,534	498,556	494,291	489,523	487,021	485,011	483,335

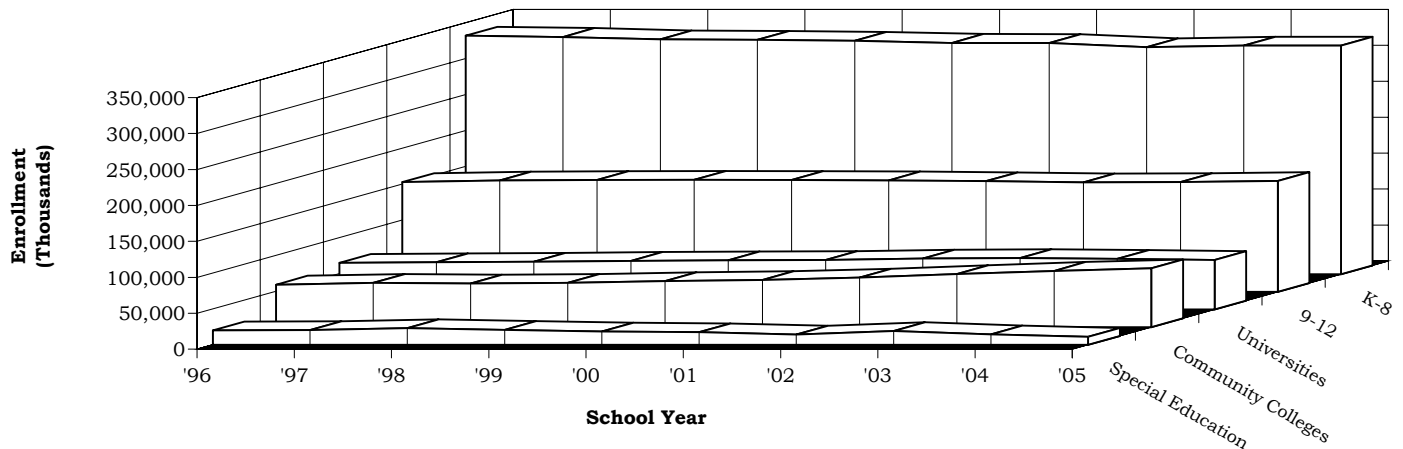
Public Higher Education Enrollment

	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Universities	64,830	65,777	66,363	67,619	68,509	68,709	70,661	71,521	70,566	68,849
Community Colleges	59,111	61,642	60,692	61,479	63,809	65,473	68,790	73,947	78,292	81,803
TOTAL	123,941	127,419	127,055	129,098	132,318	134,182	139,451	145,468	148,858	150,652

Notes: Public School enrollment is based on a headcount taken on the third Friday of September.
Community College enrollment includes full-time and part-time students.

Sources: Iowa Department of Education.
Board of Regents, State of Iowa.

**Public Education Enrollment
Ten-Year Comparison**



STATE OF IOWA

EMPLOYMENT BY INDUSTRY

For the Last Ten Years
(Expressed in Thousands)

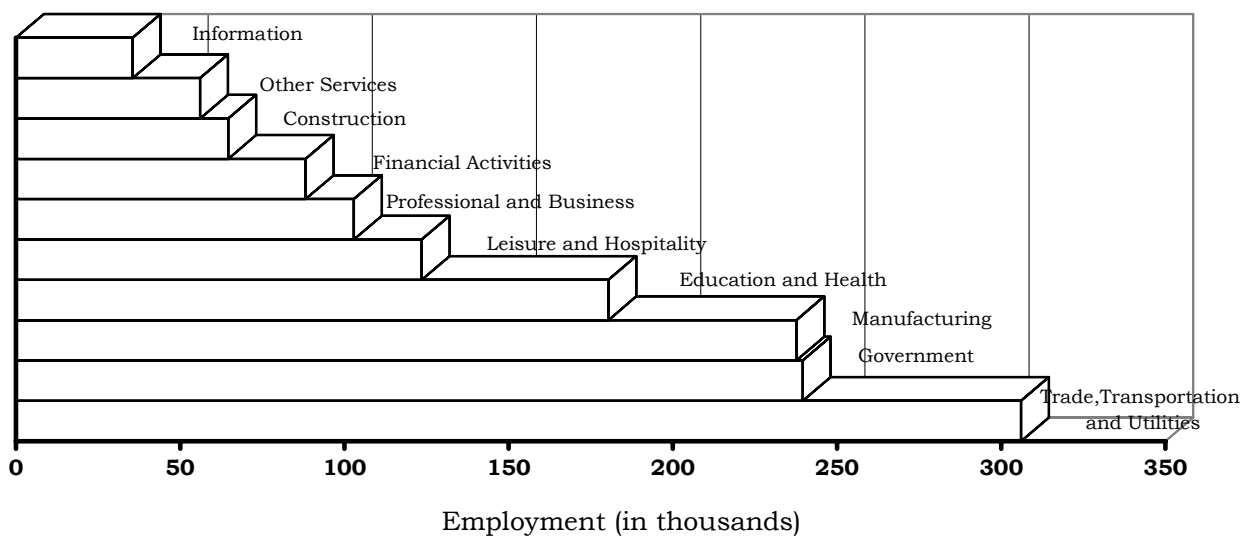
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Construction	57.3	60.2	62.2	65.5	68.0	66.0	66.2	66.3	66.6	68.4
Manufacturing	236.5	234.8	239.1	250.9	252.8	251.5	240.2	227.5	220.0	222.9
Trade, Transportation and Utilities	294.8	299.2	303.4	308.6	313.6	315.8	311.3	304.9	303.1	305.6
Information	32.7	33.8	34.5	35.7	38.7	40.4	37.4	35.2	33.7	33.5
Financial Activities	77.8	80.0	81.5	86.3	89.0	89.7	92.0	94.0	95.4	96.7
Professional and Business	89.1	96.0	99.9	104.3	106.7	107.6	107.3	105.7	105.2	107.2
Education and Health	166.8	170.8	176.0	176.0	178.0	181.9	185.4	188.0	189.8	191.4
Leisure and Hospitality	116.0	120.6	121.5	124.1	126.0	125.5	124.1	124.5	125.5	127.6
Other Services	56.9	55.2	54.4	55.3	56.4	56.8	56.3	56.8	56.2	56.3
Government	230.3	232.9	234.6	236.2	239.5	243.3	245.2	244.2	244.8	244.3
TOTAL NON-AGRICULTURAL WAGE AND SALARY EMPLOYEES	<u>1,358.2</u>	<u>1,383.5</u>	<u>1,407.1</u>	<u>1,442.9</u>	<u>1,468.7</u>	<u>1,478.5</u>	<u>1,465.4</u>	<u>1,447.1</u>	<u>1,440.3</u>	<u>1,453.9</u>

Note: An employed individual is counted in the area where he/she works regardless of the area where he/she lives.

Employment by Industry for calendar years 1994 through 2001 have been revised to conform to the new reporting categories.

Source: Iowa Workforce Development, Labor Market Information Unit, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Employment by Industry (Non-Agricultural)



STATE OF IOWA

TEN LARGEST NONGOVERNMENTAL EMPLOYERS

RANK	EMPLOYER	TYPE OF BUSINESS
1	Hy-Vee Food Stores, Inc.	Retail Food
2	Wal-Mart Stores, Inc.	Retail General Merchandise
3	Deere and Company	Machinery Manufacturer
4	Principal Financial Group	Finance and Insurance
5	Tyson Fresh Meats Inc.	Manufacturing
6	Rockwell Collins	Machinery Manufacturer
7	Fareway Stores, Inc.	Retail Food
8	Pella Corporation	Window Products
9	Maytag Corporation	Machinery Manufacturer
10	Central Iowa Health Systems	Hospital/Des Moines

Note: Based on 2004 calendar year annual average employment.

Source: Iowa Workforce Development.

STATE OF IOWA

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

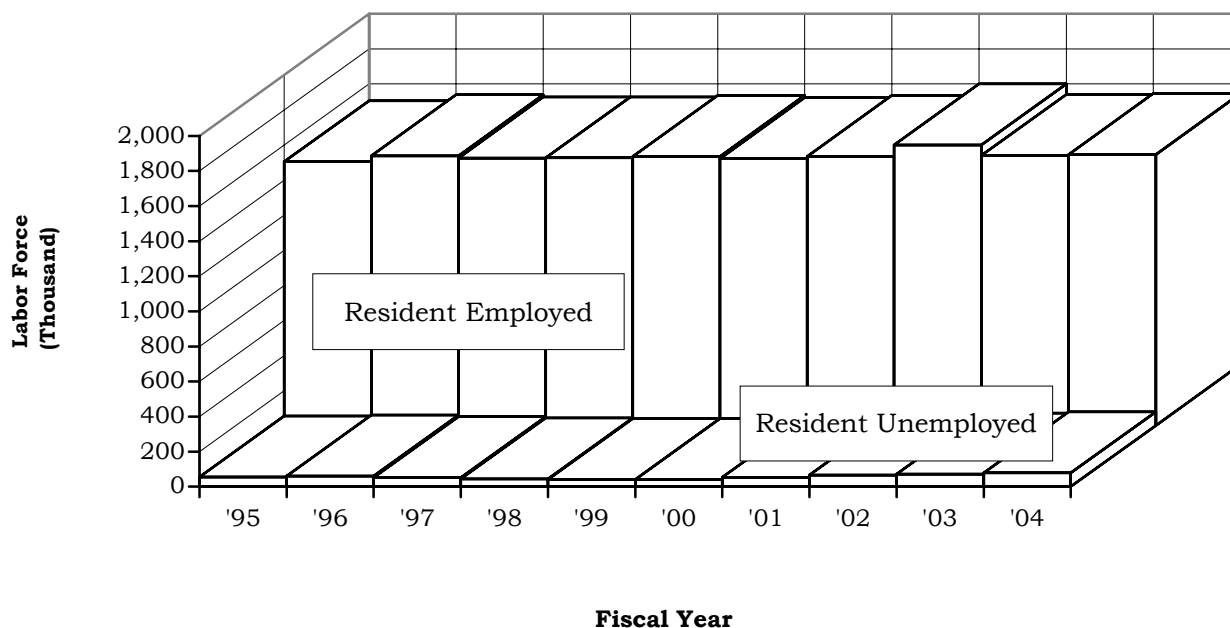
Annual Averages

For the Last Ten Years
(Expressed in Thousands)

	RESIDENT CIVILIAN LABOR FORCE	RESIDENT EMPLOYMENT	RESIDENT UNEMPLOYED	PERCENT UNEMPLOYED
1995	1,558.8	1,504.4	54.4	3.5
1996	1,599.0	1,539.0	60.0	3.8
1997	1,577.2	1,525.8	51.4	3.3
1998	1,569.8	1,526.3	43.5	2.8
1999	1,574.3	1,534.1	40.1	2.5
2000	1,563.0	1,522.1	40.9	2.6
2001	1,587.8	1,534.8	53.0	3.3
2002	1,667.5	1,600.7	66.8	4.0
2003	1,612.3	1,540.1	72.2	4.5
2004	1,623.8	1,545.4	78.4	4.8

Source: Iowa Workforce Development, Labor Market Information Unit in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Employment and Unemployment Ten-Year Comparison



STATE OF IOWA

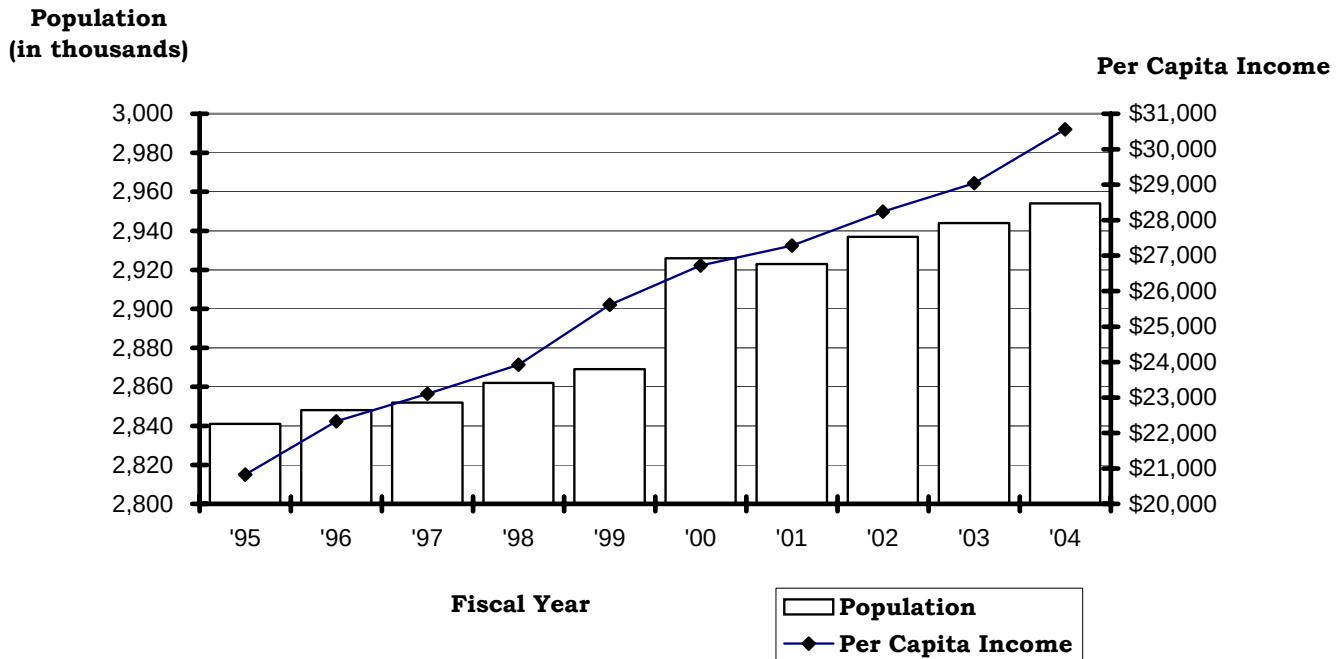
POPULATION, TOTAL PERSONAL INCOME, AND PER CAPITA PERSONAL INCOME

For the Last Ten Years

POPULATION (Expressed in Thousands)		TOTAL PERSONAL INCOME (Expressed in Millions)		PER CAPITA PERSONAL INCOME (Expressed in Dollars)	
1995	2,841	\$	59,158	\$	20,826
1996	2,848		63,597		22,330
1997	2,852		65,896		23,102
1998	2,862		68,473		23,925
1999	2,869		73,500		25,615
2000	2,926		78,200		26,723
2001	2,923		79,753		27,283
2002	2,937		83,051		28,240
2003	2,944		85,506		29,043
2004	2,954		90,289		30,560

Source: U.S. Department of Commerce, Bureau of Economic Analysis

**Iowa Population and
Per Capita Personal Income
1995 to 2004**



STATE OF IOWA

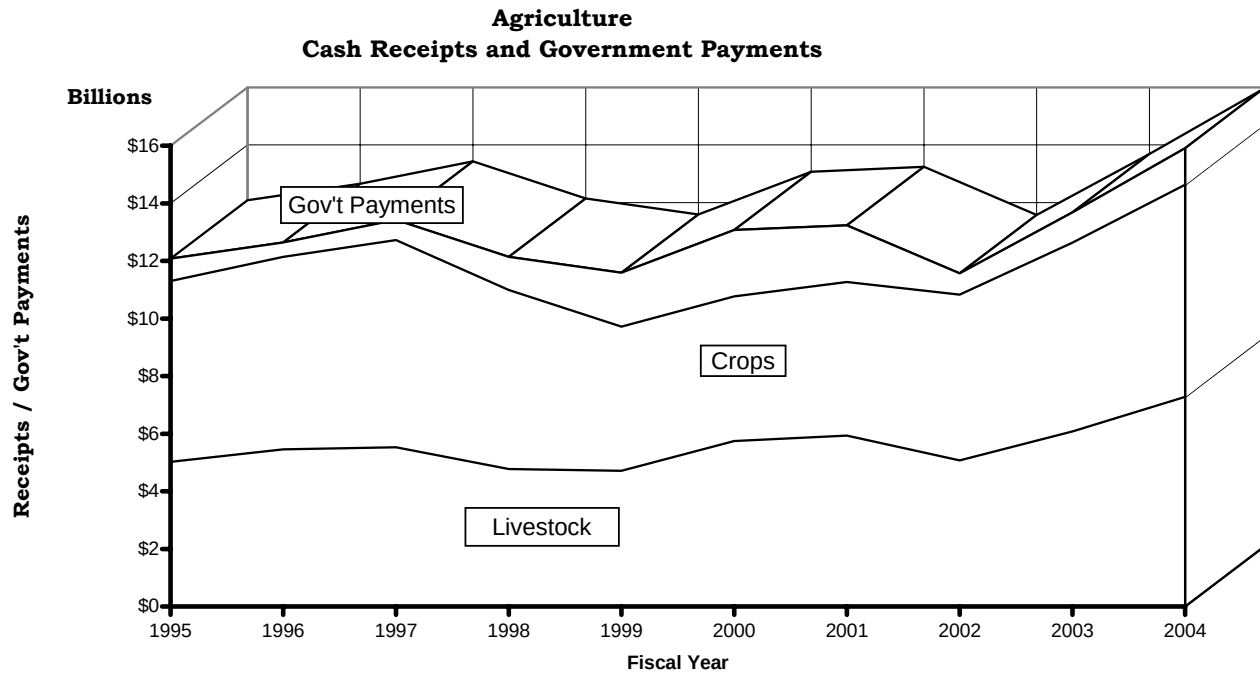
AGRICULTURE

Cash Receipts and Government Payments

For the Last Ten Years
(Expressed in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cattle	\$ 1,717.6	\$ 1,461.1	\$ 1,652.3	\$ 1,415.1	\$ 1,640.2	\$ 1,839.9	\$ 1,824.2	\$ 1,764.6	\$ 2,334.6	\$ 2,124.6
Hogs	2,480.2	3,004.0	2,957.2	2,413.7	2,204.7	3,071.2	3,131.7	2,424.6	2,602.2	3,801.0
Dairy Products	501.5	540.0	527.2	584.6	500.5	455.2	550.4	459.1	478.6	620.1
Other Livestock	323.0	445.6	393.0	364.2	366.9	380.8	429.3	426.5	657.6	738.5
TOTAL LIVESTOCK	5,022.3	5,450.7	5,529.7	4,777.6	4,712.3	5,747.1	5,935.6	5,074.8	6,073.0	7,284.2
Corn	3,649.4	3,874.7	3,722.3	3,167.8	2,703.6	2,656.4	2,950.9	3,259.2	3,708.6	4,220.3
Soybeans	2,425.0	2,603.4	3,229.3	2,837.3	2,096.6	2,165.5	2,128.0	2,260.3	2,600.4	2,887.2
Other Crops	202.0	219.7	241.3	211.5	204.0	205.3	255.3	239.6	251.4	261.3
TOTAL CROPS	6,276.4	6,697.8	7,192.9	6,216.6	5,004.2	5,027.2	5,334.2	5,759.1	6,560.4	7,368.8
Total Cash Receipts from Crops and Livestock	11,298.7	12,148.5	12,722.6	10,994.2	9,716.5	10,774.3	11,269.8	10,833.9	12,633.4	14,653.0
Government Payments	784.7	501.7	709.7	1,146.0	1,875.5	2,302.2	1,971.7	737.1	1,050.6	1,264.1
Total Cash Receipts and Government Payments	\$ 12,083.4	\$ 12,650.2	\$ 13,432.3	\$ 12,140.2	\$ 11,592.0	\$ 13,076.5	\$ 13,241.5	\$ 11,571.0	\$ 13,684.0	\$ 15,917.1

Source: U.S. Department of Agriculture, Economic Research Service.



STATE OF IOWA

REVENUE BOND COVERAGE

For the Last Ten Years
(Expressed in Thousands)

IOWA FINANCE AUTHORITY

FISCAL YEAR ENDED JUNE 30	GROSS REVENUES	LESS: OPERATING EXPENSES	NET AVAILABLE REVENUES	DEBT SERVICE			
				PRINCIPAL	INTEREST	TOTAL	COVERAGE
1996	\$ 83,308.4	\$ 735.0	\$ 82,573.4	\$ 34,387.4	\$ 30,191.1	\$ 64,578.5	1.28
1997	125,170.3	745.2	124,425.1	92,274.5	29,480.6	121,755.1	1.02
1998	121,084.1	753.7	120,330.4	75,587.0	30,348.2	105,935.2	1.14
1999	99,952.2	1,044.7	98,907.5	49,668.1	29,039.1	78,707.2	1.26
2000	78,131.0	1,784.3	76,346.7	47,982.6	28,623.4	76,606.0	1.00
2001	81,956.8	1,644.2	80,312.6	34,783.6	30,618.7	65,402.3	1.23
2002	152,656.9	146.5	152,510.0	100,977.7	24,627.3	125,605.0	1.21
2003	152,439.3	182.2	152,257.2	59,260.2	34,942.7	94,202.9	1.62
2004	143,704.2	309.0	143,395.2	114,977.5	35,847.4	150,824.9	.95
2005	173,302.2	5,053.5	168,248.7	120,743.0	37,981.4	158,724.4	1.06

Source: Iowa Finance Authority

Notes: Gross Revenue and Principal amounts for the Iowa Finance Authority include unexpended bond proceeds used to redeem bonds. Loan principal received in one year is often used to pay bond principal in the following year.

IOWA HIGHER EDUCATION LOAN AUTHORITY

FISCAL YEAR ENDED JUNE 30	GROSS REVENUES	LESS: OPERATING EXPENSES	NET AVAILABLE REVENUES	DEBT SERVICE			
				PRINCIPAL	INTEREST	TOTAL	COVERAGE
1996	\$ 3,579.3	\$ 146.0	\$ 3,433.3	\$ 2,605.0	\$ 3,333.5	\$5,938.5	.58
1997	3,391.0	169.7	3,221.3	2,270.0	3,416.4	5,686.4	.57
1998	2,859.3	128.3	2,731.0	1,715.0	2,614.8	4,329.8	.63
1999	2,680.0	114.4	2,565.6	2,010.0	2,406.0	4,416.0	.59
2000	2,504.2	126.9	2,377.3	1,985.0	2,246.2	4,231.2	.56
2001	2,359.5	100.6	2,258.9	2,025.0	2,176.2	4,201.2	.54
2002	1,590.5	110.1	1,480.4	2,145.0	1,335.8	3,480.8	.43
2003	1,415.0	154.4	1,260.6	2,285.0	1,607.2	3,892.2	.32
2004	1,211.3	153.5	1,057.8	1,620.0	908.0	2,528.0	.42
2005	1,236.6	147.5	1,089.1	1,155.0	433.7	1,588.7	.69

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