



Iowa Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2007

One of the newest additions to the Capitol Complex in Des Moines is the West Capitol Terrace, depicted on the cover. The space was designed to be the “People’s Park” – an open space on the front lawn of the statehouse for citizens to gather, walk, contemplate or even protest. Phase I of the project, pictured, features the central plaza with its walkways, benches, stonework, landscaping, and a map of the state’s 99 counties in granite at the base.

For more information please visit http://das.gse.iowa.gov/statebldg/west_capitol_terrace.html.

Photo by Tera Granger, Iowa Department of Administrative Services, 2007.

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



For the Fiscal Year
Ended June 30, 2007

GOVERNOR:
Chester J. Culver

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 14, 2007

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, 2007. As required by State statute, 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).

The Department of Administrative Services and the Department of Management are 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.

The State's system of internal controls over assets recorded in the accounting system have been designed 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". That report is issued separately.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the 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

The State of Iowa was admitted into the Union as the 29th state in 1846. Iowa is a midsize state with a mid-continent location. It covers 55,869 square miles, making it the 25th largest state in the United States. The Mississippi River carves out Iowa's eastern border, while the flow of the Missouri and Big Sioux Rivers form the western border. Iowa has a population of 2.9 million.

In Iowa, government power is distributed among three branches. The Legislative branch creates laws that establish policies and programs; the Executive branch carries out the policies and programs created in the laws; and the Judicial branch resolves any conflicts arising from interpretation or application of the laws. The Executive branch agencies are the Governor, Lieutenant Governor, Secretary of State, Treasurer of State, Secretary of Agriculture, Attorney General and Auditor of State, as well as 30 agencies lead by appointed State officials. The Legislative branch is comprised of two houses, a 50 member Senate and a 100 member House of Representatives. The Judicial branch is presided over by the Iowa Supreme Court, which is led by the Chief Justice of the Supreme Court.

The State provides a range of services such as education, health and human services, highway maintenance and construction, natural resources and agriculture management, law enforcement, public safety, and economic development programs.

This report includes all of the fund types, departments and agencies of the state, as well as the boards, commissions, authorities, and universities for which the State is financially accountable. Component units also included in the report are the Iowa Finance Authority, Iowa Higher Education Loan Authority, Iowa Agricultural Development Authority, Iowa State Fair Authority and Universities Foundations. 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 annual budgetary process serves as the foundation for the state's financial planning and control. Each year state departments submit budget requests to the Governor's Office by October 1. 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. The General Assembly approves appropriation bills which establish spending authority for the upcoming fiscal year. The Governor has the ability to approve, veto or item veto appropriation bills as they are presented to him.

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. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the state treasury, unless otherwise provided.

All claims presented for payment must be approved by the appropriate department. The expenditure must be for a purpose intended by law and a sufficient existing and unexpended appropriation balance must be available. 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.

ECONOMIC CONDITION AND OUTLOOK

National Economic Outlook 2007-2008

Recent issues in the credit market concerning sub-prime mortgage lending and the housing market problems have led people to be concerned about recession. Economists have urged caution as they point to the slowing national economy. The Federal Reserve lowered the federal funds rate to 4.25 percent and the discount rate to 4.75 percent in December 2007.

Despite these events, the U.S. Bureau of Economic Analysis (BEA) released estimates that economic growth increased to 3.9 percent in the third quarter of 2007, after increasing 3.8 percent in the second quarter. According to the BEA, the third-quarter acceleration in real GDP growth primarily reflected a rebound in consumer spending, a surge in exports of goods, an increase in Federal Government spending, and an increase in equipment and software investment.

However, the outlook of the national economy, according to experts, is a moderated pace. The widespread state GDP growth in almost all the states in 2006, is expected to taper off in 2007 and 2008, because of the mortgage credit crisis, the housing slump, and highly volatile world oil prices. Moody's Economy.com is expecting a slow down to 1.6 percent in the fourth quarter of 2007 and 1.4 percent the first quarter of 2008, with GDP coming back to 1.8 percent in the third quarter and 2.7 percent in the fourth quarter of 2008. The unemployment rate is projected to rise, to about 5 percent in the summer of 2008. Weaker growth and rising unemployment will put the brakes on inflation. Core Consumer Price Index (CPI) inflation is expected to slow to no more than 2.0 percent by early 2008.

State and Local Economy

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. For example, ten years ago (1997), the agricultural industry accounted for 6.5 percent of Iowa's gross domestic product by state, finance and insurance 8.0 percent, real estate, rental and leasing 8.5 percent, and professional and technical services 3.2 percent. By 2006, the shares of Iowa's gross domestic product had changed to 3.3 percent for the agricultural industry, 12.1 percent for finance and insurance, 9.1 percent for real estate, rental, and leasing, and 3.0 percent for professional and technical services.

The agricultural sector remained relatively stable during the last six years. Approximately 88 percent of the land area in the state is in farms. The Iowa Department of Agriculture and Land Stewardship reports that in 2006 Iowa led the nation in the production of pork, corn, soybeans and eggs. Iowa's total cash receipts for farm commodities in 2006 totaled \$14.8 billion – the third highest in the country. The state produces approximately 19 percent of the nation's corn for grain and about 16 percent of the nation's soybeans. Iowa produces more ethanol per year than any other state – 1.2 billion gallons annually now, with seven additional plants under construction that will produce another 480 million gallons per year. The Federal Reserve Bank of Chicago reports the value of farmland in Iowa increasing by 18 percent from July 1, 2006 to July 1, 2007. For the same period last year, the value of farm land increased by 8 percent.

Farmland Values. The most recent survey of area bankers indicates that farmland values continue to rise. In the August 2007 survey, Iowa farmland values had risen 3.0 percent from April to July 2007. This was the strongest quarterly growth in land values in the Federal Reserve Bank of Chicago District. Iowa had an annual growth rate of 18.0 percent.

Personal Income and Per-Capita Personal Income. The University of Iowa Institute for Economic Research's latest outlook is for personal income in Iowa to grow by 5.5 percent in 2006, 6.3 percent in 2007, and 4.8 percent in 2008. According to the U.S. Bureau of Economic Analysis (BEA), in the last three quarters of 2006-07 fiscal year, Iowa's personal income, seasonally adjusted, grew at a rate of 1.5 percent, 2.9 percent and 1.0 percent respectively, which was similar to the nation as a whole, with personal income growth of 1.5 percent, 2.5 percent and 1.2 percent, respectively. Iowa's average per-capita income has been trending upward since the mid 1980's. In 2006, Iowa's average per-capita income, as reported by BEA, was \$33,017. The average per-capita income in the nation was \$36,629.

Employment. Over the past 10 years, Iowa's unemployment rate has been between one and two percentage points below the national average. The seasonally adjusted unemployment rate for Iowa in October 2006 was 3.5 percent, and the rate for October 2007, was 3.9 percent. In October 2007, there were 1,609,900 employed Iowans, compared to 1,609,600 employed Iowans in October 2006. Iowa has a greater percentage of labor force employed compared to the nation as a whole and also has a larger percentage of its population actively participating in the labor force. While Iowa's personal income lags that of the nation, its high levels of employment help maintain median household income at levels only slightly below the national average. In the 2005 American Community Survey (ACS) data, Iowa's median household income was \$43,609, in 2005 inflation-adjusted dollars. The national median household income was reported at \$46,242, in 2005 inflation-adjusted dollars.

Manufacturing. Iowa's manufacturing employment averaged 230,900 for 2006, which was the sector's highest level of employment since the late 1990's. Currently, durable goods products account for about 62.0 percent of manufacturing employment, and also account for most of the growth in the industry. Since Whirlpool's acquisition of Maytag in March 2006, 1,800 Maytag workers have lost their jobs, with the final closing occurring on October 26, 2007. This major layoff has slowed manufacturing growth for 2007. Manufacturing employment averaged 231,500 for the first nine months of 2007. Due to the nationwide slowdown in homebuilding, manufacturing employment is not expected to increase by more than 1,000 in 2008, and another 1,500 in 2009.

Exports. The rise in exporting industries has been an important factor in Iowa's 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 export from Iowa has continued to increase. Specifically, the last ten years have seen steady and strong growth.

Mexico continues to be Iowa's second best trading partner and has replaced Japan and China as the second leading export country, partially due to the increase of value-added products shipped to Mexico. Canada continues to maintain the top spot. Iowa's record level of exports has been fueled by large percentage increases in machinery, electrical machinery, cereals, milling, and organic chemicals.

Gross Domestic Product. The gross domestic product is the U.S. Commerce Department's measure of the value of all goods and services produced in Iowa each year. In 2006, Iowa's real gross domestic product by state was \$106.3 billion, which reflected a 2.6 percent-growth over the previous year. Contributing to this change were finance and insurance (0.50 percent), durable good manufacturing (0.37 percent), real estate, rental and leasing (0.31 percent), information (0.26 percent), agriculture, forestry, fishing and hunting (0.25 percent), and retail trade (0.20 percent), among others. The nation's real gross domestic product (\$11.3 trillion) grew by 3.4 percent between 2005 and 2006.

Nonagricultural Economy. Over the past 15 years, significant changes have occurred in the mix of nonfarm wage and salary employment. While payroll jobs in Iowa grew by 20.8%, jobs in the business services sector grew by 63.3 percent, and the financial services sector grew by 41.6 percent. Conversely, manufacturing jobs increased by 4.9 percent. Projections show a growth in nonagricultural wage and salary employment to be at 2.4 percent in 2008.

Financial Policies

The Governor and General Assembly have statutory responsibility to balance the budget.

- Spending is limited to 99.0 percent of adjusted revenues, 95.0 percent of any new revenue implemented in a fiscal year, and any carry-over from the previous year.
- The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference or a later estimate, if it is lower, as a basis to determine the General Fund budget for the following year.
- Two reserve funds were created; the Cash Reserve Fund and the Economic Emergency Fund. Expenditures from these funds are limited by statute for nonrecurring emergency expenditures.

MAJOR INITIATIVES AND ISSUES

Student Achievement/Teacher Quality. During the 2007 session, the Legislature adopted Governor Culver's proposal of an additional \$ 69.6 million appropriation for Fiscal Year 2008 to build upon the Student Achievement and Teacher Quality Program and made a commitment for Fiscal Year 2009 of an additional \$75 million appropriation toward the program.

Preschool Initiatives. During the 2007 session, Governor Culver and the Legislature worked together on preschool legislation. Included in these policies are increases of \$15 million to support preschool development activities and programs in Fiscal Year 2008, and an increase of an additional \$15 million in Fiscal Year 2009. This will provide substantially greater resources for preschool to better prepare Iowa's youngest children to learn.

Alternative Energy Initiatives. Governor Culver recommended and the Legislature passed the establishment of the \$100 million Iowa Power Fund to maintain leadership in the development and production of renewable energy and alternative fuels. Included in the legislation passed in the 2007 session was the establishment of the Office of Energy Independence to coordinate the administration of the Iowa Power Fund, to coordinate existing state and federal energy programs, and to develop an Iowa energy independence plan.

Health Care Initiatives. Governor Culver recommended and the Legislature passed a tax increase of \$1 per pack of cigarettes to deter smoking and generate additional health care funding. During the 2007 session, the Legislature adopted Governor Culver's recommendation for the establishment of the Center of Regenerative Medicine at the University of Iowa along with the elimination of the ban on stem cell research.

AWARDS AND ACKNOWLEDGEMENTS

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, 2006. This was the fourteenth consecutive year the State of Iowa has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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.

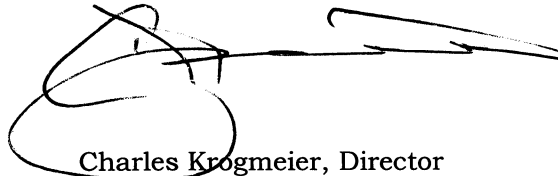
This report could not have been accomplished without the professionalism and dedication of the staff in the Department of Management, the State Accounting Enterprise within the Department of Administrative Services, the Auditor of State's Office, and the financial and management personnel throughout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

This report, issued for the nineteenth 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



Charles Krogmeier, 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, 2006

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.



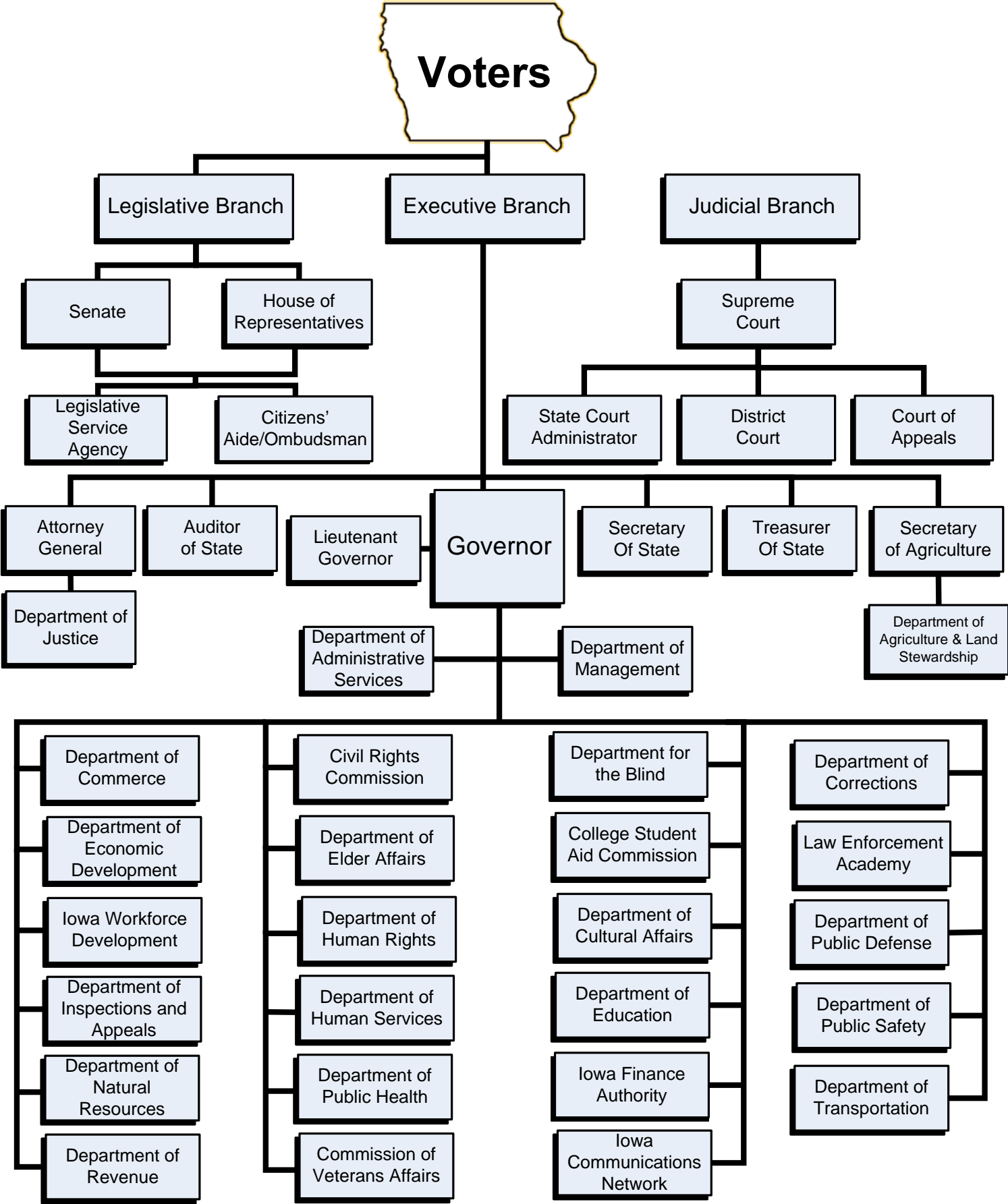
Charles S. Cox

President

Jeffrey R. Emen

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 - **Chester J. Culver**
LIEUTENANT GOVERNOR - **Patty J. Judge**
SECRETARY OF STATE - **Michael A. Mauro**
AUDITOR OF STATE - **David A. Vaudt**
TREASURER OF STATE - **Michael L. Fitzgerald**
SECRETARY OF AGRICULTURE - **William H. Northey**
ATTORNEY GENERAL - **Thomas J. Miller**

Legislative Branch

PRESIDENT OF THE SENATE - **John P. Kibbie**

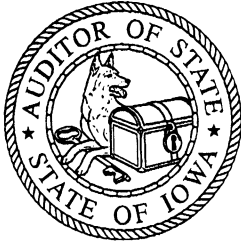
SPEAKER OF THE
HOUSE OF REPRESENTATIVES - **Patrick J. Murphy**

Judicial Branch

CHIEF JUSTICE OF
THE SUPREME COURT - **Marsha K. Ternus**



**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

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Des Moines, Iowa 50319-0004

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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, 2007, 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 and blended component units, which statements reflect 98% of assets and 96% of revenues of the discretely presented component units and 39% of assets and 26% of revenues of the nonmajor special revenue funds, respectively. 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 and blended 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, the Universities Foundations and the Iowa Public Television Foundation 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, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

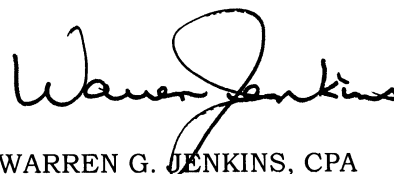
Management's Discussion and Analysis, Budgetary Comparison Information and Schedules of Funding Progress on pages 4 through 13 and 78 through 84 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards 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 14, 2007

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, 2007. 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 section 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 2007 by \$11,943.6 million (net assets). Of this amount \$1,577.5 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 \$663.6 million in the fiscal year ended June 30, 2007. Net assets of governmental activities increased by \$371.0 million or 5.1 percent, while net assets of business-type activities increased by \$292.6 million or 7.3 percent.
- In the State's governmental activities, revenues increased by 2.3 percent to \$11,395.7 million while expenses increased 0.5 percent to \$10,475.5 million.
- For business-type activities, revenues increased 1.2 percent to \$3,391.6 million while expenses increased 1.7 percent to \$3,648.2 million.

Fund Highlights

- The State's governmental funds reported a combined ending fund balance of \$2,505.6 million, a \$77.8 million decrease from the prior year. Of this amount, \$1,199.5 million represents unreserved fund balance and the remaining \$1,306.1 million is reserved for specific purposes.
- The General Fund total fund balance decreased \$46.4 million to \$2,053.3 million and the unreserved fund balance increased \$154.8 million to \$1,052.5 million at June 30, 2007.
- The proprietary funds reported net assets at year-end of \$4,309.6 million, an increase of \$290.9 million.

Long-term Debt

- The State's total long-term debt increased by \$125.5 million to \$2,203.8 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)
 - University of Iowa Foundation (Business-type)
 - Iowa State University Foundation (Business-type)
 - University of Northern Iowa Foundation (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 types 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-term 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 type 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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • 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 understand 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 (governmental and business-type activities) totaled \$11,943.6 million at June 30 2007, compared to \$11,280.0 million at June 30 2006, as indicated in Table 2.

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2006 - 2007
	Restated				Restated		
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 4,004.0	\$ 3,838.5	\$ 3,341.3	\$ 3,083.3	\$ 7,345.3	\$ 6,921.8	6.1%
Capital assets	6,133.6	5,948.2	2,916.5	2,718.8	9,050.1	8,667.0	4.4%
Total assets	<u>10,137.6</u>	<u>9,786.7</u>	<u>6,257.8</u>	<u>5,802.1</u>	<u>16,395.4</u>	<u>15,588.8</u>	5.2%
Long-term liabilities	1,243.3	1,222.6	1,179.0	1,083.8	2,422.3	2,306.4	5.0%
Other liabilities	1,255.7	1,296.5	773.8	705.9	2,029.5	2,002.4	1.4%
Total liabilities	<u>2,499.0</u>	<u>2,519.1</u>	<u>1,952.8</u>	<u>1,789.7</u>	<u>4,451.8</u>	<u>4,308.8</u>	3.3%
Net assets							
Invested in capital assets, net of related debt	6,071.5	5,878.6	1,962.4	1,874.0	8,033.9	7,752.6	3.6%
Restricted	954.6	1,106.7	1,377.6	1,353.1	2,332.2	2,459.8	-5.2%
Unrestricted	612.5	282.3	965.0	785.3	1,577.5	1,067.6	47.8%
Total net assets	<u>\$ 7,638.6</u>	<u>\$ 7,267.6</u>	<u>\$ 4,305.0</u>	<u>\$ 4,012.4</u>	<u>\$ 11,943.6</u>	<u>\$ 11,280.0</u>	5.9%

Net assets of the State's governmental activities increased 5.1 percent to \$7,638.6 million. The largest component (79.5%) 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 (12.5%). 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 (8.0%) 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 7.3 percent to \$4,305.0 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 of the State increased 4.4 percent to \$9,050.1 million. This is the result of on-going construction activity on Interstate 235 by the Department of Transportation as well as renovations to the University of Iowa's Kinnick Stadium, additions to the University of Iowa Hospital and other facilities at the State universities. Also, the Department of Natural Resources acquired land during the year in an effort to expand existing State parks and to create new wildlife management areas and the Department of Transportation purchased right-of-ways.

Long-term liabilities of the State increased 5.0 percent to \$2,422.3 million. The increase is due to the issuance of debt by the Honey Creek Authority to provide funding for the development of the Honey Creek Destination Park, and the issuance of new debt by the State Universities to finance the cost of constructing, equipping and furnishing certain Universities' facilities.

Changes in Net Assets

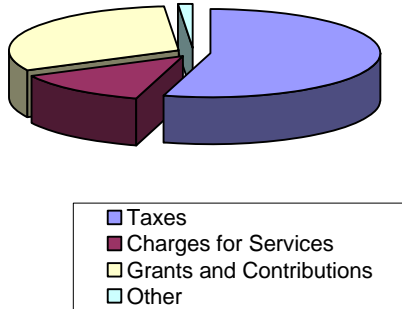
The State's total net assets increased by \$663.6 million during the year, as indicated in Table 3.

Table 3
Changes in Net Assets
(In Millions)

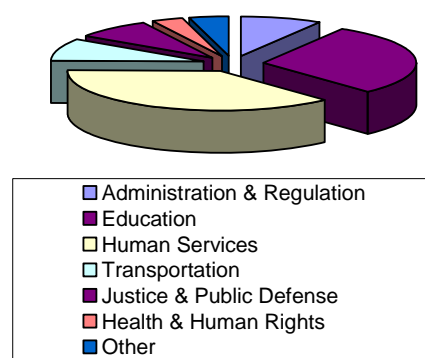
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2006 - 2007
	2007	Restated	2007	2006	2007	Restated	
		2006				2006	
Program Revenues:							
Charges for Service	\$ 1,480.1	\$ 1,451.1	\$ 2,521.4	\$ 2,702.6	\$ 4,001.5	\$ 4,153.7	-3.7%
Operating Grants and Contributions	3,247.8	3,699.3	634.0	458.3	3,881.8	4,157.6	-6.6%
Capital Grants and Contributions	283.8	4.2	30.9	18.0	314.7	22.2	1317.6%
General Revenues:							
Personal Income Tax	2,673.9	2,431.0	-	-	2,673.9	2,431.0	10.0%
Corporate Income Tax	322.3	283.1	-	-	322.3	283.1	13.8%
Sales & Use Tax	1,878.5	1,866.9	-	-	1,878.5	1,866.9	0.6%
Other Taxes	641.2	592.9	5.9	7.3	647.1	600.2	7.8%
Restricted for Transportation Purposes:							
Motor Fuel Tax	446.6	440.6	-	-	446.6	440.6	1.4%
Road Use Tax	249.0	247.1	-	-	249.0	247.1	0.8%
Unrestricted Investment Earnings	146.7	98.3	159.3	93.6	306.0	191.9	59.5%
Other	25.8	30.1	40.1	72.4	65.9	102.5	-35.7%
Total Revenues	11,395.7	11,144.6	3,391.6	3,352.2	14,787.3	14,496.8	2.0%
Expenses							
Administration & Regulation	881.9	1,008.3	-	-	881.9	1,008.3	-12.5%
Education	3,071.6	2,948.6	-	-	3,071.6	2,948.6	4.2%
Health & Human Rights	368.3	367.5	-	-	368.3	367.5	0.2%
Human Services	3,882.0	3,927.9	-	-	3,882.0	3,927.9	-1.2%
Justice & Public Defense	822.7	757.0	-	-	822.7	757.0	8.7%
Economic Development	227.3	223.2	-	-	227.3	223.2	1.8%
Transportation	954.3	930.3	-	-	954.3	930.3	2.6%
Agriculture & Natural Resources	193.3	180.5	-	-	193.3	180.5	7.1%
Interest Expense	74.1	77.4	-	-	74.1	77.4	-4.3%
Universities	-	-	2,942.2	2,850.3	2,942.2	2,850.3	3.2%
Unemployment Insurance	-	-	342.5	304.2	342.5	304.2	12.6%
Other Business-type	-	-	363.5	432.0	363.5	432.0	-15.9%
Total Expenses	10,475.5	10,420.7	3,648.2	3,586.5	14,123.7	14,007.2	0.8%
Increase in Net Assets Before Transfers	920.2	723.9	(256.6)	(234.3)	663.6	489.6	35.5%
Transfers	(549.2)	(480.7)	549.2	480.7	-	-	0.0%
Increase (Decrease) in Net Assets	371.0	243.2	292.6	246.4	663.6	489.6	35.5%
Net Assets July 1	7,267.6	7,024.4	4,012.4	3,766.0	11,280.0	10,790.4	4.5%
Net Assets June 30	\$ 7,638.6	\$ 7,267.6	\$ 4,305.0	\$ 4,012.4	\$ 11,943.6	11,280.0	5.9%

Governmental Activities

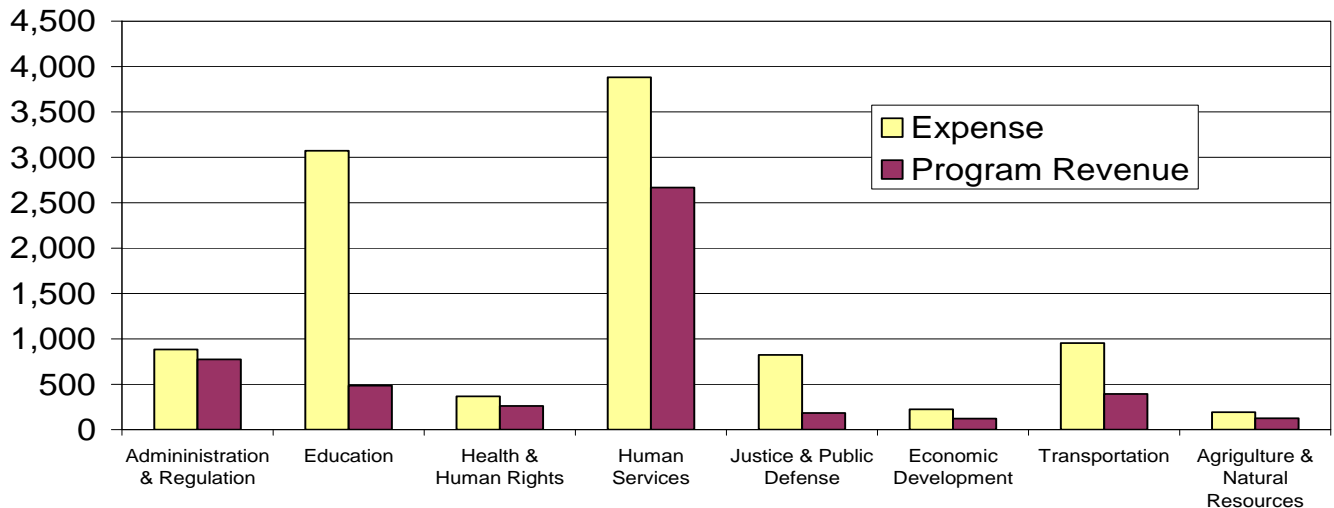
FY07 Revenues - Governmental Activities



FY07 Functional Expenditures - Governmental Activities



Expenses and Program Revenues – Governmental Activities (In Millions)



The cost of all governmental activities this fiscal year was \$10,475.5 million. However, the amount that taxpayers paid for these activities through State taxes was \$6,211.5 million. Part of the cost was paid by:

- Those who directly benefited from the programs (\$1,480.1 million), or
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$3,531.6 million).

Personal income tax increased 10.0 percent to \$2,673.9 million. The increase is due, in part, to an increase in personal income and lower unemployment realized by the State's improving economy. Also, as the result of certain initiatives implemented, the Department of Revenue identified and collected taxes from corporations that were not paying taxes in prior years.

Interest rates have increased over the prior year which resulted in an increase in the unrestricted investment earnings received by the State.

Capital grants and contribution revenues increased \$279.6 million due to a reclassification of certain receipts received by the Department of Transportation. These receipts were classified as operating grants and contributions in the prior year but were appropriately reclassified as capital grants and contributions during the current fiscal year.

Business-type Activities

- Universities had \$2,942.2 million in expenses and \$2,355.4 million in program revenues for net expenses of \$586.8 million.
- Unemployment Insurance had \$342.5 million in expenses and \$352.1 million in program revenues for net revenues of \$9.6 million.

In total, business-type activities had net expenses of \$462.0 million with \$754.5 million in net general revenues and transfers, for a net increase of \$292.6 million, to end with net assets of \$4,305.0 million.

Other business-type expenses decreased \$68.5 million or 15.9 percent. The decrease is primarily due to discontinuation by the Iowa Lottery of the Touchplay game, as mandated by the Iowa Legislature.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The governmental funds reported total fund balances of \$2,505.6 million, with \$1,199.5 million in unreserved fund balance. Net revenues totaled \$11,090.9 million with expenditures of \$10,661.0 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 \$2,053.3 million and the unreserved fund balance was \$1,052.5 million. The unreserved fund balance included \$535.2 million of "rainy day" funds. The net change in fund balance was a decrease of \$46.4 million. Revenues exceeded expenditures by \$408.9 million, while other financing uses exceeded sources by \$455.3 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 - \$70,891,303
- Adjustments to standing appropriations - \$25,627,784

The originally enacted General Fund budget of \$5,296.4 million was predicated on 2.7 percent growth in General Fund revenues, as projected by the State's Revenue Estimating Conference (REC) on March 24, 2006. The use of the March estimate in lieu of the December 2005 estimate was specifically authorized by the legislature. The March estimate reflected the expectation that revenue growth would continue at a moderate pace given the economic outlook.

At the October 16, 2006 meeting, the REC revised its fiscal year 2007 General Fund revenue estimate upward to \$5,540.2 million. This was based upon the revised base of fiscal year 2006 actual revenue growth of 9.2 percent and continued expectation that revenue growth would continue at a normal pattern. On December 12, 2006, the REC again increased the revenue estimate to \$5,567.4 million. The increase from the October 2006 meeting reflected an acknowledgement that year-to-date revenues were growing faster than expected. An additional revision was made at the April 6, 2007 meeting to increase the General Fund revenue estimate to \$5,613.8 million, again acknowledging that year-to-date revenues were growing faster than expected, and also taking into account legislation that had already been passed in the 2007 session. The largest impact was the increase in cigarette and tobacco taxes, which was implemented in March 2007 and was estimated to bring an additional \$35.4 million in revenue.

During the 2007 legislative session, the General Assembly approved \$70.9 million in General Fund supplemental appropriations. The largest supplemental appropriation was \$24.7 million to the Iowa Power Fund in the newly created Office of Alternative Energy. \$12.0 million was appropriated to the Medical Assistance Program (Medicaid) in the Department of Human Services along with \$10.4 million to the program specifically for Rebased of Nursing Home rates. Most of the other supplemental appropriations were to help in general operations of various departments.

Also during this legislative session, the General Assembly approved the transfer of \$131.9 million of the ending General Fund balance to the Property Tax Credit Fund for fiscal year 2008 expenditures, prior to the transfer to the Cash Reserve Fund. This was signed into law by Governor Culver.

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 such as paying claims against the State through the State Appeal Board. These are either increases or decreases to the estimates made at the beginning of the year. For fiscal year 2007, these standing appropriations exceeded the original estimates by \$25.6 million. The largest variance was for Performance of Duty claims with the Executive Council, which were \$19.9 million over the estimate and with Appeal Board claims, \$5.2 million over the estimate. A variety of other appropriations made up the balance of the changes to standing appropriations.

During April, May and June of 2007, 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 \$5,646.3 million which was 4.9 percent growth. As a consequence, after the transfers to the Property Tax Credit Fund, and also taking into account the statutory transfer to the Senior Living Trust fund of \$53.5 million, the General Fund budgetary ending balance for fiscal year 2007, statutorily required to be transferred to the Cash Reserve Fund, totaled \$76.2 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the State had \$9,050.1 million invested in capital assets, net of accumulated depreciation of \$6,431.5 million. Depreciation charges totaled \$581.8 million in 2007. 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 2006 - 2007
	2007	2006	2007	2006	2007	2006	
Land	\$606.6	\$590.0	\$36.1	\$35.1	\$642.7	\$625.1	2.8%
Building and Improvements	591.6	551.7	1,741.8	1,501.3	2,333.4	2,053.0	13.7%
Equipment	169.0	154.0	346.0	304.4	515.0	458.4	12.3%
Land Improvements	11.5	7.2	28.2	29.4	39.7	36.6	8.5%
Works of Art and Collections	0.8	0.8	280.6	264.8	281.4	265.6	5.9%
Infrastructure	4,691.0	4,579.5	246.2	246.5	4,937.2	4,826.0	2.3%
Construction in progress	63.2	65.0	237.5	337.3	300.7	402.3	-25.3%
Total	\$6,133.7	\$5,948.2	\$2,916.4	\$2,718.8	\$9,050.1	\$8,667.0	4.4%

Long-term Debt

At year-end the State had \$2,203.8 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 2006 - 2007
	2007	2006	2007	2006	2007	2006	
Revenue Bonds	\$ 1,110.6	\$ 1,091.8	\$ 921.9	\$ 837.4	\$ 2,032.5	\$ 1,929.2	5.4%
Certificates of Participation	1.0	1.6	-	-	1.0	1.6	-37.5%
Leases and Other Financing Arrangements	9.2	6.2	161.1	141.3	170.3	147.5	15.5%
Total	\$ 1,120.8	\$ 1,099.6	\$ 1,083.0	\$ 978.7	\$2,203.8	\$2,078.3	6.0%

The Constitution of the State of Iowa prohibits the State from exceeding a maximum of \$250,000 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 \$500.0 million during fiscal year 2007.

Revenue bonds issued by the State and its various authorities totaled \$3,244.5 million outstanding at fiscal year-end. This amount consisted of \$1,212.0 million of component unit – proprietary funds revenue bonds (housing and higher education), \$921.9 million in revenue bonds issued by the three State universities and Iowa Lottery Authority (for equipment & facilities), \$783.4 million in revenue bonds issued by the Tobacco Settlement Authority, \$33.6 million in revenue bonds issued by the Honey Creek Authority, \$96.4 million in revenue bonds issued by the Iowa Finance Authority for the Underground Storage Tank Program and the Department of Corrections, and \$197.2 million in revenue bonds issued by the State of Iowa for the Vision Iowa Program and the School Infrastructure Loan Program. 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 \$1.0 million. COPS represent an ownership interest of the certificate holder in a lease purchase agreement

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Along with most other states, Iowa enjoyed improved fiscal health in fiscal year 2007, with strong growth revenue collections during the year. Iowa's 4.9 percent General Fund revenue growth continued the strong revenue growth the state has experienced over the past four years.

The Governor and General Assembly worked just one day beyond the 110 day session in 2007, fashioning the General Fund budget for fiscal year 2008. Amounts available for appropriation in the General Fund budget were \$5,861.1 million. General Fund appropriations totaled \$5,859.4 million, an increase of \$466.2 million from the actual 2007 General Fund budget.

At the REC meeting in October 2007, the fiscal year 2008 revenue estimate was increased to \$5,934.8 million, largely as a result of adjusting the base to reflect actual revenue collections in fiscal year 2007. The revised estimate reflects projected revenue growth of 5.1 percent compared to actual revenues for the previous fiscal year. This revised revenue projection coupled with current General Fund appropriations would leave a balance of \$88.0 million at the close of fiscal year 2008, of which \$44.0 million is statutorily required to be transferred to the Senior Living Trust Fund leaving an ending balance of \$44.0 million.

Recent revenue performance is encouraging. Iowa's unemployment rate was at 3.9 percent in October 2007, marking the fourth consecutive month at that rate, with Iowa's labor market holding its own in spite of the turmoil nationally in the financial market and the housing slowdown. Iowa's seasonally adjusted employment was estimated at 1,609,600.

Nationally, the recent issues in the credit market concerning sub-prime mortgage lending and the housing market problems are expected to lead to a slow down in the economy, despite a boost expected by an improving trade balance due to the declining value of the dollar and strong global growth. Growth in the gross domestic product (GDP) for the third quarter of 2007 is at 3.9 percent, with Moody's Economy.com expecting a slow down to 1.6 percent in the fourth quarter of 2007 and 1.4 percent the first quarter of 2008, with GDP coming back to 1.8 percent in the third quarter and 2.7 percent in the fourth quarter of 2008.

OTHER SIGNIFICANT FUTURE MATTERS

The State will initially disclose its liability for Other Post Employment Benefits (OPEB), as required by Governmental Accounting Standards Board Statement No. 45, in the fiscal year 2008 CAFR. An actuarial valuation was conducted by an independent actuarial firm to calculate the State's liability, other than the State's universities, for the implicit rate subsidy. The implicit rate subsidy is the difference between the blended premiums paid by retired participants in the State's health care plans, and the expected claims for the retiree group. The actuarial valuation reports an annual required contribution of \$22.7 million, employer contribution of \$5.7 million for a net OPEB obligation of \$17.0 million, for fiscal year 2007, with the total unfunded actuarially accrued liability of \$219.7 million. The universities have separate health care plans for which valuations have not been completed.

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:

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, 2007
(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
ASSETS				
Current Assets:				
Cash & Investments	\$ 2,120,424	\$ 2,173,750	\$ 4,294,174	\$ 986,177
Cash & Investments - Restricted	-	56,843	56,843	98,653
Deposits With Trustees	9,161	53,349	62,510	-
Accounts Receivable (Net)	1,537,533	453,167	1,990,700	58,673
Interest Receivable	1	6,835	6,836	10,166
Loans Receivable (Net)	10,868	6,305	17,173	34,195
Internal Balances	40,539	(40,539)	-	-
Inventory	26,698	59,782	86,480	177
Prepaid Expenses	16,646	20,240	36,886	115
Deferred Charges	1,230	-	1,230	-
Other Assets	-	1,431	1,431	1,136
Investment In Prize Annuity	-	5,972	5,972	-
Total Current Assets	3,763,100	2,797,135	6,560,235	1,189,292
Noncurrent Assets:				
Cash & Investments	78,315	422,932	501,247	465,333
Cash & Investments - Restricted	-	-	-	1,308,736
Accounts Receivable (Net)	17,701	16,079	33,780	110,865
Interest Receivable	-	649	649	-
Loans Receivable (Net)	141,547	61,498	203,045	535,207
Capital Assets - nondepreciable	669,820	516,798	1,186,618	5,814
Capital Assets - depreciable (Net)	5,463,842	2,399,680	7,863,522	69,169
Prepaid Expenses	-	196	196	-
Deferred Charges	3,326	-	3,326	-
Other Assets	-	25,050	25,050	13,723
Investment In Prize Annuity	-	14,140	14,140	-
Prize Deposit	-	3,615	3,615	-
Total Noncurrent Assets	6,374,551	3,460,637	9,835,188	2,508,847
TOTAL ASSETS	10,137,651	6,257,772	16,395,423	3,698,139

The notes are an integral part of the financial statements.

(continued on next page)

STATE OF IOWA

(continued)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	977,132	316,027	1,293,159	28,645
Interest Payable	10,559	22,396	32,955	24,397
Unearned Revenue	101,005	97,556	198,561	779
Compensated Absences	111,692	79,307	190,999	1,574
Capital Leases	1,489	7,275	8,764	568
Bonds Payable	53,065	48,989	102,054	48,438
Other Financing				
Arrangements Payable	726	1,292	2,018	-
Annuities Payable	-	6,072	6,072	-
Lottery Prizes Payable	-	2,694	2,694	-
Funds Held In Custody	-	192,227	192,227	76,928
Total Current Liabilities	<u>1,255,668</u>	<u>773,835</u>	<u>2,029,503</u>	<u>181,329</u>
Noncurrent Liabilities:				
Accounts Payable & Accruals	132,874	11,581	144,455	70,615
Unearned Revenue	191	1,959	2,150	7,859
Compensated Absences	44,831	71,933	116,764	178
Capital Leases	4,804	150,390	155,194	7,492
Bonds Payable	1,057,517	872,949	1,930,466	1,163,529
Other Financing				
Arrangements Payable	3,148	2,139	5,287	-
Annuities Payable	-	14,140	14,140	-
Lottery Prizes Payable	-	3,615	3,615	-
Funds Held In Custody	-	50,232	50,232	4,809
Other	-	16	16	-
Total Noncurrent Liabilities	<u>1,243,365</u>	<u>1,178,954</u>	<u>2,422,319</u>	<u>1,254,482</u>
TOTAL LIABILITIES	<u>2,499,033</u>	<u>1,952,789</u>	<u>4,451,822</u>	<u>1,435,811</u>
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	6,071,498	1,962,371	8,033,869	60,542
Restricted for:				
Transportation	351,229	-	351,229	-
Underground Storage Tank Program	64,010	-	64,010	-
Education	71,909	-	71,909	-
Health & Human Rights	87,057	-	87,057	-
Debt Service	268,326	-	268,326	-
Universities - Expendable	-	353,746	353,746	-
Universities - Nonexpendable	-	79,686	79,686	-
Permanent Funds - Nonexpendable	11,592	-	11,592	-
Unemployment Benefits	-	944,170	944,170	-
Other	100,491	-	100,491	1,633,539
Unrestricted	612,506	965,010	1,577,516	568,247
TOTAL NET ASSETS	<u>\$ 7,638,618</u>	<u>\$ 4,304,983</u>	<u>\$ 11,943,601</u>	<u>\$ 2,262,328</u>

STATE OF IOWA

Statement of Activities

For the Year Ended June 30, 2007
(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental Activities:				
Administration & Regulation	\$ 881,865	\$ 765,932	\$ 8,352	\$ -
Education	3,071,601	39,402	444,550	788
Health & Human Rights	368,342	55,086	206,453	-
Human Services	3,882,041	448,255	2,217,469	-
Justice & Public Defense	822,676	60,529	123,257	-
Economic Development	227,266	2,519	120,070	-
Transportation	954,278	30,106	87,084	277,469
Agriculture & Natural Resources	193,327	78,306	40,538	5,502
Interest Expense	74,053	-	-	-
Total Governmental Activities	10,475,449	1,480,135	3,247,773	283,759
Business-type Activities:				
Universities	2,942,220	1,690,465	633,957	30,943
Unemployment Insurance	342,499	352,067	-	-
Other	363,508	478,850	-	-
Total Business-type Activities	3,648,227	2,521,382	633,957	30,943
Total Primary Government	\$ 14,123,676	\$ 4,001,517	\$ 3,881,730	\$ 314,702
Component Units:				
Iowa Finance Authority	\$ 81,262	\$ 14,079	\$ 45,017	\$ -
Iowa Higher Education Loan Authority	1,707	1,793	-	-
Iowa Agricultural Development Authority	465	596	11	-
Iowa State Fair Authority	16,008	15,398	2,162	2,350
University of Iowa Foundation	82,946	-	75,290	-
Iowa State University Foundation	56,988	-	67,363	-
University of Northern Iowa Foundation	15,459	-	8,387	296
Total Component Units	\$ 254,835	\$ 31,866	\$ 198,230	\$ 2,646
General Revenues				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel				
Road Use				
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
\$ (107,581)	\$ -	\$ (107,581)	\$ -
(2,586,861)	-	(2,586,861)	-
(106,803)	-	(106,803)	-
(1,216,317)	-	(1,216,317)	-
(638,890)	-	(638,890)	-
(104,677)	-	(104,677)	-
(559,619)	-	(559,619)	-
(68,981)	-	(68,981)	-
(74,053)	-	(74,053)	-
(5,463,782)	-	(5,463,782)	-
-	(586,855)	(586,855)	-
-	9,568	9,568	-
-	115,342	115,342	-
-	(461,945)	(461,945)	-
(5,463,782)	(461,945)	(5,925,727)	-
			(22,166)
			86
			142
			3,902
			(7,656)
			10,375
			(6,776)
			(22,093)
2,673,861	-	2,673,861	-
322,315	-	322,315	-
1,878,500	-	1,878,500	-
641,206	5,909	647,115	-
446,607	-	446,607	-
248,959	-	248,959	-
146,669	159,246	305,915	262,073
25,807	40,162	65,969	5,875
-	18	18	-
55	-	55	-
(549,206)	549,206	-	-
5,834,773	754,541	6,589,314	267,948
370,991	292,596	663,587	245,855
7,267,627	4,012,387	11,280,014	2,016,473
\$ 7,638,618	\$ 4,304,983	\$ 11,943,601	\$ 2,262,328



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, 2007
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Current Assets:			
Cash & Investments	\$ 1,744,079	\$ 420,910	\$ 2,164,989
Deposits with Trustees	4,201	4,960	9,161
Accounts Receivable (Net)	1,492,691	42,680	1,535,371
Loans Receivable (Net)	10,868	-	10,868
Due From Other Funds	20,732	8,668	29,400
Inventory	14,983	74	15,057
Prepaid Expenditures	14,596	39	14,635
Total Current Assets	<u>3,302,150</u>	<u>477,331</u>	<u>3,779,481</u>
Noncurrent Assets:			
Accounts Receivable (Net)	13,498	4,203	17,701
Loans Receivable (Net)	141,547	-	141,547
Due From Other Funds/Advances To Other Funds	-	28,000	28,000
Total Noncurrent Assets	<u>155,045</u>	<u>32,203</u>	<u>187,248</u>
TOTAL ASSETS	<u>\$ 3,457,195</u>	<u>\$ 509,534</u>	<u>\$ 3,966,729</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable & Accruals	\$ 857,831	\$ 16,209	\$ 874,040
Due To Other Funds/Advances From Other Funds	68,320	6,116	74,436
Deferred Revenue	459,552	34,951	494,503
Total Current Liabilities	<u>1,385,703</u>	<u>57,276</u>	<u>1,442,979</u>
Noncurrent Liabilities:			
Accounts Payable & Accruals	742	-	742
Due To Other Funds/Advances From Other Funds	3,743	-	3,743
Deferred Revenue	13,659	-	13,659
Total Noncurrent Liabilities	<u>18,144</u>	<u>-</u>	<u>18,144</u>
TOTAL LIABILITIES	<u>1,403,847</u>	<u>57,276</u>	<u>1,461,123</u>
FUND BALANCE			
Reserved for:			
Encumbrances & Contracts	77,096	-	77,096
Inventory & Prepaid Expenditures	29,579	113	29,692
Noncurrent Receivables	141,686	32,203	173,889
Specific Purposes	752,450	273,020	1,025,470
Unreserved Fund Equity	1,052,537	-	1,052,537
Unreserved, reported in:			
Nonmajor special revenue funds	-	48,907	48,907
Nonmajor capital projects funds	-	98,015	98,015
TOTAL FUND BALANCE	<u>2,053,348</u>	<u>452,258</u>	<u>2,505,606</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,457,195</u>	<u>\$ 509,534</u>	<u>\$ 3,966,729</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, 2007
(Expressed in Thousands)

Total Fund Balances-Governmental funds \$ 2,505,606

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 \$9,941,048,000 and the accumulated depreciation is (\$3,894,746,000). 6,046,302

Internal service funds are used by management to charge the costs of certain activities to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 126,603

Certain revenues are earned but not available and therefore deferred in the funds. 415,627

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. 4,556

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	(1,110,582)	
Accrued Interest Payable	(10,559)	
Compensated Absences	(153,777)	
Capital Leases	(6,132)	
Other Financing Arrangements Payable	(3,874)	
Early Retirement Liability	(10,143)	
Risk Management Liability	(17,900)	
Net Pension Liability	(21,324)	
Other Long-term Liabilities	(125,785)	
Total Long-term liabilities		(1,460,076)

Net assets of governmental activities \$ 7,638,618

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, 2007
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 6,798,117	\$ 69,099	\$ 6,867,216
Receipts from Other Entities	3,490,800	32,009	3,522,809
Investment Income	120,475	25,086	145,561
Fees, Licenses & Permits	676,432	4,183	680,615
Refunds & Reimbursements	334,508	77,226	411,734
Sales, Rents & Services	23,535	5,054	28,589
Miscellaneous	111,415	9,262	120,677
Contributions	-	156	156
	<u>11,555,282</u>	<u>222,075</u>	<u>11,777,357</u>
GROSS REVENUES			
Less Revenue Refunds	682,894	3,529	686,423
	<u>10,872,388</u>	<u>218,546</u>	<u>11,090,934</u>
EXPENDITURES:			
Current:			
Administration & Regulation	859,153	4,276	863,429
Education	3,011,966	56,663	3,068,629
Health & Human Rights	357,023	807	357,830
Human Services	3,864,422	251	3,864,673
Justice & Public Defense	765,972	5,590	771,562
Economic Development	220,032	1,535	221,567
Transportation	457,439	1,511	458,950
Agriculture & Natural Resources	162,319	10,629	172,948
Capital Outlay	736,939	63,249	800,188
Debt Service:			
Bond Principal Retirement	16,070	11,955	28,025
Bond Interest & Fiscal Charges	12,113	41,081	53,194
	<u>10,463,448</u>	<u>197,547</u>	<u>10,660,995</u>
TOTAL EXPENDITURES			
REVENUES OVER (UNDER) EXPENDITURES	<u>408,940</u>	<u>20,999</u>	<u>429,939</u>
OTHER FINANCING SOURCES (USES):			
Transfers In	259,014	64,237	323,251
Transfers Out	(719,067)	(150,302)	(869,369)
Leases, Installment Purchases, & Other	4,730	-	4,730
Revenue Bonds Issued	-	33,370	33,370
Premium On Revenue Bonds	-	270	270
	<u>(455,323)</u>	<u>(52,425)</u>	<u>(507,748)</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCE	<u>(46,383)</u>	<u>(31,426)</u>	<u>(77,809)</u>
FUND BALANCE JULY 1	<u>2,099,731</u>	<u>483,684</u>	<u>2,583,415</u>
FUND BALANCE JUNE 30	<u>\$ 2,053,348</u>	<u>\$ 452,258</u>	<u>\$ 2,505,606</u>

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, 2007
(Expressed in Thousands)

Net change in fund balances-total governmental funds \$ (77,809)

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	554,969	
Depreciation expense	(368,592)	
Excess of capital outlay over depreciation expense		186,377

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. (4,916)

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	(33,639)	
Capital leases	(4,177)	
Other financing arrangements payable	(553)	
Total		(38,369)

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	28,025	
Capital lease payments	1,405	
Other financing arrangements payments	808	
Total long-term debt repayment		30,238

Internal service funds are used by management to charge the cost of certain activities to individual funds. A portion of the net revenue of the internal service funds is reported with governmental activities. 3,955

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. 307,216

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	(3,632)	
Early retirement liability/termination benefits	(4,727)	
Pension Liability	(11,447)	
Other	(15,895)	
Total additional expenditures		(35,701)

Change in net assets of governmental activities \$ 370,991

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, 2007
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES -- ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS		
ASSETS					
Current Assets:					
Cash & Investments	\$ 1,273,801	\$ 828,227	\$ 70,000	\$ 2,172,028	\$ 35,468
Cash & Investments - Restricted	56,843	-	-	56,843	-
Deposits With Trustees	53,349	-	-	53,349	-
Accounts Receivable (Net)	317,003	124,250	11,914	453,167	2,164
Interest Receivable	6,289	-	546	6,835	1
Loans Receivable (Net)	6,305	-	-	6,305	-
Due From Other Funds/Advances					
To Other Funds	-	2,788	3,688	6,476	70,058
Inventory	48,695	-	11,087	59,782	11,641
Prepaid Expenses	19,436	-	786	20,222	2,029
Other Assets	1,431	-	-	1,431	-
Investment In Prize Annuity	-	-	5,972	5,972	-
Total Current Assets	1,783,152	955,265	103,993	2,842,410	121,361
Noncurrent Assets:					
Cash & Investments	422,932	-	-	422,932	-
Accounts Receivable	16,079	-	-	16,079	-
Interest Receivable	649	-	-	649	-
Loans Receivable (Net)	61,498	-	-	61,498	-
Due From Other Funds/Advances					
To Other Funds	-	3,164	-	3,164	1,579
Capital Assets - nondepreciable	510,051	-	6,747	516,798	-
Capital Assets - depreciable, net	2,353,478	-	46,202	2,399,680	87,360
Prepaid Expenses	196	-	-	196	-
Other Assets	25,050	-	-	25,050	-
Investment In Prize Annuity	-	-	14,140	14,140	-
Prize Deposit	-	-	3,615	3,615	-
Total Noncurrent Assets	3,389,933	3,164	70,704	3,463,801	88,939
TOTAL ASSETS	5,173,085	958,429	174,697	6,306,211	210,300
LIABILITIES					
Current Liabilities:					
Accounts Payable & Accruals	280,975	11,583	22,722	315,280	28,309
Due To Other Funds/Advances					
From Other Funds	-	328	16,200	16,528	14,970
Interest Payable	22,386	-	10	22,396	-
Unearned Revenue	94,951	2,348	257	97,556	8,659
Compensated Absences	77,942	-	1,365	79,307	2,585
Capital Leases	7,275	-	-	7,275	69
Bonds Payable	46,989	-	2,000	48,989	-
Other Financing Arrangements Payable	1,292	-	-	1,292	-
Annuities Payable	-	-	6,072	6,072	-
Lottery Prizes Payable	-	-	2,694	2,694	-
Funds Held In Custody	192,227	-	-	192,227	-
Total Current Liabilities	724,037	14,259	51,320	789,616	54,592
Noncurrent Liabilities:					
Accounts Payable & Accruals	11,573	-	8	11,581	32,510
Due To Other Funds/Advances					
From Other Funds	-	-	28,000	28,000	1,000
Unearned Revenue	1,959	-	-	1,959	-
Compensated Absences	71,072	-	861	71,933	161
Capital Leases	150,390	-	-	150,390	92
Bonds Payable	871,449	-	1,500	872,949	-
Other Financing Arrangements Payable	2,139	-	-	2,139	-
Annuities Payable	-	-	14,140	14,140	-
Lottery Prizes Payable	-	-	3,615	3,615	-
Funds Held In Custody	50,232	-	-	50,232	-
Other	-	-	16	16	-
Total Noncurrent Liabilities	1,158,814	-	48,140	1,206,954	33,763
TOTAL LIABILITIES	1,882,851	14,259	99,460	1,996,570	88,355
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,912,922	-	49,449	1,962,371	87,199
Restricted For:					
Expendable	353,746	-	-	353,746	-
Nonexpendable	79,686	-	-	79,686	-
Unemployment Benefits	-	944,170	-	944,170	-
Unrestricted	943,880	-	25,788	969,668	34,746
TOTAL NET ASSETS	\$ 3,290,234	\$ 944,170	\$ 75,237	4,309,641	\$ 121,945

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds (4,658)

Net assets of business-type activities **\$ 4,304,983**

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, 2007
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES -- ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS		
OPERATING REVENUES:					
Employer Contributions	\$ -	\$ 347,143	\$ -	\$ 347,143	\$ -
Receipts from Other Entities	87	4,924	-	5,011	109,704
Fees, Licenses & Permits	1,231,550	-	12,532	1,244,082	12
Refunds & Reimbursements	-	-	191	191	46,577
Sales, Rents & Services	244,087	-	464,451	708,538	2,091
Grants & Contracts	534,693	-	-	534,693	-
Independent /Auxiliary Operations	214,828	-	-	214,828	-
Miscellaneous	36,581	-	1,676	38,257	4,422
TOTAL OPERATING REVENUES	2,261,826	352,067	478,850	3,092,743	162,806
OPERATING EXPENSES:					
General & Administrative	-	-	8,544	8,544	-
Scholarship & Fellowship	31,129	-	-	31,129	-
Depreciation	190,684	-	10,385	201,069	12,181
Direct Expense	-	-	37,498	37,498	-
Prize Expense	-	-	133,357	133,357	-
Personal Services	1,785,632	-	4,081	1,789,713	27,343
Travel & Subsistence	31,495	-	437	31,932	17,990
Supplies & Materials	363,192	-	3,393	366,585	37,315
Contractual Services	75,687	-	33,070	108,757	25,387
Equipment & Repairs	402,022	-	296	402,318	20,788
Claims & Miscellaneous	15,527	-	128,122	143,649	16,407
Licenses, Permits & Refunds	2,162	-	818	2,980	43
State Aids & Credits	-	342,499	3,423	345,922	-
TOTAL OPERATING EXPENSES	2,897,530	342,499	363,424	3,603,453	157,454
OPERATING INCOME (LOSS)	(635,704)	9,568	115,426	(510,710)	5,352
NONOPERATING REVENUES					
(EXPENSES):					
Gifts	99,264	-	-	99,264	-
Taxes	-	-	5,909	5,909	-
Investment Income	115,851	40,833	2,562	159,246	665
Interest Expense	(41,140)	-	(175)	(41,315)	(1)
Miscellaneous Nonoperating Revenue	164	-	-	164	-
Miscellaneous Nonoperating Expense	(255)	-	-	(255)	-
Gain (Loss) on Sale of Capital Assets	(4,913)	-	18	(4,895)	(352)
NET NONOPERATING REVENUES (EXPENSES)	168,971	40,833	8,314	218,118	312
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(466,733)	50,401	123,740	(292,592)	5,664
Capital Contributions and Grants	30,943	-	3,088	34,031	-
Transfers In	676,461	-	477	676,938	-
Transfers Out	-	(5,499)	(125,321)	(130,820)	-
Additions to Endowments	3,330	-	-	3,330	-
CHANGE IN NET ASSETS	244,001	44,902	1,984	290,887	5,664
TOTAL NET ASSETS - JULY 1	3,046,233	899,268	73,253		116,281
TOTAL NET ASSETS - JUNE 30	\$ 3,290,234	\$ 944,170	\$ 75,237		\$ 121,945
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				1,709	
Change in net assets of business-type activities				\$ 292,596	

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, 2007
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES --			TOTAL	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	ENTERPRISE FUNDS				
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received From Customers/Students	\$ 1,647,320	\$ -	\$ 475,146	\$ 2,122,466	\$ -
Cash Received From Miscellaneous	104,703	-	1,859	106,562	-
Cash Received From Employers	-	345,400	-	345,400	-
Cash Received From Other Entities	528,270	4,924	-	533,194	10,878
Cash Received From Reciprocal Interfund Activity	-	-	-	-	157,752
Cash Payments To Suppliers For Goods & Services	(1,076,836)	-	(207,518)	(1,284,354)	(103,397)
Cash Payments To Employees/Students For Services	(1,644,697)	-	(12,509)	(1,657,206)	(45,332)
Cash Payments For Interfund Transactions	-	(1,348)	-	(1,348)	-
Cash Payments For Prizes	-	-	(141,838)	(141,838)	-
Cash Payments For Unemployment Claims	-	(341,765)	-	(341,765)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(441,240)</u>	<u>7,211</u>	<u>115,140</u>	<u>(318,889)</u>	<u>19,901</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers In From Other Funds	647,885	-	508	648,393	-
Transfers Out To Other Funds	-	(6,055)	(126,506)	(132,561)	-
Receipts From Related Agencies	839,358	-	-	839,358	-
Payments To Related Agencies	(855,559)	-	-	(855,559)	-
Other Receipts	12,529	-	-	12,529	-
Other Payments	(42,088)	-	-	(42,088)	-
Proceeds From Noncapital Gifts	101,038	-	-	101,038	-
Interest Paid	-	-	-	-	(1)
Tax Receipts	-	-	5,909	5,909	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>703,163</u>	<u>(6,055)</u>	<u>(120,089)</u>	<u>577,019</u>	<u>(1)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition & Construction of Capital Assets	(347,702)	-	(4,787)	(352,489)	(16,540)
Interest Payments	(48,733)	-	(180)	(48,913)	-
Debt Payments	(59,893)	-	(2,000)	(61,893)	-
Capital Grants & Contributions	55,050	-	28,000	83,050	-
Debt Proceeds	146,870	-	-	146,870	-
Proceeds From Sale of Capital Assets	3,372	-	65	3,437	-
Other	8,396	-	-	8,396	-
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(242,640)</u>	<u>-</u>	<u>21,098</u>	<u>(221,542)</u>	<u>(16,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest & Dividends On Investments	83,497	40,833	2,235	126,565	666
Proceeds From Sale & Maturities Of Investments	444,331	-	-	444,331	-
Purchase Of Investments	(461,049)	-	-	(461,049)	-
Other	-	-	8,122	8,122	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>66,779</u>	<u>40,833</u>	<u>10,357</u>	<u>117,969</u>	<u>666</u>

STATE OF IOWA

(continued)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES --
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE		INTERNAL SERVICE
			FUNDS		FUNDS
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	86,062	41,989	26,506	154,557	4,026
CASH & CASH EQUIVALENTS JULY 1	<u>365,759</u>	<u>786,238</u>	<u>43,494</u>	<u>1,195,491</u>	<u>31,442</u>
CASH & CASH EQUIVALENTS JUNE 30	451,821	828,227	70,000	1,350,048	35,468
INVESTMENTS	1,355,104	-	-	1,355,104	-
LESS DEPOSITS WITH TRUSTEES	<u>(53,349)</u>	<u>-</u>	<u>-</u>	<u>(53,349)</u>	<u>-</u>
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 1,753,576</u>	<u>\$ 828,227</u>	<u>\$ 70,000</u>	<u>\$ 2,651,803</u>	<u>\$ 35,468</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (635,704)	\$ 9,568	\$ 115,426	\$ (510,710)	\$ 5,352
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:					
Depreciation	190,684	-	10,385	201,069	12,181
(Increase) Decrease In Accounts Receivable	(11,035)	(2,474)	(3,101)	(16,610)	1,917
(Increase) Decrease In Due From	-	(1,348)	1,667	319	(6)
(Increase) Decrease In Inventory	(1,756)	-	(930)	(2,686)	(705)
(Increase) Decrease In Prepaid Expenses	(7,998)	-	171	(7,827)	(326)
(Increase) Decrease In Loans Receivable	(3,005)	-	-	(3,005)	-
(Increase) Decrease In Other Assets	(467)	-	-	(467)	-
Increase (Decrease) In Accounts Payable	6,204	1,175	503	7,882	(2,104)
Increase (Decrease) In Due To	-	-	(196)	(196)	3,562
Increase (Decrease) In Unearned Revenue	12,314	290	(383)	12,221	29
Increase (Decrease) In Compensated Absences And Other Benefits	9,577	-	54	9,631	1
Increase (Decrease) In Prizes Payable	-	-	(304)	(304)	-
Increase (Decrease) In Prize Annuity	-	-	(8,152)	(8,152)	-
Increase (Decrease) In Other Liability	(54)	-	-	(54)	-
Net Cash Provided By Operating Activities	<u>\$ (441,240)</u>	<u>\$ 7,211</u>	<u>\$ 115,140</u>	<u>\$ (318,889)</u>	<u>\$ 19,901</u>

Noncash capital financing activities:

Capital assets acquired through capital leases and notes were \$1,253,000 and gifts of capital assets of \$5,429,000 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, 2007
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash & Cash Equivalents	\$ 132,768	\$ 2,446	\$ 142,557
Receivables:			
Accounts (Net)	-	5	174,469
Contributions	49,662	-	-
Investments Sold	1,142,794	-	-
Foreign Exchange Contracts	6,508	-	-
Interest & Dividends	80,488	-	-
Total Receivables	<u>1,279,452</u>	<u>5</u>	<u>174,469</u>
Investments, at Fair Value:			
Fixed Income Securities	8,705,470	-	-
Equity Investments	10,335,555	2,000,797	-
Real Estate Partnerships	2,098,166	-	-
Investment in Private Equity/Debt	1,946,547	-	-
Securities Lending Collateral Pool	2,004,296	-	-
Securities on Loan with Brokers	1,950,933	-	-
Total Investments	<u>27,040,967</u>	<u>2,000,797</u>	<u>-</u>
Capital Assets:			
Land	500	-	-
Capital Assets (Net)	8,971	20	-
Total Capital Assets	<u>9,471</u>	<u>20</u>	<u>-</u>
Other Assets	<u>-</u>	<u>14</u>	<u>-</u>
Total Assets	<u>28,462,658</u>	<u>2,003,282</u>	<u>317,026</u>
LIABILITIES			
Accounts Payable & Accruals	62,759	205	317,026
Payable for Investments Purchased	2,769,642	-	-
Payable to Brokers For Rebate & Collateral	2,003,823	-	-
Total Liabilities	<u>4,836,224</u>	<u>205</u>	<u>317,026</u>
NET ASSETS			
Held in Trust for:			
Employees' Benefits	23,626,434	-	-
Individuals, Organizations, and Other Governments	-	2,003,077	-
Total Net Assets	<u>\$ 23,626,434</u>	<u>\$ 2,003,077</u>	<u>\$ -</u>

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, 2007
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Member/Participant Contributions	\$ 228,557	\$ 338,738
Employer Contributions	351,365	-
Buy-Back/Buy-In Contributions	8,026	-
Gifts, Bequests, & Endowments	-	173
	<hr/>	<hr/>
Contributions	587,948	338,911
	<hr/>	<hr/>
Investment Income:		
Net Increase in Fair Value		
of Investments	2,867,773	267,549
Interest	373,886	99
Dividends	81,632	-
Other	185,011	-
	<hr/>	<hr/>
Investment Income	3,508,302	267,648
Less Investment Expense	156,508	-
	<hr/>	<hr/>
Net Investment Income	3,351,794	267,648
	<hr/>	<hr/>
Total Additions	3,939,742	606,559
	<hr/>	<hr/>
DEDUCTIONS:		
Pension and Annuity Benefits	1,037,218	-
Distributions to Participants	-	70,732
Payments in Accordance with Agreements	1,059	-
Administrative Expense	9,199	-
Refunds	38,127	-
Other	-	686
	<hr/>	<hr/>
Total Deductions	1,085,603	71,418
	<hr/>	<hr/>
Change in Net Assets Held in Trust for:		
Employees' Benefits	2,854,139	-
Individuals, Organizations and Other Governments	-	535,141
	<hr/>	<hr/>
Net Assets - July 1	20,772,295	1,467,936
	<hr/>	<hr/>
Net Assets - June 30	\$ 23,626,434	\$ 2,003,077
	<hr/>	<hr/>

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.

The University of Iowa Foundation, Iowa State University Foundation and University of Northern Iowa Foundation 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, 2007
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITY OF IOWA FOUNDATION	IOWA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF NORTHERN IOWA FOUNDATION	TOTAL COMPONENT UNITS
ASSETS								
Current Assets:								
Cash & Investments	\$ 353,640	\$ 1,276	\$ 778	\$ 13,509	\$ 496,834	\$ 98,298	\$ 21,842	\$ 986,177
Cash & Investments - Restricted	97,665	988	-	-	-	-	-	98,653
Accounts Receivable	-	4	12	997	33,520	21,114	3,026	58,673
Interest Receivable Unrestricted	9,939	148	63	16	-	-	-	10,166
Loans Receivable (Net)	32,232	1,727	147	-	-	89	-	34,195
Inventory	-	-	-	177	-	-	-	177
Prepaid Expenses	-	94	-	-	-	-	21	115
Other	739	-	-	-	397	-	-	1,136
Total Current Assets	494,215	4,237	1,000	14,699	530,751	119,501	24,889	1,189,292
Noncurrent Assets:								
Cash & Investments	-	-	-	-	-	443,184	22,149	465,333
Cash & Investments - Restricted	866,808	19,652	3,837	-	382,754	-	35,685	1,308,736
Accounts Receivable	-	-	-	1,353	56,426	49,422	3,664	110,865
Loans Receivable (Net)	520,877	10,870	1,204	-	-	2,256	-	535,207
Capital Assets - nondepreciable	716	-	-	4,138	-	960	-	5,814
Capital Assets - depreciable, net	2,880	1	19	40,421	21,947	2,514	1,387	69,169
Other	7,027	-	-	-	-	5,639	1,057	13,723
Total Noncurrent Assets	1,398,308	30,523	5,060	45,912	461,127	503,975	63,942	2,508,847
TOTAL ASSETS	1,892,523	34,760	6,060	60,611	991,878	623,476	88,831	3,698,139
LIABILITIES								
Current Liabilities:								
Accounts Payable & Accruals	20,960	26	83	476	1,348	2,827	2,925	28,645
Interest Payable	24,286	111	-	-	-	-	-	24,397
Unearned Revenues	748	31	-	-	-	-	-	779
Compensated Absences	-	-	-	195	937	442	-	1,574
Capital Leases	-	-	-	8	560	-	-	568
Bonds Payable	47,952	380	-	-	-	106	-	48,438
Funds Held in Custody	-	-	-	-	75,728	1,200	-	76,928
Total Current Liabilities	93,946	548	83	679	78,573	4,575	2,925	181,329
Noncurrent Liabilities:								
Accounts Payable and Accruals	5,705	-	-	71	31,549	25,200	8,090	70,615
Unearned Revenues	7,759	100	-	-	-	-	-	7,859
Compensated Absences	-	-	-	178	-	-	-	178
Capital Leases	-	-	-	32	7,460	-	-	7,492
Bonds Payable	1,128,473	32,000	-	-	-	3,056	-	1,163,529
Funds Held in Custody	-	-	-	-	-	4,809	-	4,809
Total Noncurrent Liabilities	1,141,937	32,100	-	281	39,009	33,065	8,090	1,254,482
TOTAL LIABILITIES	1,235,883	32,648	83	960	117,582	37,640	11,015	1,435,811
NET ASSETS								
Invested in Capital Assets, Net of Related Debt	863	1	19	44,519	13,442	311	1,387	60,542
Restricted for Specific Purposes	637,985	828	5,209	-	382,754	571,078	35,685	1,633,539
Unrestricted	17,792	1,283	749	15,132	478,100	14,447	40,744	568,247
TOTAL NET ASSETS	656,640	2,112	5,977	59,651	874,296	585,836	77,816	2,262,328
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,892,523	\$ 34,760	\$ 6,060	\$ 60,611	\$ 991,878	\$ 623,476	\$ 88,831	\$ 3,698,139

The notes are an integral part of the financial statements

STATE OF IOWA

Statement of Activities Component Units

For the Year Ended June 30, 2007
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITY OF IOWA FOUNDATION	IOWA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF NORTHERN IOWA FOUNDATION	TOTAL COMPONENT UNITS
Expenses	\$ 81,262	\$ 1,707	\$ 465	\$ 16,008	\$ 82,946	\$ 56,988	\$ 15,459	\$ 254,835
Program Revenues:								
Charges for Service	14,079	1,793	596	15,398	-	-	-	31,866
Operating Grants								
and Contributions	45,017	-	11	2,162	75,290	67,363	8,387	198,230
Capital Grants and Contributions	-	-	-	2,350	-	-	296	2,646
Total Program Revenues	<u>59,096</u>	<u>1,793</u>	<u>607</u>	<u>19,910</u>	<u>75,290</u>	<u>67,363</u>	<u>8,683</u>	<u>232,742</u>
Net Program (Expense) Revenue	<u>(22,166)</u>	<u>86</u>	<u>142</u>	<u>3,902</u>	<u>(7,656)</u>	<u>10,375</u>	<u>(6,776)</u>	<u>(22,093)</u>
General Revenues:								
Investment Income	82,233	-	29	303	96,682	71,935	10,891	262,073
Other	219	-	-	1,002	-	4,555	99	5,875
Total General Revenue	<u>82,452</u>	<u>-</u>	<u>29</u>	<u>1,305</u>	<u>96,682</u>	<u>76,490</u>	<u>10,990</u>	<u>267,948</u>
Change in Net Assets	60,286	86	171	5,207	89,026	86,865	4,214	245,855
NET ASSETS - JULY 1	<u>596,354</u>	<u>2,026</u>	<u>5,806</u>	<u>54,444</u>	<u>785,270</u>	<u>498,971</u>	<u>73,602</u>	<u>2,016,473</u>
NET ASSETS - JUNE 30	<u>\$ 656,640</u>	<u>\$ 2,112</u>	<u>\$ 5,977</u>	<u>\$ 59,651</u>	<u>\$ 874,296</u>	<u>\$ 585,836</u>	<u>\$ 77,816</u>	<u>\$ 2,262,328</u>

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.
- Honey Creek Premier Destination Park Authority (Special Revenue Fund), herein referred to as Honey Creek Authority, was created to issue bonds to provide financing for the development of the Honey Creek Park (Enterprise Fund). 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 purpose is to provide for and secure the issuance and repayment of its bonds.

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

- . Iowa Higher Education Loan Authority (Proprietary) provides for the financing of educational loans for students attending private educational institutions in the State and for financing the acquisition, 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).
- . The University of Iowa Foundation, Iowa State University Foundation and University of Northern Iowa Foundation (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 resources they hold and invest or income thereon 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, 2007, the foundations distributed \$119.2 million to the 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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. The activities accounted for in internal service funds include information technology, fleet operations, printing and mail services, and property management.

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. Examples include Iowa Educational Savings Plan Trust, Veterans Affairs donations, Health Organization Insolvency fund, and Braille and Sight Savings School donations.

Agency Funds account for resources held by the State in a purely custodial capacity. These funds include tax collections, fines, fees, and payroll deductions.

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. 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected to follow subsequent private-sector guidance.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and investment income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

In fiscal year 2007, the State of Iowa implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 47, *Accounting for Termination Benefits*. The Statements established uniform standards of financial reporting for other postemployment plans and termination benefits. The State of Iowa has evaluated the requirements of these standards and determined they had no material effect on the financial statements.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

In fiscal year 2007, the State of Iowa early implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement establishes accounting and financial reporting standards for pollution remediation obligations. Liabilities and expenses have been appropriately recorded in the government-wide financial statements.

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 \$55,225,163 associated with certain funds has been assigned to other funds for fiscal year 2007.

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.

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

At year-end IPERS had \$485,398 in credit risk exposure to borrowers because the amounts they owed IPERS exceeded the amounts IPERS owed them on 34 separate loans. At year-end PORS had \$4,670 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, 2007, the Systems had securities on loan, including accrued interest income, with a total value of \$1,950,932,817 against collateral with a total value of \$2,003,822,503.

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.)

The effective duration of the cash collateral pool at June 30, 2007 for IPERS was 22 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2007 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	\$ 242,696	\$ 90,857	\$ 151,839			
Corporate Asset Backed	562,965	153,933	409,032			
Total Corporate	805,661	244,790	560,871			
Repurchase Agreements	100,000	100,000	-			
Certificate of Deposit	508,727	139,270	369,457			
Bank Note	180,602	-	180,602			
Mutual Funds	369,648	369,648	-			
Total	<u>\$ 1,964,638</u>	<u>\$ 853,708</u>	<u>\$ 1,110,930</u>			

Securities Lending Collateral Pool						
Credit Risk - S & P Quality Ratings						
Investment Type	Total	AAA	AA	A	A-1	NR
Corporate Bonds	\$ 242,696	\$ 86,746	\$ 85,436	\$ 15,011	\$ 55,503	\$ -
Corporate Asset Backed	562,965	562,965	-	-	-	-
Total Corporate	805,661	649,711	85,436	15,011	55,503	-
Repurchase Agreements	100,000	-	-	-	-	100,000
Certificate of Deposit	508,727	-	335,358	34,099	139,270	-
Bank Note	180,602	-	140,614	39,988	-	-
Mutual Funds	369,648	369,648	-	-	-	-
Total	<u>\$ 1,964,638</u>	<u>\$ 1,019,359</u>	<u>\$ 561,408</u>	<u>\$ 89,098</u>	<u>\$ 194,773</u>	<u>\$ 100,000</u>

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 5,000
Equipment (Regents – Hospitals)	\$ 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

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.

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

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

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).

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – CASH, INVESTMENTS AND SECURITIES LENDING

Primary Government and Fiduciary Funds

Investments of the primary government and fiduciary funds at June 30, 2007, are scheduled as follows (expressed in thousands):

Primary Government

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 215,702
U.S. Government Agency Government Asset and Mortgage-Backed	1,149,023
Corporate Bonds	217,573
Corporate Asset Backed	200,283
Private Placement	216
Guaranteed Investment Contracts	63,743
Municipals	79,817
Commingled Bond Funds	4,987
Commercial Paper	253,236
Certificate of Deposit	664,785
	62,381
Equity:	
U.S.	224,247
Non-U.S.	1,613
Private Equity	2,615
Real Estate	24,807
Commingled Funds	611,013
Money Market Funds	250,429
Mutual Funds	32,621
Investment Pools	2,469
Other Investments	131
Total Invested Assets	<u>\$4,061,691</u>

Fiduciary Funds

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 1,086,780
U.S. Government Agency Government Asset and Mortgage-Backed	268,631
Corporate Bonds	2,838,292
Corporate Asset Backed	2,590,315
Private Placements	896,207
Commingled Bond Funds	531,551
Convertible Investments	2,599,365
Other Fixed Income	4,105
Pooled Fund and Mutual Funds	7,149
Commercial Paper	1,142,591
Certificate of Deposit	311,009
Other Short Term	22,968
	36,402
Equity:	
U.S.	3,708,155
Private Equity	1,925,089
Real Estate	1,805,181
Commingled Funds	5,395,192
Mutual Funds	2,000,797
Investment Pools	43
Total Invested Assets	<u>\$27,169,822</u>

STATE OF IOWA
NOTES TO THE FINANCIAL STATEMENTS

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.

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The State's exposure to credit risk for the fixed income investments of the primary government and fiduciary funds at June 30, 2007, 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	BB	B	A-1	NR
U.S. Government Treasuries, Notes, Bonds	\$ 215,514	\$ -	\$ 188	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Agency	-	519,587	619,949	-	-	-	-	-	8,487	1,000
Government Asset and Mortgage-Backed	-	51,468	150,163	1,634	9,084	5,089	-	-	-	135
Corporate Bonds	-	-	8,038	121,599	46,773	19,021	-	193	-	4,659
Corporate Asset Backed	-	-	212	-	4	-	-	-	-	-
Private Placements	-	-	22,201	26,391	7,957	4,186	-	-	-	3,008
Guaranteed Investment Contracts	-	-	4,948	15,670	-	-	-	-	-	59,199
Municipals	-	-	1,081	2,766	-	-	-	-	-	1,140
Commingled Bond Funds	2,122	5,839	10,878	230,569	2,439	337	329	410	-	313
Commercial Paper	-	-	2,764	-	-	-	-	-	656,021	6,000
Certificate of Deposit	-	-	-	28,634	-	-	-	-	30,580	3,167
Total	\$ 217,636	\$ 576,894	\$ 820,422	\$ 427,263	\$ 66,257	\$ 28,633	\$ 329	\$ 603	\$ 695,088	\$ 78,621

Fiduciary

Investment Type	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	NR
U.S. Government Treasuries, Notes, Bonds	\$ 824,553	\$ 2,386	\$ 35,976	\$ -	\$ 27,719	\$ 42,028	\$ 46,991	\$ 6,105	\$ 290	\$ -	\$ 100,732
U.S. Government Agency	-	160,081	95,043	12,553	-	-	954	-	-	-	-
Government Asset and Mortgage-Backed	435	2,036,625	739,093	30,257	1,712	935	1,638	4,995	-	-	22,602
Corporate Bonds	-	-	107,490	135,123	185,135	493,446	417,007	744,976	116,473	-	390,665
Corporate Asset Backed	-	92	749,891	17,519	25,094	10,098	3,154	1,964	6,723	-	81,672
Private Placements	-	-	40,145	19,805	88,904	74,007	117,222	132,624	27,137	-	31,707
Commingled Funds - U.S. Fixed Income	593,730	285,303	1,208,767	122,384	200,855	187,343	-	-	-	-	983
Convertible Investments	-	-	-	-	-	-	603	3,502	-	-	-
Other Fixed Income	-	-	-	-	120	5,856	1,976	118	10	-	(931)
Pooled Fund and Mutual Funds	-	-	937,750	-	-	-	-	-	-	-	204,841
Commercial Paper	-	-	-	-	-	-	-	-	-	210,660	100,349
Certificate of Deposit	-	-	-	-	-	-	-	-	-	-	22,968
Other Short Term	-	-	-	-	-	-	-	-	-	-	36,402
Total	\$ 1,418,718	\$ 2,484,487	\$ 3,914,155	\$ 337,641	\$ 529,539	\$ 813,713	\$ 589,545	\$ 894,284	\$ 150,633	\$ 210,660	\$ 991,990

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 Investment 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 Investment 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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 investments of the primary government and the fiduciary funds at June 30, 2007, is summarized using the effective duration method, as follows (expressed in thousands):

Primary Government

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes, Bonds	\$ 215,702	2.51
U.S. Government Agency Government Asset and Mortgage-Backed	1,149,023	1.27
Corporate Bonds	217,573	1.90
Corporate Asset Backed	200,283	1.00
Private Placements	216	1.75
Guaranteed Investment Contracts	63,743	1.98
Municipals	79,817	32.35
Commingled Bond Funds	4,987	0.60
Commercial Paper	253,236	2.58
Certificate of Deposit	664,785	0.05
Total	<u>\$ 2,911,746</u>	<u>2.07</u>

Fiduciary Funds

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes, Bonds	\$ 1,086,780	5.36
U.S. Government Agency Government Asset and Mortgage Backed	268,631	4.44
Corporate Bonds	2,838,292	3.71
Corporate Asset Backed	2,590,315	4.32
Private Placements	896,207	2.77
Commingled Bond Funds	531,551	5.10
Convertible Investments	2,599,365	4.70
Other Fixed Income	4,105	4.25
Pooled Fund and Mutual Funds	7,149	5.08
Commercial Paper	1,142,591	0.00
Certificate of Deposit	311,009	0.03
Other Short Term	22,968	0.05
Total	<u>\$ 12,335,365</u>	<u>4.14</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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, 2007 follows (expressed in thousands):

	Total	Fixed Income	Equity	Alternative Investments	Cash
Argentine Peso	\$ 493	\$ -	\$ 490	\$ -	\$ 3
Australian Dollar	174,382	-	174,295	-	87
Brazilian Real	5,236	-	5,854	-	(618)
British Pound Sterling	217,244	-	217,206	-	38
Canadian Dollar	3,731	2,976	741	14	-
Chilean Peso	1,648	-	1,645	-	3
Colombian Peso	1,545	-	1,545	-	-
Czech Koruna	1,311	-	1,311	-	-
Danish Krone	13,135	-	13,135	-	-
Euro Currency	739,581	11,704	738,841	(12,560)	1,596
Hong Kong Dollar	63,636	-	63,636	-	-
Hungarian Forint	924	2,621	753	(2,450)	-
Indonesian Rupiah	7,238	-	7,238	-	-
Israeli Shekel	2,571	-	2,571	-	-
Japanese Yen	478,275	9,617	441,460	27,194	4
Malaysian Ringgit	18,163	-	17,426	-	737
Mexican Nuevo Peso	15,395	21,378	9,263	(10,229)	(5,017)
New Taiwan Dollar	72,206	-	72,010	-	196
New Turkish Lira	6,083	-	6,083	-	-
New Zealand Dollar	5,345	-	5,345	-	-
Norwegian Krone	7,662	-	7,662	-	-
Pakistani Rupee	199	-	1	-	198
Peruvian Nuevo Sol	323	-	323	-	-
Philippine Peso	3,205	-	3,205	-	-
Polish Zloty	2,301	15,400	1,491	(14,618)	28
Renminbi Yuan	384	-	384	-	-
Russian New Ruble	21,956	-	21,956	-	-
Singapore Dollar	28,206	1,050	26,999	-	157
South African Rand	21,426	944	21,430	(948)	-
South Korean Won	78,215	-	78,215	-	-
Swedish Krona	19,262	-	19,262	-	-
Swiss Franc	46,235	-	46,118	-	117
Thai Baht	7,548	-	7,604	-	(56)
TOTAL	\$ 2,065,064	\$ 65,690	\$ 2,015,498	\$ (13,597)	\$ (2,527)

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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 limit investment 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. Protection from custodial credit risk exists for the State's deposits in excess of FDIC insurance coverage. Banks in Iowa which accept public fund deposits are required to pledge collateral in an amount equal to, or in excess of, the total amount by which the public funds deposits in the bank exceeds the total capital of the bank. If a bank fails, the Treasurer of State would liquidate any collateral that the bank had pledged and use the proceeds to repay public units. If the proceeds from the sale of the collateral were not sufficient to reimburse the public units, the Treasurer would use money from the sinking fund to make the public units whole. If there is not enough money in the sinking fund to cover the uninsured public deposits, the treasurer's office would assess a proportional share of the loss against all remaining banks whose public funds deposits exceeded FDIC insurance to satisfy the remaining loss. The Universities and the pension systems have no formal policy for custodial credit risk. The \$1,110,508,744 total combined bank deposits of the primary government and fiduciary funds at June 30, 2007, was exposed to custodial credit risk for \$442,301 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 \$31,231,512,398 total combined investments of the primary government and fiduciary funds at June 30, 2007, \$1,703,022 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.

Component Units

Investments of the component units at June 30, 2007 are scheduled as follows (expressed in thousands):

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 5,338
U.S. Government TIPS	10,239
U.S. Government Agency	86,859
Government Asset and Mortgage-Backed	844,824
Guaranteed Investment Contracts	204,844
Investment Agreements	20,109
Equity:	
Money Market Funds - Commingled	<u>137,690</u>
Total Invested Assets	<u><u>\$ 1,309,903</u></u>

The Universities Foundations' Cash and Investments of \$1,500,746,000 are not subject to GASB disclosure requirements.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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 investments at June 30, 2007, is summarized by credit quality ratings, as follows (expressed in thousands):

Investment Type	TSY	AGY	AAA	AA	A
Fixed:					
U.S. Government Treasuries, Notes, Bonds	\$ 5,338	\$ -	\$ -	\$ -	\$ -
U.S. Government TIPS	10,239	-	-	-	-
U.S. Government Agency	-	86,859	-	-	-
Government Asset and Mortgage-Backed	-	-	844,824	-	-
Guaranteed Investment Contracts	-	-	13,179	191,148	517
Investment Agreements	-	-	20,109	-	-
Total	\$ 15,577	\$ 86,859	\$ 878,112	\$ 191,148	\$ 517

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 investments at June 30, 2007 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	\$ 5,338	10.20
U.S. Government TIPS	10,239	5.70
U.S. Government Agency	86,859	1.40
Government Asset and Mortgage-Backed	844,824	26.72
Guaranteed Investment Contracts	204,844	0.50
Investment Agreements	20,109	0.58
Total	\$ 1,172,213	19.56

NOTE 3 – TRANSFERS

Interfund transfers for the year ended June 30, 2007, consisted of the following (expressed in thousands):

Transferred Out	Transferred In				Total
	General	Nonmajor Governmental Funds	University Funds	Nonmajor Enterprise Funds	
General	\$ -	\$ 43,379	\$ 675,211	\$ 477	\$ 719,067
Nonmajor Governmental Funds	128,194	20,858	1,250	-	150,302
Unemployment Benefits	5,499	-	-	-	5,499
Nonmajor Enterprise Funds	125,321	-	-	-	125,321
Total	\$ 259,014	\$ 64,237	\$ 676,461	\$ 477	\$ 1,000,189

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, and 3) profits from the Iowa Lottery Fund and Liquor Control Fund as required by law.

Not included in the table above are transfers totaling \$3,088,000 for capital asset contributions from governmental activities to the business-type activities. These were appropriately recorded as expenditures and capital contributions in the governmental and business-type fund financial statements, respectively, and reclassified as transfers in the government-wide statement of activities.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – RECEIVABLES

Receivables at June 30, 2007, consisted of the following (expressed in thousands):

	Governmental Funds	Proprietary Funds		Component Units
		Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds	
Accounts Receivable				
Taxes	\$ 463,861	\$ -	\$ -	\$ -
Pledges	1,434	-	-	173,809
Benefit Overpayment	-	33,209	-	-
Employer Contributions	-	113,651	-	-
Grants & Contracts	509,840	490,304	-	-
Other	988,298	54,653	2,164	21,001
Less Allowance For Doubtful Accounts	410,361	222,571	-	5,297
Less Discount To Present Value	-	-	-	19,975
Accounts Receivable Net	<u>\$ 1,553,072</u>	<u>\$ 469,246</u>	<u>\$ 2,164</u>	<u>\$ 169,538</u>
Current	\$ 1,535,371	\$ 453,167	\$ 2,164	\$ 58,673
Non-Current	17,701	16,079	-	110,865
Total	<u>\$ 1,553,072</u>	<u>\$ 469,246</u>	<u>\$ 2,164</u>	<u>\$ 169,538</u>
Loans Receivable				
Loans Receivable	\$ 222,056	\$ 70,748	\$ -	\$ 572,072
Less Allowance For Doubtful Accounts	69,641	2,945	-	2,670
Loans Receivable Net	<u>\$ 152,415</u>	<u>\$ 67,803</u>	<u>\$ -</u>	<u>\$ 569,402</u>
Current	\$ 10,868	\$ 6,305	-	34,195
Non-Current	141,547	61,498	-	535,207
Total	<u>\$ 152,415</u>	<u>\$ 67,803</u>	<u>\$ -</u>	<u>\$ 569,402</u>

NOTE 5 – INTERFUND BALANCES

Interfund balances for the year ended June 30, 2007, consisted of the following (expressed in thousands):

Due To Other Funds/ Advances From Other Funds	Due From Other Funds/Advances To Other Funds					Total
	General	Nonmajor Governmental Funds	Unemployment Benefits	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 5,874	\$ 2,788	\$ 3,301	\$ 56,357	\$ 68,320
Nonmajor Governmental Funds	2,541	2,732	-	288	555	6,116
Unemployment Benefits	328	-	-	-	-	328
Nonmajor Enterprise Funds	16,103	-	-	23	74	16,200
Internal Service	1,760	62	-	76	13,072	14,970
Total	<u>\$ 20,732</u>	<u>\$ 8,668</u>	<u>\$ 2,788</u>	<u>\$ 3,688</u>	<u>\$ 70,058</u>	<u>\$ 105,934</u>

\$46.2 million is due from the General Fund to the Workers Compensation Fund (an Internal Service Fund) to fund the cost of claims incurred, \$12.2 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: \$.6 million due from the General Fund and \$1.0 million from an internal service fund to the Innovation Fund (an Internal Service Fund) for amounts loaned for the purpose of stimulating and encouraging innovation in State government and \$3.2 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Also, not included in the table above and not expected to be repaid within one year, is an interfund advance of \$28 million due from the Honey Creek Park (an Enterprise Fund) to the Honey Creek Authority (a blended component unit classified as a Special Revenue Fund) for repayment of funds provided for development of the destination park. This interfund advance will be reduced by the principal amount paid each year.

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, was as follows (expressed in thousands):

Governmental Activities	Balances June 30, 2006	Reclassifications	Increases	Decreases	Balances June 30, 2007
Capital Assets Not Being Depreciated:					
Land	\$ 589,938	\$ (5,084)	\$ 24,296	\$ 2,540	\$ 606,610
Construction in Progress	65,021	(36,085)	34,274	-	63,210
Total Capital Assets Not Being Depreciated	654,959	(41,169)	58,570	2,540	669,820
Capital Assets Being Depreciated:					
Infrastructure	7,556,552	522	431,473	-	7,988,547
Works of Art and Historical Treasures	928	-	-	-	928
Land Improvements	8,881	5,084	3,436	-	17,401
Building and Improvements	985,589	32,383	32,135	1,510	1,048,597
Machinery, Equipment and Vehicles	389,843	3,180	47,505	28,443	412,085
Total Capital Assets Being Depreciated	8,941,793	41,169	514,549	29,953	9,467,558
Less Accumulated Depreciation for:					
Infrastructure	2,977,049	-	320,522	-	3,297,571
Works of Art and Historical Treasures	93	-	9	-	102
Land Improvements	1,745	-	4,160	-	5,905
Buildings and Improvements	433,878	-	23,145	4	457,019
Machinery, Equipment and Vehicles	235,815	-	32,937	25,633	243,119
Total Accumulated Depreciation	3,648,580	-	380,773	25,637	4,003,716
Total Capital Assets Being Depreciated, Net	5,293,213	41,169	133,776	4,316	5,463,842
Governmental Activities Capital Assets, Net	\$ 5,948,172	\$ -	\$ 192,346	\$ 6,856	\$ 6,133,662
Business-type Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 35,071	\$ 90	\$ 999	\$ 21	\$ 36,139
Land Improvements	5,316	307	-	-	5,623
Construction in Progress	337,349	(353,468)	253,685	50	237,516
Works of Art	29,762	-	1,999	61	31,700
Library Collections	194,119	-	13,255	1,554	205,820
Total Capital Assets Not Being Depreciated	601,617	(353,071)	269,938	1,686	516,798
Capital Assets Being Depreciated:					
Infrastructure	585,064	23,603	499	-	609,166
Library Collections	185,146	-	11,058	579	195,625
Land Improvements	48,765	563	-	44	49,284
Buildings and Improvements	2,773,021	328,750	8,218	1,216	3,108,773
Machinery, Equipment and Vehicles	806,207	155	117,659	59,416	864,605
Total Capital Assets Being Depreciated	4,398,203	353,071	137,434	61,255	4,827,453
Less Accumulated Depreciation for:					
Infrastructure	338,568	-	24,411	-	362,979
Library Collections	144,249	-	8,888	578	152,559
Land Improvements	24,666	-	2,041	17	26,690
Buildings and Improvements	1,271,734	-	96,530	1,310	1,366,954
Machinery, Equipment and Vehicles	501,776	-	69,199	52,384	518,591
Total Accumulated Depreciation	2,280,993	-	201,069	54,289	2,427,773
Total Capital Assets Being Depreciated, Net	2,117,210	353,071	(63,635)	6,966	2,399,680
Business-type Activities Capital Assets, Net	\$ 2,718,827	\$ -	\$ 206,303	\$ 8,652	\$ 2,916,478

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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

Administration & Regulation	\$	9,569
Education		3,079
Health & Human Rights		3,064
Human Services		4,155
Justice & Public Defense		21,168
Economic Development		629
Transportation		320,641
Agriculture & Natural Resources		6,287
Subtotal		<u>368,592</u>
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>12,181</u>
Total Depreciation Expense-Governmental Activities	\$	<u><u>380,773</u></u>
Business-type Activities:		
Enterprise	\$	<u><u>201,069</u></u>
Discrete Component Units		
Land	\$	5,667
Construction in Progress		<u>147</u>
Total Capital Assets Not Being Depreciated		<u>5,814</u>
Infrastructure		5,824
Buildings and Improvements		86,243
Land Improvements		46
Machinery, Equipment and Vehicles		<u>15,977</u>
Total Capital Assets Being Depreciated		108,090
Less Accumulated Depreciation		<u>38,921</u>
Total Capital Assets Being Depreciated, Net		<u>69,169</u>
Discretely Presented Component Units Capital Assets, Net	\$	<u><u>74,983</u></u>

NOTE 7 – INVESTMENT IN PRIZE ANNUITIES AND ANNUITY PRIZES PAYABLE

Assets totaling \$20,236,061 which includes \$124,600 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 \$24,600 to taxing authorities. The following is a schedule of future payments (expressed in thousands):

Year Ending June 30,	Current	Noncurrent	Total Payments
2008	\$ 6,340	\$ -	\$ 6,340
2009	-	4,377	4,377
2010	-	2,895	2,895
2011	-	2,167	2,167
2012	-	1,488	1,488
2013-2017	-	7,113	7,113
2018	-	633	633
Total Future Value	<u>6,340</u>	<u>18,673</u>	<u>25,013</u>
Less: Unamortized Discount	<u>268</u>	<u>4,533</u>	<u>4,801</u>
Present Value of Payments	<u><u>\$ 6,072</u></u>	<u><u>\$ 14,140</u></u>	<u><u>\$ 20,212</u></u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2007, are summarized as follows (expressed in thousands):

	Balances June 30, 2006 Restated	Additions	Deductions	Balances June 30, 2007	Amounts due within one year
Governmental Activities					
Compensated Absences	\$ 150,145	\$ 135,100	\$ 131,468	\$ 153,777	\$ 109,107
Capital Leases	3,360	4,177	1,405	6,132	1,420
Other Financing Arrangements	4,129	553	808	3,874	726
Revenue Bonds	1,091,841	33,639	14,898	1,110,582	53,065
Early Retirement/Termination Benefits	5,416	9,532	4,805	10,143	3,832
Risk Management	11,500	17,628	11,228	17,900	11,173
Pollution Remediation	84,109	-	12,941	71,168	14,063
Other Liabilities	23,711	15,350	2,525	36,536	7,090
Total	<u>1,374,211</u>	<u>215,979</u>	<u>180,078</u>	<u>1,410,112</u>	<u>200,476</u>

* The General Fund has been typically used to liquidate most long-term liabilities, except for \$783.4 million and \$33.6 million of Revenue Bonds to be liquidated by the Tobacco Settlement Authority and the Honey Creek Authority, respectively, both Special Revenue Funds.

Allocation of Internal Service

Funds Liability:

Capital Leases	227	-	66	161	69
Compensated Absences	2,745	2,468	2,467	2,746	2,585
Early Retirement/Termination Benefits	57	221	55	223	55
Total	<u>3,029</u>	<u>2,689</u>	<u>2,588</u>	<u>3,130</u>	<u>2,709</u>
Total Primary Government - Governmental Activities	<u>\$ 1,377,240</u>	<u>\$ 218,668</u>	<u>\$ 182,666</u>	<u>\$ 1,413,242</u>	<u>\$ 203,185</u>

Business-type Activities

Compensated Absences	\$ 141,554	\$ 85,421	\$ 75,735	\$ 151,240	\$ 79,307
Revenue Bonds	837,368	143,185	58,615	921,938	48,989
Capital Leases	137,169	28,320	7,824	157,665	7,275
Other Financing Arrangements	4,158	575	1,302	3,431	1,292
Total	<u>\$ 1,120,249</u>	<u>\$ 257,501</u>	<u>\$ 143,476</u>	<u>\$ 1,234,274</u>	<u>\$ 136,863</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 0.37% to 20.75% and expire before June 30, 2031.

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
2008	\$ 1,489	\$ 280
2009	1,111	233
2010	1,029	178
2011	461	127
2012	468	103
2013-2017	1,570	204
2018-2022	<u>165</u>	<u>19</u>
Total	<u>\$ 6,293</u>	<u>\$ 1,144</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):

Equipment	\$ 5,949
Accumulated Depreciation	<u>(796)</u>
Net	<u>\$ 5,153</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
2008	\$ 7,275	\$ 7,675
2009	6,992	7,356
2010	18,505	7,033
2011	7,525	6,131
2012	7,461	5,779
2013-2017	38,158	23,189
2018-2022	35,783	13,608
2023-2027	23,160	6,825
2028-2032	<u>12,806</u>	<u>1,422</u>
Total	<u>\$ 157,665</u>	<u>\$ 79,018</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	1,411
Buildings	190,748
Equipment	<u>9,273</u>
Total	201,887
Accumulated Depreciation	<u>(23,698)</u>
Net	<u>\$ 178,189</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
2008	\$ 568
2009	585
2010	599
2011	620
2012	613
2013-2017	<u>5,075</u>
Total	<u>\$ 8,060</u>

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 \$7,318,893 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
2008	\$ 286	124
2009	179	107
2010	187	99
2011	194	92
2012	204	84
2013-2017	1,146	285
2018-2022	<u>658</u>	<u>75</u>
Total	<u>\$ 2,854</u>	<u>\$ 866</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Primary Government – Business-Type Activities

Iowa State University, the University of Northern Iowa and the University of Iowa have entered into agreements for buildings and equipment for a total of \$9,127,839. The agreements are for periods of 11 to 25 years with interest rates ranging from 3.63% to 6.50%.

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

Year ending June 30,	Principal	Interest
2008	\$ 1,292	\$ 149
2009	571	90
2010	399	58
2011	315	37
2012	334	19
2013-2017	170	3
2018-2022	75	-
2023-2027	75	-
2028-2032	<u>200</u>	<u>-</u>
Total	<u>\$ 3,431</u>	<u>\$ 356</u>

Certificates of Participation

Primary Government – Governmental Activities

The Third 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
2008	\$ 440	\$ 49
2009	185	29
2010	195	20
2011	<u>200</u>	<u>10</u>
Total	<u>\$ 1,020</u>	<u>\$ 108</u>

NOTE 11 – BONDS PAYABLE

Revenue bonds payable at June 30, 2007, are as follows (expressed in thousands):

PRIMARY GOVERNMENT – Governmental Activities:

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
Revenue Bonds					
<i>Term Bonds</i>					
Tobacco Settlement Authority	2006	\$ 635,635	5.38-6.50	2007-2041	\$ 626,325
Honey Creek Authority	2007	15,215	4.50	2029-2036	<u>15,215</u>
Total					<u>641,540</u>
<i>Serial Bonds</i>					
Underground Storage Tank	1997 & 2004	\$ 62,375	Variable	1998-2014	39,765
Department of Corrections	2002	54,240	Variable	2007-2016	54,185
Vision Iowa	2002	196,375	2.25-5.50	2002-2020	154,196
School Infrastructure	2002	48,585	3.50-5.50	2002-2021	34,445
Honey Creek Authority	2007	18,155	3.95-5.00	2011-2028	<u>18,155</u>
Total					<u>300,746</u>
<i>Capital Appreciation Bonds</i>					
Tobacco Settlement Authority	2006	\$ 729,800	5.60-7.13	2007-2046	<u>729,800</u>
Unamortized Premium					11,556
Unamortized Discounts					<u>(573,060)</u>
Total Governmental Activities					<u>\$1,110,582</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

PRIMARY GOVERNMENT – Business-Type Activities:

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
Revenue Bonds					
University of Northern Iowa	1994-2007	\$ 141,976	1.80-8.25	1995-2027	\$ 116,634
University of Iowa	1967-2007	637,715	2.00-9.00	1970-2032	504,739
Iowa State University	1968-2007	365,790	2.00-6.85	1975-2031	298,045
Iowa Lottery	2004	8,800	3.28	2005-2019	<u>3,500</u>
Total					922,918
Unamortized Discount					<u>(980)</u>
Total Business-type Activities					<u>\$ 921,938</u>

COMPONENT UNITS:

Revenue Bonds					
Iowa Finance Authority	1977-2007	\$1,847,290	Variable	2002-2041	\$1,174,832
Iowa Higher Education Loan Authority	1984-1996	50,630	Variable	1999-2016	32,380
Iowa State University Foundation	2002	3,850	5.25	2003-2012	<u>3,162</u>
Total					1,210,374
Unamortized Premium					<u>1,593</u>
Total Component Units					<u>\$1,211,967</u>

Bonds Payable

Primary Government – Governmental Activities

Underground Storage Tank

The Iowa Finance Authority has issued 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.

Iowa Department of Corrections

The Iowa Finance Authority has issued serial bonds for 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. State law requires 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 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.

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 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 \$1,000,000 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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 Tobacco Settlement Asset-Backed Bonds in five series. The Series 2005 A Bonds in the par amount of \$222,910,000, are federally taxable turbo term bonds. The Series 2005 B Bonds in the par amount of \$178,010,000 are federally tax-exempt turbo convertible capital appreciation bonds. The Series 2005 C Bonds in the par amount of \$412,725,000, are federally tax-exempt turbo term bonds. The Series 2005 D Bonds in the par amount of \$190,800,000, are federally tax-exempt turbo convertible capital appreciation bonds payable only when no current interest bond or convertible capital appreciation bond remains outstanding. And the Series 2005 E Bonds, are federally tax-exempt turbo convertible capital appreciation bonds, in the par amount of \$360,990,000, are federally tax-exempt turbo convertible capital appreciation bonds payable only when no current interest bond, convertible capital appreciation bond, or Series D bond remains outstanding. The bonds bear interest at rates of 5.375–7.125%.

The bonds were issued by the Tobacco Settlement Authority (the Authority), a public instrumentality and agency of the State, separate and distinct from the State, exercising public and essential governmental functions, and created by the Tobacco Settlement Authority Act. Pursuant to a Sales Agreement, dated 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 (1) 78% of the TSRs payable to the Authority in the future as of the effective date of the Sales Agreement (the Pledged TSRs), (2), investment earnings on certain accounts pledged under the Indenture, (3) amounts held in the debt service reserve account and the trapping account established under the Indenture, (4) amounts held in the other accounts established under the Indenture, and (5) 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 from, 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. The State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds.

In prior years, the Authority defeased certain revenue bonds by placing the proceeds of new bonds along with other resources in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Tobacco Settlement Asset-Backed Bonds, Series 2001 A and 2001 B. Accordingly, trust account assets and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 2007, bonds totaling \$634,125,000 are considered defeased.

Honey Creek Authority

During the current fiscal year, the Honey Creek Authority issued \$33,370,000 of Destination Park Revenue Bonds, Series 2006, with an interest rate range of 3.95% to 5.0% to provide financing for the development by the State of the Honey Creek Park (the "Park").

The bonds were issued by the Honey Creek Authority (the 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 Honey Creek Premier Destination Park Bond Program Act. The bonds were issued pursuant to an Indenture of Trust dated October 1, 2006 among the Authority, the Iowa Department of Natural Resources, the Treasurer of the State of Iowa and Bankers Trust Company, N.A. for the purpose of constructing Phase I of the Park project.

Interest on the Series 2006 Bonds is payable semiannually beginning December 1, 2006. The first principal payment is due June 1, 2011.

The bonds are secured by and are payable solely from net revenues of the Park, which have been pledged under the Indenture, if any, and amounts held in the debt service reserve account, including any amounts appropriated by the State to replenish such account to its required balance. The bonds do not constitute an obligation or indebtedness of the State or any political subdivision of the State.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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

Year ending June 30,	Principal	Interest
2008	\$ 53,065	\$ 57,419
2009	46,530	59,466
2010	49,995	56,828
2011	54,095	53,949
2012	51,595	50,978
2013-2017	172,255	211,387
2018-2022	76,250	179,048
2023-2027	9,015	168,672
2028-2032	8,480	166,833
2033-2037	186,290	134,000
2038-2042	238,595	90,611
2043-2047	<u>725,921</u>	<u>38,363</u>
Total	<u>\$1,672,086</u>	<u>\$1,267,554</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 \$27,975,000 of Academic Building and Hospital Revenue Bonds, Series 2007, with an interest rate range of 3.50-5.50% to defray the cost of constructing additions to the hospital, academic buildings, facilities and equipment.

During the current fiscal year, the University of Iowa issued \$24,500,000 of Athletic Facilities Revenue Bonds, Series 2006A, with an interest rate range of 4.00-4.75%, to defray a portion of the costs of the renovations to Kinnick Stadium and related facilities.

During the current fiscal year, the University of Iowa issued \$50,000,000 of Utility System Revenue Bonds, Series 2006A and 2007, with an interest rate range of 4.00-4.35%, to equip and furnish the utility facilities.

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, 2007, bonds totaling \$9,385,000 for the University of Iowa were considered defeased.

During the current fiscal year, Iowa State University issued \$18,000,000 of Academic Building Revenue bonds, Series 2007, with an interest rate range of 4.00-4.25%, to provide funds to pay the cost of constructing, equipping and furnishing academic facilities.

During the current fiscal year, Iowa State University issued \$5,510,000 of Academic Building Revenue Refunding Bonds, Series 2006, with an interest rate range of 4.00-5.00% to advance refund \$5,305,000 of outstanding Academic Building Revenue Bonds, Series 1995.

Net proceeds of \$5,387,518 were placed in an irrevocable trust account with a trustee. As a result, the Series 1995 bonds are considered defeased and the trust account assets and the liability for those bonds have been removed from the financial statements.

The advance refunding resulted in a decrease in aggregate debt service payments of \$82,141 over the next nine years and an economic gain (difference between present value of the old and new debt service payments) of \$312,774.

During the current fiscal year, Iowa State University issued \$9,200,000 of Dormitory System Revenue Refunding Bonds, Series 2006A, with an interest rate range of 4.00-4.375% to advance refund \$8,725,000 of outstanding Dormitory Revenue Bonds, Series 2000A.

Net proceeds of \$9,268,491, consisting of bond proceeds of \$9,100,621 combined with other resources of \$167,870, were placed in an irrevocable escrow account with a trustee. As a result, the Series 2000A bonds are considered defeased and the trust account assets and the liability for those bonds have been removed from the financial statements.

The advance refunding resulted in a decrease in aggregate debt service payments of \$1,122,999 over the next twenty-one years and an economic gain (difference between present value of the old and new debt service payments) of \$613,181.

Also, during the current fiscal year, Iowa State University defeased \$360,000 of Fieldhouse-Auditorium Revenue Bonds, Series 1968, by placing existing debt service reserve funds, totaling \$376,200, in a trust account. As a result, the Series 1968 bonds are considered defeased.

In prior years, Iowa State University 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, 2007, bonds totaling \$15,995,000 for Iowa State University were considered defeased.

During the current fiscal year, the University of Northern Iowa issued \$8,000,000 of Academic Building Revenue Bonds, Series 2007, with an interest rate range of 4.00-4.25% to provide funds to defray the cost of academic buildings, facilities and equipment.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Iowa Lottery Authority

The Iowa Lottery Authority has issued Iowa Lottery Authority Bonds 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	Principal	Interest
June 30,		
2008	\$ 48,989	\$ 42,674
2009	47,032	41,607
2010	48,728	36,988
2011	49,767	35,460
2012	51,967	31,034
2013-2017	231,140	125,622
2018-2022	208,690	76,426
2023-2027	167,260	33,489
2028-2032	<u>69,345</u>	<u>5,793</u>
Total	<u>\$ 922,918</u>	<u>\$ 429,093</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 \$2,000,000 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.

During the current fiscal year, the Finance Authority issued Single Family Mortgage Revenue Bonds, Series 2006 A and B in the par amount of \$26,540,000 with interest rates of 4.41% to 4.46%, Series 2006 G and H in the par amount of \$70,000,000 with interest rates of 3.75% to 5.87%, Series 2006 I and J in the par amount of \$80,000,000 with interest rates of 4.70% to 5.75% and Series 2007 A, B and C in the part amount of \$70,000,000 with interest rates of 3.50% to 5.32%. The Finance Authority also issued Multi-Family Bonds, Series 2006 A in the par amount of \$6,475,000 with an interest rate of 4.60% and Series 2007 A and B in the par amount of \$22,000,000 with an interest rate of 3.80%.

During the current fiscal year, the Finance Authority issued a long-term note totaling \$2,800,000 with an interest rate of 4.11% to finance a building purchase.

In prior years, the Authority defeased certain bonds by depositing funds or securities into an irrevocable trust with an escrow agent to provide for future interest and principal payments. Accordingly, the trust account assets and liabilities for these defeased bonds are not included in the Authority's financial statements. As of June 30, 2007, bonds totaling \$43,485,000 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

Iowa State University Foundation 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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

Year ending June 30,	Principal	Interest
2008	\$ 48,438	\$ 56,040
2009	39,303	54,572
2010	39,643	52,833
2011	41,137	50,964
2012	43,995	49,040
2013-2017	204,189	214,206
2018-2022	164,510	172,364
2023-2027	183,760	130,396
2028-2032	219,195	82,120
2033-2037	198,095	27,669
2038-2042	<u>28,109</u>	<u>346</u>
Total	<u>\$1,210,374</u>	<u>\$ 890,550</u>

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable & accruals at June 30, 2007, consisted of the following (expressed in thousands):

Primary Government

Governmental Activities

	Current	Noncurrent
Salaries and Fringes	\$ 73,316	\$ –
Early Retirement	3,887	6,479
Pension	–	21,324
Risk Management	11,173	6,727
Pollution Remediation	14,063	57,105
State Aid	339,784	–
Trade and Other Payables	<u>534,909</u>	<u>41,239</u>
Total Governmental Activities	<u>\$ 977,132</u>	<u>\$132,874</u>

Business-type Activities

	Current	Noncurrent
Salaries and Fringes	\$ 118,524	\$ –
Early Retirement	4,145	3,130
General Claims	29,810	–
Unemployment Benefits	11,403	–
Trade and Other Payables	<u>152,145</u>	<u>8,451</u>
Total Business-type Activities	<u>\$ 316,027</u>	<u>\$ 11,581</u>

Component Units

	Current	Noncurrent
Annuity and Life Income Obligations	\$ –	\$ 56,385
Pledges Due to University	2,132	4,898
Other	<u>26,513</u>	<u>9,332</u>
Total	<u>\$ 28,645</u>	<u>\$ 70,615</u>

Pollution Remediation Obligations

The Iowa Petroleum Underground Storage Tank program was established by State statute to provide relief to land owners for remediation costs relating to the release of contaminants. The estimations of the liabilities are based on a range of expected outlays, net of expected cost recoveries, if any, for the type and amount of pollution contamination detected.

The estimates are reviewed and adjusted periodically for price changes, additional contamination and any other changes detected.

NOTE 13 – NET ASSETS/FUND BALANCE – RESERVED FOR SPECIFIC PURPOSES

Net Assets Restricted By Enabling Legislation

The government-wide Statement of Net Assets reports \$2,332,216,000 of Restricted Net Assets, of which \$16,366,187 is restricted by enabling legislation.

Fund Balance – Reserved For Specific Purposes

The Reserved 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, 2007, follows (expressed in thousands):

General Fund:

Primary Road	\$ 113,850
Iowa Infrastructure	103,465
Road Use Tax	95,027
Senior Living Trust	78,190
Vision Iowa	54,275
Motor Vehicle Fuel Tax Unapportioned	37,173
Revitalize Iowa's Sound Economy	34,307
UST Innocent Landowners	21,273
Safety Improvement Program	20,588
Farm to Market Road	17,652
Unassigned Revenue	17,374
School Infrastructure and Reserve	14,115
Vertical Infrastructure	13,225
Health Insurance Premium Operating	13,148
Terminal Liability Health Insurance	12,618
Resource Enhancement & Protection	11,276
Other	<u>94,894</u>
Total General Fund	<u>752,450</u>

Nonmajor Governmental Funds:

Endowment for Iowa Health	94,342
Tobacco Settlement Authority	82,230
Permanent School Principal	7,974
Iowa Veterans Trust	5,288
Honey Creek Authority	4,403
Other	<u>78,783</u>
Total Nonmajor Governmental Funds	<u>273,020</u>
Total	<u>\$ 1,025,470</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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,

2008	\$	12,778
2009		10,859
2010		8,653
2011		6,417
2012		3,365
2013-2017		10,175
2018-2022		266
2023-2027		286
2028-2032		237
2033-2037		261
2038-2042		<u>241</u>
Total	\$	<u>53,538</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, 2007 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$16,193,873.

Primary Government – Business-Type Activities:

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year ending June 30,

2008	\$	5,454
2009		4,774
2010		3,715
2011		3,145
2012		501
2013-2017		<u>113</u>
Total	\$	<u>17,702</u>

Rental expense for the year ended June 30, 2007 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$9,811,841.

Component Units:

The future minimum lease payments for these leases are as follows (expressed in thousands):

Year ending June 30,

2008	\$	21
2009		21
2010		<u>11</u>
Total	\$	<u>53</u>

Rental expense for the year ended June 30, 2007 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$429,573.

NOTE 15 – LESSOR OPERATING LEASES

The Iowa Department of Natural Resources leases tracts of land valued at \$9,842,758 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 \$2,756,887. Iowa State University leases building space valued at \$172,159, tower space valued at \$339,193, equipment valued at \$1,602,839, 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 \$358,229 (net of accumulated depreciation of \$97,236), tower space, no value has been assigned to the leased portions and tracts of land valued at \$523,155 for agricultural purposes. The following is a schedule by year of minimum future rentals on operating leases as of June 30, 2007 (expressed in thousands):

Year ending June 30,

2008	\$	2,610
2009		1,904
2010		1,123
2011		768
2012		486
2013-2017		1,451
2018-2022		267
2023-2027		105
2028-2032		<u>37</u>
Total	\$	<u>8,751</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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, 2007

Employer members:

City	1,198
County	423
School	399
State	25
Other	<u>248</u>
Total	<u><u>2,293</u></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 anytime after reaching age 62 with 20 or more years of covered employment) 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 actuarially determined rates as shown in the following table. Wages are covered up to the federal limit of \$225,000 for calendar year 2007.

	<u>Contribution Rates</u> <u>as of June 30, 2007</u>		
	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Special Services Group #1 *	8.37%	8.37%	16.74%
Special Services Group #2 **	6.08%	9.12%	15.20%

* Includes sheriffs and deputies.

** Includes all other protection occupation members.

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 the actuarially determined employer contribution requirement was \$411,879,590. The total amount of employer contributions made during the fiscal year ended June 30, 2007 was \$343,063,330 resulting in an 83.3% funding ratio. The difference between the actuarially required employer contributions and actual employer contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The following table provides a schedule of the actuarially required employer contributions and the percentage actually contributed to IPERS for the last three fiscal years:

Year Ended June 30,	Actuarially Required Contributions	Percentage Contributed
2005	\$ 363,181,025	85.6%
2006	387,542,419	83.8%
2007	411,879,590	83.3%

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, \$2,266,485,367 at June 30, 2007. 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.

During fiscal year 2007, IPERS' unfunded actuarial liability decreased to \$2,266,485,367 and the amortization period continued to exceed the 30-year maximum. To address IPERS' long-term funding needs, the Iowa Legislature passed and the Governor signed a bill increasing the contribution rate for regular members, the first rate increase since 1979. Regular members make up 96 percent of IPERS' active membership. The increase of two percent points is phased in over four years beginning July 1, 2007. The increase does not affect members in public safety positions, who contribute at an actuarially required rate that may change every year.

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 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. Private

equities are valued based on March 31 net assets values plus or minus purchases or sales, and cash flows from April 1 through June 30 of the reporting year.

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.

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, Public Safety 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, 1995, 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 employer 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.

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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 \$3,617,843, representing 9.35% of the current year covered payroll. The State contribution required by statute was \$6,262,951 and the amount actually contributed was \$6,262,951. 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 without an established market are reported at estimated fair value.

Investments in governmental bonds and notes constitute approximately 9.47% of net assets held in trust for pension benefits. 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	\$ 12,383,974
Interest on net pension obligation	80,714
Adjustment to annual required contribution	<u>(81,946)</u>
Annual pension cost	12,382,742
Contributions made	<u>6,262,951</u>
Increase in net pension obligation	6,119,791
Net pension obligation beginning of year	<u>1,008,924</u>
Net pension obligation end of year	<u><u>\$ 7,128,715</u></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 2007.

The annual required contribution for the current year was determined as part of the July 1, 2007, 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 6.75% for the first five years, 6.50% for year six, 6.00% for year seven, 5.25% for years eight through twenty-four and 4.75% thereafter, (c) payroll growth of 4.00%, and (d) post retirement benefits based on expected payroll growth and provision of the law. The actuarial value of assets was determined using a smoothing method that spreads the difference between the actual return and the expected return over four years. Since the System is using the Aggregate Cost method to determine the annual required contribution, there is no specific amortization method or period.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess of) Net Pension Obligation
2005	\$11,590,745	46.96%	\$ (5,094,068)
2006	11,920,811	48.80%	1,008,924
2007	12,382,742	50.58%	7,128,715

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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 four 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 years of consecutive service as a judge of one or more of the above courts and has attained the age of fifty years shall qualify for an annuity. The annual annuity of a judge under this system is an amount equal to three and one-fourth 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 and one-fourth 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 or senior 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; (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001 but before July 1, 2006; and (5) sixty-five percent for judges who retire and received an annuity on or after July 1, 2006. 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 \$603,804 representing 2.32% 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 9.16% 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.

Investments in governmental bonds and treasury notes constitute approximately 4.50% 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	\$ 7,560,981
Interest on net pension obligation	1,064,633
Adjustment to annual required contribution	<u>(1,258,413)</u>
Annual pension cost	7,367,201
Contributions made	<u>2,039,664</u>
Increase in net pension obligation	5,327,537
Net Pension obligation beginning of year	<u>8,867,574</u>
Net pension obligation end of year	<u>\$ 14,195,111</u>

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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 2007.

The annual required contribution for the current year was determined as part of the July 1, 2007, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return and (b) projected salary and inflationary increases of 4.50% 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 a closed basis. The remaining amortization period at June 30, 2007, was 20 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 4,385,487	46.51%	\$6,306,584
2006	4,600,654	43.76%	8,867,574
2007	7,367,201	27.69%	14,195,111

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 2007, the employers' contributions amounted to \$122,731,819. Employees' contributions amounted to \$61,395,983.

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

NOTE 17 - BEGINNING BALANCE ADJUSTMENTS

During fiscal year 2007, the State reclassified the Endowment for Iowa's Health Restricted Capitals Fund from Special Revenue Fund to Capital Projects Fund.

Also, the State early implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, during fiscal year 2007. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. Liabilities and expenses have been appropriately recorded in the government-wide financial statements.

The following table summarizes the changes to the net assets/ fund balance in the government-wide financial statements and fund financial statements (expressed in thousands):

	Governmental Activities	Special Revenue	Capital Projects
July 1, 2006	\$7,351,736	\$ 470,036	\$ 2,056
Fund reclassification	-	(102,848)	102,848
GASB 49 adjustment	(84,109)	-	-
Balances restated	<u>\$7,267,627</u>	<u>\$ 367,188</u>	<u>\$ 104,904</u>

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 – OTHER TERMINATION BENEFITS

On May 28, 2002, the Legislature passed a Sick Leave and Vacation Incentive Program 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.

The incentive is calculated as the total dollar value 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 2007 for 420 participants totaled \$2,805,493 for governmental funds and \$31,182 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, 2007.

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.

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- 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 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, 2007, amounted to \$7,205,491 for 723 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.

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, 2007, 206 SPOC retirees received benefits totaling \$1,063,097.

Voluntary termination benefit programs have been established through collective bargaining for Executive Branch AFSCME and IUP employees, Judicial Branch AFSCME and PPME employees, and Community Based Corrections employees. The programs are also offered to Executive Branch non-contract employees, Judicial Branch non-contract employees, Legislative employees, and Community Based Corrections non-contract employees, except for judicial officers. The programs are an opportunity for employees who are eligible upon a bona fide retirement to use the value of their unused sick leave to pay the employer share of the monthly premium of the State’s group health insurance plan after their retirement.

Upon retirement, employees shall first receive cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick hours the employee had before the cash payment:

If the sick leave balance is:	The conversion rate is:
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee's Sick Leave Insurance Program (SLIP). Each month, the retiree’s former employing department will pay 100% of the employer share of the selected state group health insurance premium from the retiree's SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The employer will continue to pay the employer’s share of the health insurance premium each month until the converted value of the employee’s sick leave balance is exhausted, until the employee is eligible for Medicare, if the employee waives the benefit, or until the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer’s share of health insurance premium payments. It has no cash value and it is not transferable to another use or to an heir.

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If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited.

All program benefits are financed on a pay-as-you-go basis by the department from which the employee retired. Amounts due for this program have been recorded as a liability in the government-wide financial statements when the employee accepts the offer.

For the year ended June 30, 2007, 514 employees from the Executive and Legislative Branches of Government have retired and received benefits totaling \$2,052,685 under the Sick Leave Insurance Program (SLIP). In addition, 113 employees from the Judicial Branch and Community-Based Corrections have retired and received benefits totaling \$625,278 under the SLIP program.

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 \$500.0 million for the Residence System Buildings, Maucker Union, General Fund Buildings, Early Childhood Center, UNI-Dome and boiler and machinery in excess of \$100 million. Each building has individual limits of coverage and a \$2.0 million deductible, Residence Halls \$242.1 million, Residence Apartments \$58.0 million, Maucker Union \$28.1 million, General Buildings \$740.0 million, UNI-Dome \$53.9 million, and Early Childhood Center \$2.8 million.

The University of Iowa assumes liability for damage to buildings and contents for the first \$2.0 million and in excess of \$1.0 billion, 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, dental student professional liability in excess of \$3.0 million, nursing students professional liability in excess of 5.0 million, losses at the Museum of Art in excess of \$300.0 million, criminal fidelity liability for the first \$250,000 and in excess of \$10.0 million.

The University also assumes liability for athletic trainers professional liability in 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 \$1.0 million, liability in excess of \$2.0 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 \$2,755.6 million, damage to boilers and machinery in excess of \$332.6 million, damage to electronic data processing, telecommunications equipment in excess of \$41.4 million and business interruption in excess of \$43.6 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 \$32.0 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 \$13.2 million, \$5.9 million, 4.0 million, \$3.3 million, \$15.5 million, \$8.5 million, \$2.9 million and \$2.5 million, respectively.

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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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 2006 and 2007 were (expressed in thousands):

	Balances At	Current Year	Claim	Balances At
	Beginning	And Changes	Payments	End Of
	Of Fiscal Year	In Estimates		Fiscal Year
FY 06	\$ 50,917	15,689	16,656	\$ 49,950
FY 07	49,950	17,795	17,620	50,125

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 2006 and 2007 were (expressed in thousands):

	Balances At	Current Year	Claim	Balances At
	Beginning	And Changes	Payments	End Of
	Of Fiscal Year	In Estimates		Fiscal Year
FY 06	\$ 350	88	94	\$ 344
FY 07	344	-	271	73

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 2006 and 2007 were (expressed in thousands):

	Balances At	Current Year	Claim	Balances At
	Beginning	And Changes	Payments	End Of
	Of Fiscal Year	In Estimates		Fiscal Year
FY 06	\$ 754	369	317	\$ 806
FY 07	806	232	293	745

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 2006 and 2007 were (expressed in thousands):

	Balances At	Current Year	Claim	Balances At
	Beginning	And Changes	Payments	End Of
	Of Fiscal Year	In Estimates		Fiscal Year
FY 06	\$ 11,500	11,088	11,088	\$11,500
FY 07	11,500	17,628	11,228	17,900

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 2006 and 2007 were (expressed in thousands):

	Balances At	Current Year	Claim	Balances At
	Beginning	And Changes	Payments	End Of
	Of Fiscal Year	In Estimates		Fiscal Year
FY 06	\$ 18,880	138,168	133,324	\$23,724
FY 07	23,724	152,408	144,610	31,522

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NOTES TO THE FINANCIAL STATEMENTS

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 \$6.3 million.

The Iowa Department of Transportation has contractual obligations for construction and other contracts of \$412.9 million at June 30, 2007.

The University of Iowa has outstanding construction contract commitments of \$55.5 million at June 30, 2007.

Iowa State University has outstanding construction contract commitments of \$56.2 million at June 30, 2007.

The Department of Natural Resources has outstanding construction contract commitments of \$13.6 million at June 30, 2007.

The University of Northern Iowa has outstanding construction contract commitments of \$15.5 million at June 30, 2007.

The Department of Administrative Services has outstanding construction contract commitments of \$18.8 million at June 30, 2007.

The Iowa Finance Authority has signed loan agreements with municipalities and water systems totaling \$72.9 million as of June 30, 2007.

The Iowa Department of Economic Development has commitments of \$222.5 million at June 30, 2007.

The Second Judicial District has outstanding construction project commitments of \$2.8 million at June 30, 2007.

There is litigation pending against the State, the Department of Human Services and its Director Kevin Concannon by NevadaCare, Inc., d/b/a Iowa Health Solutions, Inc. The lawsuit alleges errors were made in calculating the capitation rate paid to Iowa Health Solutions, one of the managed care companies for the Iowa Medicaid program. Outside counsel has been retained to represent the State. The case went to trial in April of 2007. The plaintiff's expert witnesses claimed that the capitalization rates paid to NevadaCare were not actuarially sound, resulting in alleged lost revenue of \$41,000,000. The State's witnesses disputed this claim and opined that the capitation rates were actuarially sound. The State also defended on the basis that, under its contracts with the State, NevadaCare was non entitled to additional compensation regardless of how the capitation rates were calculated. The district court recently ruled in favor of the State on all claims. NevadaCare has filed a post-trial motion attacking that ruling. The State expects that NevadaCare will appeal the district court's ruling if it is not successful. The State believes that it will continue to prevail in this case.

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 in December of 2006, with an interest rate of 4.25% and were repaid on or before June 30, 2007.

The following is a schedule of TRANS activity for the year ended June 30, 2007 (expressed in thousands):

Beginning Balance	Issued	Redeemed	Ending Balance
\$ -	\$ 500,000	\$ 500,000	\$ -

NOTE 22 – SUBSEQUENT EVENTS

In July of 2007, the University of Iowa issued Hospital Revenue Bonds, Series 2007 for \$25,000,000 for the purpose of reimbursing the University of Iowa Hospitals and Clinics (UIHC) for the costs of constructing, improving, remodeling, repairing, furnishing and equipping inpatient and outpatient care facilities at the UIHC funding a deposit to the Reserve Fund and paying for costs of issuance.

In August 2007, the University of Iowa issued Recreational Facilities Revenue Bonds, Series 2007 for \$26,000,000 for the purpose of financing a portion of the cost of building, furnishing and equipping a Campus Recreation and Wellness Center constructing improvements to the University's Field House, relocating a portion of existing facilities, funding a Reserve Fund and paying for costs of issuance.

In October of 2007, the University of Iowa issued Hospital Revenue Bonds, Series 2007A for \$25,000,000 for the purpose of reimbursing the UIHC the costs of constructing, improving, remodeling, repairing, furnishing and equipping inpatient and outpatient care facilities at the UIHC, funding a deposit to the Reserve Fund and paying for costs of issuance.

In October and November of 2007, Iowa State University issued Athletic Facilities Revenue Bonds, Series I.S.U. 2007 and 2007A for \$12,175,000 and \$8,220,000, respectively. The bonds will bear interest at varying rates between 4.1% and 6.1% and will mature in varying amounts from July 1, 2009 and July 1, 2033. The proceeds of these bonds will be used for paying the costs of constructing and equipping improvements at Jack Trice Stadium, funding the debt service reserve fund and paying costs of issuance. The bonds will be payable only from the net revenues of the Athletic Facilities System of Iowa State University.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

In November of 2007, Iowa State University issued Dormitory Revenue Bonds, Series I.S.U. 2007 for \$13,400,000. These bonds will bear interest at varying rates between 4.0% and 4.5% and will mature in varying amounts from July 1, 2009 through July 1, 2028. The proceeds of these bonds will be used for paying the costs of constructing, improving and furnishing East Campus dining facilities at the University, funding a Reserve Fund and paying the costs of issuance. These bonds will be payable only from the net rent, profits and income of the Dormitory System of Iowa State University.

The Iowa Finance Authority issued Single Family Mortgage Revenue Bonds, Series 2007 DEFG, in the amount of \$83.6 million on July 12, 2007.

The Iowa Finance Authority issued Single Family Mortgage Revenue Bonds, Series 2007 HIJ, in the amount of \$89.8 million on September 14, 2007.

The Iowa Finance Authority issued State Revolving Fund Bonds, Series 2007, in the amount of \$64.2 million on October 11, 2007.

On August 13, 2007, the Iowa Department for the Blind signed a contract, totaling \$4,175,500, for building renovations to be substantially completed by March 31, 2009.

In December of 2007, the State of Iowa issued Tax and Revenue Anticipation Notes (TRANS) of \$500,000,000 at an interest rate of 4.00%, priced to yield 3.25%. The notes have a maturity date of June 30, 2008.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

STATE OF IOWA

**Budgetary Comparison Schedule
Required Supplementary Information**

For the Year Ended June 30, 2007
(Expressed in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
SPECIAL TAXES:				
Personal Income Tax	\$ 2,907,800	\$ 3,046,100	\$ 3,103,031	\$ 56,931
Sales/Use Tax	1,947,200	1,897,000	1,910,338	13,338
Corporation Income Tax	323,300	440,800	436,060	(4,740)
Inheritance Tax	69,600	77,200	77,750	550
Insurance Premium Tax	126,400	116,900	105,223	(11,677)
Cigarette Tax	90,000	122,200	121,987	(213)
Tobacco Tax	9,200	12,200	13,220	1,020
Beer & Liquor Tax	14,600	14,200	14,237	37
Franchise Tax	32,800	36,400	33,602	(2,798)
Miscellaneous Tax	600	1,000	958	(42)
TOTAL SPECIAL TAXES	5,521,500	5,764,000	5,816,406	52,406
REIMBURSEMENTS & FEES:				
Institutional Reimbursements	12,900	11,800	13,606	1,806
Liquor Transfers	61,800	67,100	65,927	(1,173)
Interest	13,200	30,100	28,432	(1,668)
Fees	73,500	82,600	85,522	2,922
Judicial Revenue	62,500	64,300	66,631	2,331
Miscellaneous Receipts	34,500	38,200	37,668	(532)
Racing & Gaming Receipts	60,000	60,000	60,000	-
TOTAL RECEIPTS	5,839,900	6,118,100	6,174,192	56,092
Transfers	63,900	64,500	70,008	5,508
TOTAL APPROPRIATED REVENUE	5,903,800	6,182,600	6,244,200	61,600
RECEIPTS CREDITED TO APPROPRIATIONS:				
Sales Tax Quarterly	-	-	4	4
Sales Tax Monthly	3	3	-	(3)
Multi Suspense	3,409	3,409	3,392	(17)
Federal Support	2,260,255	2,299,465	2,127,060	(172,405)
Local Governments	172,043	172,094	174,934	2,840
Other States	1	1	-	(1)
Internal Service Transfers	446,545	472,724	417,337	(55,387)
Internal Service Reimbursements	21,677	25,218	24,938	(280)
Interest	-	1	52	51
Fees, Licenses, & Permits	11,570	12,389	27,566	15,177
Refunds & Reimbursements	236,873	240,603	348,709	108,106
Sale of Equipment & Salvage	15	49	44	(5)
Rents & Leases	2,929	2,941	3,102	161
Agricultural Sales	2	1	-	(1)
Other Sales & Services	3,109	3,123	5,741	2,618
Inventory Sales	150	174	202	28
Unearned Receipts	416	376	357	(19)
Other	93,483	93,234	91,525	(1,709)
TOTAL APPROPRIATED RECEIPTS	3,252,480	3,325,805	3,224,963	(100,842)
TOTAL ALL REVENUE	9,156,280	9,508,405	9,469,163	(39,242)
REFUNDS OF TAXES COLLECTED	(552,900)	(568,800)	(597,890)	(29,090)
TOTAL REVENUES AVAILABLE	8,603,380	8,939,605	8,871,273	(68,332)

(continued on next page)

STATE OF IOWA

(continued)

GENERAL FUND

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
EXPENDITURES:				
Administration & Regulation	258,914	281,956	289,276	(7,320)
Agriculture & Natural Resources	139,995	140,636	136,827	3,809
Economic Development	103,486	129,483	148,225	(18,742)
Education	3,318,346	3,335,567	3,335,108	459
Health & Human Services	4,082,295	4,165,051	4,022,780	142,271
Justice	647,495	656,373	652,220	4,153
Transportation	-	1,836	724	1,112
TOTAL EXPENDITURES	8,550,531	8,710,902	8,585,160	125,742
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	52,849	228,703	286,113	57,410
OTHER FINANCING SOURCES (USES):				
Balances Credited To Appropriations	14,878	52,285	52,285	-
Unexpended Appropriations	(830)	(27,040)	(76,786)	(49,746)
TOTAL OTHER FINANCING SOURCES (USES)	14,048	25,245	(24,501)	(49,746)
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES & OTHER ITEMS	66,897	253,948	261,612	7,664
BEGINNING FUND BALANCE (BUDGETARY)	-	-	-	-
REMAINING FUND BALANCE (BUDGETARY)	\$ 66,897	\$ 253,948	\$ 261,612	\$ 7,664
ENDING FUND BALANCE (BUDGETARY)		\$ 253,948	\$ 261,612	
AUTHORIZED TRANSFER TO THE PROPERTY TAX CREDIT FUND		(131,900)	(131,900)	
SENIOR LIVING TRUST FUND		(53,500)	(53,500)	
REMAINING FUND BALANCE (BUDGETARY)		\$ 68,548	\$ 76,212	
AMOUNT STATUTORILY REQUIRED TO BE TRANSFERRED TO CASH RESERVE FUND			(76,212)	
ENDING FUND BALANCE AVAILABLE FOR APPROPRIATION			\$ -	

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

June 30, 2007
(Expressed in Thousands)

		GENERAL FUND
Fund Balance - Budgetary/Legal	\$	261,612
Basis Of Accounting Differences:		
Balance Sheet Accounts:		
Accounts Receivable		94,877
Loans Receivable		278
Due From Other Funds		1,423
Prepaid Expenditures		8,600
Accounts Payable & Accruals		(66,683)
Due To Other Funds		(57,357)
Deferred Revenue		(68,398)
Reserved Encumbrances		76,786
Timing Differences:		
Petty Cash & Inventory Expensed In Budgetary Accounting		56,003
Perspective Differences		1,746,207
Total Fund Balance - GAAP Basis		2,053,348
Less: Reserved Fund Balance - GAAP Basis		1,000,811
Fund Balance Unreserved - GAAP Basis	\$	1,052,537

STATE OF IOWA

Required Supplementary Information

**Notes to Required Supplementary Information –
Budgetary Reporting**

Budgetary Expenditures in Excess of Appropriations

During the year ended June 30, 2007, actual expenditures exceeded budgeted expenditures in the General Fund in the Administration and Regulation and Economic Development functions. For the Administration and Regulation function, the budget overages occurred in the Executive Council for performance of duty claims and in the Department of Management due to increases in claims with the State Appeal Board. The Executive Council and State Appeal Board have standing unlimited appropriations which, according the Sections 7D.29 and 25.2 of the Code of Iowa, allow them to spend additional funds without amending the original budget. For the Economic Development function, the Department of Economic Development received additional monies for the Iowa Values Fund and expended those funds for allowable program expenditures.

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, Vertical Infrastructure Fund, Federal Economic Stimulus and Jobs Holding Fund, Environment First Fund, Property Tax Credit Fund, Technology Reinvestment Fund, Healthy Iowan’s Tobacco Trust, Underground Storage Tank Unassigned Revenue, Tobacco Tax Exempt Bond Proceeds Restricted Capital, Endowment for Iowa’s Health Account, Endowment for Iowa’s Health Restricted Capitals Fund, Resources Enhancement and Protection Fund, Land Recycling Fund, Fish and Game Trust Fund, Conservation Administration Fund, Forestry Management Enhancement Fund, Water Quality Protection, National Pollutant Discharge Elimination System Permit, Workforce Development Withholding, Local Housing Assistance, Grow Iowa Values Fund, Renewable Fuel Infrastructure Fund, Special Contingency Fund, Administrative Contribution Surcharge, School Infrastructure Fund, Stafford Loan Program, Gambling Treatment Program, Health Care Transformation Fund, Hospital Trust, Iowacare Fund and Primary Road Fund). 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.

The beginning budgetary fund balance for the nonmajor special revenue funds was restated to include the Endowment for Iowa’s Health Restricted Capitals Fund. This fund is classified as a special revenue fund for budgetary purposes and a capital projects fund for financial reporting purposes. The fund was established in the prior year, however, fiscal year 2007 is the first year monies were appropriated (budgeted) from the fund. The following summarizes the change to the beginning budgetary fund balance for nonmajor special revenue funds (expressed in thousands):

	<u>Actual</u>
July 1, 2006 Budgetary Fund Balance	\$ 422,541
Adjustment for Endowment for Iowa’s Health Restricted Capitals Fund	<u>102,398</u>
Budgetary Fund Balance Restated	<u>\$ 524,939</u>

STATE OF IOWA

Required Supplementary Information

The original budget and related estimated revenues and expenditures represent the spending authority enacted into law by the appropriations bills as of July 1, 2006 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.

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 state 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.

STATE OF IOWA

Required Supplementary Information

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.

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 2.5 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 7.5 percent 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, 2005	\$ 81,605	105,472	\$ 23,867	77.37%	\$ 20,684	115.39%
July 1, 2006	86,110	123,670	37,560	69.63%	24,094	155.89%
July 1, 2007	96,613	138,662	42,049	69.68%	24,426	172.15%

The increase in unfunded AAL for the July 1, 2007 valuation was primarily due to a change in the qualifications for retirement effective July 1, 2006.

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, 2005	\$ 251,829	\$ 343,117	\$ 91,288	73.39%	\$ 33,337	273.83%
July 1, 2006	267,813	358,845	91,031	74.63%	36,232	251.04%
July 1, 2007	293,375	392,023	98,648	74.84%	37,268	264.70%

* 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 increase in unfunded AAL for the July 1, 2007 valuation was primarily due to changes in actuarial assumptions.

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, 2007
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Current Assets:				
Cash & Investments	\$ 304,320	\$ 99,348	\$ 17,242	\$ 420,910
Deposits with Trustees	4,359	601	-	4,960
Accounts Receivable (net)	40,635	1,976	69	42,680
Due From Other Funds	5,370	3,212	86	8,668
Inventory	74	-	-	74
Prepaid Expenditures	39	-	-	39
Total Current Assets	<u>354,797</u>	<u>105,137</u>	<u>17,397</u>	<u>477,331</u>
Noncurrent Assets:				
Accounts Receivable (net)	4,203	-	-	4,203
Due From Other Funds/ Advances to Other Funds	28,000	-	-	28,000
Total Noncurrent Assets	<u>32,203</u>	<u>-</u>	<u>-</u>	<u>32,203</u>
TOTAL ASSETS	<u><u>\$ 387,000</u></u>	<u><u>\$ 105,137</u></u>	<u><u>\$ 17,397</u></u>	<u><u>\$ 509,534</u></u>
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	\$ 9,988	\$ 6,218	\$ 3	\$ 16,209
Due To Other Funds	5,829	190	97	6,116
Deferred Revenue	34,237	714	-	34,951
TOTAL LIABILITIES	<u>50,054</u>	<u>7,122</u>	<u>100</u>	<u>57,276</u>
FUND BALANCE				
Reserved for:				
Inventory & Prepaid Expenditures	113	-	-	113
Noncurrent Receivables	32,203	-	-	32,203
Specific Purposes	255,723	-	17,297	273,020
Unreserved Fund Equity	48,907	98,015	-	146,922
TOTAL FUND BALANCE	<u>336,946</u>	<u>98,015</u>	<u>17,297</u>	<u>452,258</u>
TOTAL LIABILITIES & FUND BALANCE	<u><u>\$ 387,000</u></u>	<u><u>\$ 105,137</u></u>	<u><u>\$ 17,397</u></u>	<u><u>\$ 509,534</u></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, 2007
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$ 69,099	\$ -	\$ -	\$ 69,099
Receipts from Other Entities	30,270	1,739	-	32,009
Investment Income	19,272	5,205	609	25,086
Fees, Licenses & Permits	4,183	-	-	4,183
Refunds & Reimbursements	77,226	-	-	77,226
Sales, Rents & Services	5,054	-	-	5,054
Miscellaneous	9,262	-	-	9,262
Contributions	-	-	156	156
	<u>214,366</u>	<u>6,944</u>	<u>765</u>	<u>222,075</u>
GROSS REVENUES				
Less Revenue Refunds	3,529	-	-	3,529
	<u>210,837</u>	<u>6,944</u>	<u>765</u>	<u>218,546</u>
NET REVENUES				
EXPENDITURES:				
Current:				
Administration & Regulation	4,161	115	-	4,276
Education	54,048	2,615	-	56,663
Health & Human Rights	487	119	201	807
Human Services	251	-	-	251
Justice & Public Defense	2,614	2,976	-	5,590
Economic Development	1,535	-	-	1,535
Transportation	1,273	238	-	1,511
Agriculture & Natural Resources	3,162	7,467	-	10,629
Capital Outlay:				
Administration & Regulation	14,371	3,717	-	18,088
Education	3,612	-	-	3,612
Health & Human Rights	5,485	827	-	6,312
Human Services	3,725	661	-	4,386
Justice & Public Defense	9,369	6,254	-	15,623
Economic Development	326	-	-	326
Transportation	-	261	-	261
Agriculture & Natural Resources	2,704	11,937	-	14,641
Debt Service:				
Principal	6,755	5,200	-	11,955
Interest	38,041	3,040	-	41,081
	<u>151,919</u>	<u>45,427</u>	<u>201</u>	<u>197,547</u>
TOTAL EXPENDITURES				
REVENUES OVER (UNDER) EXPENDITURES	<u>58,918</u>	<u>(38,483)</u>	<u>564</u>	<u>20,999</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	19,029	39,708	5,500	64,237
Transfers Out	(141,829)	(8,114)	(359)	(150,302)
Revenue Bonds Issued	33,370	-	-	33,370
Premium On Revenue Bonds	270	-	-	270
	<u>(89,160)</u>	<u>31,594</u>	<u>5,141</u>	<u>(52,425)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(30,242)</u>	<u>(6,889)</u>	<u>5,705</u>	<u>(31,426)</u>
FUND BALANCE JULY 1, Restated	<u>367,188</u>	<u>104,904</u>	<u>11,592</u>	<u>483,684</u>
FUND BALANCE JUNE 30	<u>\$ 336,946</u>	<u>\$ 98,015</u>	<u>\$ 17,297</u>	<u>\$ 452,258</u>



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.

Endowment for Iowa's Health receives tobacco settlement money to be used for health related expenses.

Honey Creek Authority accounts for bond proceeds issued for the development of Honey Creek Park. The bonds are to be repaid from net revenues of the park.

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, 2007
(Expressed in Thousands)

	ENDOWMENT FOR IOWA'S HEALTH FUND	HONEY CREEK AUTHORITY	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 94,384	\$ -	\$ 82,253	\$ 7,391	\$ 120,292	\$ 304,320
Deposits with Trustees	-	4,359	-	-	-	4,359
Accounts Receivable (Net)	7,640	44	25,888	1,199	5,864	40,635
Due From Other Funds	1,327	-	39	-	4,004	5,370
Inventory	-	-	-	-	74	74
Prepaid Expenditures	-	-	-	9	30	39
Total Current Assets	103,351	4,403	108,180	8,599	130,264	354,797
Noncurrent Assets:						
Accounts Receivable (Net)	-	-	-	-	4,203	4,203
Due From Other Funds/Advances to Other Funds	-	28,000	-	-	-	28,000
Total Noncurrent Assets	-	28,000	-	-	4,203	32,203
TOTAL ASSETS	\$ 103,351	\$ 32,403	\$ 108,180	\$ 8,599	\$ 134,467	\$ 387,000
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ 1,209	\$ -	\$ 53	\$ 252	\$ 8,474	\$ 9,988
Due To Other Funds	193	-	220	610	4,806	5,829
Deferred Revenue	7,607	-	25,677	837	116	34,237
TOTAL LIABILITIES	9,009	-	25,950	1,699	13,396	50,054
FUND BALANCE						
Reserved for:						
Inventory & Prepaid Expenditures	-	-	-	9	104	113
Noncurrent Receivables	-	28,000	-	-	4,203	32,203
Specific Purposes	94,342	4,403	82,230	1,618	73,130	255,723
Unreserved Fund Equity	-	-	-	5,273	43,634	48,907
TOTAL FUND BALANCE	94,342	32,403	82,230	6,900	121,071	336,946
TOTAL LIABILITIES & FUND BALANCE	\$ 103,351	\$ 32,403	\$ 108,180	\$ 8,599	\$ 134,467	\$ 387,000

STATE OF IOWA

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

For the Year Ended June 30, 2007
(Expressed in Thousands)

	ENDOWMENT FOR IOWA'S HEALTH FUND	HONEY CREEK AUTHORITY	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
REVENUES:						
Taxes	\$ 69,099	\$ -	\$ -	\$ -	\$ -	\$ 69,099
Receipts from Other Entities	33	-	-	-	30,237	30,270
Investment Income	5,317	188	3,918	879	8,970	19,272
Fees, Licenses & Permits	901	-	-	-	3,282	4,183
Refunds & Reimbursements	14,008	-	41,555	-	21,663	77,226
Sales, Rents & Services	-	-	-	-	5,054	5,054
Miscellaneous	-	-	-	8,488	774	9,262
GROSS REVENUES	89,358	188	45,473	9,367	69,980	214,366
Less Revenue Refunds	-	-	-	-	3,529	3,529
NET REVENUES	89,358	188	45,473	9,367	66,451	210,837
EXPENDITURES:						
Current:						
Administration & Regulation	-	-	260	-	3,901	4,161
Education	-	-	-	3,153	50,895	54,048
Health & Human Rights	-	-	-	-	487	487
Human Services	-	-	-	-	251	251
Justice & Public Defense	-	-	-	-	2,614	2,614
Economic Development	-	-	-	-	1,535	1,535
Transportation	-	-	-	-	1,273	1,273
Agriculture & Natural Resources	1,069	495	-	-	1,598	3,162
Capital Outlay:						
Administration & Regulation	-	-	-	-	14,371	14,371
Education	-	-	-	-	3,612	3,612
Health & Human Rights	-	-	-	-	5,485	5,485
Human Services	-	-	-	-	3,725	3,725
Justice & Public Defense	-	-	-	-	9,369	9,369
Economic Development	-	-	-	-	326	326
Agriculture & Natural Resources	2,689	-	-	-	15	2,704
Debt Service:						
Principal	-	-	6,755	-	-	6,755
Interest	-	930	37,111	-	-	38,041
TOTAL EXPENDITURES	3,758	1,425	44,126	3,153	99,457	151,919
REVENUES OVER (UNDER) EXPENDITURES	85,600	(1,237)	1,347	6,214	(33,006)	58,918
OTHER FINANCING SOURCES (USES):						
Transfers In	-	-	3,249	-	15,780	19,029
Transfers Out	(100,506)	-	(496)	(5,025)	(35,802)	(141,829)
Revenue Bonds Issued	-	33,370	-	-	-	33,370
Premium on Revenue Bonds	-	270	-	-	-	270
TOTAL OTHER FINANCING SOURCES (USES)	(100,506)	33,640	2,753	(5,025)	(20,022)	(89,160)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(14,906)	32,403	4,100	1,189	(53,028)	(30,242)
FUND BALANCE JULY 1, Restated	109,248	-	78,130	5,711	174,099	367,188
FUND BALANCE JUNE 30	\$ 94,342	\$ 32,403	\$ 82,230	\$ 6,900	\$ 121,071	\$ 336,946

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, 2007
(Expressed in Thousands)

	PRIMARY ROAD FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 517,254	\$ 517,254	\$ 530,970	\$ 13,716
TOTAL APPROPRIATED REVENUE	517,254	517,254	530,970	13,716
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	5	5	8	3
Federal Support	197,800	197,800	265,032	67,232
Local Governments	4,600	4,500	8,671	4,171
Other States	75	75	4,327	4,252
Reimbursements From Other Agencies	160	160	1,076	916
Interest	1	1	-	(1)
Bonds & Loans	-	100	564	464
Fees, Licenses, & Permits	860	860	1,595	735
Refunds & Reimbursements	4,010	4,010	5,813	1,803
Sale of Real Estate	1,710	1,710	2,583	873
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	16	16	23	7
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	-	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	2,750	2,752	7,100	4,348
TOTAL APPROPRIATED RECEIPTS	211,987	211,989	296,792	84,803
TOTAL REVENUES AVAILABLE	729,241	729,243	827,762	98,519
EXPENDITURES:				
Administration & Regulation	-	-	-	-
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Health & Human Services	-	-	-	-
Transportation	512,534	517,489	512,235	5,254
TOTAL EXPENDITURES	512,534	517,489	512,235	5,254
Transfers	272,529	270,118	260,094	10,024
TOTAL EXPENDITURES AND TRANSFERS	785,063	787,607	772,329	15,278
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(55,822)	(58,364)	55,433	113,797
FUND BALANCE JULY 1 (BUDGETARY - RESTATED)	118,387	65,760	65,760	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 62,565	\$ 7,396	\$ 121,193	\$ 113,797

STATE OF IOWA

PROPERTY TAX CREDIT FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 159,869	\$ 159,869	\$ 159,895	\$ 26
159,869	159,869	159,895	26
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
159,869	159,869	159,895	26
159,664	159,169	157,765	1,404
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
159,664	159,169	157,765	1,404
-	700	700	-
159,664	159,869	158,465	1,404
-	-	-	-
205	-	1,430	1,430
-	667	667	-
\$ 205	\$ 667	\$ 2,097	\$ 1,430

(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, 2007
(Expressed in Thousands)

(continued)

	IOWACARE FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 3,000	\$ 3,000	\$ 5,673	\$ 2,673
TOTAL APPROPRIATED REVENUE	3,000	3,000	5,673	2,673
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	-	-	-	-
Federal Support	56,250	56,250	63,606	7,356
Local Governments	34,000	34,000	34,000	-
Other States	-	-	-	-
Reimbursements From Other Agencies	-	-	-	-
Interest	300	300	698	398
Bonds & Loans	-	-	-	-
Fees, Licenses, & Permits	-	-	-	-
Refunds & Reimbursements	-	-	-	-
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	-	-	-	-
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	-	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	-	-	-	-
TOTAL APPROPRIATED RECEIPTS	90,550	90,550	98,304	7,754
TOTAL REVENUES AVAILABLE	93,550	93,550	103,977	10,427
EXPENDITURES:				
Administration & Regulation	-	-	-	-
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Health & Human Services	93,159	65,874	62,280	3,594
Transportation	-	-	-	-
TOTAL EXPENDITURES	93,159	65,874	62,280	3,594
Transfers	-	40,979	40,979	-
TOTAL EXPENDITURES AND TRANSFERS	93,159	106,853	103,259	3,594
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	391	(13,303)	718	14,021
FUND BALANCE JULY 1 (BUDGETARY - RESTATED)	182	-	-	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 573	\$ (13,303)	\$ 718	\$ 14,021

STATE OF IOWA

ENDOWMENT FOR IOWA'S HEALTH FUND

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
70,000	71,000	69,099	(1,901)
-	-	-	-
-	-	33	33
-	-	-	-
-	-	-	-
1,500	1,500	5,500	4,000
-	-	-	-
-	1,000	901	(99)
15,572	25,572	14,008	(11,564)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
87,072	99,072	89,541	(9,531)
87,072	99,072	89,541	(9,531)
8,450	8,450	3,759	4,691
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
8,450	8,450	3,759	4,691
100,326	100,326	100,506	(180)
108,776	108,776	104,265	4,511
(21,704)	(9,704)	(14,724)	(5,020)
108,965	109,725	109,725	-
\$ 87,261	\$ 100,021	\$ 95,001	\$ (5,020)

(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, 2007
(Expressed in Thousands)
(continued)

	OTHER			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 262,787	\$ 260,853	\$ 250,449	(10,404)
TOTAL APPROPRIATED REVENUE	262,787	260,853	250,449	(10,404)
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	1,543	1,543	1,543	-
Other Taxes	-	900	1,153	253
Wagering Tax Receipts	9,868	9,868	9,685	(183)
Individual Income Tax Quarterly	4,000	4,000	4,000	-
Sales Tax - DOT	-	-	-	-
Federal Support	23,266	21,498	20,454	(1,044)
Local Governments	200	230	135	(95)
Other States	-	-	-	-
Reimbursements From Other Agencies	1,100	1,100	2,065	965
Interest	11,208	11,996	17,937	5,941
Bonds & Loans	-	550	514	(36)
Fees, Licenses, & Permits	33,260	33,271	35,464	2,193
Refunds & Reimbursements	5,530	6,215	7,201	986
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	20	20	2	(18)
Rents & Leases	5	5	77	72
Agricultural Sales	10	10	144	134
Other Sales & Services	1,566	1,566	1,680	114
Unearned Receipts	311	311	473	162
Income Tax Checkoffs	150	150	110	(40)
Other	748	888	624	(264)
TOTAL APPROPRIATED RECEIPTS	92,785	94,121	103,261	9,140
TOTAL REVENUES AVAILABLE	355,572	354,974	353,710	(1,264)
EXPENDITURES:				
Administration & Regulation	206,840	230,888	94,124	136,764
Agriculture & Natural Resources	23,334	23,434	13,883	9,551
Economic Development	36,016	37,894	27,433	10,461
Education	23,351	18,046	12,627	5,419
Health & Human Services	11,633	12,168	5,734	6,434
Transportation	-	-	-	-
TOTAL EXPENDITURES	301,174	322,430	153,801	168,629
Transfers	272,103	276,755	222,591	54,164
TOTAL EXPENDITURES AND TRANSFERS	573,277	599,185	376,392	222,793
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(217,705)	(244,211)	(22,682)	221,529
FUND BALANCE JULY 1 (BUDGETARY - RESTATED)	196,305	348,787	348,787	-
FUND BALANCE JUNE 30 (BUDGETARY)	<u>\$ (21,400)</u>	<u>\$ 104,576</u>	<u>\$ 326,105</u>	<u>\$ 221,529</u>

STATE OF IOWA

TOTAL			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 942,910	\$ 940,976	\$ 946,987	\$ 6,011
942,910	940,976	946,987	6,011
1,543	1,543	1,543	-
-	900	1,153	253
79,868	80,868	78,784	(2,084)
4,000	4,000	4,000	-
5	5	8	3
277,316	275,548	349,125	73,577
38,800	38,730	42,806	4,076
75	75	4,327	4,252
1,260	1,260	3,141	1,881
13,009	13,797	24,135	10,338
-	650	1,078	428
34,120	35,131	37,960	2,829
25,112	35,797	27,022	(8,775)
1,710	1,710	2,583	873
20	20	2	(18)
21	21	100	79
10	10	144	134
1,566	1,566	1,680	114
311	311	473	162
150	150	110	(40)
3,498	3,640	7,724	4,084
482,394	495,732	587,898	92,166
1,425,304	1,436,708	1,534,885	98,177
374,954	398,507	255,648	142,859
23,334	23,434	13,883	9,551
36,016	37,894	27,433	10,461
23,351	18,046	12,627	5,419
104,792	78,042	68,014	10,028
512,534	517,489	512,235	5,254
1,074,981	1,073,412	889,840	183,572
644,958	688,878	624,870	64,008
1,719,939	1,762,290	1,514,710	247,580
(294,635)	(325,582)	20,175	345,757
423,839	524,939	524,939	-
\$ 129,204	\$ 199,357	\$ 545,114	\$ 345,757



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.

Endowment for Iowa's Health Restricted Capitals receives the tax-exempt portion of the Tobacco Settlement Authority's refunding of the tobacco bonds for capital project expenditures as allowed in the tax certificate of the refinancing.

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, 2007
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	ENDOWMENT FOR IOWA'S HEALTH RESTRICTED CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 448	\$ 96,403	\$ 2,280	\$ 90	\$ 127	\$ 99,348
Deposits with Trustees	-	-	-	-	601	601
Accounts Receivable	737	918	317	-	4	1,976
Due From Other Funds	1,079	14	119	2,000	-	3,212
TOTAL ASSETS	\$ 2,264	\$ 97,335	\$ 2,716	\$ 2,090	\$ 732	\$ 105,137
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ 2,228	\$ 2,282	\$ 534	\$ 1,163	\$ 11	\$ 6,218
Due To Other Funds	36	83	60	11	-	190
Deferred Revenue	-	394	320	-	-	714
TOTAL LIABILITIES	2,264	2,759	914	1,174	11	7,122
FUND BALANCE						
Unreserved Fund Equity	-	94,576	1,802	916	721	98,015
TOTAL LIABILITIES & FUND BALANCE	\$ 2,264	\$ 97,335	\$ 2,716	\$ 2,090	\$ 732	\$ 105,137

STATE OF IOWA

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

For the Year Ended June 30, 2007
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	ENDOWMENT FOR IOWA'S HEALTH RESTRICTED CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
REVENUES:						
Receipts from Other Entities	\$ 1,501	\$ 3	\$ 235	\$ -	\$ -	\$ 1,739
Investment Income	-	4,753	-	-	452	5,205
TOTAL REVENUES	1,501	4,756	235	-	452	6,944
EXPENDITURES:						
Current:						
Administration & Regulation	-	115	-	-	-	115
Education	-	2,615	-	-	-	2,615
Health & Human Rights	-	119	-	-	-	119
Justice & Public Defense	-	2,893	-	-	83	2,976
Transportation	-	238	-	-	-	238
Agriculture & Natural Resources	-	-	297	7,170	-	7,467
Capital Outlay:						
Administration & Regulation	232	3,485	-	-	-	3,717
Health & Human Rights	527	300	-	-	-	827
Human Services	-	661	-	-	-	661
Justice & Public Defense	6,053	201	-	-	-	6,254
Transportation	-	-	-	-	261	261
Agriculture & Natural Resources	-	969	4,306	6,662	-	11,937
Debt Service:						
Principal	-	-	-	-	5,200	5,200
Interest	-	-	-	-	3,040	3,040
TOTAL EXPENDITURES	6,812	11,596	4,603	13,832	8,584	45,427
REVENUES OVER (UNDER) EXPENDITURES	(5,311)	(6,840)	(4,368)	(13,832)	(8,132)	(38,483)
OTHER FINANCING SOURCES (USES):						
Transfers In	4,851	6,223	5,905	14,748	7,981	39,708
Transfers Out	-	(7,655)	(265)	-	(194)	(8,114)
TOTAL OTHER FINANCING SOURCES (USES)	4,851	(1,432)	5,640	14,748	7,787	31,594
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(460)	(8,272)	1,272	916	(345)	(6,889)
FUND BALANCE JULY 1, RESTATED	460	102,848	530	-	1,066	104,904
FUND BALANCE JUNE 30	\$ -	\$ 94,576	\$ 1,802	\$ 916	\$ 721	\$ 98,015



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. New legislation amended the fund to allow a portion of the principal to be transferred out of the fund to establish a veteran's cemetery.

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, 2007
(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	\$ 2,476	\$ 5,233	\$ 1,548	\$ 7,974	\$ 11	\$ 17,242
Accounts Receivable	-	69	-	-	-	69
Due From Other Funds	-	86	-	-	-	86
TOTAL ASSETS	<u>\$ 2,476</u>	<u>\$ 5,388</u>	<u>\$ 1,548</u>	<u>\$ 7,974</u>	<u>\$ 11</u>	<u>\$ 17,397</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 3
Due To Other Funds	-	97	-	-	-	97
TOTAL LIABILITIES	-	100	-	-	-	100
FUND BALANCE						
Reserved for: Specific Purposes	2,476	5,288	1,548	7,974	11	17,297
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 2,476</u>	<u>\$ 5,388</u>	<u>\$ 1,548</u>	<u>\$ 7,974</u>	<u>\$ 11</u>	<u>\$ 17,397</u>

STATE OF IOWA

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

For the Year Ended June 30, 2007
(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	\$ -	\$ 250	\$ 359	\$ -	\$ -	\$ 609
Contributions	-	1	100	55	-	156
TOTAL REVENUES	-	251	459	55	-	765
EXPENDITURES:						
Current:						
Health & Human Rights	-	201	-	-	-	201
TOTAL EXPENDITURES	-	201	-	-	-	201
REVENUES OVER (UNDER) EXPENDITURES	-	50	459	55	-	564
OTHER FINANCING SOURCES (USES):						
Transfers In	1,000	4,500	-	-	-	5,500
Transfers Out	-	-	(359)	-	-	(359)
TOTAL OTHER FINANCING SOURCES (USES)	1,000	4,500	(359)	-	-	5,141
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,000	4,550	100	55	-	5,705
FUND BALANCE JULY 1	1,476	738	1,448	7,919	11	11,592
FUND BALANCE JUNE 30	\$ 2,476	\$ 5,288	\$ 1,548	\$ 7,974	\$ 11	\$ 17,297



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.

Honey Creek Park is used to account for development of the destination park and park operations.

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, 2007
(Expressed in Thousands)

	IOWA COMMUNI- ACTIONS NETWORK	IOWA LOTTERY AUTHORITY	HONEY CREEK PARK	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
ASSETS						
Current Assets:						
Cash & Investments	\$ 9,767	\$ 15,542	\$ 25,668	\$ 14,323	\$ 4,700	\$ 70,000
Accounts Receivable (Net)	1,599	2,476	-	4,706	3,133	11,914
Interest Receivable	105	191	250	-	-	546
Due From Other Funds	3,616	-	41	-	31	3,688
Inventory	1,113	753	-	1,191	8,030	11,087
Prepaid Expenses	716	55	-	15	-	786
Investment In Prize Annuity	-	5,972	-	-	-	5,972
Total Current Assets	16,916	24,989	25,959	20,235	15,894	103,993
Noncurrent Assets:						
Capital Assets - nondepreciable	-	392	5,556	210	589	6,747
Capital Assets - depreciable, net	34,240	6,293	-	119	5,550	46,202
Investment In Prize Annuity	-	14,140	-	-	-	14,140
Prize Deposit	-	3,615	-	-	-	3,615
Total Noncurrent Assets	34,240	24,440	5,556	329	6,139	70,704
TOTAL ASSETS	51,156	49,429	31,515	20,564	22,033	174,697
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	3,916	1,849	1,063	13,500	2,394	22,722
Due To Other Funds/Advances						
From Other Funds	106	12,187	336	3,526	45	16,200
Interest Payable	-	10	-	-	-	10
Unearned Revenue	62	127	-	-	68	257
Compensated Absences	584	611	-	43	127	1,365
Bonds Payable	-	2,000	-	-	-	2,000
Annuities Payable	-	6,072	-	-	-	6,072
Lottery Prizes Payable	-	2,694	-	-	-	2,694
Total Current Liabilities	4,668	25,550	1,399	17,069	2,634	51,320
Noncurrent Liabilities:						
Accounts Payable & Accruals	-	-	-	-	8	8
Due To Other Funds/Advances						
From Other Funds	-	-	28,000	-	-	28,000
Compensated Absences	-	254	-	-	607	861
Bonds Payable	-	1,500	-	-	-	1,500
Annuities Payable	-	14,140	-	-	-	14,140
Lottery Prizes Payable	-	3,615	-	-	-	3,615
Other	-	16	-	-	-	16
Total Noncurrent Liabilities	-	19,525	28,000	-	615	48,140
TOTAL LIABILITIES	4,668	45,075	29,399	17,069	3,249	99,460
NET ASSETS						
Invested in Capital Assets,						
Net of Related Debt	34,240	3,185	5,556	329	6,139	49,449
Unrestricted	12,248	1,169	(3,440)	3,166	12,645	25,788
TOTAL NET ASSETS	\$ 46,488	\$ 4,354	\$ 2,116	\$ 3,495	\$ 18,784	\$ 75,237

STATE OF IOWA

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

For the Year Ended June 30, 2007
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	HONEY CREEK PARK	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
OPERATING REVENUES:						
Fees, Licenses & Permits	\$ -	\$ 6	\$ -	\$ 11,058	\$ 1,468	\$ 12,532
Refunds & Reimbursements	-	-	-	191	-	191
Sales, Rents & Services	32,791	235,001	-	176,360	20,299	464,451
Miscellaneous	-	147	-	1,051	478	1,676
TOTAL OPERATING REVENUES	32,791	235,154	-	188,660	22,245	478,850
OPERATING EXPENSES:						
General & Administrative	8,523	-	-	-	21	8,544
Depreciation	8,265	1,416	-	-	704	10,385
Direct Expense	12,389	10,426	-	-	14,683	37,498
Prize Expense	-	133,357	-	-	-	133,357
Personal Services	-	-	-	1,607	2,474	4,081
Travel & Subsistence	-	-	-	325	112	437
Supplies & Materials	-	3,145	-	84	164	3,393
Contractual Services	-	28,718	5	2,379	1,968	33,070
Equipment & Repairs	-	-	-	230	66	296
Claims & Miscellaneous	11,017	-	-	116,051	1,054	128,122
Licenses, Permits & Refunds	-	-	-	808	10	818
State Aids & Credits	-	-	-	3,423	-	3,423
TOTAL OPERATING EXPENSES	40,194	177,062	5	124,907	21,256	363,424
OPERATING INCOME (LOSS)	(7,403)	58,092	(5)	63,753	989	115,426
NONOPERATING REVENUES						
(EXPENSES):						
Taxes	-	-	-	5,909	-	5,909
Investment Income	455	822	1,031	-	254	2,562
Interest Expense	-	(175)	-	-	-	(175)
Gain (Loss) on Sale of Capital Assets	-	-	-	-	18	18
NET NONOPERATING REVENUES (EXPENSES)	455	647	1,031	5,909	272	8,314
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(6,948)	58,739	1,026	69,662	1,261	123,740
Capital Contributions and Grants	1,998	-	1,090	-	-	3,088
Transfers In	-	-	-	477	-	477
Transfers Out	-	(58,150)	-	(67,171)	-	(125,321)
CHANGE IN NET ASSETS	(4,950)	589	2,116	2,968	1,261	1,984
TOTAL NET ASSETS - JULY 1	51,438	3,765	-	527	17,523	73,253
TOTAL NET ASSETS - JUNE 30	\$ 46,488	\$ 4,354	\$ 2,116	\$ 3,495	\$ 18,784	\$ 75,237

STATE OF IOWA

Combining Statement of Cash Flows Nonmajor Enterprise Funds

For the Year Ended June 30, 2007
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	HONEY CREEK PARK	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received From Customers	\$ 31,931	\$ 234,441	\$ -	\$ 187,434	\$ 21,340	\$ 475,146
Cash Received From Miscellaneous	-	139	-	1,242	478	1,859
Cash Payments To Suppliers For Goods & Services	(23,998)	(41,744)	(5)	(124,021)	(17,750)	(207,518)
Cash Payments To Employees for Services	(7,708)	(324)	-	(1,918)	(2,559)	(12,509)
Cash Payments for Prizes	-	(141,838)	-	-	-	(141,838)
NET CASH PROVIDED BY OPERATING ACTIVITIES	225	50,674	(5)	62,737	1,509	115,140
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers In From Other Funds	-	-	-	508	-	508
Transfers Out To Other Funds	-	(60,534)	-	(65,972)	-	(126,506)
Tax Receipts	-	-	-	5,909	-	5,909
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	(60,534)	-	(59,555)	-	(120,089)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	(337)	(275)	(3,067)	(119)	(989)	(4,787)
Interest Payments	-	(180)	-	-	-	(180)
Debt Payments	-	(2,000)	-	-	-	(2,000)
Capital Contributions and Grants	-	-	28,000	-	-	28,000
Proceeds From Sale of Capital Assets	-	65	-	-	-	65
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(337)	(2,390)	24,933	(119)	(989)	21,098

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STATE OF IOWA

(continued)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	HONEY CREEK PARK	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM INVESTING						
ACTIVITIES:						
Interest & Dividends On Investments	350	891	740	-	254	2,235
Other	-	8,122	-	-	-	8,122
NET CASH PROVIDED BY INVESTING	-	-	-	-	-	-
ACTIVITIES	350	9,013	740	-	254	10,357
NET INCREASE (DECREASE) IN CASH & CASH						
EQUIVALENTS	238	(3,237)	25,668	3,063	774	26,506
CASH & CASH EQUIVALENTS JULY 1	9,529	18,779	-	11,260	3,926	43,494
CASH & CASH EQUIVALENTS JUNE 30	9,767	15,542	25,668	14,323	4,700	70,000
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	\$ 9,767	\$ 15,542	\$ 25,668	\$ 14,323	\$ 4,700	\$ 70,000
RECONCILIATION OF OPERATING INCOME (LOSS) TO						
NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (7,403)	\$ 58,092	\$ (5)	\$ 63,753	\$ 989	\$ 115,426
Adjustments To Reconcile Operating Income (Loss)						
To Net Cash Provided By Operating Activities						
Depreciation	8,265	1,416	-	-	704	10,385
(Increase) Decrease In Accounts Receivable	(2,409)	(288)	-	16	(420)	(3,101)
(Increase) Decrease In Due From	1,676	-	-	-	(9)	1,667
(Increase) Decrease In Inventory	(100)	188	-	(74)	(944)	(930)
(Increase) Decrease In Prepaid Expenses	57	3	-	3	108	171
Increase (Decrease) In Accounts Payable	351	(25)	-	(975)	1,152	503
Increase (Decrease) In Due To	(79)	(17)	-	-	(100)	(196)
Increase (Decrease) In Unearned Revenue	(127)	(258)	-	-	2	(383)
Increase (Decrease) In Compensated Absences	(6)	19	-	14	27	54
Increase (Decrease) In Prizes Payable	-	(304)	-	-	-	(304)
Increase (Decrease) In Prize Annuity	-	(8,152)	-	-	-	(8,152)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 225	\$ 50,674	\$ (5)	\$ 62,737	\$ 1,509	\$ 115,140



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, 2007
(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	\$ 2,278	\$ 5,715	\$ 4,887	\$ 7,355	\$ 15,233	\$ 35,468
Accounts Receivable (Net)	29	11	19	17	2,088	2,164
Interest Receivable	-	-	-	-	1	1
Due From Other Funds/Advances						
To Other Funds	47,838	287	2,551	3,915	15,467	70,058
Inventory	-	5,993	4,223	52	1,373	11,641
Prepaid Expenses	-	-	-	1,613	416	2,029
Total Current Assets	50,145	12,006	11,680	12,952	34,578	121,361
Noncurrent Assets:						
Due From Other Funds/Advances						
To Other Funds	-	-	-	-	1,579	1,579
Capital Assets - depreciable (Net)	-	80,885	-	3,160	3,315	87,360
Total Noncurrent Assets	-	80,885	-	3,160	4,894	88,939
TOTAL ASSETS	50,145	92,891	11,680	16,112	39,472	210,300
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	17,795	2,877	1,023	2,267	4,347	28,309
Due To Other Funds/Advances						
From Other Funds	20	45	13	1,361	13,531	14,970
Unearned Revenue	-	-	8,659	-	-	8,659
Compensated Absences	-	299	-	951	1,335	2,585
Capital Leases	-	-	-	-	69	69
Total Current Liabilities	17,815	3,221	9,695	4,579	19,282	54,592
Noncurrent Liabilities:						
Accounts Payable & Accruals	32,330	-	-	88	92	32,510
Due To Other Funds/Advances						
From Other Funds	-	-	-	-	1,000	1,000
Compensated Absences	-	161	-	-	-	161
Capital Leases	-	-	-	-	92	92
Total Noncurrent Liabilities	32,330	161	-	88	1,184	33,763
TOTAL LIABILITIES	50,145	3,382	9,695	4,667	20,466	88,355
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	-	80,885	-	3,160	3,154	87,199
Unrestricted	-	8,624	1,985	8,285	15,852	34,746
TOTAL NET ASSETS	\$ -	\$ 89,509	\$ 1,985	\$ 11,445	\$ 19,006	\$ 121,945

STATE OF IOWA

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

For the Year Ended June 30, 2007
(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	\$ 17,678	\$ 3,028	\$ 9,285	\$ 33,352	\$ 46,361	\$ 109,704
Fees, Licenses & Permits	-	-	-	12	-	12
Refunds & Reimbursements	129	45,373	-	3	1,072	46,577
Sales, Rents & Services	-	-	1,935	93	63	2,091
Miscellaneous	-	4,328	-	-	94	4,422
TOTAL OPERATING REVENUES	17,807	52,729	11,220	33,460	47,590	162,806
OPERATING EXPENSES:						
Depreciation	-	10,759	-	616	806	12,181
Personal Services	-	4,790	7	10,468	12,078	27,343
Travel & Subsistence	-	9,532	-	50	8,408	17,990
Supplies & Materials	-	21,187	8	974	15,146	37,315
Contractual Services	2,142	1,516	200	14,027	7,502	25,387
Equipment & Repairs	-	2,353	9,868	6,814	1,753	20,788
Claims & Miscellaneous	15,665	8	-	338	396	16,407
Licenses, Permits & Refunds	-	11	1	-	31	43
TOTAL OPERATING EXPENSES	17,807	50,156	10,084	33,287	46,120	157,454
OPERATING INCOME (LOSS)	-	2,573	1,136	173	1,470	5,352
NONOPERATING REVENUES						
(EXPENSES):						
Investment Income	-	-	-	403	262	665
Interest Expense	-	-	-	-	(1)	(1)
Gain (Loss) on Sale of Capital Assets	-	(297)	-	(6)	(49)	(352)
NET NONOPERATING REVENUES (EXPENSES)	-	(297)	-	397	212	312
CHANGE IN NET ASSETS	-	2,276	1,136	570	1,682	5,664
TOTAL NET ASSETS - JULY 1	-	87,233	849	10,875	17,324	116,281
TOTAL NET ASSETS - JUNE 30	\$ -	\$ 89,509	\$ 1,985	\$ 11,445	\$ 19,006	\$ 121,945

STATE OF IOWA

**Combining Statement of Cash Flows
Internal Service Funds**

For the Year Ended June 30, 2007
(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	\$ 129	\$ 7,423	\$ 2,002	\$ 110	\$ 1,214	\$ 10,878
Cash Received From Reciprocal Interfund Activity	21,549	45,303	8,408	34,371	48,121	157,752
Cash Payments To Suppliers For Goods & Services	(20,202)	(24,103)	(11,190)	(22,242)	(25,660)	(103,397)
Cash Payments To Employees For Services	<u>-</u>	<u>(14,345)</u>	<u>(7)</u>	<u>(10,590)</u>	<u>(20,390)</u>	<u>(45,332)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,476</u>	<u>14,278</u>	<u>(787)</u>	<u>1,649</u>	<u>3,285</u>	<u>19,901</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Interest Paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	<u>-</u>	<u>(14,902)</u>	<u>-</u>	<u>(603)</u>	<u>(1,035)</u>	<u>(16,540)</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>(14,902)</u>	<u>-</u>	<u>(603)</u>	<u>(1,035)</u>	<u>(16,540)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest & Dividends On Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>403</u>	<u>263</u>	<u>666</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>403</u>	<u>263</u>	<u>666</u>
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	1,476	(624)	(787)	1,449	2,512	4,026
CASH & CASH EQUIVALENTS JULY 1	<u>802</u>	<u>6,339</u>	<u>5,674</u>	<u>5,906</u>	<u>12,721</u>	<u>31,442</u>
CASH & CASH EQUIVALENTS JUNE 30	<u>2,278</u>	<u>5,715</u>	<u>4,887</u>	<u>7,355</u>	<u>15,233</u>	<u>35,468</u>
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 2,278</u>	<u>\$ 5,715</u>	<u>\$ 4,887</u>	<u>\$ 7,355</u>	<u>\$ 15,233</u>	<u>\$ 35,468</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)	\$ -	\$ 2,573	\$ 1,136	\$ 173	\$ 1,470	\$ 5,352
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities						
Depreciation	-	10,759	-	616	806	12,181
(Increase) Decrease In Accounts Receivable	1,796	67	67	2	(15)	1,917
(Increase) Decrease In Due From	2,073	97	(906)	42	(1,312)	(6)
(Increase) Decrease In Inventory	-	(213)	(295)	12	(209)	(705)
(Increase) Decrease In Prepaid Expenses	-	56	-	(490)	108	(326)
Increase (Decrease) In Accounts Payable	(2,395)	1,129	(496)	389	(731)	(2,104)
Increase (Decrease) In Due To	2	(167)	(322)	977	3,072	3,562
Increase (Decrease) In Unearned Revenue	-	-	29	-	-	29
Increase (Decrease) In Compensated Absences And Other Benefits	-	(23)	-	(72)	96	1
Net Cash Provided By Operating Activities	<u>\$ 1,476</u>	<u>\$ 14,278</u>	<u>\$ (787)</u>	<u>\$ 1,649</u>	<u>\$ 3,285</u>	<u>\$ 19,901</u>



COMBINING FINANCIAL STATEMENTS

Pension and Other Employee Benefit Funds

Pension 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 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 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 Funds

June 30, 2007
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE FUND	SPOC INSURANCE FUND	TOTAL
ASSETS						
Cash & Cash Equivalents	\$ 122,251	\$ 3,799	\$ 4,635	\$ 237	\$ 1,846	\$ 132,768
Receivables:						
Contributions	48,661	513	5	75	408	49,662
Investments Sold	1,136,905	2,749	3,140	-	-	1,142,794
Foreign Exchange Contracts	6,508	-	-	-	-	6,508
Interest & Dividends	79,432	1,050	-	6	-	80,488
Total Receivables	<u>1,271,506</u>	<u>4,312</u>	<u>3,145</u>	<u>81</u>	<u>408</u>	<u>1,279,452</u>
Investments, at Fair Value:						
Fixed Income Securities	8,602,953	74,251	28,266	-	-	8,705,470
Equity Investments	10,094,384	178,043	63,128	-	-	10,335,555
Real Estate Partnerships	2,075,287	16,945	5,934	-	-	2,098,166
Investment in Private Equity/Debt	1,946,547	-	-	-	-	1,946,547
Securities Lending Collateral Pool	1,969,396	34,900	-	-	-	2,004,296
Securities on Loan with Brokers	1,916,776	34,157	-	-	-	1,950,933
Total Investments	<u>26,605,343</u>	<u>338,296</u>	<u>97,328</u>	<u>-</u>	<u>-</u>	<u>27,040,967</u>
Capital Assets:						
Land	500	-	-	-	-	500
Other Capital Assets (Net)	8,971	-	-	-	-	8,971
Total Capital Assets	<u>9,471</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,471</u>
Total Assets	<u>28,008,571</u>	<u>346,407</u>	<u>105,108</u>	<u>318</u>	<u>2,254</u>	<u>28,462,658</u>
LIABILITIES						
Accounts Payable & Accruals	61,693	487	170	-	409	62,759
Payable for Investments Purchased	2,760,787	530	8,325	-	-	2,769,642
Payable to Brokers For Rebate & Collateral	1,968,923	34,900	-	-	-	2,003,823
Total Liabilities	<u>4,791,403</u>	<u>35,917</u>	<u>8,495</u>	<u>-</u>	<u>409</u>	<u>4,836,224</u>
NET ASSETS HELD IN TRUST FOR EMPLOYEES' BENEFITS	<u>\$ 23,217,168</u>	<u>\$ 310,490</u>	<u>\$ 96,613</u>	<u>\$ 318</u>	<u>\$ 1,845</u>	<u>\$ 23,626,434</u>

STATE OF IOWA

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

For the Year Ended June 30, 2007
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE FUND	SPOC INSURANCE FUND	TOTAL
ADDITIONS:						
Contributions:						
Member Contributions	\$ 223,515	\$ 3,618	\$ 604	\$ 412	\$ 408	\$ 228,557
Employer Contributions	343,063	6,263	2,039	-	-	351,365
Buy-Back/Buy-In Contributions	8,026	-	-	-	-	8,026
Total Contributions	<u>574,604</u>	<u>9,881</u>	<u>2,643</u>	<u>412</u>	<u>408</u>	<u>587,948</u>
Investment Income:						
Net Increase (Decrease) in Fair Value of Investments	2,821,867	34,111	11,794	1	-	2,867,773
Interest	363,483	8,774	1,601	28	-	373,886
Dividends	80,005	1,054	573	-	-	81,632
Other	185,011	-	-	-	-	185,011
Total Investment Income	<u>3,450,366</u>	<u>43,939</u>	<u>13,968</u>	<u>29</u>	<u>-</u>	<u>3,508,302</u>
Less Investment Expense	<u>151,523</u>	<u>4,647</u>	<u>338</u>	<u>-</u>	<u>-</u>	<u>156,508</u>
Net Investment Income	<u>3,298,843</u>	<u>39,292</u>	<u>13,630</u>	<u>29</u>	<u>-</u>	<u>3,351,794</u>
Total Additions	<u>3,873,447</u>	<u>49,173</u>	<u>16,273</u>	<u>441</u>	<u>408</u>	<u>3,939,742</u>
DEDUCTIONS:						
Pension and Annuity Benefits	1,013,973	17,483	5,762	-	-	1,037,218
Payments In Accordance with Agreements	-	-	-	787	272	1,059
Administrative Expense	9,061	130	8	-	-	9,199
Refunds	38,116	11	-	-	-	38,127
Total Deductions	<u>1,061,150</u>	<u>17,624</u>	<u>5,770</u>	<u>787</u>	<u>272</u>	<u>1,085,603</u>
Change in Net Assets Held in Trust for Employees' Pension Benefits	2,812,297	31,549	10,503	(346)	136	2,854,139
Fund Balance - Reserved for Employees' Benefits July 1	<u>20,404,871</u>	<u>278,941</u>	<u>86,110</u>	<u>664</u>	<u>1,709</u>	<u>20,772,295</u>
Fund Balance - Reserved for Employees' Benefits June 30	<u>\$ 23,217,168</u>	<u>\$ 310,490</u>	<u>\$ 96,613</u>	<u>\$ 318</u>	<u>\$ 1,845</u>	<u>\$ 23,626,434</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, 2007
(Expressed in Thousands)

	IOWA EDUCATIONAL SAVINGS PLAN TRUST	VETERANS AFFAIRS	HEALTH ORGANIZATION INSOLVENCY FUND	WAGNER AWARD FUND	BRILLE & SIGHT SAVING SCHOOL	TOTAL
ASSETS						
Cash	\$ 1,687	\$ 473	\$ 230	\$ 13	\$ 43	\$ 2,446
Investments	2,000,797	-	-	-	-	2,000,797
Accounts Receivable (Net)	4	1	-	-	-	5
Capital Assets (Net)	-	20	-	-	-	20
Inventory	-	14	-	-	-	14
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	2,002,488	508	230	13	43	2,003,282
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES						
Accounts Payable & Accruals	203	2	-	-	-	205
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	203	2	-	-	-	205
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS						
Held in Trust for Individuals, Organizations and Other Governments	<u>\$ 2,002,285</u>	<u>\$ 506</u>	<u>\$ 230</u>	<u>\$ 13</u>	<u>\$ 43</u>	<u>\$ 2,003,077</u>

STATE OF IOWA

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

For the Year Ended June 30, 2007
(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	\$ 338,571	\$ 167	\$ -	\$ -	\$ -	\$ 338,738
Gifts, Bequests, & Endowments	-	173	-	-	-	173
Total Contributions	<u>338,571</u>	<u>340</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>338,911</u>
Investment Income:						
Net Increase (decrease) in Fair Value of Investments	267,546	-	-	-	3	267,549
Interest	86	10	-	1	2	99
Total Investment Income	<u>267,632</u>	<u>10</u>	<u>-</u>	<u>1</u>	<u>5</u>	<u>267,648</u>
Total Additions	<u>606,203</u>	<u>350</u>	<u>-</u>	<u>1</u>	<u>5</u>	<u>606,559</u>
DEDUCTIONS:						
Distributions to Participants	70,732	-	-	-	-	70,732
Other	415	266	-	-	5	686
Total Deductions	<u>71,147</u>	<u>266</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>71,418</u>
Change in Net Assets Held in Trust for Individuals, Organizations and Other Governments	535,056	84	-	1	-	535,141
Net Assets - July 1	<u>1,467,229</u>	<u>422</u>	<u>230</u>	<u>12</u>	<u>43</u>	<u>1,467,936</u>
Net Assets - June 30	<u>\$ 2,002,285</u>	<u>\$ 506</u>	<u>\$ 230</u>	<u>\$ 13</u>	<u>\$ 43</u>	<u>\$ 2,003,077</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, 2007
(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	\$ 10,443	\$ 7,706	\$ 19,895	\$ 73,206	\$ 31,307	\$ 142,557
Accounts Receivable (Net)	78,048	36,499	-	5,573	54,349	174,469
Total Assets	<u>\$ 88,491</u>	<u>\$ 44,205</u>	<u>\$ 19,895</u>	<u>\$ 78,779</u>	<u>\$ 85,656</u>	<u>\$ 317,026</u>
LIABILITIES						
Accounts Payable & Accruals	\$ 88,491	\$ 44,205	\$ 19,895	\$ 78,779	\$ 85,656	\$ 317,026
Total Liabilities	<u>\$ 88,491</u>	<u>\$ 44,205</u>	<u>\$ 19,895</u>	<u>\$ 78,779</u>	<u>\$ 85,656</u>	<u>\$ 317,026</u>

STATE OF IOWA

**Combining Statement of Changes in Assets and Liabilities
Agency Funds**

For the Year Ended June 30, 2007
(Expressed in Thousands)

	BALANCE JULY 1, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007
<u>LOCAL SALES & SERVICES TAX FUND</u>				
ASSETS				
Cash	\$ 403	\$ 603,121	\$ 593,081	\$ 10,443
Accounts Receivable	96,240	78,048	96,240	78,048
Total Assets	\$ 96,643	\$ 681,169	\$ 689,321	\$ 88,491
LIABILITIES				
Accounts Payable & Accruals	\$ 96,643	\$ 681,169	\$ 689,321	\$ 88,491
Total Liabilities	\$ 96,643	\$ 681,169	\$ 689,321	\$ 88,491
<u>CENTRALIZED PAYROLL TRUSTEE FUND</u>				
ASSETS				
Cash	\$ 1,124	\$ 699,942	\$ 693,360	\$ 7,706
Accounts Receivable	33,735	36,499	33,735	36,499
Total Assets	\$ 34,859	\$ 736,441	\$ 727,095	\$ 44,205
LIABILITIES				
Accounts Payable & Accruals	\$ 34,859	\$ 736,441	\$ 727,095	\$ 44,205
Total Liabilities	\$ 34,859	\$ 736,441	\$ 727,095	\$ 44,205
<u>JUDICIAL-CLERKS OF DISTRICT COURT</u>				
ASSETS				
Cash	\$ 21,939	\$ 291,359	\$ 293,403	\$ 19,895
Total Assets	\$ 21,939	\$ 291,359	\$ 293,403	\$ 19,895
LIABILITIES				
Accounts Payable & Accruals	\$ 21,939	\$ 291,359	\$ 293,403	\$ 19,895
Total Liabilities	\$ 21,939	\$ 291,359	\$ 293,403	\$ 19,895
<u>SCHOOL DISTRICT SURTAX CLEARING</u>				
ASSETS				
Cash	\$ 65,886	\$ 83,284	\$ 75,964	\$ 73,206
Accounts Receivable	6,328	5,573	6,328	5,573
Total Assets	\$ 72,214	\$ 88,857	\$ 82,292	\$ 78,779
LIABILITIES				
Accounts Payable & Accruals	\$ 72,214	\$ 88,857	\$ 82,292	\$ 78,779
Total Liabilities	\$ 72,214	\$ 88,857	\$ 82,292	\$ 78,779
<u>OTHER AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 29,292	\$ 1,170,673	\$ 1,168,658	\$ 31,307
Accounts Receivable	51,282	54,284	51,217	54,349
Total Assets	\$ 80,574	\$ 1,224,957	\$ 1,219,875	\$ 85,656
LIABILITIES				
Accounts Payable & Accruals	\$ 80,574	\$ 1,224,957	\$ 1,219,875	\$ 85,656
Total Liabilities	\$ 80,574	\$ 1,224,957	\$ 1,219,875	\$ 85,656
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 118,644	\$ 2,848,379	\$ 2,824,466	\$ 142,557
Accounts Receivable	187,585	174,404	187,520	174,469
Total Assets	\$ 306,229	\$ 3,022,783	\$ 3,011,986	\$ 317,026
LIABILITIES				
Accounts Payable & Accruals	\$ 306,229	\$ 3,022,783	\$ 3,011,986	\$ 317,026
Total Liabilities	\$ 306,229	\$ 3,022,783	\$ 3,011,986	\$ 317,026



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

STATE OF IOWA

Schedule 1

Net Assets by Component

For the Last Six Fiscal Years
(Accrual Basis of Accounting Expressed In Thousands)

	Fiscal Year					
	2002	2003*	2004	2005	2006	2007
Governmental activities						
Invested in capital assets, net of related debt	\$ 5,127,823	\$ 5,370,928	\$ 5,465,035	\$ 5,681,408	\$ 5,878,568	\$ 6,071,498
Restricted	1,255,497	1,373,913	1,382,417	1,209,109	1,190,851	954,614
Unrestricted	532,098	(257,172)	(52,741)	133,884	282,317	612,506
Total governmental activities net assets	\$ 6,915,418	\$ 6,487,669	\$ 6,794,711	\$ 7,024,401	\$ 7,351,736	\$ 7,638,618
Business-type activities						
Invested in capital assets, net of related debt	\$ 1,324,407	\$ 1,528,930	\$ 1,621,420	\$ 1,783,485	\$ 1,874,011	\$ 1,962,371
Restricted	1,212,368	1,123,665	1,181,164	1,221,333	1,353,063	1,377,602
Unrestricted	199,143	804,879	748,682	761,180	785,313	965,010
Total business-type activities	\$ 2,735,918	\$ 3,457,474	\$ 3,551,266	\$ 3,765,998	\$ 4,012,387	\$ 4,304,983
Primary government						
Invested in capital assets, net of related debt	\$ 6,452,230	\$ 6,899,858	\$ 7,086,455	\$ 7,464,893	\$ 7,752,579	\$ 8,033,869
Restricted	2,467,865	2,497,578	2,563,581	2,430,442	2,543,914	2,332,216
Unrestricted	731,241	547,707	695,941	895,064	1,067,630	1,577,516
Total primary government net assets	\$ 9,651,336	\$ 9,945,143	\$ 10,345,977	\$ 10,790,399	\$ 11,364,123	\$ 11,943,601

* Fiscal Year 2003 amounts reported include prior period adjustments made in 2004 for the reclassification of the Tobacco Settlement Authority from a business-type activity to a governmental activity of \$560,865 and implementation of GASB Technical bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues of \$21,084.

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Schedule 2

Changes in Net Assets

For the Last Six Fiscal Years
(Accrual Basis of Accounting Expressed In Thousands)

	Fiscal Year					
	2002	2003*	2004	2005**	2006	2007
Expenses						
Governmental activities:						
Administration & Regulation	\$ 1,191,738	\$ 1,180,426	\$ 972,615	\$ 903,378	\$ 924,171	\$ 881,865
Education	2,594,324	2,628,698	2,650,631	2,796,158	2,948,579	3,071,601
State Aid to Universities	675,077	681,288	635,488	-	-	-
Health & Human Rights	283,079	306,181	317,842	337,542	367,579	368,342
Human Services	3,449,997	3,396,213	3,429,548	3,633,297	3,927,888	3,882,041
Justice & Public Defense	623,406	631,182	663,134	693,606	756,968	822,676
Economic Development	180,950	184,647	202,133	208,720	223,153	227,266
Transportation	758,876	819,532	906,054	918,557	930,333	954,278
Agriculture & Natural Resources	170,388	147,874	155,220	167,101	180,539	193,327
Interest Expense	19,411	20,232	19,123	52,241	77,392	74,053
Total Governmental Activities	9,947,246	9,996,273	9,951,788	9,710,600	10,336,602	10,475,449
Business-type Activities:						
Universities	2,459,133	2,424,292	2,643,969	2,656,318	2,850,291	2,942,220
Unemployment Insurance	392,432	445,045	389,858	299,086	304,143	342,499
Tobacco Settlement Authority	25,044	-	-	-	-	-
Other	286,046	291,407	310,538	326,060	432,037	363,508
Total Business-type Activities	3,162,655	3,160,744	3,344,365	3,281,464	3,586,471	3,648,227
Total primary government expenses	\$ 13,109,901	\$ 13,157,017	\$ 13,296,153	\$ 12,992,064	\$ 13,923,073	\$ 14,123,676
Program Revenues						
Governmental activities:						
Charges for Services:						
Administration & Regulation	\$ 712,136	\$ 772,439	\$ 749,752	\$ 698,923	\$ 804,217	\$ 765,932
Education	22,499	35,511	26,038	26,118	23,117	39,402
Health & Human Rights	27,178	40,081	32,242	38,885	45,324	55,086
Human Services	795,466	558,878	410,310	387,762	418,391	448,255
Justice & Public Defense	147,153	166,452	23,811	72,045	83,256	60,529
Economic Development	4,462	3,153	1,121	3	2,715	2,519
Transportation	2,124	382	19,279	19,833	13,922	30,106
Agriculture & Natural Resources	57,002	68,464	60,744	65,227	60,128	78,306
Operating Grants & Contributions	3,046,000	3,195,989	3,314,471	3,391,654	3,699,313	3,247,773
Capital Grants & Contributions	8,908	6,463	4,287	5,316	4,245	283,759
Total Governmental Activities	4,822,928	4,847,812	4,642,055	4,705,766	5,154,628	5,011,667
Business-type Activities:						
Charges for Services:						
Universities	1,335,483	1,449,643	1,583,183	1,642,343	1,786,355	1,690,465
Unemployment Insurance	254,896	337,634	304,396	318,607	348,246	352,067
Tobacco Settlement Authority	49,633	-	-	-	-	-
Other	352,526	359,935	404,595	425,261	567,966	478,850
Operating Grants & Contributions	472,011	349,072	427,616	448,517	458,271	633,957
Capital Grants & Contributions	30,737	57,801	58,026	28,912	18,039	30,943
Total Business-type Activities	2,495,286	2,554,085	2,777,816	2,863,640	3,178,877	3,186,282
Total primary government program revenues	\$ 7,318,214	\$ 7,401,897	\$ 7,419,871	\$ 7,569,406	\$ 8,333,505	\$ 8,197,949
Net (Expense)/Revenue						
Governmental activities	\$ (5,124,318)	\$ (5,148,461)	\$ (5,309,733)	\$ (5,004,834)	\$ (5,181,974)	\$ (5,463,782)
Business-type Activities	(667,369)	(606,659)	(566,549)	(417,824)	(407,594)	(461,945)
Total primary government net expense	\$ (5,791,687)	\$ (5,755,120)	\$ (5,876,282)	\$ (5,422,658)	\$ (5,589,568)	\$ (5,925,727)

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Schedule 2

Changes in Net Assets

For the Last Six Fiscal Years
(Accrual Basis of Accounting Expressed In Thousands)

	Fiscal Year					
	2002	2003*	2004	2005**	2006	2007
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes:						
Personal Income	\$ 1,889,922	\$ 1,922,316	\$ 2,090,712	\$ 2,263,561	\$ 2,430,981	\$ 2,673,861
Corporate Income	111,724	148,214	97,769	176,997	283,112	322,315
Sales & Use	1,686,384	1,635,551	1,688,943	1,761,195	1,866,864	1,878,500
Other	598,222	563,751	598,165	596,707	592,888	641,206
Restricted for Transportation Purposes:						
Motor Fuel	457,989	464,069	435,358	482,194	440,652	446,607
Road Use	255,749	246,238	252,269	252,599	247,125	248,959
Unrestricted Investment Earnings	97,704	65,852	62,086	72,166	98,269	146,669
Contribution to Permanent Fund Principal	1,450	27	12	62	262	55
Gain/(Loss) on Sale of Assets	856	(1,685)	671	972	-	-
Other	73,539	140,672	166,328	129,486	29,810	25,807
Transfers	666,765	112,474	122,096	(501,415)	(480,654)	(549,206)
Special Item - Gambling Tax liability Settlement	-	-	102,366	-	-	-
Total Governmental Activities	\$ 5,840,304	\$ 5,297,479	\$ 5,616,775	\$ 5,234,524	\$ 5,509,309	\$ 5,834,773
Business-type Activities:						
Other Taxes	\$ 8,757	\$ 10,258	\$ -	\$ -	\$ 7,300	\$ 5,909
Unrestricted Investment Earnings	66,294	95,215	88,881	88,036	93,651	159,246
Other	195,627	78,133	58,061	43,102	68,209	40,162
Gain/(Loss) on Sale of Assets	(7,491)	(11,264)	7	3	4,169	18
State Aid to Universities	675,077	681,288	635,488	-	-	-
Transfers	(666,765)	(112,474)	(122,096)	501,415	480,654	549,206
Total Business-type Activities	\$ 271,499	\$ 741,156	\$ 660,341	\$ 632,556	\$ 653,983	\$ 754,541
Changes in Net Assets						
Governmental activities	\$ 715,986	\$ 149,018	\$ 307,042	\$ 229,690	\$ 327,335	\$ 370,991
Business-type Activities	(395,870)	134,497	93,792	214,732	246,389	292,596
Total primary government	\$ 320,116	\$ 283,515	\$ 400,834	\$ 444,422	\$ 573,724	\$ 663,587

* Fiscal Year 2003 amounts reported include prior period adjustments made in 2004 for the reclassification of the Tobacco Settlement Authority from a business-type activity to a governmental activity and implementation of GASB Technical bulletin 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues.

** State Aid To Universities are classified as Transfers

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Schedule 3

Fund Balances of Governmental Funds

For the Last Six Fiscal Years
(Modified Accrual Basis of Accounting Expressed In Thousands)

	Fiscal Year					
	2002	2003*	2004	2005	2006	2007
General Fund						
Reserved	\$ 1,409,695	\$ 1,478,105	\$ 1,431,087	\$ 1,364,588	\$ 1,202,023	\$ 1,000,811
Unreserved	316,767	180,780	445,627	559,864	897,708	1,052,537
Total general fund	<u>\$ 1,726,462</u>	<u>\$ 1,658,885</u>	<u>\$ 1,876,714</u>	<u>\$ 1,924,452</u>	<u>\$ 2,099,731</u>	<u>\$ 2,053,348</u>
All Other Governmental Funds						
Reserved	\$ 533,606	\$ 474,011	\$ 377,317	\$ 305,386	\$ 419,404	\$ 305,336
Unreserved, reported in:						
Special revenue funds	31,584	74,762	97,916	83,978	62,224	48,907
Capital projects funds	3,101	1,163	2,890	4,010	2,056	98,015
Total all other governmental funds	<u>\$ 568,291</u>	<u>\$ 549,936</u>	<u>\$ 478,123</u>	<u>\$ 393,374</u>	<u>\$ 483,684</u>	<u>\$ 452,258</u>

* Fiscal Year 2003 amounts reported include prior period adjustments made in 2004 for the reclassification of the Tobacco Settlement Authority from a business-type activity to a governmental fund type of \$69,442.

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Changes in Fund Balances of Governmental Funds

For the Last Ten Fiscal Years
(Modified Accrual Basis of Accounting Expressed In Thousands)

	Fiscal		
	1998	1999	2000
Revenues			
Taxes	\$ 5,304,243	\$ 5,394,206	\$ 5,725,416
Receipts from other entities	2,141,475	2,304,812	2,638,996
Investment income	102,804	89,797	84,798
Fees, licenses and permits	470,968	504,882	527,687
Refunds and reimbursement	180,994	176,285	259,611
Sales, rents and services	12,091	15,924	17,764
Miscellaneous	66,223	78,233	104,369
Contributions	-	-	-
Gross Revenues	8,278,798	8,564,139	9,358,641
Less revenue refunds	519,292	568,831	585,580
Total Revenues	7,759,506	7,995,308	8,773,061
Expenditures			
Administration & Regulation	-	-	-
General Government & Regulation	782,362	889,787	943,355
Education	2,233,579	2,320,096	2,476,234
State aid to universities*	-	-	-
Health & Human Rights	-	-	-
Human Services	-	-	-
Health & Human Services	2,389,458	2,487,124	2,658,728
Justice & Public Defense	-	-	-
Law, Justice & Public Safety	504,596	559,546	604,067
Economic Development	161,905	172,962	183,675
Transportation	803,174	857,384	1,071,919
Agricultural & Natural Resources	113,238	129,541	144,150
Capital Outlay	58,068	31,082	34,499
Debt Service:			
Bond Principal Payment	-	-	-
Bond Interest & Fiscal Charges	-	-	-
Total Expenditures	7,046,380	7,447,522	8,116,627
Excess of revenues over (under) Expenditures	713,126	547,786	656,434
Other Financing Sources (Uses)			
Transfers In	157,766	140,148	157,772
Transfers Out	(762,285)	(756,028)	(777,439)
Leases, Installment Purchases & Other	602	2,099	1,124
Debt Issued	-	-	-
Premium (Discount) on Bonds	-	-	-
Refunding Debt Issued	-	-	-
Proceeds From refunding bonds	42,610	-	-
Proceeds From refunding COPS	2,451	820	-
Payments to Refund Debt	(42,610)	-	-
Payment to Refunding Escrow Agent	-	-	-
Payments to Refund COPS	(2,446)	(820)	-
Total Other Financing Sources (Uses)	(603,912)	(613,781)	(618,543)
Net change in fund balances	\$ 109,214	\$ (65,995)	\$ 37,891
Debt Service as a percentage of non capital expenditures	N/A	N/A	N/A

FY 1997-2001

Transfers to Universities are reclassified as Transfers out
Transfers In includes transfers from Component Units

FY 2002-2004

* State Aid to Universities are reclassified as Transfers out

FY 1997- 2004

Capital outlays were presented by function
Expenditures by function included debt service payments

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Schedule 4

Year							
	2001	2002	2003	2004	2005	2006	2007
\$	5,679,340	\$ 5,646,505	\$ 5,624,307	\$ 5,939,586	\$ 6,285,430	\$ 6,491,259	6,867,216
	2,774,345	3,257,685	3,461,978	3,591,798	3,585,177	3,973,158	3,522,809
	118,650	97,054	63,133	62,235	71,879	97,418	145,561
	530,202	554,847	575,901	615,684	639,681	651,726	680,615
	242,693	949,930	778,389	435,380	349,684	466,900	411,734
	17,845	27,383	26,093	30,954	28,735	27,714	28,589
	104,559	141,491	158,192	193,171	206,371	119,906	120,677
	-	1,450	26	12	62	265	156
	9,467,634	10,676,345	10,688,019	10,868,820	11,167,019	11,828,346	11,777,357
	619,317	743,777	726,338	793,070	776,354	675,709	686,423
	8,848,317	9,932,568	9,961,681	10,075,750	10,390,665	11,152,637	11,090,934
	-	1,136,471	1,225,770	974,624	875,086	909,321	863,429
	958,734	-	-	-	-	-	-
	2,572,970	2,610,508	2,630,481	2,650,005	2,790,597	2,940,726	3,068,629
	-	-	-	-	-	-	-
	-	282,234	300,504	311,742	332,790	360,180	357,830
	-	3,439,265	3,383,339	3,417,491	3,622,977	3,919,831	3,864,673
	2,920,150	-	-	-	-	-	-
	-	636,188	639,298	629,246	653,683	700,362	771,562
	633,205	-	-	-	-	-	-
	188,226	177,567	184,017	196,917	204,048	217,701	221,567
	988,743	1,012,886	1,022,586	348,494	381,706	382,576	458,950
	156,111	170,606	149,625	140,581	150,108	161,172	172,948
	28,827	26,891	14,663	749,346	828,998	878,185	800,188
	-	-	-	-	25,181	23,435	28,025
	-	-	-	-	52,899	54,867	53,194
	8,446,966	9,492,616	9,550,283	9,418,446	9,918,073	10,548,356	10,660,995
	401,351	439,952	411,398	657,304	472,592	604,281	429,939
	149,420	1,412,381	272,192	289,009	264,968	453,815	323,251
	(805,616)	(1,423,853)	(840,144)	(801,306)	(768,683)	(936,073)	(869,369)
	6,827	1,555	1,180	1,009	1,115	530	4,730
	-	245,500	-	-	-	-	33,370
	-	17,510	-	-	-	(555,554)	270
	-	55,130	-	-	20,799	1,365,435	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	(20,550)	-	-
	-	(57,969)	-	-	-	(666,845)	-
	-	-	-	-	-	-	-
	(649,369)	250,254	(566,772)	(511,288)	(502,351)	(338,692)	(507,748)
\$	(248,018)	\$ 690,206	\$ (155,374)	\$ 146,016	\$ (29,759)	\$ 265,589	\$ (77,809)
	N/A	N/A	N/A	N/A	<1%	<1%	<1%

STATE OF IOWA

Tax Revenue By Source - Governmental Funds

For the Last Ten Fiscal Years

	Fiscal				
	1998	1999	2000	2001	2002
Individual	\$ 2,301,933	\$ 2,230,147	\$ 2,412,936	\$ 2,549,297	\$ 2,381,482
Sales	1,276,714	1,380,101	1,427,683	1,319,878	1,460,404
Use Tax	479,530	492,380	518,055	502,803	514,242
Fuel Tax	436,953	449,619	462,290	449,032	457,489
Corporate Tax	291,139	322,469	331,463	276,947	234,354
Inheritance Tax	108,269	88,121	116,394	108,515	94,746
Insurance Premium Tax	108,869	114,345	120,212	126,402	135,582
Cigarette & Tobacco Tax	100,704	99,012	97,510	96,295	95,089
Wagering Tax	60,152	161,567	182,364	190,397	209,319
Franchise Tax	35,564	33,220	31,921	31,842	31,379
Beer Tax	12,709	13,249	13,637	13,478	13,774
Other	9,001	9,976	10,951	14,454	18,645
Gross Taxes	5,221,537	5,394,206	5,725,416	5,679,340	5,646,505
Less Refunds	456,723	510,797	521,802	552,093	662,872
Net Taxes	\$ 4,764,814	\$ 4,883,409	\$ 5,203,614	\$ 5,127,247	\$ 4,983,633

Source: State Accounting System.

STATE OF IOWA

Schedule 5

Year				
2003	2004	2005	2006	2007
\$2,424,011	\$2,609,843	\$2,799,745	\$2,876,413	\$3,109,609
1,434,033	1,475,261	1,498,893	1,600,799	1,590,238
516,400	539,071	578,255	557,841	587,009
463,703	476,985	528,208	490,470	500,531
221,367	239,569	281,101	370,333	436,060
85,124	82,431	77,003	71,640	77,750
140,939	139,275	131,183	121,428	105,223
95,758	95,085	96,077	98,936	135,207
182,201	219,461	238,065	249,183	272,210
35,253	36,292	36,593	35,007	33,601
13,961	14,104	14,070	14,277	14,264
11,557	12,209	6,237	4,932	5,514
5,624,307	5,939,586	6,285,430	6,491,259	6,867,216
647,825	712,737	689,874	576,733	588,552
<u>\$4,976,482</u>	<u>\$5,226,849</u>	<u>\$5,595,556</u>	<u>\$5,914,526</u>	<u>\$6,278,664</u>

STATE OF IOWA

Individual Income Tax Returns Filed and Tax Rates

For the Last Ten Years

Tax Year 1997		Tax Year 1998		Tax Year 1999	
Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns
No AGI	20,838	No AGI	24,651	No AGI	23,768
\$1 - 9,999	442,837	\$1 - 9,999	434,461	\$1 - 9,999	421,622
\$10,000 - 19,999	439,944	\$10,000 - 19,999	423,233	\$10,000 - 19,999	412,882
\$20,000 - 29,999	349,496	\$20,000 - 29,999	357,716	\$20,000 - 29,999	365,858
\$30,000 - 39,999	221,840	\$30,000 - 39,999	231,488	\$30,000 - 39,999	244,998
\$40,000 - 49,999	118,700	\$40,000 - 49,999	127,972	\$40,000 - 49,999	135,770
\$50,000 - 74,999	107,703	\$50,000 - 74,999	119,500	\$50,000 - 74,999	126,665
\$75,000 - 99,999	32,876	\$75,000 - 99,999	35,770	\$75,000 - 99,999	38,480
\$100,000 & above	46,550	\$100,000 & above	51,916	\$100,000 & above	57,388
	1,780,784		1,806,707		1,827,431

Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*
\$0 - 1,112	0.40%	\$0 - 1,136	0.36%	\$0 - 1,148	0.36%
\$1,112 - 2,224	0.80%	\$1,136 - 2,272	0.72%	\$1,148 - 2,296	0.72%
\$2,224 - 4,448	2.70%	\$2,272 - 4,544	2.43%	\$2,296 - 4,592	2.43%
\$4,448 - 10,008	5.00%	\$4,544 - 10,224	4.50%	\$4,592 - 10,332	4.50%
\$10,008 - 16,680	6.80%	\$10,224 - 17,040	6.12%	\$10,332 - 17,220	6.12%
\$16,680 - 22,240	7.20%	\$17,040 - 22,720	6.48%	\$17,220 - 22,960	6.48%
\$22,240 - 33,360	7.55%	\$22,720 - 34,080	6.80%	\$22,960 - 34,440	6.80%
\$33,360 - 50,040	8.80%	\$34,080 - 51,120	7.92%	\$34,440 - 51,660	7.92%
\$50,040 & above	9.98%	\$51,120 & above	8.98%	\$51,660 & above	8.98%

Tax Year 2002		Tax Year 2003		Tax Year 2004	
Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns
No AGI	36,370	No AGI	38,805	No AGI	40,314
\$1 - 9,999	389,157	\$1 - 9,999	385,654	\$1 - 9,999	381,662
\$10,000 - 19,999	375,313	\$10,000 - 19,999	364,171	\$10,000 - 19,999	354,752
\$20,000 - 29,999	355,237	\$20,000 - 29,999	347,099	\$20,000 - 29,999	340,049
\$30,000 - 39,999	257,473	\$30,000 - 39,999	259,677	\$30,000 - 39,999	265,364
\$40,000 - 49,999	149,414	\$40,000 - 49,999	155,553	\$40,000 - 49,999	166,811
\$50,000 - 74,999	140,422	\$50,000 - 74,999	149,518	\$50,000 - 74,999	166,307
\$75,000 - 99,999	41,334	\$75,000 - 99,999	45,499	\$75,000 - 99,999	51,862
\$100,000 & above	55,303	\$100,000 & above	60,932	\$100,000 & above	68,620
	1,800,023		1,806,908		1,835,741

Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*
\$0 - 1,211	0.36%	\$0 - 1,224	0.36%	\$0 - 1,242	0.36%
\$1,211 - 2,422	0.72%	\$1,224 - 2,448	0.72%	\$1,242 - 2,484	0.72%
\$2,422 - 4,844	2.43%	\$2,448 - 4,896	2.43%	\$2,484 - 4,968	2.43%
\$4,844 - 10,899	4.50%	\$4,896 - 11,016	4.50%	\$4,968 - 11,178	4.50%
\$10,899 - 18,165	6.12%	\$11,016 - 18,360	6.12%	\$11,178 - 18,630	6.12%
\$18,165 - 24,220	6.48%	\$18,360 - 24,480	6.48%	\$18,630 - 24,840	6.48%
\$24,220 - 36,330	6.80%	\$24,480 - 36,720	6.80%	\$24,840 - 37,260	6.80%
\$36,330 - 54,495	7.92%	\$36,720 - 55,080	7.92%	\$37,260 - 55,890	7.92%
\$54,495 & above	8.98%	\$55,080 & above	8.98%	\$55,890 & above	8.98%

* Iowa is one of three states that allow all taxpayers full deductibility of net federal tax payments.

Source: Iowa Individual Income Tax Annual Statistical Report, Compiled by the Department of Revenue, Tax Research and Program Analysis Section

STATE OF IOWA

Schedule 6

Tax Year 2000		Tax Year 2001	
Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns
No AGI	23,269	No AGI	30,045
\$1 - 9,999	402,339	\$1 - 9,999	397,180
\$10,000 - 19,999	403,108	\$10,000 - 19,999	388,796
\$20,000 - 29,999	370,609	\$20,000 - 29,999	366,898
\$30,000 - 39,999	253,816	\$30,000 - 39,999	258,425
\$40,000 - 49,999	143,177	\$40,000 - 49,999	147,292
\$50,000 - 74,999	137,097	\$50,000 - 74,999	138,318
\$75,000 - 99,999	41,763	\$75,000 - 99,999	41,307
\$100,000 & above	60,318	\$100,000 & above	56,327
	1,835,496		1,824,588

Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*
\$0 - 1,162	0.36%	\$0 - 1,185	0.36%
\$1,162 - 2,324	0.72%	\$1,185 - 2,370	0.72%
\$2,324 - 4,648	2.43%	\$2,370 - 4,740	2.43%
\$4,648 - 10,458	4.50%	\$4,740 - 10,665	4.50%
\$10,458 - 17,430	6.12%	\$10,665 - 17,775	6.12%
\$17,430 - 23,240	6.48%	\$17,775 - 23,700	6.48%
\$23,240 - 34,860	6.80%	\$23,700 - 35,550	6.80%
\$34,860 - 52,290	7.92%	\$35,550 - 53,325	7.92%
\$52,290 & above	8.98%	\$53,325 & above	8.98%

Tax Year 2005		Tax Year 2006	
Net Taxable Income	Number of Returns	Net Taxable Income	Number of Returns
No AGI	39,556	Information not available.	
\$1 - 9,999	372,761		
\$10,000 - 19,999	350,536		
\$20,000 - 29,999	338,342		
\$30,000 - 39,999	270,292		
\$40,000 - 49,999	176,395		
\$50,000 - 74,999	179,890		
\$75,000 - 99,999	57,841		
\$100,000 & above	79,060		
	1,864,673		

Net Taxable Income	Tax Rate*	Net Taxable Income	Tax Rate*
\$0 - 1,269	0.36%	\$0 - 1,300	0.36%
\$1,269 - 2,538	0.72%	\$1,300 - 2,600	0.72%
\$2,538 - 5,076	2.43%	\$2,600 - 5,200	2.43%
\$5,076 - 11,421	4.50%	\$5,200 - 11,700	4.50%
\$11,421 - 19,035	6.12%	\$11,700 - 19,500	6.12%
\$19,035 - 25,380	6.48%	\$19,500 - 26,000	6.48%
\$25,380 - 38,070	6.80%	\$26,000 - 39,000	6.80%
\$38,070 - 57,105	7.92%	\$39,000 - 58,500	7.92%
\$57,105 & above	8.98%	\$58,500 & above	8.98%

STATE OF IOWA

Retail Sales By Business Classification

Sales Tax Annual Period April 1 Through March 31 of the following year 1999 through 2007

Classification	1999		2000		2001		2002	
	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>
Utilities & Transportation	12,428	\$ 3,647,728	12,527	\$ 3,747,961	13,059	\$ 4,493,620	13,220	\$ 3,953,930
Building Materials	7,623	1,763,373	7,553	1,957,324	7,622	1,799,213	7,498	1,973,033
General Merchandise	7,963	3,963,220	7,962	4,170,878	8,172	4,408,791	7,889	4,579,962
Food Dealers	6,412	1,287,337	6,405	1,283,001	6,293	1,206,761	6,295	1,250,659
Motor Vehicles	15,604	1,328,972	15,351	1,364,334	15,630	1,439,919	15,277	1,505,792
Apparel	6,792	653,336	5,969	656,066	6,090	706,418	5,894	703,552
Home Furnishings and Appliances	10,116	1,135,572	9,754	1,190,185	9,573	1,200,680	9,058	1,176,072
Eating and Drinking Places	27,424	2,342,818	26,701	2,385,111	26,625	2,404,765	26,503	2,465,627
Specialty Retail Stores	67,808	1,997,560	66,916	2,102,088	67,903	2,145,314	66,258	2,104,698
Services	113,193	3,582,425	111,483	3,640,831	110,965	3,641,760	109,870	3,659,775
Wholesale Goods	27,526	2,549,408	26,232	2,561,135	25,271	2,455,822	23,823	2,363,712
All Other	77,752	2,518,960	80,059	2,527,166	80,924	2,578,661	81,088	2,709,818
Total	380,641	\$ 26,770,709	376,912	\$ 27,586,080	378,127	\$ 28,481,724	372,673	\$ 28,446,630

Sales tax rate has remained at 5% since 1992

Source: Iowa Retail Sales and Use Tax Report, Compiled by the Department of Revenue
Tax Research and Fiscal Analysis Section

STATE OF IOWA

Schedule 7

2003		2004		2005		2006		2007	
Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>	Number of Businesses	Taxable Sales <i>(in thousands)</i>
12,738	\$ 4,101,154	13,057	\$ 3,736,575	13,276	\$ 3,472,773	13,608	\$ 3,480,731	14,409	\$ 3,253,006
7,137	2,020,801	6,988	2,209,564	6,840	2,382,479	6,744	2,496,945	6,965	2,502,180
7,412	4,664,047	7,183	4,733,819	6,988	4,887,726	6,645	4,851,712	6,862	5,159,008
6,229	1,283,585	6,254	1,317,366	6,299	1,358,506	6,325	1,415,821	6,796	1,503,246
14,662	1,506,153	14,485	1,598,737	14,381	1,611,626	14,251	1,686,072	14,843	1,737,850
5,671	697,113	5,503	708,476	5,567	742,213	5,786	793,065	6,162	825,421
8,397	1,186,576	8,036	1,287,449	7,879	1,382,500	7,509	1,440,372	7,582	1,435,783
26,349	2,500,868	26,377	2,575,410	26,711	2,710,571	27,439	2,895,134	29,893	3,084,773
60,449	2,098,701	58,988	2,201,556	58,479	2,233,187	56,820	2,349,683	60,925	2,418,715
104,259	3,726,722	103,227	3,650,972	104,669	3,775,677	105,712	4,021,968	114,755	4,277,480
21,781	2,266,911	20,156	2,232,352	19,467	2,357,267	18,759	2,486,270	19,280	2,469,117
78,186	2,652,267	74,709	2,847,004	75,087	2,890,776	71,340	3,190,615	57,075	2,979,140
353,270	\$ 28,704,898	344,963	\$ 29,099,280	345,643	\$ 29,805,301	340,938	\$ 31,108,388	345,547	\$ 31,645,719

STATE OF IOWA

Schedule 8

Ratios of Outstanding Debt by Type

For the Last Ten Fiscal Years
(Expressed in Thousands)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage	
	Revenue Bond	Capital Leases	Loans & Contracts	Certificates of Participation	Revenue Bond	Capital Leases	Loans & Contracts	Certificates of Participation		of Personal Income	Per Capita
1998	\$ 189,314	\$ 3,829	\$ 894	\$ 11,525	\$ 489,248	\$ 29,098	\$ 4,621	\$ 91,864	\$ 820,393	1.24%	288
1999	181,120	4,364	1,545	8,330	532,786	48,810	4,588	83,855	865,398	1.26	302
2000	172,420	4,007	2,094	4,945	573,149	44,523	7,181	75,402	883,721	1.20	308
2001	163,296	8,367	2,133	3,720	569,927	74,024	6,058	66,448	893,973	1.14	306
2002	404,130	6,552	2,717	3,720	1,235,806	70,454	5,043	56,975	1,785,397	2.24	611
2003	1,012,383	5,061	3,422	3,130	640,560	101,424	16,597	46,936	1,829,513	2.20	623
2004	991,156	4,498	3,145	2,495	700,257	108,645	8,664	36,277	1,855,137	2.17	630
2005	965,724	4,390	2,820	2,035	757,800	123,861	4,838	-	1,861,468	2.06	628
2006	1,091,841	3,587	2,569	1,560	837,368	137,169	4,158	-	2,078,252	2.17	701
2007	1,110,582	6,293	2,854	1,020	921,938	157,665	3,431	-	2,203,783	2.22	739

* Fiscal Year 2003 Revenue Bonds reported reflects prior period adjustment made in 2004 for the reclassification of the Tobacco Settlement Authority from a business-type activity to a governmental fund type of \$629,028. Personal Income and population are based on the calendar year that ends within the fiscal year (see Schedule 10).

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Schedule 9

Revenue Bond Coverage

For the Last Ten Years

Governmental Activities – Special Revenue Funds

(Expressed in Thousands)

Tobacco Settlement Authority

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1998-2001	N/A						
2002	Reported as an Enterprise Fund						
2003	Reported as an Enterprise Fund						
2004	\$ 45,762	412	45,350	1,325	35,741	37,066	1.22
2005	46,598	370	46,228	1,490	35,651	37,141	1.24
2006	43,189	2,929	40,260	2,555	38,681	41,236	1.02
2007	45,473	260	45,213	6,755	37,111	43,866	0.97

Major sources of revenue are from the Tobacco Master Settlement Agreement.

N/A - Not Applicable

Business Type Activities – University Funds

Residence/Dormitory Building Revenue Bonds

	Gross Revenues	Less: Operating Expenses*	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 80,276,177	\$ 63,400,748	\$ 16,875,429	\$ 3,881,000	\$ 1,133,700	\$ 5,014,700	3.37
1999	83,893,508	63,290,354	20,603,154	4,555,000	2,178,415	6,733,415	3.06
2000	91,042,319	65,815,359	25,226,960	5,921,000	3,987,713	9,908,713	2.55
2001	100,830,624	73,424,183	27,406,441	6,336,000	5,511,912	11,847,912	2.31
2002	108,617,489	79,402,358	29,215,131	7,096,000	7,244,820	14,340,820	2.04
2003	113,836,368	82,975,088	30,861,280	9,242,000	7,581,644	16,823,644	1.83
2004	112,394,878	83,882,964	28,511,914	8,982,000	9,094,277	18,076,277	1.58
2005	121,230,692	92,438,679	28,792,013	9,187,000	9,714,234	18,901,234	1.52
2006	127,115,908	93,317,780	33,798,128	9,837,000	8,898,019	18,735,019	1.80
2007	136,767,597	99,553,934	37,213,663	10,557,000	8,699,161	19,256,161	1.93

Athletic/Multipurpose/Academic Facilities Revenue Bonds

	Gross Revenues*	Less: Operating Expenses*	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 122,352,087	\$ 5,245,907	\$ 117,106,180	\$ 7,757,125	\$ 6,590,578	\$ 14,347,703	8.16
1999	128,315,111	5,421,786	122,893,325	8,201,066	6,234,287	14,435,353	8.51
2000	134,396,308	5,855,730	128,540,578	8,468,924	6,109,284	14,578,208	8.82
2001	141,551,223	6,799,838	134,751,385	8,723,354	5,885,915	14,609,269	9.22
2002	159,915,402	8,187,961	151,727,441	9,066,560	5,790,003	14,856,563	10.21
2003	188,204,936	8,529,499	179,675,437	9,789,570	5,805,980	15,595,550	11.52
2004	212,906,076	7,632,811	205,273,265	8,231,000	6,368,987	14,599,987	14.06
2005	230,123,925	8,565,778	221,558,147	8,881,284	6,621,553	15,502,837	14.29
2006	242,284,931	9,606,122	232,678,809	7,461,060	7,983,639	15,444,699	15.07
2007	241,213,078	13,620,622	227,592,456	7,866,745	10,269,606	18,136,351	12.55

STATE OF IOWA

Schedule 9

Revenue Bond Coverage

For the Last Ten Years

Business Type Activities – University Funds

Telecommunications Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 23,782,121	\$ 15,787,567	\$ 7,994,554	\$ 1,430,000	\$ 1,145,106	\$ 2,575,106	3.10
1999	23,453,618	15,593,311	7,860,307	1,455,000	1,010,678	2,465,678	3.19
2000	23,471,929	15,031,117	8,440,812	1,510,000	955,746	2,465,746	3.42
2001	27,819,690	17,267,736	10,551,954	1,580,000	897,213	2,477,213	4.26
2002	26,383,820	18,409,553	7,974,267	2,380,000	1,490,973	3,870,973	2.06
2003	26,831,745	16,036,342	10,795,403	2,485,000	1,468,742	3,953,742	2.73
2004	25,316,220	17,711,572	7,604,648	2,595,000	1,358,763	3,953,763	1.92
2005	24,551,275	16,449,473	8,101,802	3,185,000	1,171,103	4,356,103	1.86
2006	25,544,450	16,451,131	9,093,319	3,305,000	1,033,056	4,338,056	2.10
2007	27,225,549	18,355,983	8,869,566	3,410,000	920,708	4,330,708	2.05

Student Health Facility Revenue Bonds

	Gross Revenues	Less: Operating Expenses*	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 4,312,188	\$ 2,786,542	\$ 1,525,646	\$ 185,000	\$ 301,756	\$ 486,756	3.13
1999	4,395,583	3,041,692	1,353,891	380,000	404,175	784,175	1.73
2000	4,763,942	3,255,673	1,508,269	395,000	388,253	783,253	1.93
2001	4,896,818	3,484,041	1,412,777	415,000	371,193	786,193	1.80
2002	5,204,381	3,729,121	1,475,260	430,000	352,873	782,873	1.88
2003	5,798,079	3,851,479	1,946,600	450,000	329,363	779,363	2.50
2004	6,303,241	4,524,267	1,778,974	470,000	308,951	778,951	2.28
2005	8,874,465	6,503,983	2,370,482	635,000	431,472	1,066,472	2.22
2006	10,057,427	7,550,254	2,507,173	660,000	403,654	1,063,654	2.36
2007	10,684,451	8,188,148	2,496,303	690,000	375,041	1,065,041	2.34

Utility System Revenue Bonds

	Gross Revenues	Less: Operating Expenses*	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 60,824,062	\$ 44,712,668	\$ 16,111,394	\$ 3,430,000	\$ 4,884,838	\$ 8,314,838	1.94
1999	62,277,738	46,114,494	16,163,244	3,655,000	4,674,795	8,329,795	1.94
2000	62,856,646	48,076,574	14,780,072	4,060,000	4,318,616	8,378,616	1.76
2001	70,145,668	51,663,023	18,482,645	3,895,000	3,815,558	7,710,558	2.40
2002	88,433,703	70,946,936	17,486,767	4,240,000	3,304,274	7,544,274	2.32
2003	74,477,952	54,174,778	20,303,174	4,435,000	3,795,713	8,230,713	2.47
2004	77,307,581	54,751,123	22,556,458	5,220,000	3,582,466	8,802,466	2.56
2005	82,346,578	59,635,943	22,710,635	5,385,000	4,631,915	10,016,915	2.27
2006	89,162,472	66,672,647	22,489,825	6,955,000	4,339,061	11,294,061	1.99
2007	96,415,258	67,839,688	28,575,570	7,240,000	5,637,412	12,877,412	2.22

STATE OF IOWA

Schedule 9

Revenue Bond Coverage

For the Last Ten Years

Business Type Activities – University Funds

Parking System Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 7,497,050	\$ 4,020,696	\$ 3,476,354	\$ 700,000	\$ 316,650	\$ 1,016,650	3.42
1999	8,387,412	4,500,990	3,886,422	750,000	277,150	1,027,150	3.78
2000	9,243,734	4,503,851	4,739,883	835,000	234,000	1,069,000	4.43
2001	10,054,770	5,668,553	4,386,217	1,240,000	505,291	1,745,291	2.51
2002	10,049,839	6,296,083	3,753,756	1,275,000	520,620	1,795,620	2.09
2003	14,105,470	8,355,493	5,749,977	1,525,000	715,992	2,240,992	2.57
2004	14,414,350	9,690,321	4,724,029	620,000	660,964	1,280,964	3.69
2005	15,898,523	8,999,412	6,899,111	640,000	1,124,189	1,764,189	3.91
2006	16,825,506	10,732,447	6,093,059	660,000	1,447,224	2,107,224	2.89
2007	18,026,622	10,759,846	7,266,776	1,330,000	1,413,162	2,743,162	2.65

Recreational/Regulated Materials Facility Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 2,807,743	\$ 82,854	\$ 2,724,889	\$ 775,000	\$ 605,670	\$ 1,380,670	1.97
1999	2,553,732	91,164	2,462,568	830,000	574,506	1,404,506	1.75
2000	2,553,134	107,139	2,445,995	845,000	540,517	1,385,517	1.77
2001	2,126,412	157,433	1,968,979	890,000	505,157	1,395,157	1.41
2002	2,265,134	148,239	2,116,895	950,000	470,015	1,420,015	1.49
2003	2,402,496	187,019	2,215,477	990,000	426,098	1,416,098	1.56
2004	3,418,105	151,659	3,266,446	1,045,000	550,568	1,595,568	2.05
2005	3,743,620	155,928	3,587,692	1,395,000	526,944	1,921,944	1.87
2006	3,938,376	154,370	3,784,006	1,460,000	444,998	1,904,998	1.99
2007	4,110,742	74,587	4,036,155	1,520,000	395,866	1,915,866	2.11

Memorial/Maucker Union Revenue Bonds

	Gross Revenues*	Less: Operating Expenses*	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 21,713,070	\$ 20,430,739	\$ 1,282,331	\$ 325,000	\$ 430,050	\$ 755,050	1.70
1999	22,486,201	21,104,809	1,381,392	350,000	410,987	760,987	1.82
2000	23,618,087	22,315,896	1,302,191	375,000	390,400	765,400	1.70
2001	22,370,786	20,948,024	1,422,762	400,000	368,288	768,288	1.85
2002	27,208,164	23,657,013	3,551,151	425,000	483,650	908,650	3.91
2003	30,515,004	26,032,039	4,482,965	900,000	704,088	1,604,088	2.79
2004	30,147,916	28,122,091	2,025,825	1,020,000	672,043	1,692,043	1.20
2005	37,284,842	32,054,721	5,230,121	1,065,000	1,223,435	2,288,435	2.29
2006	38,367,277	30,729,855	7,637,422	1,730,000	1,893,049	3,623,049	2.11
2007	41,138,322	32,164,391	8,973,931	2,095,000	1,982,105	4,077,105	2.20

STATE OF IOWA

Schedule 9

Revenue Bond Coverage

For the Last Ten Years

Business Type Activities – University Funds

Hospital Revenue Bonds

	Gross Revenues*	Less: Operating Expenses*	Net Available Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1998	\$ 475,469,389	\$ 399,036,910	\$ 76,432,479	\$ 3,200,000	\$ 1,330,050	\$ 4,530,050	16.87
1999	498,113,706	426,156,495	71,957,211	3,275,000	1,095,675	4,370,675	16.46
2000	535,174,924	462,303,820	72,871,104	3,350,000	855,325	4,205,325	17.33
2001	596,223,771	513,689,055	82,534,716	3,425,000	614,813	4,039,813	20.43
2002	611,814,482	550,263,218	61,551,264	2,500,000	414,775	2,914,775	21.12
2003	618,523,534	555,866,710	62,656,824	2,600,000	537,488	3,137,488	19.97
2004	655,923,770	598,440,433	57,483,337	2,675,000	1,236,139	3,911,139	14.70
2005	715,554,047	622,426,911	93,127,136	560,000	1,142,401	1,702,401	54.70
2006	782,674,749	677,679,749	104,995,000	580,000	1,118,889	1,698,889	61.80
2007	869,929,049	734,101,309	135,827,740	610,000	1,094,345	1,704,345	79.69

Center For University Advancement Revenue Bonds

	Gross Revenues*	Less: Operating Expenses	Net Available Revenues	Debt Service*			Coverage
				Principal	Interest	Total	
1998	\$ 1,283,220	\$ -	\$ 1,283,220	\$ -	\$ 774,158	\$ 774,158	1.66
1999	1,485,177	-	1,485,177	490,000	774,158	1,264,158	1.17
2000	1,481,951	-	1,481,951	730,000	762,520	1,492,520	0.99
2001	1,489,440	-	1,489,440	770,000	733,545	1,503,545	0.99
2002	1,526,453	-	1,526,453	810,000	697,920	1,507,920	1.01
2003	1,494,928	-	1,494,928	850,000	620,353	1,470,353	1.02
2004	1,427,308	30,373	1,396,935	895,000	578,473	1,473,473	0.95
2005	1,160,515	17,726	1,142,789	945,000	533,840	1,478,840	0.77
2006	896,537	-	896,537	530,000	396,475	926,475	0.97
2007	874,047	-	874,047	510,000	376,975	886,975	0.99

All University Funds Pledged Revenues consists of charges for services which includes room and board fees.

* Certain amounts have been revised to reflect changes made by the Universities.

Source: Information provided by the Tobacco Settlement Authority and Universities.

STATE OF IOWA

Schedule 10

Demographic and Economic Statistics

Last Ten Calendar Years

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (<i>in thousands</i>)	2,852	2,862	2,869	2,926	2,923	2,937	2,944	2,954	2,966	2,982
Personal Income (<i>in millions</i>)	\$65,896	\$68,473	\$73,500	\$78,200	\$79,753	\$83,051	\$85,506	\$90,289	\$95,858	\$99,112
Per Capita Personal Income	\$23,105	\$23,925	\$25,619	\$26,726	\$27,285	\$28,277	\$29,044	\$30,565	\$32,315	\$33,236

Resident Civilian Labor Force and Employment (*Annual Averages*)

Civilian Labor Force (<i>in thousands</i>)	1,577.2	1,569.8	1,574.3	1,563.0	1,587.8	1,667.5	1,612.3	1,623.8	1,659.8	1,664.3
Resident Employment (<i>in thousands</i>)	1,525.8	1,526.3	1,534.1	1,522.1	1,534.8	1,600.7	1,540.1	1,545.4	1,584.1	1,602.8
Resident Unemployed (<i>in thousands</i>)	51.4	43.5	40.2	40.9	53.0	66.8	72.2	78.4	75.7	61.5
Percent Unemployed	3.3	2.8	2.6	2.6	3.3	4.0	4.5	4.5	4.6	3.7

Employment By Industry Non-Agricultural (*in thousands*)

Construction	62.2	65.5	68.0	66.0	66.2	66.3	66.6	68.4	71.2	74.8
Manufacturing	239.1	250.9	252.8	251.5	240.2	227.5	220.0	222.9	229.5	230.9
Trade, Transportation and Utilities	303.4	308.6	313.6	315.8	311.3	304.9	303.1	305.6	306.8	308.6
Information	34.5	35.7	38.7	40.4	37.4	35.2	33.7	33.5	33.3	32.8
Financial Activities	81.5	86.3	89.0	89.7	92.0	94.0	95.4	96.7	98.3	100.6
Professional and Business	99.9	104.3	106.7	107.6	107.3	105.7	105.2	107.2	112.6	117.0
Education and health	176.0	176.0	178.0	181.9	185.4	188.0	189.8	191.4	195.3	199.0
Leisure and Hospitality	121.5	124.1	126.0	125.5	124.1	124.5	125.5	127.6	129.6	132.7
Other Services	54.4	55.3	56.4	56.8	56.3	56.8	56.2	56.3	56.2	56.6
Government	234.6	236.2	239.5	243.3	245.2	244.2	244.8	244.3	245.5	247.3
Total Non-Agricultural Employment	1,407.1	1,442.9	1,468.7	1,478.5	1,465.4	1,447.1	1,440.3	1,453.9	1,478.3	1,500.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis and Iowa Workforce Development, Labor Market Information Unit in Cooperation the U. S. Department of Labor, Bureau of Labor Statistics.

Note: Employment by Industry through calendar years 2001 have been revised to conform to the new reporting categories implemented in 2002.

STATE OF IOWA

Schedule 11

Significant Classes of Assets By Function

Capital Intensive Departments Only
Last Six Years

	2002	2003	2004	2005	2006	2007
<u>Administration & Regulation</u>						
<i>Department of Administrative Services</i>						
Land (Acres)	133	133	133	133	133	133
Buildings & Improvements (Square Footage)	1,210,406	1,210,406	1,210,406	1,210,406	1,210,406	1,433,865
Machinery & Equipment	612	556	594	619	580	574
<i>Alcoholic Beverages Division</i>						
Land (Acres)	15	15	15	15	15	15
Buildings & Improvements (Square Footage)	181,996	181,996	181,996	181,996	181,996	181,996
<u>Education</u>						
<i>Iowa Public Television</i>						
Land (Acres)	27	27	27	37	131	131
Buildings & Improvements (Square Footage)	119,800	119,800	119,800	119,800	119,800	119,800
Machinery & Equipment	524	532	544	583	572	580
<i>Iowa Braille and Sight Saving School</i>						
Land (Acres)	70	70	70	70	70	70
Buildings & Improvements (Square Footage)	190,612	190,612	190,612	190,612	190,612	190,612
<i>Iowa School for the Deaf</i>						
Buildings & Improvements (Square Footage)	342,426	407,426	407,246	407,246	407,246	407,426
<u>Health & Human Rights</u>						
<i>Department for The Blind</i>						
Buildings & Improvements (Square Footage)	98,606	98,606	98,606	98,606	98,606	98,606
Machinery & Equipment	221	221	221	221	221	211
<i>Veterans Home</i>						
Land (Acres)	158	158	158	158	258	258
Buildings & Improvements (Square Footage)	742,041	742,041	742,041	742,041	742,041	742,041
Machinery & Equipment	182	217	218	225	218	239
<i>Department of Public Health</i>						
Machinery & Equipment	205	249	278	311	335	368
<u>Human Services</u>						
<i>Department of Human Services and Institutions</i>						
Land (Acres)	2,824	2,825	2,825	2,825	2,825	2,825
Buildings & Improvements (Square Footage)	4,240,760	4,240,760	4,240,760	4,240,760	4,215,068	4,215,068
Machinery & Equipment	1,311	1,318	1,404	1,377	1,424	1,562

STATE OF IOWA

Schedule 11

Significant Classes of Assets By Function

Capital Intensive Departments Only
Last Six Years

	2002	2003	2004	2005	2006	2007
<u>Justice & Public Defense</u>						
<i>Department of Corrections & Correctional Facilities</i>						
Land (Acres)	1,951	1,951	1,932	1,985	1,872	2,112
Buildings & Improvements (Square Footage)	3,316,668	3,391,719	3,392,487	3,873,806	3,101,404	3,786,838
Machinery & Equipment	918	1,052	1,070	1,089	1,111	1,304
<i>Judicial Districts</i>						
Land (Acres)	53	54	52	52	54	54
Buildings & Improvements (Square Footage)	477,591	477,591	477,591	477,591	477,951	525,638
Machinery & Equipment	303	310	301	317	294	296
<i>Department of Public Defense</i>						
Land (Acres)	2,714	2,712	2,709	2,699	2,694	2,688
Buildings & Improvements (Square Footage)	2,204,260	2,208,477	2,272,103	2,266,807	2,432,404	2,453,389
Machinery & Equipment	158	257	288	278	323	327
<i>Department of Public Safety</i>						
Land (Acres)	79	79	79	79	79	87
Buildings & Improvements (Square Footage)	132,162	132,162	132,162	132,162	132,162	132,162
Machinery & Equipment	1,415	1,505	1,406	1,415	1,471	1,420
<u>Economic Development</u>						
<i>Iowa Workforce Development</i>						
Buildings & Improvements (Square Footage)	129,822	129,822	129,822	129,822	129,822	129,822
Machinery & Equipment	N/A	379	354	332	328	331
<u>Transportation</u>						
<i>Department of Transportation</i>						
Land (Acres)	10,670	10,344	9,886	8,840	8,161	8,256
Buildings & Improvements (Square Footage)	2,221,587	2,213,811	2,189,403	2,224,961	2,279,725	2,293,725
Highway Lane Miles	233,181	233,380	233,558	234,039	234,451	235,471
Heavy Equipment	5,122	4,801	4,926	5,048	5,114	5,326
Machinery & Equipment	2,742	2,866	2,927	2,854	2,972	2,951
<u>Agriculture & Natural Resources</u>						
<i>Department of Natural Resources</i>						
Land (Acres)	331,198	331,198	331,198	331,198	331,198	335,735
Buildings & Improvements (Square Footage)	578,906	578,906	578,906	578,906	578,906	582,401
State Parks	71	71	71	71	71	71
Wildlife Management Areas	20	20	20	20	20	20
Machinery & Equipment	2,111	2,111	2,111	2,111	2,111	2,124

Source: Information Provided by the Departments.

STATE OF IOWA

Schedule 12

Operating Indicators by Function

Last Six Fiscal Years or as Identified

	2002	2003	2004	2005	2006	2007
<u>Administration & Regulation</u>						
<i>Department of Administrative Services</i>						
State Employees Covered by benefit plans	18,908	18,493	18,885	18,873	19,382	19,747
Number of State payroll warrants processed*	509,412	498,577	510,463	510,558	524,984	534,237
<u>Education</u>						
<i>Department of Education</i>						
Enrollment:						
Public Schools	489,523	487,021	485,011	483,335	483,105	482,584
Universities	70,661	71,521	70,566	68,949	67,896	67,701
Community Colleges	68,790	73,947	78,292	81,803	82,499	84,961
<u>Health & Human Rights</u>						
<i>Department for the Blind</i>						
Number of Clients Served	15,205	8,603	9,089	9,090	8,006	8,204
<u>Human Services</u>						
<i>Department of Human Services</i>						
Average Number of Residents/Patients	1,322	1,228	1,229	1,176	1,168	1,136
Average Number of Medicaid Recipients	245,781	263,690	281,212	297,376	297,000	317,169
<u>Justice & Public Defense</u>						
<i>Department of Corrections</i>						
Average Number of Inmates	8,064	8,375	8,547	8,547	8,721	8,752
<u>Economic Development</u>						
<i>Department of Economic Development</i>						
Number of Community Development Block Grant/Home Projects Funded	131	118	116	115	110	117
<i>Iowa Workforce Development</i>						
Number of Unemployment Claims Accepted (Calendar Year)	111,411	113,570	88,976	91,540	92,610	INA
Unemployment Insurance Regular Benefits Paid (In Millions, Calendar Year)	366.7	381.5	312.5	296.3	312.9	INA
<u>Transportation</u>						
<i>Department of Transportation</i>						
Automobile Driver Licenses Issued	877,057	1,016,478	1,196,564	1,002,548	864,514	709,590
Vehicles weighed (<i>in thousands, Federal Fiscal Year</i>)	INA	1,012	1,005	964	921	595
<u>Agriculture & Natural Resources</u>						
<i>Department of Natural Resources</i>						
Hunting & Fishing Licenses Issued	1,542,832	1,571,435	1,366,087	1,368,624	1,378,487	1,372,423

* Centralized State Payroll system only - Excludes the Universities, Department of Transportation, Judicial Districts and certain other departments.

INA – Information Not Available

Source: Information Provided by the Departments.

STATE OF IOWA

Schedule 13

Principal Non Governmental Employers

Prior Calendar Year and Nine Years Ago

CALENDAR YEAR 2006

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	Rockwell Collins	Machinery Manufacturer
5	Principal Life Insurance Group	Finance & Insurance
6	Tyson Fresh Meats Inc.	Manufacturing
7	Wells Fargo	Finance & Insurance
8	Pella Corporation	Window Products
9	Fareway Stores, Inc.	Retail Food
10	Central Iowa Health Systems	Hospital/Des Moines

CALENDAR YEAR 1997

Rank	Employer	Type of Business
1	Hy-Vee Food Stores, Inc.	Retail Food
2	Deere and Company	Machinery Manufacturer
3	Wal-Mart Stores, Inc.	Retail General Merchandise
4	Principal Financial Group	Insurance
5	Rockwell Collins	Machinery Manufacturer
6	Iowa Beef Processors	Meat Packer
7	APAC Teleservices, Inc.	Telemarketing
8	Central Iowa Health Systems	Hospital/Des Moines
9	Mercy Hospital Medical Center	Hospital/Des Moines
10	Fareway Stores, Inc.	Retail Food

The Code of Iowa defines employee counts as confidential data; as such, this information is not available.

Note: Based on 2006 calendar year annual average employment.

Source: Iowa Workforce Development.

STATE OF IOWA

Schedule 14

Number of Employees - Primary Government

Last Six Years

	2002	2003	2004	2005	2006	2007
Administration & Regulation	2,122	2,006	2,022	2,040	2,101	2,147
Education	1,169	1,120	1,152	1,165	1,166	1,117
Health & Human Rights	1,726	1,710	1,769	1,793	1,851	1,878
Human Services	5,689	5,290	5,381	5,496	5,676	5,982
Justice & Public Defense	7,991	7,521	7,629	7,546	7,685	7,854
Economic Development	1,016	986	1,003	973	962	929
Transportation	3,828	3,404	3,311	3,355	3,338	3,190
Agriculture & Natural Resources	1,547	1,449	1,548	1,534	1,578	1,607
Universities	38,060	39,343	39,023	38,302	36,474	37,137
Other Enterprise Funds	316	297	300	309	300	298
Total Primary Government	<u>63,464</u>	<u>63,126</u>	<u>63,138</u>	<u>62,513</u>	<u>61,131</u>	<u>62,139</u>

Source: Department of Administrative Services.



STATE OF IOWA

Schedule of Current Expenditures

General Fund

Year Ended June 30, 2007

(Expressed in Thousands)

	Personal Services	Travel & Subsistance	Supplies	Contractual Services	Equipment & Repairs
Administration & Regulation	\$ 124,132	\$ 6,620	\$ 5,808	\$ 54,828	\$ 7,414
Education	61,372	1,495	5,397	33,118	3,984
Health & Human Rights	100,175	2,417	14,580	184,567	3,793
Human Services	349,506	4,877	21,324	147,948	11,587
Justice & Public Defense	468,017	13,547	35,202	104,378	20,464
Economic Development	63,292	1,678	2,099	41,418	2,777
Transportation	209,974	24,744	36,298	86,869	11,239
Agriculture & Natural Resources	97,459	6,717	7,344	32,482	8,449
Total Primary Government	<u>\$ 1,473,927</u>	<u>\$ 62,095</u>	<u>\$ 128,052</u>	<u>\$ 685,608</u>	<u>\$ 69,707</u>

Source: State Financial Accounting System, Judicial Districts financial statements, Iowa School for the Deaf and Iowa Braille and Sight Savings School financials, and adjusting journal entries from GAAP packages.

STATE OF IOWA

Schedule 15

Claims & Miscellaneous	Licenses Permits & Refunds	State Aid	Plant Improvement	Adjustments	Current Total Expenditures
\$ 284,719	\$ 56	\$ 178,150	\$ 12,351	\$ 185,075	\$ 859,153
4,321	52	2,906,473	587	(4,833)	3,011,966
339	10	57,644	-	(6,502)	357,023
5,162	12	3,485,645	150	(161,789)	3,864,422
5,388	40	36,412	11,974	70,550	765,972
7,915	8	114,882	-	(14,037)	220,032
117,284	96	38,841	676,102	(744,008)	457,439
900	10	15,119	9,039	(15,200)	162,319
\$ 426,028	\$ 284	\$ 6,833,166	\$ 710,203	\$ (690,744)	\$ 9,698,326

A C K N O W L E D G M E N T S

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STATE OF IOWA

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

JUNE 30, 2007

State of Iowa

Officials

Name

Title

Executive Branch

Honorable Chester J. Culver

Governor

Charles J. Krogmeier

Director, Department of Management

Legislative Branch

John P. Kibbe

President of the Senate

Patrick J. Murphy

Speaker of the House of Representatives

Dennis C. Prouty

Director, Legislative Services Agency

Judicial Branch

Marsha K. Ternus

Chief Justice of the Supreme Court



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STATE OF IOWA**

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Governor and Members of the General Assembly:

We have audited the 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, 2007, which collectively comprise the State basic financial statements, and have issued our report thereon dated December 14, 2007 under separate cover. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the State of Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Iowa's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State of Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the State of Iowa's financial statements that is more than inconsequential will not be prevented or detected by the State of Iowa's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting. We also noted other matters involving the internal control over financial reporting which will be reported to management in separate departmental reports.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the State of Iowa's internal control.

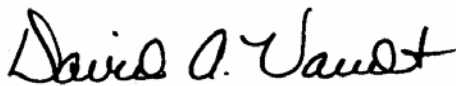
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We do not believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

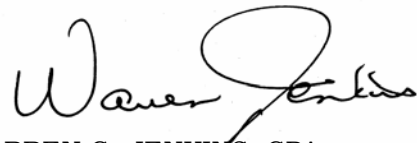
As part of obtaining reasonable assurance about whether the State of Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in separate departmental reports.

The State of Iowa's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the State's responses, we did not audit the State of Iowa's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the State of Iowa and other parties to whom the State of Iowa may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 28, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Capital Assets – Chapter 7A.30 of the Code of Iowa requires each department of the state to maintain a written, detailed and up-to-date inventory of property under its charge and control. Findings were noted for the following departments:

(1) **Iowa Department of Administrative Services**

- (a) The Department did not perform a reconciliation of capital asset additions to Integrated Information for Iowa (I/3) system expenditures. The following items were noted:

- (1) Five asset additions totaling \$9,592 were recorded at estimated cost rather than actual cost.
- (2) Five assets totaling \$32,934 previously leased under operating leases were purchased during the current fiscal year but were not added to the capital asset listing.
- (3) One asset for \$8,420 purchased during the fiscal year was not added to the capital asset listing.
- (4) Additions for buildings and building improvements were overstated by \$1,291,670 due to adding retainage payable, which was already included as a prior year addition.

- (b) Accumulated depreciation included \$20,723 for two assets previously deleted.

- (c) Twenty-five assets were selected for recalculation of depreciation expense.

- (1) Depreciation expense was calculated incorrectly, resulting in an overstatement of accumulated depreciation for land improvements of \$139,939 and buildings of \$20,238.
- (2) Depreciation expense could not be recalculated for eleven non vehicle assets due to manual adjustments made by the Department.

- (d) Two of twenty-five assets selected for observation could not be located.

- (e) Five assets with a cost of \$150,361 were sent to surplus property in previous fiscal years but were still included on the capital asset listing.

- (f) The Department does not have written accounting procedures for the reconciliation of State Vehicle Dispatch records to the Department's capital asset listing and the reconciliation of the Department's capital asset additions to I/3 asset purchases.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

Recommendation – The Department should develop written procedures to ensure a detailed, up-to-date capital asset listing is maintained. Procedures should include, but not be limited to, ensuring capital asset additions are reconciled to I/3 asset purchases, depreciation expense is properly calculated and recorded and asset deletions are properly authorized, supported and promptly removed from the capital asset listing. Also, the Department should develop written procedures for the reconciliation of the State Vehicle Dispatch records to the Department’s capital asset listing and the reconciliation of the Department’s capital asset additions to I/3 asset purchases.

Response – The Department is reviewing its policies and procedures and the following items will be implemented before the end of fiscal year 2008 and the early part of fiscal year 2009.

- Reports will be generated and monitored to ensure the timely processing of capital asset transactions.
- Quarterly reconciliations and comparisons will be performed on the following items;
 - I3 expenditures to capital asset additions
 - Vehicles reported on the I3 system to the Motor Pool Inventory, and
 - Depreciation expense will be recalculated.
- Training of the Fixed Asset Coordinators to ensure capital asset transactions are correctly inputted.
- Quarterly meetings with the Fixed Asset Coordinators will be held for the first nine months of the fiscal year and monthly meetings the last quarter to ensure consistent handling of capital asset transactions.
- Procedures will be reviewed to develop a “Department wide” policy.

Conclusion – Response accepted.

(2) Iowa Department of Human Services

- (a) Forty-two deletions were tested to determine whether they were deleted from the I/3 system within a reasonable time (within one month). For 26 deletions, the disposal date was unknown. For nine deletions, the disposal date ranged from 36 to 336 days.
- (b) Two of 71 assets tested for existence were not tagged with a state property tag.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

Recommendation – The Department should develop procedures to ensure an accurate inventory of all real and personal property belonging to the state is maintained.

Response – The Department of Human Services acknowledges the importance of maintaining accurate tracking of a detailed, up-to-date inventory of all real and personal property belonging to the state.

- (a) The 26 assets were part of a Department effort to ensure the inventory is current. During the annual physical inventory it was determined these assets had been disposed of in prior years and the deletion of the asset had not been recorded. The disposal dates were not recorded so the assets were deleted without that information. These assets were no longer in the custody of the Department and were removed from the inventory.
- (b) The Department issued a tag number and entered both assets in the inventory system by tag number. Both of these assets are located in the Information Technology Enterprise (ITE) unit of the Department of Administrative Services (DAS). The tag was given to DAS-ITE to be affixed to the asset. After the tag was attached the asset was inserted into equipment and the tag is not visible.

In the future the department will remind DAS-ITE they must ensure tags are affixed so as to be visible for inspection.

Conclusion – Response accepted.

(3) **Iowa Judicial Branch**

- (a) An accurate year-end capital asset listing, including the cost and book value of each asset, was not maintained to support the amounts reported on the GAAP package. The following items were noted:
 - (1) Current year additions were reported on the GAAP package but were not added to the capital asset listing. Also, an asset with a cost of \$117,098 acquired in a previous fiscal year is included on the GAAP package but has not been added to the capital asset listing.
 - (2) Certain prior year deletions reported on previous fiscal year GAAP packages and fiscal year 2007 deletions have not been removed from the capital asset listing.
 - (3) The value of certain assets was increased \$6,238 during fiscal year 2005. The cost adjustment for these assets is properly included in the GAAP package but the acquisition

State of Iowa

Schedule of Findings

Year ended June 30, 2007

cost of the assets has not been adjusted on the capital asset listing.

- (4) Adjustments of \$321,374 were made to the fiscal year 2007 GAAP package to remove assets which had been deleted in previous fiscal years. The assets have not been removed from the capital asset listing.
 - (5) Depreciation on the fiscal year 2005 additions was properly calculated to include a partial year of depreciation. However, the fiscal year 2005 balance (book value) on the capital asset listing was incorrectly transferred from fiscal year 2005 to fiscal year 2006 to reflect a full year of depreciation in the year of acquisition. The error still exists on the current asset listing.
- (b) Several errors were noted in the amounts reported in the GAAP package, including errors in depreciation calculations:
- (1) Accumulated depreciation was understated by \$1,368 due to several errors made in calculating the depreciation of assets which had value increases in fiscal year 2005. While a similar error was made in the prior year, an adjustment was made during fiscal year 2007 to correct this error. However, the current year depreciation calculation was not adjusted.
 - (2) The current year depreciation for two assets was understated by \$1,808.
 - (3) One asset was depreciated \$720 in excess of its cost.
 - (4) The amount removed from accumulated depreciation for two assets deleted during fiscal year 2007 was overstated by \$4,344.
 - (5) Current year depreciation was understated by \$36,458 due to including an adjustment both as a reduction to the current year depreciation and in the adjustments column on the GAAP package.
 - (6) The \$117,098 asset referred to in (a) (1) above has not been depreciated so the accumulated depreciation is understated \$117,098.
 - (7) An asset with a cost of \$16,245 was deleted from the capital asset listing but not included in deletions on the GAAP package.
 - (8) Adjustments and deletions totaling \$63,128 were incorrectly reported on the fiscal year 2007 GAAP package as capital asset and accumulated depreciation reductions. The net effect of the errors is zero, but both the cost and

State of Iowa

Schedule of Findings

Year ended June 30, 2007

accumulated depreciation amounts reported on the GAAP package are understated.

- (c) Two assets included on the capital asset listing could not be located due to the asset being either discarded or traded-in during a previous fiscal year.
- (d) A physical observation of capital assets has not been performed periodically by an employee having no responsibility for the assets.

Recommendation – The Iowa Judicial Branch should develop capital asset procedures to ensure a detailed, up-to date capital asset listing is maintained to support the amounts reported on the GAAP package. Procedures should include, but not be limited to, ensuring capital asset additions are included in the capital asset listing when acquired, deletions are promptly reported and removed from the capital asset listing, identified errors are corrected promptly, depreciation calculations are accurate and an observation of assets is performed periodically by an independent person.

Response – There appears to be data integrity issues with our capital asset data base. Because of the numerous errors noted we intend to redesign our system and develop an easier to maintain and reconcile capital asset system and listing.

Conclusion – Response accepted.

(4) **Iowa Department of Natural Resources**

- (a) The Department performs a monthly reconciliation of capital asset additions to I/3 expenditures. However, the reconciliation is not reviewed by someone independent of the reconciliation process.
- (b) The Department utilizes an Access database and the MEGA System to track capital asset activity. These systems cannot generate a listing of additions and deletions for financial statement reporting. Information is downloaded and additions and deletions are determined for financial reporting independently. A reconciliation is not performed between the tracking systems and information reported in the GAAP package for financial reporting. The following variances were noted:
 - (1) One land addition was reported as an addition on the GAAP package twice for \$275,427.
 - (2) Three land additions were not reported as additions on the GAAP package for \$521,724.
 - (3) Two buildings deleted during the fiscal year were not reported as deletions on the GAAP package for \$505,384.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

Recommendation – The Department should ensure a detailed, up-to-date capital asset listing is maintained and an independent review of the reconciliation is performed by accounting staff and a reconciliation between the Department's tracking system and amounts utilized on the GAAP package for financial reporting should be performed.

Response – The Department does maintain a detailed, up-to-date capital asset listing for all assets. All of the Department's capital assets (except for equipment) are currently tracked on a mainframe computer system, however this system does not allow us to quickly and easily pull out and report the detailed information required for the GAAP package (depreciation calculations and listings of assets meeting the reporting thresholds). Equipment capital assets are tracked on an MS Access database, but this database is currently not set up to track depreciation. This has made it difficult for us to report accurate and complete information while attempting to meet the GAAP package reporting deadline (prior to the actual close of the fiscal year). We are in the process of developing a new capital assets tracking system which will track depreciation and enable us to develop custom reports to more quickly and accurately produce the information required for the GAAP package. As a part of revising our system, we will rewrite our existing procedures to ensure that applicable reviews and reconciliations are performed.

Conclusion – Response accepted.

(5) **Iowa Department of Workforce Development**

- (a) The Department did not reconcile capital asset additions to I/3 expenditures.
- (b) Nine of nineteen capital asset expenditures tested were coded to an incorrect expenditure object code. Five of twenty-six capital asset additions tested were incorrectly coded to an expenditure object code for non-inventory assets.
- (c) Two of ten capital assets observed at the Department had a value over the capitalization policy amount of \$5,000 but were not on the Department's capital asset listing.
- (d) Two of twenty-five capital assets tested for existence did not have the correct serial number recorded on the capital asset listing. Also, one asset did not have a state property tag affixed to it.
- (e) During the site visits to two field offices, three of the sixteen capital assets selected for observation were not properly tagged with a state property tag.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

Recommendation – The Department should review capital asset policies and procedures to ensure accurate and current records are maintained. This includes ensuring capital asset additions are reconciled to capital expenditures and all assets are properly accounted for, included on the capital asset listing and tagged with a state property tag.

Response – Iowa Workforce Development (IWD) will review asset policies and procedures, make any needed revisions and provide additional instructions and guidance to employees who are responsible for maintaining IWD capital asset records. In addition, steps will be implemented to ensure IWD capital asset records are reconciled with I/3 capital asset records.

Conclusion – Response accepted.

(B) Financial Reporting – Departments record receipts and disbursements on the I/3 system throughout the year, including the accrual period. Activity not recorded on the I/3 system is reported to the Iowa Department of Administrative Services – State Accounting Enterprise (DAS – SAE) on a GAAP package. Findings were noted for the following departments:

(1) **Iowa Department of Administrative Services**

(a) Proper accounting procedures should be followed when reclassifying revenue or reversing an expenditure transaction. The following items were noted:

(1) The Department recorded various revenues to an improper sub-organization. To correct this error, the Department recorded an expenditure to the improper sub-organization and a revenue to the correct sub-organization rather than adjusting revenues in both sub-organizations, overstating revenues and expenditures by \$15,920,477. This item was properly adjusted for reporting purposes.

(2) The Department initially transferred an incorrect amount from one general fund to another. When correcting the error of \$12,548,902, the Department recorded another transfer in rather than reversing the transfer out. Transfers in and out between general funds are eliminated for reporting purposes.

Recommendation – The Department should ensure proper accounting procedures are followed when reclassifying revenue or reversing an expenditure transaction.

Response – The Department has discussed with staff and re-emphasized the importance of proper revenue reclassifications and expenditure reversals.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

- (b) Receipts and expenditures occurring near the end of the fiscal year are to be reviewed and recorded on I/3 as an accrual or coded to the following fiscal year.
 - (1) The Department coded deferred compensation payments of \$1,780,015 relating to the pay period ended June 28, 2007 as fiscal year 2008 expenditures rather than an accrual for the year ended June 30, 2007.
 - (2) The Department also coded receipts of \$436,553 from the Iowa Department of Transportation relating to the pay period ended June 28, 2007 as fiscal year 2008 revenues. The revenues related to deferred compensation, the state share of deferred compensation, dependent care, health care and the SLIP program.

Recommendation – The Department should develop procedures to ensure receipts and expenditures occurring near the end of the fiscal year are reviewed and properly recorded on I/3.

Response – The Department will review the procedures for coding to the proper fiscal year and take the appropriate actions to correct this issue for future fiscal years.

Conclusion – Response accepted.

(2) **Iowa Department of Commerce – Alcoholic Beverages Division (ABD)**

- (a) ABD records revenues on I/3 and identifies the applicable fiscal year. Certain liquor sales and other revenues of \$1,169,288 collected in June 2007 were inadvertently entered into I/3 as revenues for fiscal year 2008. This item was properly adjusted for reporting purposes.
- (b) The GAAP package completed by ABD included accounts payable of \$1,982,105 for liquor purchases. However, the amount should have been \$653,183, which resulted in an overstatement of accounts payable and expenses of \$1,328,922.

Recommendation – The GAAP package and financial statements should be accurately completed and reviewed by management prior to submission.

Response – ABD now has a manager dedicated to the Accounting section. Internal controls are now in place for management review of all financial statements. All financial statements will be more thoroughly reviewed for content and accuracy prior to release by the Accounting Manager.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

(3) **Iowa Judicial Branch**

The GAAP package includes accounts receivable and an allowance for uncollectible accounts for unpaid fines and other fees due to the State and payable at the Clerk of Court offices. The following items were noted:

- (1) The calculations of the allowance for uncollectible accounts and the aging of receivables is based on percentages of actual collections during 2002. The percentages have not been updated to reflect current trends in actual collections.
- (2) The GAAP package included an input error which resulted in understating the total and current portion of receivables and overstating the noncurrent portion of receivables by \$2,409,700. This item was properly adjusted for reporting purposes.

Recommendation – The Iowa Judicial Branch should review and update the method used to estimate the allowance for uncollectible and aging of receivables. The estimate for uncollectible amounts should be based on averages over the past several years. The amounts reported, including the detailed calculations, should be reviewed by management for accuracy prior to submission of the GAAP package.

Response – We have already begun work to update our method used to estimate the allowance for uncollectible accounts and aging of receivables. We plan to have updated and accurate numbers for our next GAAP package submission.

Conclusion – Response accepted.

(4) **Iowa Department of Transportation**

The Department performs additional procedures after September 1 to identify additional accounts payables which were not included as expenditures on the I/3 system. At June 30, 2007, approximately \$8.2 million were not reported to the DAS – SAE.

Recommendation – The Department should work with the Department of Administrative Services – State Accounting Enterprise (DAS – SAE) to report the additional accounts payable to DAS - SAE to be reported in the State's financial statements.

Response – The Department contacted DAS – SAE and discussed administrative procedures which will be used to submit additional payable information for inclusion in GAAP package. As payments are processed after the GAAP package has been submitted, those payments determined to be accruals of the reporting period will be communicated to DAS – SAE for inclusion in the State's financial statements.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

(5) **Iowa Department of Workforce Development**

- (a) The balance of the Washington Trust Fund was inadvertently omitted from the Cash and Investments page of the GAAP package. This balance was identified and included by DAS - SAE.
- (b) Revenues for fiscal year 2008 totaling \$4,214,831 were not originally reported on the Unearned Revenue page of the GAAP package as required. A revision was submitted to DAS - SAE.
- (c) Various smaller errors were also noted on other pages of the GAAP package.

Recommendation – The GAAP Package should be accurately completed and reviewed by management prior to submission.

Response – Now that IWD has been made aware of the reporting errors, management will ensure the report is carefully reviewed with the portions of the report that contained errors receiving extra scrutiny and review with the State Auditor's office prior to submission.

Conclusion – Response accepted.

(6) **Iowa Department of Education**

The Department performs additional procedures after September 1 to identify additional accounts payable which were not included as expenditures on the I/3 system. However, at June 30, 2007, there were approximately \$7.4 million in requests for payments submitted by subrecipients which were not reported in the GAAP package to DAS-SAE.

Recommendation – The Department should obtain and process requests for payments from subrecipients more timely or the Department should consider estimating payables to more accurately report the payables at year end.

Response – The Department understands and agrees with the auditor's comment on the need for timely payment of claims to subrecipients. In FY08, the Department revamped its contract databases to track payables on contracts to better estimate and note unpaid claims. We are also researching additional methods to track grant and allocation payments to subrecipients in FY09.

Conclusion – Response accepted.

State of Iowa

Schedule of Findings

Year ended June 30, 2007

(C) Payroll

(1) **Iowa Department of Administrative Services**
Woodward Resource Center
Iowa Department of Natural Resources

Departments process and record payroll and personnel information on the Human Resource Information System (HRIS). The Human Resource Associates utilize an online P-1 document to initiate and approve payroll actions, such as adding new employees and recording pay raises. Individuals at the above entities have the ability to initiate and approve timesheets.

Recommendation – To strengthen controls, the Departments should develop and implement procedures to segregate the duties of the Human Resource Associates from the duties of payroll.

Responses –

Iowa Department of Administrative Services – DAS implemented procedures for fiscal year 2007 to review all P-1 transactions. This report is available for review in the office of the Accounts Payable Supervisor. The process has the Supervisor reviewing the P-1 transactions report and initials all transactions approved by the Human Resource Associates. This report is kept and filed by the Supervisor.

Woodward Resource Center – Woodward Resource Center has a process in place for P-1 documents which require more than one level of approval at the facility. The HR Associate will do one level of approval and the HR Administrative Assistant 2 will do the other level on the documents. On rare occasions these individuals may have to do both levels of facility approval. In these instances HR staff will add a comment to the P-1 document explaining why they had to do both levels. It should be noted that even when HR staff do both levels this does not automatically process the P-1. Both DAS-SAE Central Payroll staff and DAS – Human Resource Enterprise (HRE) staff review the P-1 and must each apply their level of approval before the P-1 will process.

Iowa Department of Natural Resources - The Department employs two Human Resource Associates in our payroll and personnel section. Because both of these employees must process and record payroll and personnel information and serve as each others' backup, it is not possible to completely segregate the duties of initiating and approving payroll actions on the HRIS system. We do plan to work with the Auditor of State's office to develop and implement alternative methods of strengthening controls in this area.

Conclusions –

Iowa Department of Administrative Services – Response accepted.

Woodward Resource Center – Response acknowledged. The Department should implement procedures to ensure no one individual at the Department can apply both approval levels.

Iowa Department of Natural Resources – Response accepted.

(2) **Iowa Department of Economic Development**

Timesheet approval – The Department’s employee timesheets should be approved by an individual who does not have the authority to enter new employees into the payroll HRIS system. An individual at the Department has the ability to enter new employees into the HRIS payroll system, approve timesheets and approve pay rate changes.

Recommendation – The Department should develop and implement policies and procedures to segregate duties so the same individual does not enter information on the HRIS payroll system and approve timesheets and pay rate changes.

Response – Effective with the pay period ended February 7, 2008, both the Administrative Division Coordinator and Accountant 3 will approve timesheets on the HRIS payroll system. The Administrative Division Coordinator and Human Resource Associate will review the pre-final payroll register. This process will provide adequate segregation of duties for the timesheet approval process.

Conclusion – Response accepted.

(3) **Iowa Vocational Rehabilitation Services**

Segregation of Duties - Payroll Authorizations – Employee timesheets used for time and leave reporting require supervisor approval. Supervisors are responsible for overseeing the vacation and sick leave used is accurately posted to the employee’s account and employees are only utilizing the amount of leave earned. In 14 of 40 instances tested, employee timesheets were approved by employees in non-supervisory positions.

Recommendation – The agency should review its policies and procedures regarding approval of timesheets and limit approval of timesheets to those individuals who are in supervisory positions.

Response – Iowa Vocational Rehabilitation Services acknowledges the issue and has directed supervisory staff to take responsibility for approving vacation, sick leave, and timesheets for employees.

Conclusion – Response accepted.