

Iowa Comprehensive Annual Financial Report



For the Fiscal Year Ended June 30, 2006

Cover Photo: Korean War monument, Iowa State Capitol Grounds

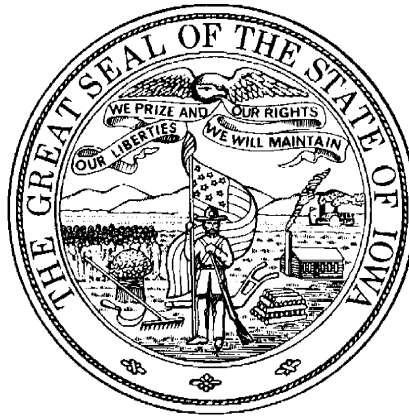
The drive for a Korean War monument began in November 1984, when students from a Harding Junior High School Class in Des Moines wrote the Governor asking why Korean War veterans did not have a memorial.

The monument, erected on a grassy area south of the Capitol Building, includes a 14-foot-tall central obelisk and eight six-foot-tall tablets which tell the story of the Korean War utilizing words, pictures, and maps of Korea engraved in granite. The monument was dedicated by Governor Terry Branstad on May 28, 1989, to commemorate and thank all Korean War veterans and ensure that their service and sacrifice for our country will not be forgotten.

To learn more about the monuments and memorials on the State Capitol grounds, please visit <http://das.gse.iowa.gov/Monuments/index.html>.

Photo by Mike Steven, Iowa Department of Administrative Services, 2006.

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**



**For the Fiscal Year
Ended June 30, 2006**

GOVERNOR:
Thomas J. Vilsack

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

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



December 20, 2006

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, 2006. 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 report is presented in three sections as follows:

- The **Introductory Section** includes this transmittal letter, the Government Finance Officers Association (GFOA) Certificate of Achievement for the fiscal year 2005 CAFR, an organizational chart of State government, and a list of principal State officials.
- The **Financial Section** contains the independent auditor's report on the Basic Financial Statements, Management's Discussion and Analysis (MD&A), the Basic Financial Statements, and Notes to the Financial Statements. The Financial Section also contains Required Supplementary Information (RSI), other than the MD&A, and supplementary information in the form of combining financial statements and schedules.
- The **Statistical Section** includes financial trend information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

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

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. This 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. All are elected to four year terms. 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.

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 2006-2007

Nationally, the weaker housing market, manufacturing base and rising interest rates are a concern despite the boost expected by an improving trade balance, at least through the second quarter of 2007. The trade balance has recently given a small boost to economic growth. Supporting the trade balance are strong global growth and the depreciated dollar, both of which are expected to continue in the next year. Moody's Economy.com suggests keeping a close watch on the housing market as well as the manufacturing base. It is expected that growth will remain below the economy's 3% real GDP growth potential during this period.

According to the current forecast by Economy.com, "unemployment will edge higher, rising to over 5% by next spring. This will be sufficient to ensure that underlying inflation will peak in early 2007, with core CPI inflation peaking at 3%, and to moderate by this time next year. While inflation remains above policymakers' inflation target, the below-potential economic growth will forestall further monetary tightening, and indeed odds are that some modest easing will be necessary early next year." This was attributed to the fact that monthly job gains averaged 120,000 during the past six months, compared to 160,000 last year. Potential real GDP and monthly job growth are estimated to be around 3 percent and 135,000 respectively.

Economy.com predicts that "the risk of recession in coming quarters is high, at an estimated one-in-four, and has risen, up from one-in-ten this time last year. Even if the economy avoids recession, the high recession odds strongly suggest that there will be an economic bump or two in 2007."

State and Local Economy

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. For example, in 1980, agriculture accounted for 11% of Iowa's gross domestic product by state (formerly gross state product), business services 11%, and the finance, insurance, and real estate sector 13%. In 2005, the shares of Iowa's gross domestic product by state had changed to 3.3%, 16.7% and 17.8%, respectively.

Nonetheless, agriculture continues to play an important role in the State economy. Iowa is a leader in the production of corn, soybeans, hogs, cattle, turkey and eggs. In addition, a large part of Iowa's non-farm personal income is earned in agriculture-related industries, such as agricultural services, food and kindred products, leather and leather products, chemicals, and farm machinery. Currently, the state leads the nation in the production of biofuels.

The agricultural sector remained relatively stable during the last five years. The Iowa Workforce Development (IWD), in their 2004 Iowa Industry Profile, reported that agricultural employment in the state increased by 9.3 percent since the year 2000. In their upcoming 2005 Industry Profile, IWD is reporting increase in agricultural employment of 6.1 percent from 2004 to 2005. In the last five years agricultural employment has increased by 22 percent. Net farm income more than doubled from 2003 to 2004 but showed a 38.1 percent decrease in 2005. Cash receipts from all commodities increased by 4.2% from 2004 to 2005.

Farmland Values. The most recent survey of area bankers indicates that farmland values continue to rise. The Federal Reserve Bank of Chicago surveys farm bankers in the area four times a year to determine their best estimates of farmland values. In their August 2006 survey, Iowa farmland values had risen 3% from April to July 2006. This was the strongest quarterly growth in land values in the District. Iowa farmland value increased by 8 percent from July 1, 2005 to July 1, 2006. This increase in value was triggered by double digit increases in the Northeast, North-central and South-central counties of the state. Western counties also posted healthy increases. Iowa is also implementing strategies to better market its agricultural products. The Economic Research Service (ERS) of the U.S. Department of Agriculture indicates that farm values rose by about 16% in 2005 and are expected to rise

about 7.7% in 2006. Gains were registered in most states of the region. The year-over-year gain of 9% for the District indicated a slowing from 12% a year ago, although it matched last quarter's gain. The growth in farmland values benefited from the momentum of double-digit increases for the District the last two years. These trends continue to place Iowa in a competitive position in the global marketplace.

Personal Income. The University of Iowa Institute for Economic Research's latest outlook (December 2006) is for personal income in Iowa to grow by 6.4% in 2006, 5.4% in 2007, and 5.2% in 2008. According to the Bureau of Economic Analysis (BEA), in the last three quarters of Fiscal Year 2005-06, Iowa's personal income, seasonally adjusted, grew at a rate of 1.2%, 2.3% and 1.4% respectively, which was close to the nation as a whole, with personal income growth of 2.2%, 2.2% and 1.7%.

Contributing to Iowa's personal income was higher growth in construction (0.08%), transportation and warehouse (0.10%), finance and insurance (0.24%), manufacturing (0.50%), health care and social assistance (0.18%) and higher farm income.

Employment. Iowa continues to have an average unemployment rate below the rate of the nation as a whole. Over the past 10 years, Iowa's unemployment rate has been between one and two percentage points below the national average. The U.S. unemployment rate for September 2006 was 4.6%, compared to 5.1% in September 2005. The seasonally adjusted percent unemployed for the State in September 2005 was 4.5% and the rate for September 2006 was 3.4%. In September 2006, there were 1,515,400 employed Iowans. This compares with the level of 1,485,200 employed Iowans in September 2005.

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 at or exceeding the national average. In 2005, Iowa's median household income was \$46,500, slightly higher than the national average of \$46,326.

Exports. The rise in exporting industries has been an important factor in Iowa economic growth since the 1990's. Growth in exports of industrial machinery, instruments and measurement devices, electronics, specialized transportation equipment, chemicals and pharmaceuticals, and processed food products have helped diversify Iowa's economy. Apart from the two year decline during the late 1990's, subsequent years have seen steady and strong growth. Strong harvests worldwide continued to lead to an oversupply of agricultural commodities and the strong U.S. dollar also continues to make it more challenging for U.S. products to be competitive in international markets.

Iowa's export of value-added and manufacturing goods has increased since 2000 by 4.4% in 2001, 2.0% in 2002, 10.1% in 2003, and 22.1% in 2004, and continues to increase. In 2006, for the third year in a row, Mexico has replaced Japan and China as the second leading export country behind Canada partially due to the increase of value-added products shipped to Mexico.

Iowa's record level of exports has been fueled by large percentage increases in machinery, electrical machinery, cereals, milling, and organic chemicals. Overall, through the fourth quarter 2005, exports are up 10.6% over the same period in 2004.

Gross Domestic Product. In 2005, Iowa's gross domestic product by state (formerly gross state product) was \$113.6 billion, which reflected 3.0% growth over the previous year. The largest shares of the Iowa gross state product were manufacturing (21.8%), services (11.9%), and finance, insurance, and real estate (9.9%), health and social assistance (7.0%), and government (11.9%). Agriculture accounted for just 3.3% of Iowa's 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 the State each year. The nation's gross domestic product (\$12.5 trillion) in current dollars grew by 6.3% between 2004 and 2005.

Nonagricultural Economy. Over the past 14 years, significant changes have occurred in the mix of nonfarm wage and salary employment. While payroll jobs in Iowa grew by 18.7%, jobs in the business services sector grew by 55% and the financial services sector grew by 39%. Conversely, manufacturing jobs increased by a mere 1.8%. The growing diversification of Iowa's economy has caused the State's economy to more closely resemble that of the nation. Nonagricultural wage and salary employment grew by 1.6 percent from 2004 to 2005. This growth was led by increases in construction, manufacturing, trade, transport and utilities, financial activities, professional and business services, education and health, and government.

Financial Policies

The Governor and General Assembly have statutory responsibility to balance the budget. In 1992 several statutory reforms were enacted. These included expenditure limitation laws.

- Spending is limited to 99.0% of adjusted revenues, 95.0% 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.
- Three reserve funds were created; the Cash Reserve Fund, the GAAP Deficit Reduction Account, and the Economic Emergency Fund. Expenditures from these funds are limited by statute for nonrecurring emergency expenditures and the elimination of the GAAP deficit, which was eliminated in FY 1995.

MAJOR INITIATIVES AND ISSUES

Grow Iowa Values Fund. During the 2005 session, the Legislature adopted Governor Vilsack's proposal and appropriated a total of \$500 million over 10 years from the General Fund to the Grow Iowa Values Fund. \$50 million per year starting in Fiscal Year 2006 is appropriated from the Fund for economic development programs.

Student Achievement/Teacher Quality. During the 2006 session, the Legislature adopted Governor Vilsack's proposal and appropriated an additional \$35 million for Fiscal Year 2007 to build upon the Student Achievement and Teacher Quality Program and makes an additional 2 year commitment beyond Fiscal Year 2007 of an additional \$35 million each year toward the program.

Local Early Childhood Initiatives. During the 2005 and 2006 sessions, Governor Vilsack and the Legislature worked together on comprehensive early childhood policy legislation. Included in these policies was an increase of \$21 million to support early childhood development activities and programs in Fiscal Year 2006 and an increase of \$19 million in Fiscal Year 2007. This will provide substantially greater resources for parent education efforts, quality childcare, and access to preschool to better prepare Iowa's youngest children to learn.

Targeted Industries Growth Initiatives. The Iowa Department of Economic Development retained the services of Battelle Memorial Institute to produce a formal strategy and roadmap to drive economic growth in the advanced manufacturing, biosciences, and information solutions/financial services sectors of the Iowa economy.

Through interviews and focus groups with industry leaders, members of the academic community, and users of the products and services, the Battelle Memorial Institute identified the critical segments of each sector where Iowa needs to concentrate its development efforts. It concluded that it is vital for the State of Iowa to make commercialization and industry partnering not only a core mission of its Regents Universities, but also one that is well funded by the State.

During the 2006 session, the Legislature adopted Governor Vilsack's proposal and appropriated \$20 million in Fiscal Year 2007 to the Board of Regents to be used by the Regent Universities in implementing the Battelle recommendations.

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, 2005. This was the thirteenth 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.

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

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

Respectfully submitted,

Mollie K. Anderson, Director
Department of Administrative Services

Michael L. Tramontina, Director
Department of Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

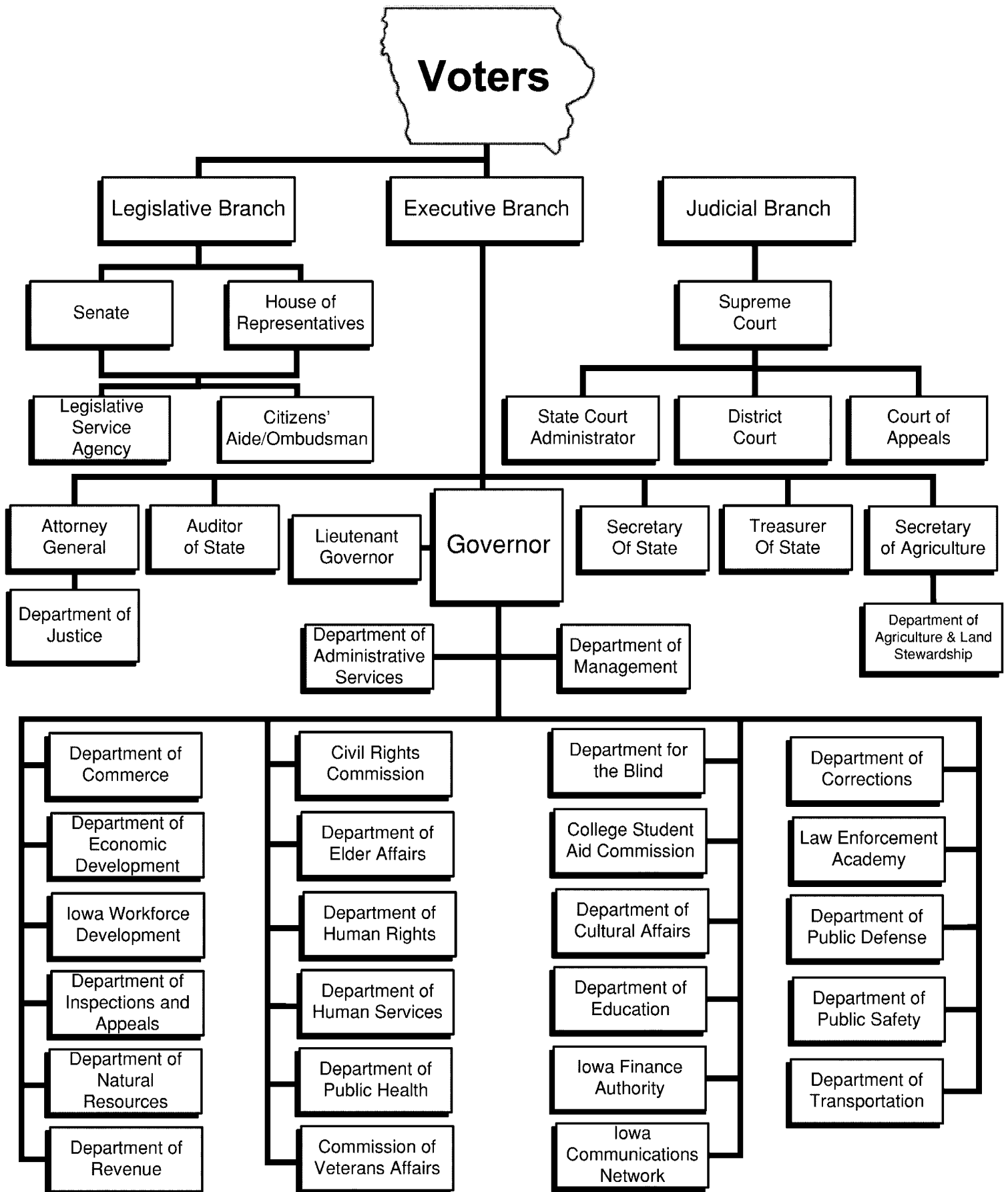
A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards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



President

Executive Director

State of Iowa Organizational Chart



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

Elected Officials

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

Legislative Branch

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

Judicial Branch

CHIEF JUSTICE OF
THE SUPREME COURT - **Louis A. Lavorato**
(retired September 2006)

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**

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Auditor of State

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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, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain discretely presented component units, which statements reflect 98% of assets and 96% of revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Iowa Higher Education Loan Authority and the Universities Foundations were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of the other auditors provide a reasonable basis for our opinions.

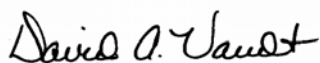
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Iowa as of June 30, 2006, 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.

For the year ended June 30, 2006, appropriations of \$27,462,051 were made from the Rebuild Iowa Infrastructure Fund for items inconsistent with the fund's legislatively established purpose to be used for public vertical infrastructure-related expenditures. These items included, but were not limited to, support of various technology programs, routine maintenance of state buildings, relocation and facility lease costs and the establishment of loan programs. Expenditures for these items during the year ended June 30, 2006 totaled \$18,926,952, of which \$6,046,031 was funded from previous years' appropriations from the Rebuild Iowa Infrastructure Fund. These items have been reported as expenditures in the General Fund in the basic financial statements.

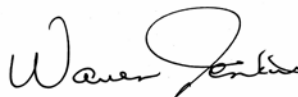
Management's Discussion and Analysis, Budgetary Comparison Information and Schedules of Funding Progress on pages 4 through 13 and 78 through 84 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have 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 in the Single Audit Report. 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 20, 2006

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, 2006. Readers are encouraged to consider this information in conjunction with the letter of transmittal located at the front of the CAFR, and the State's financial statements, which follow this part of the CAFR.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-wide Highlights

- The assets of the State of Iowa exceeded its liabilities at the close of fiscal year 2006 by \$11,364.1 million (net assets). Of this amount \$1,067.6 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 \$573.7 million in the fiscal year ended June 30, 2006. Net assets of governmental activities increased by \$327.3 million or 4.66 percent, while net assets of business-type activities increased by \$246.4 million or 6.5 percent.
- In the State's governmental activities, revenues increased by 6.7 percent to \$11,144.6 million while expenses increased 6.4 percent to \$10,336.6 million.
- For business-type activities, revenues increased 11.9 percent to \$3,352.2 million while expenses increased 9.3 percent to \$3,586.5 million.

Fund Highlights

- The State's governmental funds reported a combined ending fund balance of \$2,583.4 million, a \$265.6 million increase from the prior year. Of this amount, \$962.0 million represents unreserved fund balance and the remaining \$1,621.4 million is reserved for specific purposes.
- The General Fund total fund balance increased \$175.3 million to \$2,099.7 million and the unreserved fund balance increased \$337.8 million to \$897.7 million at June 30, 2006.
- The proprietary funds reported net assets at year-end of \$4,018.8 million, an increase of \$246.0 million.

Long-term Debt

- The State's total long-term debt increased by \$216.9 million to \$2,078.3 million during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

- The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- The Statement of Activities presents information about the change in the State's net assets. This statement is formatted to report direct expenses, program revenues and the net revenue or expense for each of the State's governmental functions and business-type activities. This format identifies the extent to which each function is self-financed or is supported by the general revenues of the State.

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

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

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

Fund Financial Statements

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

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

Table 1

Major Features of the State's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's component units	The activities of the State that are not proprietary or fiduciary, such as Human Services and Transportation	Activities the State operates similar to private businesses: the universities and the Iowa Communications Network	Instances in which the State is the trustee or agent for someone else's resources, such as the retirement plan for public employees
Required financial statements	<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 understanding the government-wide and fund financial statements. The notes also explain some of the information contained in the financial statements and present more detail than is practical in the financial statements.

Required Supplementary Information

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

Supplementary Information

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

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

Net Assets

The State's combined net assets (government and business-type activities) totaled \$11,364.1 million at the end of 2006, compared to \$10,790.4 million at the end of the previous year, as indicated in Table 2.

Table 2 Net Assets (In Millions)							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2005 - 2006
	2006	2005	2006	2005	2006	2005	
Current and other assets	\$ 3,838.5	\$ 3,520.5	\$ 3,083.3	\$ 2,860.8	\$ 6,921.8	\$ 6,381.3	8.5%
Capital assets	5,948.2	5,727.4	2,718.8	2,561.3	8,667.0	8,288.7	4.6%
Total assets	9,786.7	9,247.9	5,802.1	5,422.1	15,588.8	14,670.0	6.3%
Long-term liabilities	1,152.5	1,060.6	1,083.8	992.1	2,236.3	2,052.7	8.9%
Other liabilities	1,282.5	1,162.9	705.9	664.0	1,988.4	1,826.9	8.8%
Total liabilities	2,435.0	2,223.5	1,789.7	1,656.1	4,224.7	3,879.6	8.9%
Net assets							
Invested in capital assets,							
net of related debt	5,878.6	5,681.4	1,874.0	1,783.5	7,752.6	7,464.9	3.9%
Restricted	1,190.8	1,209.1	1,353.1	1,221.3	2,543.9	2,430.4	4.7%
Unrestricted	282.3	133.9	785.3	761.2	1,067.6	895.1	19.3%
Total net assets	\$ 7,351.7	\$ 7,024.4	\$ 4,012.4	\$ 3,766.0	\$ 11,364.1	\$ 10,790.4	5.3%

Net assets of the State's governmental activities increased 4.7 percent to \$7,351.7 million. The largest component (80.0%) 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 (16.2%). These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets is the remaining portion (3.8%) and may be used at the State's discretion, but often have limitations on use based on State statutes.

The net assets of business-type activities increased 6.5 percent to \$4,012.4 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 4.6 percent to \$8,667.0 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 and other facilities at the State Universities. Also, the Department of Natural Resources acquired additional land during the year in an effort to expand existing State parks and to create new wildlife management areas and destination parks.

Long-term liabilities of the State increased 8.9 percent to \$2,236.3 million. The increase is due to the issuance of debt by the Tobacco Settlement Authority which was used, in part, to advance refund outstanding debt and the issuance of new debt by the State Universities to finance the cost of constructing, equipping and furnishing certain University facilities.

Other liabilities of the State increased \$161.5 million or 8.8 percent. The increase is due, in part, to a \$14 million classification error between current and noncurrent liabilities in the prior year for compensated absences pertaining to the Department of Transportation, timing differences for claims paid as well as an increase in the current liability amounts for capital leases and bonds payable.

Changes in Net Assets

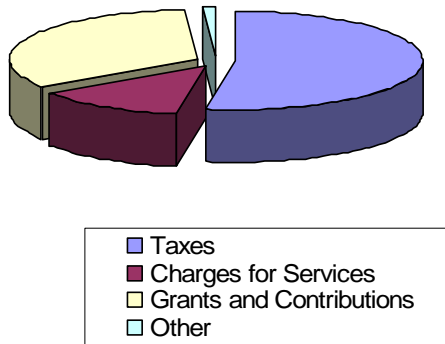
The State's total net assets increased by \$573.7 million during the year, as indicated in Table 3.

Table 3
Changes in Net Assets
(In Millions)

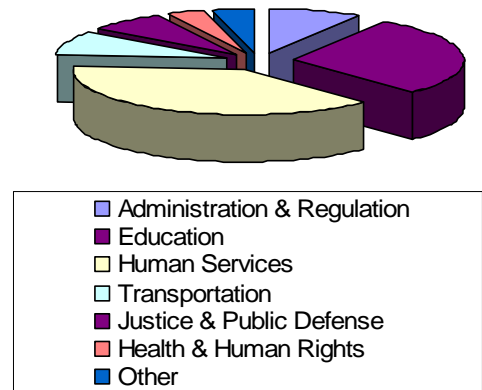
	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change
	2006	2005	2006	2005	2006	2005	2005 - 2006
Program Revenues:							
Charges for Service	\$ 1,451.1	\$ 1,308.8	\$ 2,702.6	\$ 2,386.3	\$ 4,153.7	\$ 3,695.1	12.4%
Operating Grants and Contributions	3,699.3	3,391.7	458.3	448.5	4,157.6	3,840.2	8.3%
Capital Grants and Contributions	4.2	5.3	18.0	28.9	22.2	34.2	-35.1%
General Revenues:							
Personal Income Tax	2,431.0	2,263.6	-	-	2,431.0	2,263.6	7.4%
Corporate Income Tax	283.1	177.0	-	-	283.1	177.0	59.9%
Sales & Use Tax	1,866.9	1,761.2	-	-	1,866.9	1,761.2	6.0%
Other Taxes	592.9	596.7	7.3	-	600.2	596.7	0.6%
Restricted for Transportation Purposes:							
Motor Fuel Tax	440.6	482.2	-	-	440.6	482.2	-8.6%
Road Use Tax	247.1	252.6	-	-	247.1	252.6	-2.2%
Unrestricted Investment Earnings	98.3	72.2	93.6	88.0	191.9	160.2	19.8%
Other	30.1	130.4	72.4	43.1	102.5	173.5	-40.9%
Total Revenues	11,144.6	10,441.7	3,352.2	2,994.8	14,496.8	13,436.5	7.9%
Expenses							
Administration & Regulation	924.2	903.4			924.2	903.4	2.3%
Education	2,948.6	2,796.2	-	-	2,948.6	2,796.2	5.5%
Health & Human Rights	367.5	337.5	-	-	367.5	337.5	8.9%
Human Services	3,927.9	3,633.3	-	-	3,927.9	3,633.3	8.1%
Justice & Public Defense	757.0	693.6	-	-	757.0	693.6	9.1%
Economic Development	223.2	208.7	-	-	223.2	208.7	6.9%
Transportation	930.3	918.6	-	-	930.3	918.6	1.3%
Agriculture & Natural Resources	180.5	167.1	-	-	180.5	167.1	8.0%
Interest Expense	77.4	52.2	-	-	77.4	52.2	48.3%
Universities	-	-	2,850.3	2,656.3	2,850.3	2,656.3	7.3%
Unemployment Insurance	-	-	304.2	299.1	304.2	299.1	1.7%
Other Business-type	-	-	432.0	326.1	432.0	326.1	32.5%
Total Expenses	10,336.6	9,710.6	3,586.5	3,281.5	13,923.1	12,992.1	7.2%
Increase in Net Assets Before Transfers	808.0	731.1	(234.3)	(286.7)	573.7	444.4	29.1%
Transfers	(480.7)	(501.4)	480.7	501.4	-	-	0.0%
Increase (Decrease) in Net Assets	327.3	229.7	246.4	214.7	573.7	444.4	29.1%
Net Assets July 1	7,024.4	6,794.7	3,766.0	3,551.3	10,790.4	10,346.0	4.3%
Net Assets June 30	\$ 7,351.7	\$ 7,024.4	\$ 4,012.4	\$ 3,766.0	\$ 11,364.1	10,790.4	5.3%

Governmental Activities

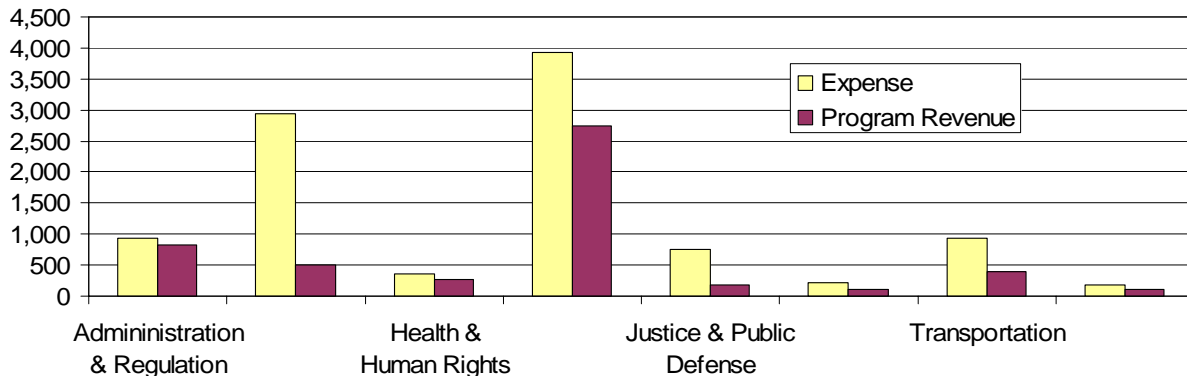
**FY06 Revenues -
Governmental Activities**



**FY06 Functional Expenditures -
Governmental Activities**



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



The cost of all governmental activities this year was \$10,336.6 million. However, the amount that taxpayers paid for these activities through State taxes was \$5,861.6 million. Some of the cost was paid by:

- Those who directly benefited from the programs (\$1,451.1 million), or
- Other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$3,703.5 million).

Corporate income tax increased 59.9 percent to \$283.1 million. The increase is due, in part, to an increase in corporate profits 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 previous years.

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

Other general revenues decreased \$100.3 million, or 76.9 percent, due to a reclassification of certain receipts received by the Department of Human Services. These receipts were classified as other general revenues in the prior year but were appropriately reclassified as charges for services during the current fiscal year.

Business-type Activities

- Universities had \$2,850.3 million in expenses and \$2,262.5 million in program revenues for net expenses of \$587.8 million.
- Unemployment Insurance had \$304.2 million in expenses and \$348.3 million in program revenues for net revenues of \$44.1 million.

In total, business-type activities had net expenses of \$407.6 million with \$654.0 million in net general revenues and transfers, an increase of \$246.4 million, to end with net assets of \$4,012.4 million.

Capital grants and contributions decreased 37.7 percent to \$18.0 million. In the prior year, the Iowa Communications Network received state funding to payoff an existing debt. No such funding was required in the current year.

Other business-type expenses increased \$105.9 million or 32.5 percent. The increase is primarily due to retailer compensation payments made by the Iowa Lottery for the Touchplay game. The number of Touchplay machines increased from approximately 650 in March 2005 to approximately 6,400 in March 2006. The increase in the number of machines resulted in an increase in Touchplay sales with a corresponding increase in retailer compensation payments.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The governmental funds reported total fund balances of \$2,583.4 million, with \$962.0 million in unreserved fund balance. Net revenues totaled \$11,152.6 million with expenditures of \$10,548.4 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 \$2,099.7 million and the unreserved fund balance was \$897.7 million. The unreserved fund balance included \$392.0 million of "rainy day" funds. The net change in fund balance was an increase of \$175.3 million. Revenues exceeded expenditures by \$571.4 million, while other financing uses exceeded sources by \$396.1 million.

General Fund Budgetary Highlights

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

- Supplemental appropriations - \$87,468,654
- Adjustments to standing appropriations - \$5,324,254

The originally enacted General Fund budget of \$4,988.8 million was predicated on 3.4% growth in General Fund revenues, as projected by the State's Revenue Estimating Conference (REC) on April 8, 2005. This estimate reflected the expectation that revenue growth would continue at a moderate pace given the economic outlook.

At its October 14, 2005 meeting, the REC revised its fiscal year 2006 General Fund revenue estimate upward to \$5,024.1 million. This was based upon the revised base of FY 2005 actual revenue growth of 5.2% and continued expectation that revenue growth would continue at a normal pattern. On December 12, 2005, the REC again increased the revenue estimate to \$5,075.8 million. The increase from the October 2005 meeting reflected an acknowledgement that year-to-date revenues were growing faster than expected. An additional revision was made at the March 24, 2006 meeting to increase the

General Fund revenue estimate to \$5.219.7 million, again acknowledging that year-to-date revenues were growing faster than expected.

During the 2006 legislative session, the General Assembly approved \$87.5 million in General Fund supplemental appropriations. The largest supplemental appropriation was to the Medical Assistance Program (Medicaid) in the Department of Human Services for \$38.4 million. \$35.3 million was appropriated to the Health Care Transformation Account in the Department of Human Services and is related to the final intergovernmental transfer the State of Iowa received from the Federal Government as a negotiated settlement to end the intergovernmental transfers. Most of the other supplemental appropriations were to help in general operations of various departments. All of these were signed into law by Governor Vilsack.

Also during this legislative session, the General Assembly approved the transfer of \$159.9 million of the ending General Fund balance to the Property Tax Credit Fund for FY07 expenditures, prior to the transfer to the Cash Reserve Fund and a transfer of \$2.8 million to the Board of Regents to be used for FY07 expenditures at the Regent Institutions. These were signed into law by Governor Vilsack.

The State of Iowa has various statutory standing appropriations where a fixed amount is not appropriated. These are either formula-driven (in the case of the largest General Fund appropriation, for school foundation aid to local school districts), or for items like paying claims against the State through the State Appeal Board. These are either increases or decreases to the estimates made at the beginning of the year. For FY 2006, these standing appropriations exceeded the original estimates by \$5.3 million. The largest variance was for Appeal Board claims, which were \$6.7 million over the estimate. A variety of other appropriations made up the balance of the changes to standing appropriations.

During April, May and June, and throughout the accrual period, actual General Fund revenue collections continued to exceed the official REC projections. At the close of the fiscal year, revenue collections totaled \$5,382.7 million which was 9.2% growth. As a consequence, after the transfers to the Property Tax Credit Fund and the Board of Regents discussed earlier, and also taking into account the statutory transfer to the Senior Living Trust fund of \$49.9 million, the General Fund ending balance for fiscal year 2006 totaled \$149.4 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the State had \$8,667.0 million invested in capital assets, net of accumulated depreciation of \$5,929.6 million. Depreciation charges totaled \$554.2 million in 2006. 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	2005	2006	2005	2006	2005	2005 - 2006
Land	\$590.0	\$572.5	\$35.1	\$28.8	\$625.1	\$601.3	4.0%
Building and Improvements	551.7	534.3	1,501.3	1,394.2	2,053.0	1,928.5	6.5%
Equipment	154.0	146.0	304.4	322.7	458.4	468.7	-2.2%
Land Improvements	7.2	6.3	29.4	30.2	36.6	36.5	0.3%
Works of Art and Collections	0.8	0.8	264.8	251.8	265.6	252.6	5.1%
Infrastructure	4,579.5	4,426.9	246.5	215.6	4,826.0	4,642.5	4.0%
Construction in progress	65.0	40.6	337.3	318.0	402.3	358.6	12.2%
Total	<u>\$5,948.2</u>	<u>\$5,727.4</u>	<u>\$2,718.8</u>	<u>\$2,561.3</u>	<u>\$8,667.0</u>	<u>\$8,288.7</u>	<u>4.6%</u>

Long-term Debt

At year-end the State had \$2,078.3 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	2005	2006	2005	2006	2005	2005 - 2006
Revenue Bonds	\$ 1,091.8	\$ 965.7	\$ 837.4	\$ 757.8	\$ 1,929.2	\$ 1,723.5	11.9%
Certificates of Participation	1.6	2.0	-	-	1.6	2.0	-20.0%
Leases and Other Financing Arrangements*	6.2	7.2	141.3	128.7	147.5	135.9	8.5%
Total	\$ 1,099.6	\$ 974.9	\$ 978.7	\$ 886.5	\$2,078.3	\$1,861.4	11.7%

The Constitution of the State of Iowa prohibits the State from exceeding a maximum of \$250 thousand in general obligation debt without voter approval. However, State law authorizes the issuance of Tax and Revenue Anticipation Notes (TRANS), provided that the total issuance does not exceed anticipated revenue receipts for the fiscal year and that the total issuance matures during the fiscal year. The State issued and repaid Tax and Revenue Anticipation Notes of \$450.0 million during fiscal year 2006.

Revenue bonds issued by various authorities of the State totaled \$2,975.4 million outstanding at fiscal year-end. This amount consisted of \$1,046.2 million of component unit – proprietary funds revenue bonds (housing and higher education), \$837.4 million in revenue bonds issued by the three State universities and Iowa Lottery Authority (for equipment & facilities), \$775.8 million in revenue bonds issued by the Tobacco Settlement Authority and \$316.0 million in various bonds issued by the Iowa Finance Authority for the Vision Iowa Program, the School Infrastructure Loan Program, the Underground Storage Tank Program, and the Department of Corrections. These bonds are backed by the revenues of the issuing program or authority.

Certificates of Participation (COPS), issued by the State and outstanding at fiscal year-end, amounted to \$1.6 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 2006, with strong growth revenue collections during the year. Iowa's 9.2 % General Fund revenue growth was one of the strongest years the state has ever had. However the growth was inflated by two large one-time revenue sources. \$54.6 million deposited into the general fund was for the final intergovernmental transfer that the state received from the Federal government in a negotiated agreement to end these transfers. Another \$27.3 million of lottery transfers was received due to Touch Play machines licensed by the Lottery Authority. These machines were banned by the Legislature in May 2006.

The Governor and General Assembly worked beyond the 100 day session in 2006, fashioning the General Fund budget for FY 2007. Amounts available for appropriation in the General Fund budget were \$5,350.9 million. General Fund appropriations totaled \$5,296.3 million, an increase of \$276.3 million from the actual 2006 General Fund budget.

At the REC meeting in October, the FY 2007 revenue estimate was increased to \$5,540.2 million, largely as a result of adjusting the base to reflect actual revenue collections in fiscal year 2006. The revised estimate reflects projected revenue growth of 2.9% compared to actual revenues for the previous fiscal year. This revised revenue projection coupled with current General Fund appropriations would leave a balance of \$256.4 million at the close of FY 2007, of which \$53.5 million is statutorily required to be transferred to the Senior Living Trust Fund leaving an ending balance of \$202.9 million.

Recent revenue performance is encouraging. Iowa's unemployment rate was at 3.6% in October 2006, which tied the second lowest monthly unemployment rate during the calendar year. Iowa's seasonally adjusted employment was estimated at 1,640,000,

Nationally, the weaker housing market and manufacturing base is a concern despite the boost expected by an improving trade balance at least through the second quarter of next year. Supporting the trade balance are strong global growth and the depreciated dollar, both of which should continue in the next year. Growth in the gross domestic product (GDP) for the third quarter of 2006 is now estimated at 2.2%, four tenths of a percent behind the second quarter growth for 2006. Moody's Economy.com, a national economic forecasting company, expects that growth will remain below the economy's 3% real GDP growth potential for the rest of the year, with some rebound in the first quarter of 2007 to 2.8% growth and in the second quarter of 2007 to 3.1% growth in GDP.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

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

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



**BASIC
FINANCIAL
STATEMENTS**

STATE OF IOWA

Statement of Net Assets

June 30, 2006
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash & Investments	\$ 1,966,239	\$ 1,892,103	\$ 3,858,342	\$ 1,019,791
Cash & Investments - Restricted	-	59,831	59,831	1,181
Deposits With Trustees	4,697	38,446	43,143	-
Accounts Receivable (Net)	1,548,274	439,613	1,987,887	54,194
Interest Receivable	2	4,687	4,689	9,000
Loans Receivable (Net)	10,403	5,633	16,036	29,661
Internal Balances	17,335	(17,335)	-	-
Inventory	22,571	57,103	79,674	216
Prepaid Expenses	19,500	11,798	31,298	109
Deferred Charges	1,223	-	1,223	-
Other Assets	-	1,342	1,342	1,990
Investment In Prize Annuity	-	7,695	7,695	-
Total Current Assets	3,590,244	2,500,916	6,091,160	1,116,142
Noncurrent Assets:				
Cash & Investments	-	461,384	461,384	685,305
Cash & Investments - Restricted	78,118	-	78,118	780,996
Deposits With Trustees	-	20	20	-
Accounts Receivable (Net)	24,441	14,464	38,905	136,708
Interest Receivable	-	612	612	-
Loans Receivable (Net)	142,190	59,200	201,390	457,235
Capital Assets - nondepreciable	654,959	601,617	1,256,576	5,370
Capital Assets - depreciable (Net)	5,293,213	2,117,210	7,410,423	67,749
Prepaid Expenses	-	812	812	-
Deferred Charges	3,518	-	3,518	-
Other Assets	-	23,843	23,843	10,082
Investment In Prize Annuity	-	18,899	18,899	-
Prize Deposit	-	3,173	3,173	-
Total Noncurrent Assets	6,196,439	3,301,234	9,497,673	2,143,445
TOTAL ASSETS	9,786,683	5,802,150	15,588,833	3,259,587

The notes are an integral part of the financial statements.

(continued on next page)

STATE OF IOWA

(continued)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	1,001,521	291,148	1,292,669	15,079
Interest Payable	3,752	20,624	24,376	19,845
Unearned Revenue	110,452	85,792	196,244	645
Compensated Absences	129,033	74,737	203,770	453
Capital Leases	1,121	6,753	7,874	535
Bonds Payable	35,806	44,151	79,957	38,632
Other Financing				
Arrangements Payable	808	1,207	2,015	-
Annuities Payable	-	7,826	7,826	-
Lottery Prizes Payable	-	2,998	2,998	-
Funds Held In Custody	-	170,687	170,687	71,144
Total Current Liabilities	1,282,493	705,923	1,988,416	146,333
Noncurrent Liabilities:				
Accounts Payable & Accruals	65,869	12,334	78,203	68,699
Interest Payable	-	2,444	2,444	-
Unearned Revenue	906	2,479	3,385	7,050
Compensated Absences	23,857	66,817	90,674	182
Capital Leases	2,466	130,416	132,882	8,020
Bonds Payable	1,056,035	793,217	1,849,252	1,007,533
Other Financing				
Arrangements Payable	3,321	2,951	6,272	-
Annuities Payable	-	18,899	18,899	-
Lottery Prizes Payable	-	3,173	3,173	-
Funds Held In Custody	-	51,107	51,107	5,297
Other	-	3	3	-
Total Noncurrent Liabilities	1,152,454	1,083,840	2,236,294	1,096,781
TOTAL LIABILITIES	2,434,947	1,789,763	4,224,710	1,243,114
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	5,878,568	1,874,011	7,752,579	60,652
Restricted for:				
Transportation	630,709	-	630,709	-
Underground Storage Tank Program	70,051	-	70,051	-
Education	66,273	-	66,273	-
Health & Human Rights	64,277	-	64,277	-
Debt Service	254,529	-	254,529	-
Universities	-	453,795	453,795	-
Permanent Funds - Nonexpendable	11,592	-	11,592	-
Unemployment Benefits	-	899,268	899,268	-
Other	93,420	-	93,420	1,343,651
Unrestricted	282,317	785,313	1,067,630	612,170
TOTAL NET ASSETS	\$ 7,351,736	\$ 4,012,387	\$ 11,364,123	\$ 2,016,473

STATE OF IOWA

Statement of Activities

For the Year Ended June 30, 2006
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenue		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Administration & Regulation	\$ 924,171	\$ 804,217	\$ 24,156	\$ -
Education	2,948,579	23,117	480,009	-
Health & Human Rights	367,579	45,324	227,771	556
Human Services	3,927,888	418,391	2,327,674	-
Justice & Public Defense	756,968	83,256	97,438	-
Economic Development	223,153	2,715	110,821	-
Transportation	930,333	13,922	389,425	-
Agriculture & Natural Resources	180,539	60,128	42,019	3,689
Interest Expense	77,392	-	-	-
Total Governmental Activities	10,336,602	1,451,070	3,699,313	4,245
Business-type Activities:				
Universities	2,850,291	1,786,355	458,271	17,914
Unemployment Insurance	304,143	348,246	-	-
Other	432,037	567,966	-	125
Total Business-type Activities	3,586,471	2,702,567	458,271	18,039
Total Primary Government	\$ 13,923,073	\$ 4,153,637	\$ 4,157,584	\$ 22,284
Component Units:				
Iowa Finance Authority	\$ 68,446	\$ 13,226	\$ 49,780	\$ -
Iowa Higher Education Loan Authority	1,586	1,652	-	-
Iowa Agricultural Development Authority	452	424	13	-
Iowa State Fair Authority	14,888	13,961	1,716	100
Universities Foundations	127,950	-	187,586	201
Total Component Units	\$ 213,322	\$ 29,263	\$ 239,095	\$ 301
General Revenues				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel Tax				
Road Use Tax				
Unrestricted Investment Earnings				
Other				
Gain on Sale of Assets				
Contribution to Permanent Fund Principal				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - July 1				
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
\$ (95,798)	\$ -	\$ (95,798)	\$ -
(2,445,453)	-	(2,445,453)	-
(93,928)	-	(93,928)	-
(1,181,823)	-	(1,181,823)	-
(576,274)	-	(576,274)	-
(109,617)	-	(109,617)	-
(526,986)	-	(526,986)	-
(74,703)	-	(74,703)	-
(77,392)	-	(77,392)	-
(5,181,974)	-	(5,181,974)	-
-	(587,751)	(587,751)	-
-	44,103	44,103	-
-	136,054	136,054	-
-	(407,594)	(407,594)	-
(5,181,974)	(407,594)	(5,589,568)	-
			(5,440)
			66
			(15)
			889
			59,837
			55,337
2,430,981	-	2,430,981	-
283,112	-	283,112	-
1,866,864	-	1,866,864	-
592,888	7,300	600,188	-
440,652	-	440,652	-
247,125	-	247,125	-
98,269	93,651	191,920	107,878
29,810	68,209	98,019	752
-	4,169	4,169	-
262	-	262	-
(480,654)	480,654	-	-
5,509,309	653,983	6,163,292	108,630
327,335	246,389	573,724	163,967
7,024,401	3,765,998	10,790,399	1,852,506
\$ 7,351,736	\$ 4,012,387	\$ 11,364,123	\$ 2,016,473



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, 2006
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS			
Current Assets:			
Cash & Investments	\$ 1,518,314	\$ 495,941	\$ 2,014,255
Deposits with Trustees	4,201	496	4,697
Accounts Receivable (Net)	1,510,531	33,452	1,543,983
Loans Receivable (Net)	10,403	-	10,403
Due From Other Funds	27,792	8,524	36,316
Inventory	11,565	67	11,632
Prepaid Expenditures	17,710	86	17,796
Total Current Assets	<u>3,100,516</u>	<u>538,566</u>	<u>3,639,082</u>
Noncurrent Assets:			
Accounts Receivable (Net)	19,501	4,940	24,441
Loans Receivable (Net)	142,190	-	142,190
Total Noncurrent Assets	<u>161,691</u>	<u>4,940</u>	<u>166,631</u>
TOTAL ASSETS	<u>\$ 3,262,207</u>	<u>\$ 543,506</u>	<u>\$ 3,805,713</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable & Accruals	\$ 943,270	\$ 20,702	\$ 963,972
Due To Other Funds	66,949	14,058	81,007
Deferred Revenue	136,676	25,062	161,738
Total Current Liabilities	<u>1,146,895</u>	<u>59,822</u>	<u>1,206,717</u>
Noncurrent Liabilities:			
Accounts Payable & Accruals	741	-	741
Due To Other Funds/Advances From Other Funds	4,103	-	4,103
Deferred Revenue	10,737	-	10,737
Total Noncurrent Liabilities	<u>15,581</u>	<u>-</u>	<u>15,581</u>
TOTAL LIABILITIES	<u>1,162,476</u>	<u>59,822</u>	<u>1,222,298</u>
FUND BALANCE			
Reserved for:			
Encumbrances & Contracts	31,671	-	31,671
Inventory & Prepaid Expenditures	29,275	153	29,428
Noncurrent Receivables	161,691	4,940	166,631
Specific Purposes	979,386	414,311	1,393,697
Unreserved Fund Equity	897,708	-	897,708
Unreserved, reported in:			
Nonmajor special revenue funds	-	62,224	62,224
Nonmajor capital projects funds	-	2,056	2,056
TOTAL FUND BALANCE	<u>2,099,731</u>	<u>483,684</u>	<u>2,583,415</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 3,262,207</u>	<u>\$ 543,506</u>	<u>\$ 3,805,713</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, 2006
(Expressed in Thousands)

Total Fund Balances-Governmental funds \$ 2,583,415

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 \$9,407,781,000 and the accumulated depreciation is (\$3,542,962,000). 5,864,819

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. 122,648

Certain revenues are earned but not available and therefore deferred in the funds. 69,748

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. 4,741

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	(1,091,841)
Accrued Interest Payable	(3,752)
Compensated Absences	(150,145)
Capital Leases	(3,360)
Other Financing Arrangements Payable	(4,129)
Early Retirement Liability	(5,416)
Risk Management Liability	(11,500)
Net Pension Liability	(9,876)
Other Long-term Liabilities	(13,616)
Total Long-term Liabilities	(1,293,635)

Net assets of governmental activities \$ 7,351,736

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, 2006
(Expressed in Thousands)

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:			
Taxes	\$ 6,422,323	\$ 68,936	\$ 6,491,259
Receipts from Other Entities	3,938,003	35,155	3,973,158
Investment Income	76,214	21,204	97,418
Fees, Licenses & Permits	646,609	5,117	651,726
Refunds & Reimbursements	396,950	69,950	466,900
Sales, Rents & Services	23,189	4,525	27,714
Miscellaneous	110,484	9,422	119,906
Contributions	-	265	265
GROSS REVENUES	11,613,772	214,574	11,828,346
Less Revenue Refunds	675,029	680	675,709
NET REVENUES	10,938,743	213,894	11,152,637
EXPENDITURES:			
Current:			
Administration & Regulation	895,177	14,144	909,321
Education	2,887,691	53,035	2,940,726
Health & Human Rights	359,688	492	360,180
Human Services	3,919,330	501	3,919,831
Justice & Public Defense	695,188	5,174	700,362
Economic Development	209,665	8,036	217,701
Transportation	382,175	401	382,576
Agriculture & Natural Resources	151,237	9,935	161,172
Capital Outlay	838,313	39,872	878,185
Debt Service:			
Bond Principal Retirement	15,995	7,440	23,435
Bond Interest & Fiscal Charges	12,880	41,987	54,867
TOTAL EXPENDITURES	10,367,339	181,017	10,548,356
REVENUES OVER (UNDER) EXPENDITURES	571,404	32,877	604,281
OTHER FINANCING SOURCES (USES):			
Transfers In	254,788	199,027	453,815
Transfers Out	(651,443)	(284,630)	(936,073)
Leases, Installment Purchases, & Other	530	-	530
Debt Refunding Bonds Issued	-	1,365,435	1,365,435
Discount on Capital Appreciation Bonds	-	(533,473)	(533,473)
Discount on Term Bonds	-	(22,081)	(22,081)
Payment to Bond Escrow Agent	-	(666,845)	(666,845)
TOTAL OTHER FINANCING SOURCES (USES)	(396,125)	57,433	(338,692)
NET CHANGE IN FUND BALANCE	175,279	90,310	265,589
FUND BALANCE JULY 1	1,924,452	393,374	2,317,826
FUND BALANCE JUNE 30	\$ 2,099,731	\$ 483,684	\$ 2,583,415

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, 2006
(Expressed in Thousands)

Net change in fund balances-total governmental funds \$ 265,589

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	581,279	
Depreciation expense	(355,215)	
Excess of capital outlay over depreciation expense		226,064

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. (3,614)

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	(809,881)	
Capital leases	(530)	
Total		(810,411)

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	690,280	
Capital lease payments	1,270	
Other financing arrangements payments	726	
Total long-term debt repayment		692,276

Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 1,881

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. (14,097)

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	(10,126)	
Early retirement liability	9,564	
Pension Liability	(8,664)	
Other	(21,127)	
Total additional expenditures		(30,353)

Change in net assets of governmental activities **\$ 327,335**

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, 2006
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES --				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	ENTERPRISE FUNDS				
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
ASSETS					
Current Assets:					
Cash & Investments	\$ 1,061,031	\$ 786,238	\$ 43,494	\$ 1,890,763	\$ 31,442
Cash & Investments - Restricted	59,831	-	-	59,831	-
Deposits With Trustees	38,446	-	-	38,446	-
Accounts Receivable (Net)	309,045	119,390	11,169	439,604	4,081
Interest Receivable	4,426	-	261	4,687	2
Loans Receivable (Net)	5,633	-	-	5,633	-
Due From Other Funds/Advances					
To Other Funds	-	1,306	2,990	4,296	68,527
Inventory	46,947	-	10,156	57,103	10,936
Prepaid Expenses	11,614	-	184	11,798	1,703
Other Assets	1,342	-	-	1,342	-
Investment In Prize Annuity	-	-	7,695	7,695	-
Total Current Assets	1,538,315	906,934	75,949	2,521,198	116,691
Noncurrent Assets:					
Cash & Investments	461,384	-	-	461,384	-
Deposits With Trustees	20	-	-	20	-
Accounts Receivable	12,078	2,386	-	14,464	-
Interest Receivable	612	-	-	612	-
Loans Receivable (Net)	59,200	-	-	59,200	-
Due From Other Funds/Advances					
To Other Funds	-	3,298	-	3,298	3,104
Capital Assets - nondepreciable	600,361	-	1,256	601,617	-
Capital Assets - depreciable, net	2,064,359	-	52,851	2,117,210	83,353
Prepaid Expenses	39	-	773	812	-
Other Assets	23,843	-	-	23,843	-
Investment In Prize Annuity	-	-	18,899	18,899	-
Prize Deposit	-	-	3,173	3,173	-
Total Noncurrent Assets	3,221,896	5,684	76,952	3,304,532	86,457
TOTAL ASSETS	4,760,211	912,618	152,901	5,825,730	203,148
LIABILITIES					
Current Liabilities:					
Accounts Payable & Accruals	259,456	10,408	21,284	291,148	28,255
Due To Other Funds/Advances					
From Other Funds	-	884	17,139	18,023	10,109
Interest Payable	20,609	-	15	20,624	-
Unearned Revenue	83,094	2,058	640	85,792	8,630
Compensated Absences	73,381	-	1,356	74,737	2,560
Capital Leases	6,753	-	-	6,753	66
Bonds Payable	42,151	-	2,000	44,151	-
Other Financing					
Arrangements Payable	1,207	-	-	1,207	-
Annuities Payable	-	-	7,826	7,826	-
Lottery Prizes Payable	-	-	2,998	2,998	-
Funds Held In Custody	170,687	-	-	170,687	-
Total Current Liabilities	657,338	13,350	53,258	723,946	49,620
Noncurrent Liabilities:					
Accounts Payable & Accruals	11,524	-	-	11,524	34,602
Due To Other Funds/Advances					
From Other Funds	-	-	-	-	2,299
Interest Payable	2,444	-	-	2,444	-
Unearned Revenue	2,479	-	-	2,479	-
Compensated Absences	66,002	-	815	66,817	185
Capital Leases	130,416	-	-	130,416	161
Bonds Payable	789,717	-	3,500	793,217	-
Other Financing					
Arrangements Payable	2,951	-	-	2,951	-
Annuities Payable	-	-	18,899	18,899	-
Lottery Prizes Payable	-	-	3,173	3,173	-
Funds Held In Custody	51,107	-	-	51,107	-
Other	-	-	3	3	-
Total Noncurrent Liabilities	1,056,640	-	26,390	1,083,030	37,247
TOTAL LIABILITIES	1,713,978	13,350	79,648	1,806,976	86,867
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	1,825,404	-	48,607	1,874,011	83,126
Restricted For:					
Expendable	389,109	-	-	389,109	-
Nonexpendable	64,686	-	-	64,686	-
Unemployment Benefits	-	899,268	-	899,268	-
Unrestricted	767,034	-	24,646	791,680	33,155
TOTAL NET ASSETS	\$ 3,046,233	\$ 899,268	\$ 73,253	4,018,754	\$ 116,281

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

Net assets of business-type activities

(6,367)
\$ 4,012,387

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, 2006
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
OPERATING REVENUES:					
Employer Contributions	\$ -	\$ 342,411	\$ -	\$ 342,411	\$ -
Receipts from Other Entities	100	5,835	-	5,935	99,567
Fees, Licenses & Permits	1,175,811	-	11,660	1,187,471	164
Refunds & Reimbursements	-	-	1,380	1,380	42,839
Sales, Rents & Services	238,734	-	553,424	792,158	1,833
Grants & Contracts	526,573	-	-	526,573	-
Independent /Auxiliary Operations	195,116	-	-	195,116	-
Miscellaneous	74,359	-	1,502	75,861	4,900
TOTAL OPERATING REVENUES	2,210,693	348,246	567,966	3,126,905	149,303
OPERATING EXPENSES:					
General & Administrative	-	-	8,387	8,387	-
Scholarship & Fellowship	32,302	-	-	32,302	-
Depreciation	177,014	-	10,331	187,345	11,634
Direct Expense	-	-	37,707	37,707	-
Prize Expense	-	-	122,259	122,259	-
Personal Services	1,752,033	-	3,606	1,755,639	27,835
Travel & Subsistence	31,154	-	454	31,608	17,742
Supplies & Materials	340,565	-	3,225	343,790	33,356
Contractual Services	79,880	-	125,720	205,600	19,856
Equipment & Repairs	375,741	-	96	375,837	20,305
Claims & Miscellaneous	17,003	-	116,747	133,750	18,491
Licenses, Permits & Refunds	1,906	-	523	2,429	29
State Aids & Credits	-	304,143	2,689	306,832	-
TOTAL OPERATING EXPENSES	2,807,598	304,143	431,744	3,543,485	149,248
OPERATING INCOME (LOSS)	(596,905)	44,103	136,222	(416,580)	55
NONOPERATING REVENUES					
(EXPENSES):					
Gifts	98,184	-	-	98,184	-
Taxes	-	-	7,300	7,300	318
Investment Income	58,213	34,383	1,055	93,651	300
Interest Expense	(41,747)	-	(241)	(41,988)	(2)
Miscellaneous Nonoperating Revenue	3,561	-	-	3,561	-
Miscellaneous Nonoperating Expense	(1,447)	-	-	(1,447)	-
Gain on Sale of Capital Assets	27,393	-	20	27,413	214
Loss on Sale of Capital Assets	(23,244)	-	-	(23,244)	(155)
NET NONOPERATING REVENUES (EXPENSES)	120,913	34,383	8,134	163,430	675
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(475,992)	78,486	144,356	(253,150)	730
Capital Contributions and Grants	17,914	-	125	18,039	-
Transfers In	636,539	-	648	637,187	2,010
Transfers Out	-	(9,844)	(146,689)	(156,533)	(406)
Additions to Endowments	396	-	-	396	-
CHANGE IN NET ASSETS	178,857	68,642	(1,560)	245,939	2,334
TOTAL NET ASSETS - JULY 1	2,867,376	830,626	74,813		113,947
TOTAL NET ASSETS - JUNE 30	\$ 3,046,233	\$ 899,268	\$ 73,253		\$ 116,281
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				450	
Change in net assets of business-type activities				\$ 246,389	

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, 2006
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received From Customers/Students	\$ 1,522,222	\$ -	\$ 567,825	\$ 2,090,047	\$ -
Cash Received from Miscellaneous	238,870	-	2,780	241,650	-
Cash Received From Employers	-	336,209	-	336,209	-
Cash Received From Other Entities	520,541	5,835	-	526,376	43,616
Cash Received From Reciprocal Interfund Activity	-	-	-	-	102,476
Cash Payments To Suppliers For Goods & Services	(990,828)	-	(276,847)	(1,267,675)	(90,111)
Cash Payments To Employees/Students For Services	(1,719,838)	-	(19,480)	(1,739,318)	(45,479)
Cash Payments For Prizes	-	-	(131,445)	(131,445)	-
Cash Payments For Unemployment Claims	-	(304,588)	-	(304,588)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	(429,033)	37,456	142,833	(248,744)	10,502
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers In From Other Funds	623,580	-	607	624,187	2,010
Transfers Out To Other Funds	-	(9,178)	(145,998)	(155,176)	(406)
Receipts From Related Agencies	857,625	-	-	857,625	-
Payments To Related Agencies	(862,749)	-	-	(862,749)	-
Other Receipts	81,593	-	-	81,593	-
Other Payments	(11,922)	-	-	(11,922)	-
Proceeds From Noncapital Gifts	41,700	-	-	41,700	-
Interest Paid	-	-	-	-	(2)
Tax Receipts	-	-	7,300	7,300	318
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	729,827	(9,178)	(138,091)	582,558	1,920
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition & Construction of Capital Assets	(335,493)	-	(3,832)	(339,325)	(10,130)
Interest Payments	(54,963)	-	(246)	(55,209)	-
Debt Payments	(76,200)	-	(2,000)	(78,200)	-
Capital Grants & Contributions	42,747	-	125	42,872	-
Debt Proceeds	124,425	-	-	124,425	-
Proceeds From Sale of Capital Assets	28,843	-	88	28,931	214
Other	2,891	-	-	2,891	-
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(267,750)	-	(5,865)	(273,615)	(9,916)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest & Dividends On Investments	59,552	34,384	919	94,855	266
Proceeds From Sale & Maturities Of Investments	459,718	-	-	459,718	-
Purchase Of Investments	(519,835)	-	-	(519,835)	-
Other	-	-	9,356	9,356	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	(565)	34,384	10,275	44,094	266

STATE OF IOWA

(continued)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS			TOTAL	GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	NONMAJOR ENTERPRISE FUNDS		
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	32,479	62,662	9,152	104,293	2,772
CASH & CASH EQUIVALENTS JULY 1, RESTATED	<u>333,280</u>	<u>723,576</u>	<u>34,342</u>	<u>1,091,198</u>	<u>28,670</u>
CASH & CASH EQUIVALENTS JUNE 30	365,759	786,238	43,494	1,195,491	31,442
INVESTMENTS	1,254,953	-	-	1,254,953	-
LESS DEPOSITS WITH TRUSTEES	<u>(38,466)</u>	<u>-</u>	<u>-</u>	<u>(38,466)</u>	<u>-</u>
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 1,582,246</u>	<u>\$ 786,238</u>	<u>\$ 43,494</u>	<u>\$ 2,411,978</u>	<u>\$ 31,442</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	\$ (596,905)	\$ 44,103	\$ 136,222	\$ (416,580)	\$ 55
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:					
Depreciation	177,014	-	10,331	187,345	11,634
(Increase) Decrease In Accounts Receivable	(20,811)	(6,119)	2,272	(24,658)	(3,258)
(Increase) Decrease In Due From	(5,779)	(515)	297	(5,997)	(11,254)
(Increase) Decrease In Inventory	(4,304)	-	(1,286)	(5,590)	(813)
(Increase) Decrease In Prepaid Expenses	(3,920)	-	347	(3,573)	(271)
(Increase) Decrease In Loans Receivable	5,629	-	-	5,629	-
(Increase) Decrease In Other Assets	(120)	-	-	(120)	-
Increase (Decrease) In Accounts Payable	2,192	127	4,977	7,296	2,811
Increase (Decrease) In Due To	-	-	(1,457)	(1,457)	10,486
Increase (Decrease) In Unearned Revenue	9,739	(140)	56	9,655	906
Increase (Decrease) In Compensated Absences And Other Benefits	8,442	-	270	8,712	206
Increase (Decrease) In Prizes Payable	-	-	160	160	-
Increase (Decrease) In Prize Annuity	-	-	(9,356)	(9,356)	-
Increase (Decrease) In Other Liability	<u>(210)</u>	<u>-</u>	<u>-</u>	<u>(210)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ (429,033)</u>	<u>\$ 37,456</u>	<u>\$ 142,833</u>	<u>\$ (248,744)</u>	<u>\$ 10,502</u>

Noncash capital financing activities:

Capital assets acquired through capital lease and notes were \$23,745,000 and gifts of capital assets of \$369,500 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, 2006
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash & Cash Equivalents	\$ 126,628	\$ 2,129	\$ 118,644
Receivables:			
Accounts (Net)	-	2	187,585
Contributions	38,855	-	-
Investments Sold	316,560	-	-
Foreign Exchange Contracts	60,184	-	-
Interest & Dividends	67,987	-	-
Total Receivables	483,586	2	187,585
Investments, at Fair Value:			
Fixed Income Securities	7,451,489	-	-
Equity Investments	9,232,065	1,465,787	-
Real Estate Partnerships	1,738,653	-	-
Investment in Private Equity/Debt	1,549,804	-	-
Securities Lending Collateral Pool	1,546,777	-	-
Securities on Loan with Brokers	1,512,310	-	-
Total Investments	23,031,098	1,465,787	-
Capital Assets:			
Land	500	-	-
Capital Assets (Net)	3,924	27	-
Total Capital Assets	4,424	27	-
Other Assets	-	19	-
Total Assets	23,645,736	1,467,964	306,229
LIABILITIES			
Accounts Payable & Accruals	92,756	28	306,229
Payable for Investments Purchased	1,234,344	-	-
Payable to Brokers For Rebate & Collateral	1,546,341	-	-
Total Liabilities	2,873,441	28	306,229
NET ASSETS			
Held in Trust for:			
Employees' Benefits	20,772,295	-	-
Individuals, Organizations, and Other Governments	-	1,467,936	-
Total Net Assets	\$ 20,772,295	\$ 1,467,936	\$ -

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, 2006
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS:		
Contributions:		
Member/Participant Contributions	\$ 216,363	\$ 280,008
Employer Contributions	332,535	-
Buy-Back/Buy-In Contributions	11,275	-
Gifts, Bequests, & Endowments	-	75
Contributions	<u>560,173</u>	<u>280,083</u>
Investment Income:		
Net Increase in Fair Value of Investments	1,682,588	109,394
Interest	300,768	69
Dividends	75,023	-
Other	155,404	-
Investment Income	<u>2,213,783</u>	<u>109,463</u>
Less Investment Expense	<u>115,554</u>	<u>-</u>
Net Investment Income	<u>2,098,229</u>	<u>109,463</u>
Total Additions	<u>2,658,402</u>	<u>389,546</u>
DEDUCTIONS:		
Pension and Annuity Benefits	945,691	-
Distributions to Participants	-	45,623
Payments in Accordance with Agreements	955	-
Administrative Expense	9,437	-
Refunds	41,683	-
Other	-	646
Total Deductions	<u>997,766</u>	<u>46,269</u>
Change in Net Assets held in Trust for:		
Employees' Benefits	1,660,636	-
Individuals, Organizations and Other Governments	-	343,277
Net Assets - July 1	<u>19,111,659</u>	<u>1,124,659</u>
Net Assets - June 30	<u>\$ 20,772,295</u>	<u>\$ 1,467,936</u>

The notes are an integral part of the financial statements.



COMPONENT UNIT FINANCIAL STATEMENTS

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

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

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

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

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

STATE OF IOWA

Statement of Net Assets Component Units

June 30, 2006
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITIES FOUNDATIONS	TOTAL COMPONENT UNITS
ASSETS						
Current Assets:						
Cash & Investments	\$ 488,741	\$ 1,196	\$ 683	\$ 11,607	\$ 517,564	\$ 1,019,791
Cash & Investments - Restricted	-	1,181	-	-	-	1,181
Accounts Receivable	-	4	10	388	53,792	54,194
Interest Receivable Unrestricted	8,711	173	52	10	54	9,000
Loans Receivable (Net)	27,995	1,397	269	-	-	29,661
Inventory	-	-	-	216	-	216
Prepaid Expenses	-	94	-	-	15	109
Other	1,500	-	-	-	490	1,990
Total Current Assets	<u>526,947</u>	<u>4,045</u>	<u>1,014</u>	<u>12,221</u>	<u>571,915</u>	<u>1,116,142</u>
Noncurrent Assets:						
Cash & Investments	668,963	-	-	-	16,342	685,305
Cash & Investments - Restricted	-	19,231	3,626	-	758,139	780,996
Accounts Receivable	-	-	-	102	136,606	136,708
Loans Receivable (Net)	443,258	12,759	1,218	-	-	457,235
Capital Assets - nondepreciable	-	-	-	4,410	960	5,370
Capital Assets - depreciable, net	2,247	2	16	38,823	26,661	67,749
Other	4,699	-	-	-	5,383	10,082
Total Noncurrent Assets	<u>1,119,167</u>	<u>31,992</u>	<u>4,860</u>	<u>43,335</u>	<u>944,091</u>	<u>2,143,445</u>
TOTAL ASSETS	<u>1,646,114</u>	<u>36,037</u>	<u>5,874</u>	<u>55,556</u>	<u>1,516,006</u>	<u>3,259,587</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	8,057	16	68	866	6,072	15,079
Interest Payable	19,568	127	-	-	150	19,845
Unearned Revenues	609	36	-	-	-	645
Compensated Absences	-	-	-	-	453	453
Capital Leases	-	-	-	-	535	535
Bonds Payable	37,906	520	-	-	206	38,632
Funds Held in Custody	-	-	-	-	71,144	71,144
Total Current Liabilities	<u>66,140</u>	<u>699</u>	<u>68</u>	<u>866</u>	<u>78,560</u>	<u>146,333</u>
Noncurrent Liabilities:						
Accounts Payable and Accruals	254	-	-	64	68,381	68,699
Unearned Revenues	6,918	132	-	-	-	7,050
Compensated Absences	-	-	-	182	-	182
Capital Leases	-	-	-	-	8,020	8,020
Bonds Payable	971,151	33,180	-	-	3,202	1,007,533
Funds Held In Custody	5,297	-	-	-	-	5,297
Total Noncurrent Liabilities	<u>983,620</u>	<u>33,312</u>	<u>-</u>	<u>246</u>	<u>79,603</u>	<u>1,096,781</u>
TOTAL LIABILITIES	<u>1,049,760</u>	<u>34,011</u>	<u>68</u>	<u>1,112</u>	<u>158,163</u>	<u>1,243,114</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	2,247	2	16	43,233	15,154	60,652
Restricted for Specific Purposes	578,594	813	5,131	974	758,139	1,343,651
Unrestricted	<u>15,513</u>	<u>1,211</u>	<u>659</u>	<u>10,237</u>	<u>584,550</u>	<u>612,170</u>
TOTAL NET ASSETS	<u>596,354</u>	<u>2,026</u>	<u>5,806</u>	<u>54,444</u>	<u>1,357,843</u>	<u>2,016,473</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,646,114</u>	<u>\$ 36,037</u>	<u>\$ 5,874</u>	<u>\$ 55,556</u>	<u>\$ 1,516,006</u>	<u>\$ 3,259,587</u>

The notes are an integral part of the financial statements

STATE OF IOWA

Statement of Activities Component Units

For the Year Ended June 30, 2006
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	UNIVERSITIES FOUNDATIONS	TOTAL COMPONENT UNITS
Expenses	\$ 68,446	\$ 1,586	\$ 452	\$ 14,888	\$ 127,950	\$ 213,322
Program Revenues:						
Charges for Service	13,226	1,652	424	13,961	-	29,263
Operating Grants						
and Contributions	49,780	-	13	1,716	187,586	239,095
Capital Grants and Contributions	-	-	-	100	201	301
Total Program Revenues	63,006	1,652	437	15,777	187,787	268,659
Net Program (Expense) Revenue	(5,440)	66	(15)	889	59,837	55,337
General Revenues:						
Investment Income	29,673	-	21	159	78,025	107,878
Other	-	-	-	752	-	752
Total General Revenue	29,673	-	21	911	78,025	108,630
Change in Net Assets	24,233	66	6	1,800	137,862	163,967
NET ASSETS - JULY 1	572,121	1,960	5,800	52,644	1,219,981	1,852,506
NET ASSETS - JUNE 30	\$ 596,354	\$ 2,026	\$ 5,806	\$ 54,444	\$ 1,357,843	\$ 2,016,473

The notes are an integral part of the financial statements.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

For financial reporting purposes, the State of Iowa includes all funds, departments, agencies and universities of the State. The State has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

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

Blended Component Units

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

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

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

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

Discrete Component Units

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

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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

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

During the year ended June 30, 2006, the foundations distributed \$96,970,552 to the State Universities for academic and institutional support.

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

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

Related Organizations

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

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

C. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Fund Financial Statements

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

D. Financial Statement Presentation

The State reports the following major governmental fund:

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

The State reports the following major enterprise funds:

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

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

In addition, the State reports the following fund types:

Governmental Funds

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

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

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

Proprietary Funds

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

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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. Revenues that the State earns by incurring obligations are recognized in the same period as the obligations are recognized. Investment earnings are recorded as earned since they are measurable and available.

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

Proprietary and fiduciary fund statements are reported using the economic resources measurement focus (except for agency funds which have no measurement focus) and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

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

In fiscal year 2006, the State of Iowa implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*. The Statement establishes and modifies requirements related to the supplementary information presented in the statistical section and has no impact on the statement of net assets.

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Investment earnings of the investment pool are allocated to the individual funds as provided by statute. Income of \$34,839,344 associated with certain funds has been assigned to other funds for fiscal year 2006.

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.

At year-end IPERS had \$365,613 in credit risk exposure to borrowers because the amounts they owed IPERS exceeded the amounts IPERS owed them on 18 separate loans. At year-end PORS had \$103,264 in credit risk exposure to borrowers because the amounts they owed PORS exceeded the amount owed them on 16 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, 2006, the Systems had securities on loan, including accrued interest income, with a total value of \$1,512,310,248 against collateral with a total value of \$1,546,341,831.

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The effective duration of the cash collateral pool at June 30, 2006 for IPERS was 26 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2006 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	\$ 277,343	\$ 40,055	\$ 237,288
Corporate Asset Backed	521,427	158,316	363,111
Corporate	798,770	198,371	600,399
Repurchase Agreements	253,896	253,896	-
Certificate of Deposit	210,047	-	210,047
Bank Note	224,819	-	224,819
Total	\$ 1,487,532	\$ 452,267	\$ 1,035,265

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

Investment Type	Total	AAA	AA	A	NR
Corporate Bonds	\$ 277,343	\$ 30,365	\$ 110,997	\$ 135,981	\$ -
Corporate Asset Backed	521,427	521,427	-	-	-
Corporate	798,770	551,792	110,997	135,981	-
Repurchase Agreements	253,896	-	-	-	253,896
Certificate of Deposit	210,047	-	180,893	29,154	-
Bank Note	224,819	-	186,517	38,302	-
Total	\$ 1,487,532	\$ 551,792	\$ 478,407	\$ 203,437	\$ 253,896

G. Accounts Receivable

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

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

H. Inventories

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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.

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

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

K. Interfund Activity and Balances

Interfund Activity

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

Interfund Balances

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

L. Encumbrances

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

M. Budgeting and Budgetary Control

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – CASH, INVESTMENTS AND SECURITIES LENDING

Primary Government and Fiduciary

Investments of the primary government and fiduciary funds at June 30, 2006, are scheduled as follows (expressed in thousands):

Primary Government

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries,	
Notes, Bonds	\$ 249,828
U.S. Government Agency	1,449,516
Mortgage Backed	
Government Pass-Through	40,941
Corporate Pass –Through	27,238
Corporate CMO's	60,356
Corporate Bonds	220,935
Corporate Asset Backed	87,503
Private Placement	13,549
Guaranteed Investment Contracts	79,817
Municipals	2,008
Non-U.S. Fixed Income	
Developed Markets	
Government/Sovereign	1,235
Corporate	4,939
Commercial Paper	340,491
Certificate of Deposit	10,416
Other Short Term	133,574
Equity:	
U.S.	198,426
Non-U.S.	2,806
Real Estate	21,841
Commingled Funds	
U.S. Equity	40,106
Non-U.S. Equity	58,676
U.S. Fixed Income	399,918
Money Market Funds	138,237
Investment Pools	2,137
Other Investments	<u>106,610</u>
Total Invested Assets	<u>\$3,691,103</u>

Fiduciary Funds

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries,	
Notes, Bonds	\$ 823,268
U.S. Government TIPS	78,745
U.S. Government Agency	234,862
Mortgage Backed	
Government Pass-Through	1,140,785
Corporate Pass-Through	254,780
Government CMO's	70,211
Corporate CMO's	209,204
Corporate Bonds	1,705,012
Corporate Asset Backed	623,770
Private Placements	323,834
Yankee Bonds	57,181
Supernationals	2,963
Non-U.S. Fixed Income	
Developed Markets	
Government/Sovereign	29,935
Corporate	215,058
Emerging Markets	
Government/Sovereign	150,455
Corporate	31,337
Commercial Paper	248,835
Other Short Term	2,532
Equity:	
U.S.	1,977,095
Non-U.S.	1,600,274
Private Equity	1,546,969
Real Estate	1,460,945
Commingled Funds	
U.S. Equity	4,602,290
Non-U.S. Equity	1,647,568
U.S. Fixed Income	2,305,166
Money Market Funds	1,733,972
Investment Pools	<u>43</u>
Total Invested Assets	<u>\$23,077,089</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, 2006, 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	A-1	NR
U.S. Government Treasuries, Notes, Bonds	\$ 249,828	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government Agency	113	945,182	496,771	-	423	793	-	-	6,234
Mortgage Backed									
Government Pass-Through	-	38,682	-	-	-	-	-	-	2,259
Corporate Pass-Through	-	242	21,252	390	-	-	-	-	5,354
Corporate CMO's	-	22,733	29,383	-	260	-	-	-	7,980
Corporate Bonds	-	-	35,498	88,048	72,856	22,323	1,286	-	924
Corporate Asset Backed	-	-	72,183	2,637	7,292	719	-	-	4,672
Private Placements	-	-	442	-	10,100	-	-	-	3,007
Guaranteed Investment Contracts	-	-	4,948	15,670	-	-	-	-	59,199
Municipals	-	-	443	-	-	-	-	-	1,565
Non-U.S. Fixed Income									
Developed Markets									
Government/Sovereign				1,235					
Corporate	-	-	-	4,939	-	-	-	-	-
Commercial Paper	-	-	-	-	-	-	-	340,491	-
Certificate of Deposit	-	-	-	-	-	-	-	9,160	1,256
Other Short Term	2,246	4,950	118,918	2,195	2,951	175	87	-	2,052
Total	\$ 252,187	\$ 1,011,789	\$ 779,838	\$ 115,114	\$ 93,882	\$ 24,010	\$ 1,373	\$ 349,651	\$ 94,502

Fiduciary

Investment Type	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
U.S. Government Treasuries, Notes, Bonds	\$ 417,329	\$ -	\$ 405,939	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Government TIPS	59,436	-	19,309	-	-	-	-	-	-	-
U.S. Government Agency	-	122,975	107,193	2,302	-	-	-	-	-	2,392
Mortgage Backed										
Government Pass-Through	-	1,105,516	34,682	-	-	-	-	-	-	587
Corporate Pass-Through	-	-	185,756	3,697	1,288	384	195	-	-	63,460
Government CMO's	-	62,535	7,676	-	-	-	-	-	-	-
Corporate CMO's	-	-	191,345	7,242	3,399	-	-	-	220	6,998
Corporate Bonds	-	-	92,570	102,940	235,187	267,840	350,442	573,519	51,741	30,773
Corporate Asset Backed	-	-	560,030	8,761	19,651	5,245	2,639	404	7,037	20,003
Private Placements	-	-	9,626	52,011	26,436	33,201	76,868	113,762	7,937	3,993
Yankee Bonds	-	-	-	-	13,449	33,025	4,731	5,976	-	-
Supernationals	-	-	-	-	2,963	-	-	-	-	-
Non-U.S. Fixed Income:										
Developed Markets										
Government/Sovereign	-	-	10,756	-	-	-	-	-	-	19,179
Corporate	-	-	36,258	39,510	29,380	30,235	45,209	21,596	-	12,870
Emerging Markets										
Government/Sovereign	-	-	-	-	17,709	58,907	57,541	13,765	2,205	328
Corporate	-	-	4,017	-	5,054	9,367	3,564	7,942	-	1,393
Commercial Paper	-	-	-	-	-	-	-	-	-	248,835
Certificate of Deposit	-	-	-	-	-	-	-	-	-	-
Other Short Term	-	-	-	-	-	-	-	-	-	2,532
Commingled Funds - U.S. Fixed Income	563,763	270,386	1,144,349	79,992	104,458	112,662	-	-	-	23,587
Total	\$ 1,040,528	\$ 1,561,412	\$ 2,809,506	\$ 296,455	\$ 458,974	\$ 550,866	\$ 541,189	\$ 736,964	\$ 69,140	\$ 436,930

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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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.

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, 2006, 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	\$ 249,828	2.53
U.S. Government Agency Mortgage Backed	1,449,516	0.96
Government Pass-Through	40,941	3.03
Corporate Pass-Through	27,238	2.06
Corporate CMO's	60,356	2.47
Corporate Bonds	220,935	1.21
Corporate Asset Backed	87,503	1.08
Private Placements	13,549	1.71
Guaranteed Investment Contracts	79,817	33.35
Municipals	2,008	0.48
Non-U.S. Fixed Income		
Developed Market		
Government/Sovereign	1,235	1.15
Corporate	4,939	0.48
Commercial Paper	340,491	0.04
Certificate of Deposit	10,416	0.33
Other Short Term	133,574	1.47
Total	\$ 2,722,346	0.48

Fiduciary Funds

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government Treasuries, Notes, Bonds	\$ 823,268	5.19
U.S. Government TIPS	78,745	12.84
U.S. Government Agency Mortgage Backed	234,862	2.71
Government Pass-Through	1,140,785	4.59
Corporate Pass-Through	254,780	4.57
Government CMO's	70,211	2.82
Corporate CMO's	209,204	1.96
Corporate Bonds	1,705,012	3.87
Corporate Asset Backed	623,770	1.23
Private Placements	323,834	4.69
Yankee Bonds	57,181	4.32
Supernationals	2,963	4.51
Non-U.S. Fixed Income		
Developed Markets		
Government/Sovereign	29,935	3.08
Corporate	215,058	3.60
Emerging Markets		
Government/Sovereign	150,455	7.59
Corporate	31,337	4.71
Commercial Paper	248,835	0.00
Other Short Term	2,532	0.00
Commingled Funds		
U.S. Fixed Income	2,299,197	4.80
Total	\$ 8,501,964	4.15

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, 2006 follows (expressed in thousands):

	Total	Fixed Income	Equity	Alternative Investments	Cash
Argentine Peso	\$ 399	\$ -	\$ 399	\$ -	\$ -
Australian Dollar	101,016	13	101,003	-	-
Brazilian Real	18,201	-	17,935	-	266
British Pound Sterling	199,692	390	170,376	24,578	4,348
Canadian Dollar	18,958	535	18,407	-	16
Chilean Peso	3,071	-	3,068	-	3
Colombian Peso	1,228	-	1,228	-	-
Czech Koruna	1,096	-	1,096	-	-
Danish Krone	4,326	-	4,326	-	-
Euro Currency	682,329	20,737	474,688	186,846	58
Hong Kong Dollar	45,016	-	45,016	-	-
Hungarian Forint	806	-	806	-	-
Indonesian Rupiah	3,919	-	3,919	-	-
Israeli Shekel	2,768	-	2,768	-	-
Japanese Yen	438,158	233	421,444	-	16,481
Malaysian Ringgit	7,140	-	7,140	-	-
Mexican Nuevo Peso	7,415	2,940	7,445	-	(2,970)
New Turkish Lira	3,323	-	3,344	-	(21)
New Taiwan Dollar	47,080	-	46,284	-	796
New Zealand Dollar	1,893	118	1,772	-	3
Pakistani Rupee	158	-	158	-	-
Peruvian Nuevo Sol	319	-	319	-	-
Philippine Peso	674	-	674	-	-
Polish Zloty	146	18,501	1,008	-	(19,363)
Russian New Ruble	11,397	-	11,397	-	-
Singapore Dollar	20,163	-	20,163	-	-
South African Rand	26,257	-	26,183	-	74
South Korean Won	55,129	-	55,693	-	(564)
Swedish Krona	13,327	129	13,193	-	5
Swiss Franc	67,745	90	67,585	-	70
Thai Baht	2,982	-	2,960	-	22
TOTAL	\$ 1,786,131	\$ 43,686	\$ 1,531,797	\$ 211,424	\$ (776)

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 \$1,089,367,721 total combined bank deposits of the primary government and fiduciary funds at June 30, 2006, was exposed to custodial credit risk for \$323,161 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 \$26,768,193,484 total combined investments of the primary government and fiduciary funds at June 30, 2006, \$1,505,046 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, 2006 are scheduled as follows (expressed in thousands):

Investment Type	Fair Value
Fixed:	
U.S. Government Treasuries, Notes, Bonds	\$ 5,570
U.S. Government TIPS	10,845
U.S. Government Agency	92,976
Mortgage Backed-Government Pass Through	644,082
Guaranteed Investment Contracts	253,440
Investment Agreements	19,231
Equity:	
Money Market Funds - Commingled	<u>131,553</u>
Total Invested Assets	<u><u>\$ 1,157,697</u></u>

The Universities Foundations' Cash and Investments of \$1,292,045,000 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, 2006, is summarized by credit quality ratings, as follows (expressed in thousands):

Investment Type	TSY	AGY	AAA	AA
Fixed:				
U.S. Government Treasuries, Notes, Bonds	\$ 5,570	\$ -	\$ -	\$ -
U.S. Government TIPS	10,845	-	-	-
U.S. Government Agency	-	92,976	-	-
Mortgage Backed- Government Pass-through	-	-	644,082	-
Guaranteed Investment Contracts	-	-	42,136	211,304
Investment Agreements	-	-	19,231	-
Total	\$ 16,415	\$ 92,976	\$ 705,449	\$ 211,304

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, 2006 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	\$ 5,570	10.81
U.S. Government TIPS	10,845	6.20
U.S. Government Agency	92,976	1.30
Mortgage Backed-Government Pass Through	644,082	26.36
Guaranteed Investment Contracts	253,440	0.50
Investment Agreements	19,231	0.62
Total	\$ 1,026,144	16.92

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following (expressed in thousands):

Transferred Out	Transferred In					Total
	General	Nonmajor Governmental Funds	University Funds	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 23,059	\$ 625,759	\$ 648	\$ 1,977	\$ 651,443
Nonmajor Governmental Funds	97,882	175,968	10,780	-	-	284,630
Unemployment Benefits	9,844	-	-	-	-	9,844
Nonmajor Enterprise Funds	146,689	-	-	-	-	146,689
Internal Service	373	-	-	-	33	406
Total	<u>\$ 254,788</u>	<u>\$ 199,027</u>	<u>\$ 636,539</u>	<u>\$ 648</u>	<u>\$ 2,010</u>	<u>\$ 1,093,012</u>

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

NOTE 4 – RECEIVABLES

Receivables at June 30, 2006, 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	\$ 449,706	\$ 431	\$ -	\$ -
Pledges	2,242	-	-	188,170
Interest	8,542	-	-	-
Benefit Overpayment	-	32,157	-	-
Employer Contributions	-	112,035	-	-
Grants & Contracts	579,578	64,523	-	-
Other	999,446	270,698	4,081	33,544
Less Allowance For Doubtful Accounts	471,090	25,776	-	6,153
Less Discount To Present Value	-	-	-	24,659
Accounts Receivable Net	<u>\$ 1,568,424</u>	<u>\$ 454,068</u>	<u>\$ 4,081</u>	<u>\$ 190,902</u>
Current	\$ 1,543,983	\$ 439,604	\$ 4,081	\$ 54,194
Non-Current	24,441	14,464	-	136,708
Total	<u>\$ 1,568,424</u>	<u>\$ 454,068</u>	<u>\$ 4,081</u>	<u>\$ 190,902</u>
Loans Receivable				
Loans Receivable	\$ 210,882	\$ 67,576	\$ -	\$ 489,219
Less Allowance For Doubtful Accounts	58,289	2,743	-	2,323
Loans Receivable Net	<u>\$ 152,593</u>	<u>\$ 64,833</u>	<u>\$ -</u>	<u>\$ 486,896</u>
Current	\$ 10,403	\$ 5,633	-	29,661
Non-Current	142,190	59,200	-	457,235
Total	<u>\$ 152,593</u>	<u>\$ 64,833</u>	<u>\$ -</u>	<u>\$ 486,896</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – INTERFUND BALANCES

Interfund balances for the year ended June 30, 2006, consisted of the following (expressed in thousands):

Due To Other Funds	Due From Other Funds					Total
	General	Nonmajor Governmental Funds	Unemployment Trust Fund	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 4,555	\$ 1,306	\$ 2,076	\$ 59,012	\$ 66,949
Nonmajor Governmental Funds	9,369	3,969	-	685	35	14,058
Unemployment Trust Fund	884	-	-	-	-	884
Nonmajor Enterprise Funds	17,016	-	-	46	77	17,139
Internal Service	523	-	-	183	9,403	10,109
Total	<u>\$ 27,792</u>	<u>\$ 8,524</u>	<u>\$ 1,306</u>	<u>\$ 2,990</u>	<u>\$ 68,527</u>	<u>\$ 109,139</u>

\$48.9 million is due from the General Fund to the Workers Compensation Fund (an Internal Service Fund) to fund the cost of claims incurred, \$14.6 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: \$.80 million due from the General Fund and \$2.3 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 \$3.3 million due from the General Fund to the Unemployment Benefits Fund (an Enterprise Fund) for amounts loaned for various projects per the Reed Act distribution under Section 903 of the Social Security Act.

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006 was as follows (expressed in thousands):

	Balances July 1, 2005	Reclassification	Increases	Decreases	Balances June 30, 2006
Governmental Activities					
Capital Assets Not Being Depreciated:					
Land	\$ 572,512	\$ -	\$ 19,972	\$ 2,546	\$ 589,938
Construction in Progress	40,604	(23,020)	47,437	-	65,021
Total Capital Assets Not Being Depreciated	<u>613,116</u>	<u>(23,020)</u>	<u>67,409</u>	<u>2,546</u>	<u>654,959</u>
Capital Assets Being Depreciated:					
Infrastructure	7,083,646	128	472,778	-	7,556,552
Works of Art and Historical Treasures	928	-	-	-	928
Land Improvements	7,825	1,056	-	-	8,881
Building and Improvements	949,336	21,583	14,986	316	985,589
Machinery, Equipment and Vehicles	378,716	253	37,576	26,702	389,843
Total Capital Assets Being Depreciated	<u>8,420,451</u>	<u>23,020</u>	<u>525,340</u>	<u>27,018</u>	<u>8,941,793</u>
Less Accumulated Depreciation for:					
Infrastructure	2,656,647	-	320,402	-	2,977,049
Works of Art and Historical Treasures	83	-	10	-	93
Land Improvements	1,437	-	308	-	1,745
Buildings and Improvements	415,358	-	18,779	259	433,878
Machinery, Equipment and Vehicles	232,634	-	27,350	24,169	235,815
Total Accumulated Depreciation	<u>3,306,159</u>	<u>-</u>	<u>366,849</u>	<u>24,428</u>	<u>3,648,580</u>
Total Capital Assets Being Depreciated, Net	<u>5,114,292</u>	<u>23,020</u>	<u>158,491</u>	<u>2,590</u>	<u>5,293,213</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,727,408</u>	<u>\$ -</u>	<u>\$ 225,900</u>	<u>\$ 5,136</u>	<u>\$ 5,948,172</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Business-type Activities	Balances July 1, 2005	Reclassification	Increases	Decreases	Balances June 30, 2006
Capital Assets Not Being Depreciated:					
Land	\$ 28,838	\$ -	\$ 6,322	\$ 89	\$ 35,071
Land Improvements	5,316	-	-	-	5,316
Construction in Progress	317,978	(248,047)	267,418	-	337,349
Works of Art	28,632	-	1,242	112	29,762
Library Collections	183,107	-	12,652	1,640	194,119
Total Capital Assets Not Being Depreciated	<u>563,871</u>	<u>(248,047)</u>	<u>287,634</u>	<u>1,841</u>	<u>601,617</u>
Capital Assets Being Depreciated:					
Infrastructure	530,021	55,043	-	-	585,064
Library Collections	176,383	-	9,346	583	185,146
Land Improvements	47,624	1,086	65	10	48,765
Buildings and Improvements	2,585,386	191,539	1,999	5,903	2,773,021
Machinery, Equipment and Vehicles	842,588	379	73,854	110,614	806,207
Total Capital Assets Being Depreciated	<u>4,182,002</u>	<u>248,047</u>	<u>85,264</u>	<u>117,110</u>	<u>4,398,203</u>
Less Accumulated Depreciation for:					
Infrastructure	314,375	-	24,193	-	338,568
Library Collections	136,330	-	8,502	583	144,249
Land Improvements	22,648	-	2,018	-	24,666
Buildings and Improvements	1,191,312	-	85,597	5,175	1,271,734
Machinery, Equipment and Vehicles	519,898	-	67,035	85,157	501,776
Total Accumulated Depreciation	<u>2,184,563</u>	<u>-</u>	<u>187,345</u>	<u>90,915</u>	<u>2,280,993</u>
Total Capital Assets Being Depreciated, Net	<u>1,997,439</u>	<u>248,047</u>	<u>(102,081)</u>	<u>26,195</u>	<u>2,117,210</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,561,310</u>	<u>\$ -</u>	<u>\$ 185,553</u>	<u>\$ 28,036</u>	<u>\$ 2,718,827</u>

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

Administration & Regulation	\$ 5,062
Education	2,840
Health & Human Rights	2,517
Human Services	3,334
Justice & Public Defense	14,812
Economic Development	458
Transportation	320,504
Agriculture & Natural Resources	5,688
Subtotal	<u>355,215</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>11,634</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 366,849</u>
Business-type Activities: Enterprise	<u>\$ 187,345</u>
Discrete Component Units	
Land	\$ 4,804
Construction in Progress	566
Total Capital Assets Not Being Depreciated	<u>5,370</u>
Infrastructure	5,759
Buildings and Improvements	81,560
Land Improvements	27
Machinery, Equipment and Vehicles	15,967
Total Capital Assets Being Depreciated	103,313
Less Accumulated Depreciation	<u>35,564</u>
Total Capital Assets Being Depreciated, Net	<u>67,749</u>
Discretely Presented Component Units Capital Assets, Net	<u>\$ 73,119</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – INVESTMENT IN PRIZE ANNUITIES AND ANNUITY PRIZES PAYABLE

Assets totaling \$26,751,394 which includes \$157,350 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 \$26,850 to taxing authorities. The following is a schedule of future payments (expressed in thousands):

Year Ending June 30,	Current	Noncurrent	Total Payments
2007	\$ 8,152	\$ -	\$ 8,152
2008	-	6,340	6,340
2009	-	4,377	4,377
2010	-	2,895	2,895
2011	-	2,167	2,167
2012-2016	-	7,350	7,350
2017-2018	-	1,884	1,884
Total Future Value	8,152	25,013	33,165
Less: Unamortized Discount	326	6,114	6,440
Present Value of Payments	<u>\$ 7,826</u>	<u>\$ 18,899</u>	<u>\$ 26,725</u>

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows (expressed in thousands):

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006	Amounts due within one year
Governmental Activities					
Compensated Absences	\$ 140,019	\$ 131,365	\$ 121,239	\$ 150,145	\$ 126,473
Capital Leases	4,100	530	1,270	3,360	1,055
Other Financing Arrangements	4,855	-	726	4,129	808
Revenue Bonds	965,724	1,365,435	1,239,318	1,091,841	35,806
Early Retirement	14,980	-	9,564	5,416	2,653
Risk Management	11,500	11,088	11,088	11,500	4,255
Other Liabilities	18,990	5,826	1,105	23,711	3,191
Total	<u>1,160,168</u>	<u>1,514,244</u>	<u>1,384,310</u>	<u>1,290,102</u>	<u>174,241</u>

* The General Fund has been typically used to liquidate most long-term liabilities, except for \$775.8 million of Revenue Bonds to be liquidated by the Tobacco Settlement Authority, a Special Revenue fund.

Allocation of Internal Service

Funds Liability:

Capital Leases	290	-	63	227	66
Compensated Absences	2,539	4,510	4,304	2,745	2,560
Early Retirement	74	-	17	57	17
Total	<u>2,903</u>	<u>4,510</u>	<u>4,384</u>	<u>3,029</u>	<u>2,643</u>
Total Primary Government - Governmental Activities	<u>\$ 1,163,071</u>	<u>\$ 1,518,754</u>	<u>\$ 1,388,694</u>	<u>\$ 1,293,131</u>	<u>\$ 176,884</u>

Business-type Activities

Compensated Absences	\$ 132,735	\$ 81,775	\$ 72,956	\$ 141,554	\$ 74,737
Revenue Bonds	757,800	150,060	70,492	837,368	44,151
Capital Leases	123,861	26,130	12,822	137,169	6,753
Other Financing Arrangements	4,838	550	1,230	4,158	1,207
Total	<u>\$ 1,019,234</u>	<u>\$ 258,515</u>	<u>\$ 157,500</u>	<u>\$ 1,120,249</u>	<u>\$ 126,848</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 1.00% to 14.25% and expire before June 30, 2030.

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

Primary Government – Governmental Activities

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

Year ending June 30,	Principal	Interest
2007	\$ 1,121	\$ 170
2008	831	118
2009	425	82
2010	264	62
2011	192	50
2012-2016	548	111
2017-2021	<u>206</u>	<u>30</u>
Total	<u>\$ 3,587</u>	<u>\$ 623</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	\$ 2,645
Accumulated Depreciation	<u>(756)</u>
Net	<u>\$ 1,889</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
2007	\$ 6,753	\$ 6,655
2008	6,244	6,418
2009	5,849	6,153
2010	17,191	5,895
2011	6,096	5,063
2012-2016	32,725	20,846
2017-2021	34,381	12,315
2022-2026	17,810	5,544
2027-2030	<u>10,120</u>	<u>1,286</u>
Total	<u>\$ 137,169</u>	<u>\$ 70,175</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	1,118
Buildings	161,845
Equipment	<u>10,122</u>
Total	173,540
Accumulated Depreciation	<u>(18,933)</u>
Net	<u>\$ 154,607</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
2007	\$ 535
2008	560
2009	575
2010	590
2011	610
2012-2016	<u>5,685</u>
Total	<u>\$ 8,555</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 \$6,763,823 with interest rates ranging from 3.92% to 9.35%. The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2007	\$ 268	\$ 119
2008	286	102
2009	179	85
2010	187	77
2011	194	70
2012-2016	764	239
2017-2021	613	90
2022-2026	<u>78</u>	<u>3</u>
Total	<u>\$ 2,569</u>	<u>\$ 785</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Primary Government – Business-Type Activities

Iowa State University, University of Northern Iowa and the University of Iowa have entered into agreements for buildings and equipment for a total of \$10,370,393. The agreements are for periods of 11 to 25 years with interest rates ranging from 2.24% to 6.50%.

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

Year ending June 30,	Principal	Interest
2007	\$ 1,207	\$ 179
2008	1,108	122
2009	376	75
2010	297	55
2011	315	37
2012-2016	489	22
2017-2021	75	–
2022-2026	75	–
2027-2031	<u>216</u>	<u>–</u>
Total	<u>\$ 4,158</u>	<u>\$ 490</u>

Certificates of Participation

Primary Government – Governmental Activities

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

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

Year ending June 30,	Principal	Interest
2007	\$ 540	\$ 72
2008	440	49
2009	185	29
2010	195	20
2011	<u>200</u>	<u>10</u>
Total	<u>\$ 1,560</u>	<u>\$ 180</u>

NOTE 11 – BONDS PAYABLE

Revenue bonds payable at June 30, 2006, are as follows (expressed in thousands):

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
PRIMARY GOVERNMENT – Governmental Activities:					
Revenue Bonds					
<i>Term Bonds</i>					
Department of Corrections	1994-2002	\$ 33,510	Variable	2008-2014	\$ 1,515
Tobacco Settlement Authority	2006	635,635	5.38-6.50	2007-2041	<u>633,080</u>
Total					<u>634,595</u>
<i>Serial Bonds</i>					
Underground Storage Tank	1997 & 2004	\$ 62,375	Variable	1998-2014	46,680
Department of Corrections	1994-2002	118,770	Variable	2007-2016	57,870
Vision Iowa	2002	196,375	2.25-5.50	2002-2020	161,605
School Infrastructure	2002	48,585	3.50-5.50	2002-2021	<u>36,190</u>
Total					<u>302,345</u>
<i>Capital Appreciation Bonds</i>					
Tobacco Settlement Authority	2006	\$ 729,800	5.60-7.13	2007-2046	<u>729,800</u>
Unamortized Premium					12,670
Unamortized Discounts/Issue Costs					<u>(587,569)</u>
Total Governmental Activities					<u>\$1,091,841</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
PRIMARY GOVERNMENT – Business-Type Activities:					
Revenue Bonds					
University of Northern Iowa	1994-2006	\$ 133,976	1.80-8.25	1995-2027	\$ 115,193
University of Iowa	1967-2006	557,240	2.00-9.00	1970-2032	422,650
Iowa State University	1968-2006	349,705	2.00-6.85	1975-2031	294,905
Iowa Lottery	2004	8,800	3.28	2005-2019	<u>5,500</u>
Total					838,248
Unamortized Discount					<u>(880)</u>
Total Business-type Activities					<u>\$ 837,368</u>

COMPONENT UNITS:

Revenue Bonds					
Iowa Finance Authority	1977-2006	\$1,418,720	Variable	2002-2037	\$1,006,756
Iowa Higher Education Loan Authority	1984-1996	50,630	Variable	1999-2016	33,700
Universities Foundations	2002	3,850	5.25	2003-2012	<u>3,408</u>
Total					1,043,864
Unamortized Premium					<u>2,301</u>
Total Component Units					<u>\$1,046,165</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 term and serial bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional facilities and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund maintained by the Treasurer of State, currently required by state law to be the first \$9,500,000 of monies remitted to the Treasurer of State each fiscal year from certain fees and fines collected from the clerks of district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefore under the bond indenture. These obligations do not constitute a debt of the State of Iowa, nor of the Iowa Finance Authority, and neither is liable for any repayments.

Vision Iowa

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

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

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

School Infrastructure

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

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

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

During the current fiscal year, the Tobacco Settlement Authority issued Tobacco Settlement Asset-Backed Bonds in five series: the Series 2005 A Bonds in the par amount of \$222,910,000, which are federally taxable turbo term bonds, the Series 2005 B Bonds in the par amount of \$178,010,000 which are federally tax-exempt turbo convertible capital appreciation bonds, the Series 2005 C Bonds in the par amount of \$412,725,000, which are federally tax-exempt turbo term bonds, the Series 2005 D Bonds in the par amount of \$190,800,000, which 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, which are federally tax-exempt turbo convertible capital appreciation bonds, in the par amount of \$360,990,000, which 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 in part to advance refund \$639,460,000 of outstanding Tobacco Settlement Asset-Backed Bonds, Series 2001 A and 2001 B, with interest rates ranging from 5.30–6.79%.

Net proceeds of \$666,844,892, consisting of bond proceeds of \$594,662,216 combined with other resources of \$72,182,676, were deposited in an irrevocable escrow account with the Bank of New York as trustee.

The advance refunding resulted in the recognition of an accounting gain of \$38,525,615 for the year ended June 30, 2006, an increase in aggregate debt service of \$94,938,174 over the next twenty-two years and an economic loss (difference between present value of the old and new debt service payments) of \$13,779,395 based on projections of turbo bond redemptions.

The bonds were issued by the Tobacco Settlement Authority (the "Authority"), a public instrumentality and agency of the State of Iowa (the "State"), separate and distinct from the State, exercising public and essential governmental functions, and created by the Tobacco Settlement Authority Act (the "Act"). Pursuant to a Sales Agreement, dated as of October 1, 2001 (the "Sales Agreement"), between the State and Authority, the State sold to the Authority, on the Closing Date, all of its right, title and interest

in certain amounts payable to the State under the Master Settlement Agreement (the "MSA") entered into by participating cigarette manufacturers (the "PMs"), 46 states (including the State) and six other U.S. jurisdictions in November 1998 in the settlement of certain smoking-related litigation, including the State's right to receive future initial, annual and strategic contribution fund payments (the "TSRs"), to be made by the PMs under the MSA.

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

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

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

Year ending June 30,	Principal	Interest
2007	\$ 37,870	\$ 52,084
2008	43,220	55,272
2009	46,530	57,958
2010	49,995	55,321
2011	53,725	52,441
2012-2016	209,165	216,738
2017-2021	83,710	177,158
2022-2026	–	163,784
2027-2031	–	163,784
2032-2036	178,010	143,016
2037-2041	103,475	96,792
2042-2046	<u>861,040</u>	<u>54,970</u>
Total	<u>\$1,666,740</u>	<u>\$1,289,318</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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

During the current fiscal year, the University of Iowa issued \$25,000,000 of Utility System Revenue Bonds, Series S.U.I. 2006 with an interest rate range of 4.00-4.375%, to provide funds to pay the cost of constructing, equipping and furnishing the Utility Facility on the campus of the University of Iowa.

During the current fiscal year, the University of Iowa issued \$68,000,000 of Athletic Facilities Revenue Bonds, Series S.U.I. 2005 and 2006, with interest rates ranging from 3.70-5.30% to defray part of the cost of improving, equipping, furnishing, remodeling, repairing and building additions to Kinnick Stadium and related facilities located on the campus of the University of Iowa.

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, 2006, bonds totaling \$10,050,000 for the University of Iowa were considered defeased.

During the current fiscal year, the University of Northern Iowa issued \$12,800,000 of Academic Building Revenue Bonds, Series 2005, with an interest rate range of 2.90-4.25% to defray the cost of academic buildings, facilities and equipment.

During the current fiscal year, Iowa State University issued \$20,000,000 of Academic Building Revenue Bonds, Series 2005, with an interest rate range of 4.00-4.50% to construct, furnish and equip academic facilities.

During the current fiscal year, Iowa State University issued \$7,475,000 of Utility System Revenue Bonds, Series 2006, with an interest rate range of 4.00-4.375% for equipment and facility enhancement to the utilities of the University.

Also, during the current fiscal year, Iowa State University issued \$16,785,000 of Dormitory Refunding Revenue Bonds, Series 2006, with an interest rate range of 4.00-4.375% to advance refund \$16,375,000 of outstanding Dormitory Revenue Bonds, Series 1999 B, with an interest rate of 6.25%.

Net bond proceeds of \$17,352,885 were placed in an irrevocable escrow account with the University as trustee.

The advance refunding resulted in the recognition of an accounting loss \$410,000 for the year ended June 30, 2006, a decrease in aggregate debt service of \$2,414,199 over the next twenty-two years and an economic gain (difference between present value of the old and new debt service payments) of \$1,053,922.

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 June 30,	Principal	Interest
2007	\$ 44,151	\$ 39,663
2008	47,737	38,060
2009	45,982	36,477
2010	45,443	31,942
2011	46,103	30,538
2012-2016	218,927	113,721
2017-2021	178,395	68,819
2022-2026	141,650	31,289
2027-2031	<u>69,860</u>	<u>7,242</u>
Total	<u>\$ 838,248</u>	<u>\$ 397,751</u>

Component Units

Iowa Finance Authority

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

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

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

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

During the current fiscal year, the Finance Authority issued Single Family Mortgage Bonds, 2005 Series D E, F, G and H in the par amount of \$120,000,000 with interest rates of 3.0–5.0% and Single Family Mortgage Bonds, 2006 Series A, B, C, D, E and F in the par amount of \$120,000,000 with interest rates of 3.4–5.5%

Also, during the current fiscal year, the Finance Authority issued Clean Water Program Revenue Bonds, Series 2005 in the par amount of \$11,090,000 with interest rates of 3.25–5.0% and Drinking Water Program Revenue Bonds, Series 2005 in the par amount of \$6,685,000 with interest rates of 3.25–5.0%

During the current fiscal year, the Finance Authority drew \$1,725,000 under a line of credit with an interest rate of 5.495%.

In prior years, the Authority defeased certain Iowa State Revenue bonds by placing the proceeds of new bonds along with certain Federal Capitalization Grants and revenues in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Housing Agency Defeased Bonds Series 1997, 1998, 1999 and 2000A of Iowa Revolving Fund Revenue bonds. As of June 30, 2006, bonds totaling \$53,610,000 are considered defeased.

Iowa Higher Education Loan Authority

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

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

Universities Foundations

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

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

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

Year ending June 30,	Principal	Interest
2007	\$ 39,432	\$ 47,073
2008	35,296	46,848
2009	37,779	45,180
2010	37,451	43,541
2011	38,810	41,829
2012-2016	204,976	180,178
2017-2021	140,355	140,559
2022-2026	154,305	104,574
2027-2031	175,225	65,274
2032-2036	172,165	21,120
2037-2041	<u>8,070</u>	<u>256</u>
Total	<u>\$1,043,864</u>	<u>\$ 736,432</u>

NOTE 12 – ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable & accruals at June 30, 2006, consisted of the following (expressed in thousands):

Primary Government

Government Activities

	Current	Noncurrent
Salaries and fringes	\$ 68,667	–
Early retirement	2,670	2,803
Pension	–	9,877
Risk management	4,255	7,245
State aid	342,833	–
Trade and other payable	<u>583,096</u>	<u>45,944</u>
Total	<u>\$1,001,521</u>	<u>\$ 65,869</u>

Business-type Activities

	Current	Noncurrent
Salaries and fringes	\$ 112,238	\$ –
Early retirement	6,716	7,098
General claims	22,096	–
Unemployment benefits	10,408	–
Trade and other payables	<u>139,690</u>	<u>5,236</u>
Total	<u>\$ 291,148</u>	<u>\$ 12,334</u>

Component Units

	Current	Noncurrent
Annuity and Life Income Obligations	\$ –	\$ 56,385
Pledges Due to University	3,517	2,914
Other	<u>11,562</u>	<u>9,400</u>
Total	<u>\$ 15,079</u>	<u>\$ 68,699</u>

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – FUND BALANCE - RESERVED FOR SPECIFIC PURPOSES

The Reserve for Specific Purposes Fund Balance in the Governmental Funds represents the portion of fund balance legally segregated for a specific future use. A summary of these reserves at June 30, 2006, follows (expressed in thousands):

Major Funds

General Fund:

Primary Road	\$ 366,227
Road Use Tax	90,047
Iowa Infrastructure	76,763
Vision Iowa	66,083
Senior Living Trust	57,966
Revitalize Iowa's Sound Economy	40,103
Motor Vehicle Fuel Tax Unapportioned	37,839
Farm to Market Road	35,671
UST Innocent Landowners	23,766
Unassigned Revenue	22,591
Health Insurance Premium Operating	22,426
Safety Improvement Program	19,966
School Infrastructure and Reserve	11,927
Resource Enhancement & Protection	10,392
Vertical Infrastructure	9,973
UST Revenue	8,912
UST Capital Reserve	6,250
UST Remedial	5,840
Fish and Game	5,510
County Bridge Construction	5,358
Value Added Agricultural Products	3,616
Hawk-I Trust	3,481
Dental Insurance Premium Operating	3,342
DOT Clearing Account	2,631
Second Injury	2,410
Health Insurance Premium Reserve	2,332
ICSAC-Default Reduction Act	2,261
DOT State Infrastructure Bank	2,249
Life Insurance Basic Premium Reserve	2,087
Terminal Liability Health Insurance	2,025
Other	<u>29,342</u>
Total General Fund	<u>979,386</u>

Nonmajor Governmental Funds:

Endowment for Iowa Health	109,248
Endowment for Iowa Health Restricted Capitals	102,848
Tobacco Settlement Authority	78,130
Permanent School Principal	7,919
Iowa Public Television Foundation	2,120
Iowa Cultural Trust	1,476
Iowa Public Television Foundation Endowment	1,448
Iowa Veterans Trust	738
Other	<u>110,384</u>
Total Nonmajor Governmental Funds	<u>414,311</u>
Total	<u>\$ 1,393,697</u>

NOTE 14 – OPERATING LEASES

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

Primary Government – Governmental Activities:

Year ending June 30,	
2007	\$ 10,481
2008	8,284
2009	6,329
2010	5,113
2011	3,691
2012-2016	4,406
2017-2021	262
2022-2026	277
2027-2031	247
2032-2036	256
2037-2041	<u>296</u>
Total	<u>\$ 39,642</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, 2006 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$13,543,699.

Primary Government – Business-Type Activities:

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

Year ending June 30,	
2007	\$ 5,935
2008	4,435
2009	2,434
2010	1,341
2011	937
2012-2016	<u>172</u>
Total	<u>\$ 15,254</u>

Rental expense for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$7,891,512.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

Component Units:

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

Year ending June 30,

2007	\$	67
2008		21
2009		21
2010		<u>11</u>
Total	\$	<u>120</u>

Rental expense for the year ended June 30, 2006 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$431,107.

NOTE 15 – LESSOR OPERATING LEASES

The Iowa Department of Natural Resources leases tracts of land valued at \$11,926,758 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 \$2,831,857. Iowa State University leases building space valued at \$172,159, equipment valued at \$1,373,609, and tracts of land for agriculture purposes, for which no value has been assigned to the leased portion. The University of Northern Iowa leases buildings valued at \$412,490 (net of accumulated depreciation of \$125,475) and tracts of land valued at \$523,155 have been leased for agricultural purposes. The following is a schedule by year of minimum future rentals on operating leases as of June 30, 2006 (expressed in thousands):

Year ending June 30,

2007	\$	2,364
2008		1,776
2009		1,140
2010		660
2011		468
2012-2016		1,160
2017-2021		288
2022-2026		144
2027-2031		<u>44</u>
Total	\$	<u>8,044</u>

NOTE 16 – PENSION PLANS

Iowa Public Employees' Retirement System

Plan Description

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

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

June 30, 2006

Employer members:

City	1,252
County	443
School	401
State	26
Other	<u>241</u>
Total	<u>2,363</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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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 \$220,000 for calendar year 2006.

	Contribution Rates as of June 30, 2006		
	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Special Services Group #1 *	8.20%	8.20%	16.40%
Special Services Group #2 **	6.16%	9.23%	15.39%

* Includes sheriffs and deputies

** Includes all other public safety 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 actuarially determined contribution requirement was approximately \$639,529,824. The total amount of contributions made during the fiscal year ended June 30, 2006, was \$536,212,740 with \$324,676,814 coming from employers and \$211,535,926 from employees. This resulted in a 83.8% funding ratio. The difference between the actuarially required contribution and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

The State of Iowa's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$67,071,140 \$65,233,569, and \$62,955,419, respectively, equal to 100% of the statutorily required contributions for each year.

Beginning with the June 30, 1996 actuarial valuation, the annual valuation of liabilities is calculated using the entry age normal cost method. The entry age normal cost method requires the calculation of an Unfunded Actuarial Accrued Liability, \$2,507,085,900 at June 30, 2006. 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 2006, IPER' unfunded actuarial liability increased to \$2,507,085,900 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 purchasing 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.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

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, Wallace State Office Building, Des Moines, IA 50319.

Funding Policy

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

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

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 \$3,146,469, representing 9.35% of the current year covered payroll. The State contribution required by statute was \$5,817,819 and the amount actually

contributed was \$5,817,819. 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 treasury notes constitute approximately 7.78% 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	\$ 11,914,592
Interest on net pension obligation	(407,525)
Adjustment to annual required contribution	<u>413,744</u>
Annual pension cost	11,920,811
Contributions made	<u>5,817,819</u>
Increase in net pension obligation	6,102,992
(Assets in excess of) net pension obligation beginning of year	<u>(5,094,068)</u>
Net pension obligation end of year	<u>\$ 1,008,924</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 2006.

STATE OF IOWA

NOTES TO THE FINANCIAL STATEMENTS

The annual required contribution for the current year was determined as part of the July 1, 2005, actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases of 10.00% for the first year, 5.00% for each of the next 4 years and 5.50% thereafter, (c) 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. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2006 was 15 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess of) Net Pension Obligation
2004	\$ 9,465,385	58.13%	\$ (11,241,945)
2005	11,590,745	46.96%	(5,094,068)
2006	11,920,811	48.80%	1,008,924

Judicial Retirement System

Plan Description

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

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

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least six years of service as a judge of one or more of the above courts and is at least sixty-five years of age or who has served twenty-five years of consecutive service as a judge of one or more of the above courts shall qualify for an annuity. The annual annuity of a judge under this system is an amount equal to three percent of the judge's average annual basic salary for the judge's highest three years as a judge multiplied by the judge's years of service, or, for a member who meets the definition of a senior judge under Chapter 602.9202 of the Code of Iowa, three percent of the basic senior judge salary multiplied by the judge's years of service, limited to a specified

percentage of the highest basic annual salary or basic senior judge salary, as applicable, which the judge is receiving or had received as of the time the judge became separated from service. The specified percentage is as follows: (1) fifty percent for judges who retired prior to July 1, 1998; (2) fifty-two percent for judges who retired and received an annuity on or after July 1, 1998 but before July 1, 2000; (3) fifty-six percent for judges who retired and received an annuity on or after July 1, 2000 but before July 1, 2001; and (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001. Any member who has served as a judge for a total of six years or more and deemed permanently incapacitated, mentally or physically, to perform his/her duties shall be entitled to an annuity that would be the same as computed under a retirement annuity.

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

Funding Policy

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

The member contribution required and contributed was \$1,103,844, representing 5.00% of the current year covered payroll. The State contribution required by statute and the amount contributed was \$2,039,664. The State share is to be based on 9.70% 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.

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NOTES TO THE FINANCIAL STATEMENTS

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 .89% of net assets held in trust for pension benefits. The System has no investments in the stocks or bonds of any commercial or industrial organization where market value exceeds 5.00% or more of the net assets held in trust for pension benefits.

Annual Pension Cost and Net Pension Obligation

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

Annual required contribution	\$ 4,614,846
Interest on net pension obligation	709,406
Adjustment to annual required contribution	<u>(723,598)</u>
Annual pension cost	4,600,654
Contributions made	<u>2,039,664</u>
Increase in net pension obligation	2,560,990
Net Pension obligation beginning of year	<u>6,306,584</u>
Net pension obligation end of year	<u>\$ 8,867,574</u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The net pension obligation was calculated by the actuary as the cumulative difference between the System's annual required contributions and the System's actual contributions for fiscal years 1988 through 2006.

The annual required contribution for the current year was determined as part of the July 1, 2006, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return and (b) projected salary and inflationary increases of 5.00% per year. The assumptions included post retirement benefit increases in accordance with the law. The actuarial value of assets was determined using the market

value of investments. The unfunded actuarial accrued liability is being amortized using a level dollar amortization method on an open basis. The remaining amortization period at June 30, 2006, was 30 years.

Three-year trend information:

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 4,397,910	46.38%	\$3,960,761
2005	4,385,487	46.51%	6,306,584
2006	4,600,654	43.76%	8,867,574

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 2006, the employers' contributions amounted to \$116,850,529. Employees' contributions amounted to \$58,551,913.

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 – BEGINNING BALANCE ADJUSTMENTS

The cash and cash equivalents of the University funds statement of cash flows were overstated and the investments were understated resulting in the following adjustment to the beginning cash & cash equivalents (expressed in thousands):

July 1, 2005	\$ 380,766
Adjustment	<u>(47,486)</u>
Balances restated	<u>\$ 333,280</u>

NOTE 18 – OTHER POST EMPLOYMENT BENEFITS

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

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

On May 28, 2002, the Legislature passed a Sick Leave and Vacation Incentive Program Extension during the special legislative session held on that day. The program requires the sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2003, to be equal to or exceed seventy-five. Eligible employees were required to sign up on or before August 14, 2002, and leave State employment between the dates of July 8, 2002 and August 15, 2002.

The Sick Leave and Vacation Incentive is calculated as the total dollar value of accrued vacation and sick leave balances at the time of termination. However, the sick leave cannot exceed 2080 hours (the amount of regular annual salary). The vacation and sick

leave will be paid out in five installments, with 30 percent of the total cash value paid with the last regular payroll warrant in 2002, 20 percent paid each August in 2003, 2004, and 2005, and the remaining 10 percent paid to the employee or their beneficiary in August 2006.

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

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

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

All incentives are financed on a pay-as-you-go basis by the department from which the employee terminated. Amounts due for all of the programs have been recorded as a liability in the government-wide financial statements. Early Out costs for fiscal year 2006 for 1,102 participants totaled \$9,564,125 for government funds and \$55,267 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.

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NOTES TO THE FINANCIAL STATEMENTS

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, 2006.

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

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

The employee may 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, 2006, amounted to \$9,087,645 for 897 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, 2006, 209 SPOC retirees received benefits totaling \$1,037,506.

A voluntary retirement benefit has been established through collective bargaining for Judicial Branch and Community Based Corrections AFSCME and PPME covered employees. This is also offered to non-contract Judicial Branch and Community Based Corrections Employees except for judicial officers.

The program is an opportunity for employees who are eligible upon a bona fide retirement to use the value of their 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 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).

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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, 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.

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.

For the year ended June 30, 2006, Judicial Branch and Community Based Correction retirees received benefits totaling \$552,951.

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 per event. Each building has individual limits of coverage and a \$2.0 million deductible, Residence Halls \$226.6 million, Residence Apartments \$54.5 million, Maucker Union \$25.9 million, General Buildings \$250.0 million, UNI-Dome \$50.1 million, and Early Childhood Center \$2.7 million. The University also assumes liability for medical liability at the Laboratory School in excess of \$5.0 million.

The University of Iowa assumes liability for damage to buildings and contents for the first \$2.0 million and in excess of \$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, losses at the Museum of Art in excess of \$100.0 million, criminal fidelity liability for the first \$100,000 and in excess of \$10.0 million; and construction job site liability for the first \$250,000 and in excess of \$50.0 million.

The University also assumes liability for athletic trainers professional liability excess of \$3.0 million, liability for gymnastics camps, youth camps, outreach clinics and special events in excess of \$2.0 million. It also assumes liability for property damage to the Hawkeye Express in excess of \$2.9 million, liability in excess of \$1.0 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 \$327.3 million, damage to electronic data processing, telecommunications equipment in excess of \$37.7 million and business interruption in excess of \$39.9 million.

Glenwood Resource Center assumes liability for volunteers' accident and personal liability of \$1.0 million per occurrence and \$3.0 million annually. The Iowa Braille and Sight Saving School assumes liability for the first \$1.0 million and in excess of \$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 \$12.5 million, \$4.2 million, 4.1 million, \$3.2 million, \$15.1 million, \$8.3 million, \$2.3 million and \$2.5 million, respectively. The Fifth Judicial District assumes liability for boiler equipment breakdown in excess of \$4.5 million. The First Judicial District assumes liability in excess of \$6.0 million blanket coverage for boilers.

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

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

SELF-INSURANCE/RETENTION OF RISK

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

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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.

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 2005 and 2006 were (expressed in thousands):

	Current Year			
	Balances At	Claims		Balances At
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 05	\$ 50,615	16,422	16,120	\$50,917
FY 06	50,917	15,689	16,656	49,950

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 2005 and 2006 were (expressed in thousands):

	Current Year			
	Balances At	Claims		Balances At
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 05	\$ 267	157	74	\$ 350
FY 06	350	88	94	344

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 2005 and 2006 were (expressed in thousands):

	Current Year			
	Balances At	Claims		Balances At
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 05	\$ 274	721	241	\$ 754
FY 06	754	369	317	806

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 2005 and 2006 were (expressed in thousands):

	Current Year			
	Balances At	Claims		Balances At
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 05	\$ 11,500	11,604	11,604	\$11,500
FY 06	11,500	11,088	11,088	11,500

The Universities retain risk liability for medical faculty malpractice; medical, dental, unemployment, and workers' compensation coverage for some employees; and various property damage not covered as described above. The estimates of claim liabilities for faculty medical malpractice, and employee medical, dental, unemployment, and workers' compensation are based on actuarial analysis. The estimates of the claim liability for various property damage is based on historical analysis. Changes in the balances for estimated claims liabilities in fiscal years 2005 and 2006 were (expressed in thousands):

	Current Year			
	Balances At	Claims		Balances At
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 05	\$ 23,994	123,012	128,126	\$18,880
FY 06	18,880	138,168	133,324	23,724

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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 at \$430.0 million at June 30, 2006.

The *University of Iowa* has outstanding construction contract commitments of 80.6 million at June 30, 2006.

Iowa State University has outstanding construction contract commitments of \$27.5 million at June 30, 2006.

The *Department of Natural Resources* has outstanding construction contract commitments of \$2.3 million at June 30, 2006.

The *University of Northern Iowa* has outstanding construction contract commitments of \$19.7 million at June 30, 2006.

The *Department of Administrative Services* has outstanding construction contract commitments of \$25.4 million at June 30, 2006.

The Iowa *Finance Authority* has signed loan agreements with municipalities and water systems totaling \$70.2 million as of June 30, 2006.

The Iowa *Department of Economic Development* has commitments of \$281.2 million at June 30, 2006.

The Iowa *Underground Storage Tank Financial Responsibility Program* provides payment for remediation claims of contamination of ground water sites due to leakage, spill or release of petroleum products by owner/operators. Potential claims for clean-up charges are estimated to total \$84.1 million. The payment of claims is limited to funds made available by charges to owner/operators and from the collection of environmental protection charges, underground storage tanks fees, recoveries, Federal assistance and earnings of the General Fund.

The Iowa *State Fair Authority* has outstanding construction contracts of \$1.1 million at June 30, 2006.

There is litigation pending against the State, the Iowa Lottery Authority and certain State officials, arising out of the legislature's 2006 ban on the Iowa Lottery Authority's TouchPlay monitor vending machine product. There are currently three lawsuits pending in Polk County and one lawsuit each in Linn and Scott Counties. These lawsuits currently involve approximately 70 individual and corporate plaintiffs. It is possible that additional litigation will be instituted by others claiming financial harm from the TouchPlay ban. The pending litigation asserts claims for money damages based on various constitutional, legal and equitable theories. An estimate of the State's potential exposure at this time would be speculative. There are currently pending motions filed by the State in each of the lawsuits asserting legal challenges to certain of plaintiff's claims. The State believes it has meritorious defenses to all of the claims asserted by the various plaintiffs. Two of the lawsuits are currently set for trial; one in November 2007, one in January 2008.

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 is scheduled to go to trial in April of 2007. The State believes that it will prevail on the merits of the lawsuit. However, the potential exposure, should there be a judgment against the state is substantially in excess of \$1,000,000.

There is litigation pending against the State arising out of a 1939 University of Iowa experiment conducted at a state run orphanage. There are allegations contained in the Plaintiff's Petition at Law that the state engaged in Intentional Infliction of Emotional Distress, Fraudulent Misrepresentation, Breach of Fiduciary Duty, Invasion of Privacy and Civil Conspiracy. It is Plaintiff's contention that the study has caused them emotional harm. On September 30, 2005, the Iowa Supreme Court ruled in favor of the Plaintiffs allowing the action for personal injury to proceed toward trial. The plaintiff's initially claimed damages in the amount of \$11,000,000.

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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 2005, with an interest rate of 4.50% and were repaid on June 30, 2006.

The following is a schedule of TRANS activity for the year ended June 30, 2006 (expressed in thousands):

Beginning Balance	Issued	Redeemed	Ending Balance
\$ -	\$ 450,000	\$ 450,000	\$ -

NOTE 22 – SUBSEQUENT EVENTS

In September of 2006, the Board of Regents, State of Iowa, issued Academic Building Revenue Refunding Bonds, Series I.S.U. 2006 for \$5,510,000. These bonds bear interest at varying rates between 4.0% and 5.0% and will mature in varying amounts from July 1, 2007 through July 1, 2015. The proceeds of these bonds will be used to refund in advance of maturity the July 1, 2007 through July 1, 2015 maturities of the Board's \$7,100,000 Academic Building Revenue Bonds, Series I.S.U. 1995 and to pay for costs of issuance. These bonds will be payable only from the gross student fees and charges levied against students attending Iowa State University.

In September of 2006, the Board of Regents, State of Iowa, issued Dormitory Revenue Refunding Bonds, Series I.S.U. 2006A for \$9,200,000. These bonds will bear interest at varying rates between 4.0% and 4.375% and will mature in varying amounts from July 1, 2007 through July 1, 2027. The proceeds of these bonds will be used to refund in advance of maturity the July 1, 2007 through July 1, 2027 maturities of the Bond's \$9,525,000 Dormitory Revenue Bonds, Series I.S.U. 2000A and to pay for costs of issuance. These bonds will be payable only from the net rent, profits and income of the Residence System of Iowa State University.

In December of 2006, the Board of Regents, State of Iowa, issued Utility System Revenue Bond Series 2006A in the amount of \$25,000,000 for the purpose of constructing, equipping and extending certain facilities and improvements to the Utility System of The State University of Iowa, to provide a deposit in the Debt Service Reserve Fund, and to pay for costs of issuance.

In July of 2006, the Board of Regents, State of Iowa, issued Athletic Facilities Revenue Bonds, Series S.U.I 2006A in the amount of \$25,000,000 to defray a portion of the costs of the renovations to Kinnick Stadium on the University's campus.

In August of 2006, the Board of Regents approved the terms of a capital lease with the University of Iowa Facilities Corporation (UIFC) that matched the terms of a \$23,800,000 Revenue Bond issued by UIFC. The proceeds of the bonds will be used to purchase, renovate and equip commercial condominium space in the Old Capitol Town Center in Iowa City which will provide space for several departments of the University of Iowa.

On August 9, 2006, an agreement was signed between the Board of Regents, State of Iowa and the University of Northern Iowa Foundation. In the agreement, the Foundation agreed to transfer \$250,000 of gift income to the University of Northern Iowa to assist with the construction of the McLeod Center. This Amendment #4 is in addition to the initial \$17,000,000 gift funding agreement that was signed on February 27, 2004. Amendment #1 in the amount of \$2,660,000 that was signed on October 29, 2004. Amendment #2 in the amount of \$1,165,000 that was signed on September 15, 2005, and the Amendment #3 in the amount of \$500,000 that was signed on May 5, 2006.

On July 31, 2006, the University of Northern Iowa entered into a capital lease in the amount of \$875,849 with Banc of America Leasing and Capital to finance the acquisition of scoreboards and a video board for the McLeod Center, an integral part of the Field House Enterprise. The lease payments are due semi-annually through fiscal year 2011 and bear an interest rate of 6.08 percent.

On September 18, 2006, the University of Northern Iowa entered into a capital lease in the amount of \$2,150,000 with Wells Fargo Brokerage Services to assist with financing the construction of the Human Performance Complex. The lease payments are due semi-annually through fiscal year 2016 and bear an interest rate of 6.6 percent.

As of October 6, 2006, an agreement was entered into between the Board of Regents, State of Iowa and the University of Northern Iowa Foundation. In the agreement, the Foundation agreed to make gifts to the University of Northern Iowa of at least \$2,500,000, to be used solely and only to pay costs of constructing and equipping the Human Performance Complex on the University campus. These costs could include principal and interest payments on a \$2,150,000 capital lease for the Human Performance Complex, which the Board of Regents has issued.

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NOTES TO THE FINANCIAL STATEMENTS

The Iowa Finance Authority issued Single Family Mortgage Revenue Bonds, Series 2006 G and H, in the amount of \$70 million on July 13, 2006.

The Iowa Finance Authority's Board of Directors has authorized the issuance of Single Family Mortgage Revenue Bonds, Series 2006 I and J, in the amount of \$80 million and the issuance of multi-family bonds in an amount not to exceed \$6.8 million.

The Iowa Finance Authority's Board of Directors has authorized the issuance of a note for long-term financing of the building purchase in an amount not to exceed \$2.8 million.

House File 875 authorized the creation of the Honey Creek Premier Destination Park Authority. The Authority is to assist in the establishment of the Honey Creek Premier Destination Park in the state.

In October of 2006, the Honey Creek Premier Destination Park Authority issued Destination Park Revenue Bonds, Series 2006 in the amount of \$33,370,000 to assist in the establishment of the honey creek premier destination park including lodges, campgrounds, and golf courses.

In December of 2006, the State of Iowa issued Tax and Revenue Anticipation Notes (TRANS) of \$500,000,000 at an interest rate of 4.25%, priced to yield 3.53%. The notes have a maturity date of June 30, 2007.

Effective July 1, 2006, a new voluntary retirement benefit has been established through collective bargaining for Executive Branch AFSCME and UE/IUP covered employees and Executive Branch non-contract employees. This program is the Sick Leave Insurance Program (SLIP). The program is an opportunity for State 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 hourly rate of pay up to \$2,000, payable with the final payroll warrant that includes the employees 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), as follows:

Sick Leave Balance	Conversion Rate
0 to 750 hours	60% of value
Over 750 to 1500 hours	80% of value
Over 1500 hours	100% of value

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, 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.

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.

Sick leave conversion rates (sick accrual converted to vacation hours) for employees covered under this program will change effective July 1, 2006 and are dependent upon the employee's actual balance each pay period. Sick leave conversion rates for part-time permanent employees are prorated.

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

STATE OF IOWA

Budgetary Comparison Schedule Required Supplementary Information

For the Year Ended June 30, 2006
(Expressed in Thousands)

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
SPECIAL TAXES:				
Personal Income Tax	\$ 2,797,900	\$ 2,817,500	\$ 2,869,721	\$ 52,221
Sales/Use Tax	1,852,100	1,891,800	1,893,798	1,998
Corporation Income Tax	297,700	312,100	370,333	58,233
Inheritance Tax	69,900	70,800	71,640	840
Insurance Premium Tax	129,800	128,300	121,428	(6,872)
Cigarette Tax	86,000	89,100	89,484	384
Tobacco Tax	8,500	9,000	9,452	452
Beer & Liquor Tax	14,100	14,200	14,269	69
Franchise Tax	37,200	32,800	35,006	2,206
Miscellaneous Tax	1,000	600	711	111
TOTAL SPECIAL TAXES	5,294,200	5,366,200	5,475,842	109,642
REIMBURSEMENTS & FEES:				
Institutional Reimbursements	12,800	12,500	13,750	1,250
Liquor Transfers	58,700	61,800	64,762	2,962
Interest	7,500	13,600	19,428	5,828
Fees	72,900	73,000	78,765	5,765
Judicial Revenue	60,700	60,800	64,817	4,017
Miscellaneous Receipts	27,700	51,200	45,961	(5,239)
Racing & Gaming Receipts	60,000	60,000	60,000	-
TOTAL RECEIPTS	5,594,500	5,699,100	5,823,325	124,225
Transfers	68,200	144,200	145,305	1,105
TOTAL APPROPRIATED REVENUE	5,662,700	5,843,300	5,968,630	125,330
RECEIPTS CREDITED TO APPROPRIATIONS:				
Sales Tax Quarterly	-	2	3	1
Sales Tax Monthly	3	-	-	-
Multi Suspense	15,528	3,461	3,206	(255)
Federal Support	2,185,229	2,251,404	2,193,000	(58,404)
Local Governments	165,895	149,863	169,052	19,189
Other States	1	1	-	(1)
Internal Service Transfers	468,089	448,747	389,178	(59,569)
Internal Service Reimbursements	20,430	19,522	19,862	340
Interest	-	178	35	(143)
Fees, Licenses, & Permits	9,561	24,401	27,588	3,187
Refunds & Reimbursements	183,060	299,388	310,447	11,059
Sale of Equipment & Salvage	15	15	-	(15)
Rents & Leases	2,944	2,943	2,833	(110)
Agricultural Sales	3	3	2	(1)
Other Sales & Services	2,480	2,570	4,618	2,048
Inventory Sales	-	-	127	127
Unearned Receipts	347	401	351	(50)
Other	70,311	77,306	117,144	39,838
TOTAL APPROPRIATED RECEIPTS	3,123,896	3,280,205	3,237,446	(42,759)
TOTAL ALL REVENUE	8,786,596	9,123,505	9,206,076	82,571
REFUNDS OF TAXES COLLECTED	(672,500)	(623,800)	(586,162)	37,638
TOTAL REVENUES AVAILABLE	8,114,096	8,499,705	8,619,914	120,209

(continued on next page)

STATE OF IOWA

(continued)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
EXPENDITURES:				
Administration & Regulation	221,305	232,246	231,005	1,241
Agriculture & Natural Resources	129,080	129,681	129,713	(32)
Economic Development	45,738	97,305	71,926	25,379
Education	3,178,968	3,155,443	3,170,540	(15,097)
Health & Human Services	3,813,402	4,075,722	4,010,124	65,598
Justice	598,820	609,860	611,547	(1,687)
Transportation	6,789	9,034	1,139	7,895
TOTAL EXPENDITURES	7,994,102	8,309,291	8,225,994	83,297
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	119,994	190,414	393,920	203,506
OTHER FINANCING SOURCES (USES):				
Balances Credited To Appropriations	7,187	18,789	20,395	1,606
Unexpended Appropriations	(63,043)	(4,783)	(52,275)	(47,492)
TOTAL OTHER FINANCING SOURCES (USES)	(55,856)	14,006	(31,880)	(45,886)
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES & OTHER ITEMS	64,138	204,420	362,040	157,620
BEGINNING FUND BALANCE (BUDGETARY)	-	-	-	-
REMAINING FUND BALANCE (BUDGETARY)	\$ 64,138	\$ 204,420	\$ 362,040	\$ 157,620
ENDING FUND BALANCE (BUDGETARY)		\$ 204,417	\$ 362,040	
AUTHORIZED TRANSFER TO THE PROPERTY TAX CREDIT FUND		(159,900)	(159,900)	
SENIOR LIVING TRUST FUND		(21,100)	(49,900)	
BOARD OF REGENTS		(2,800)	(2,800)	
REMAINING FUND BALANCE (BUDGETARY)		\$ 20,617	\$ 149,440	
AMOUNT STATUTORILY REQUIRED TO BE TRANSFERRED TO CASH RESERVE FUND			(149,440)	
ENDING FUND BALANCE AVAILABLE FOR APPROPRIATION			\$ -	

STATE OF IOWA

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

June 30, 2006
(Expressed in Thousands)

	GENERAL FUND
Fund Balance - Budgetary/Legal	\$ 362,040
Basis Of Accounting Differences:	
Balance Sheet Accounts:	
Accounts Receivable	119,072
Loans Receivable	1,919
Due From Other Funds	10,923
Prepaid Expenditures	8,019
Accounts Payable & Accruals	(146,578)
Due To Other Funds	(64,609)
Deferred Revenue	(36,381)
Reserved Encumbrances	31,529
Timing Differences:	
Petty Cash & Inventory Expensed In Budgetary Accounting	88,656
Perspective Differences	1,725,141
Total Fund Balance - GAAP Basis	2,099,731
Less: Reserved Fund Balance - GAAP Basis	1,202,023
Fund Balance Unreserved - GAAP Basis	\$ 897,708

STATE of IOWA

Required Supplementary Information

Notes to Required Supplementary Information – Budgetary Reporting

Budgetary Expenditures in Excess of Appropriations

Actual expenditures exceeded budgeted expenditures as a result of the receipt and legal expenditure of federal and other non-state funds which had been received for restricted purposes. In the General Fund this occurred in the Department Agriculture and Land Stewardship for various federal grants, the Department of Education for various federal grants, increased inter-appropriation transfers within the Board of Regents, and in the Department of Public Defense for various federal grants.

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, Property Tax Credit Fund, Healthy Iowan's Tobacco Trust Fund, Underground Storage Tank Unassigned Revenue, Tobacco Tax-Exempt Bond Proceeds, Endowment For Iowa's Health Account, Resources Enhancement and Protection, Land Recycling Fund, Fish and Game Trust Fund, Conservation Administration Fund, Forestry Management Enhancement Fund, Water Quality Protection Fund, Workforce Development Withholding, Local Housing Assistance, Grow Iowa Values Fund, Special Contingency Fund, Administrative Contribution Surcharge, School Infrastructure Fund, Stafford Loan Program, Gambling Treatment Program, Health Care Transformation Fund, Hospital Trust Fund, 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. Capital Project Funds are budgeted on a project-length basis.

The original budget and related estimated revenues and expenditures represent the spending authority enacted into law by the appropriations bills as of July 1, 2005 and includes estimated approved budgetary carry-forwards from the prior fiscal year.

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

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

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

STATE OF IOWA

Required Supplementary Information

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

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

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

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

General Fund Expenditure Limitation

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

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

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

STATE OF IOWA

Required Supplementary Information

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

Reserve Funds

The ***Iowa Economic Emergency Fund*** was created in Iowa Code section 8.55. The fund is separate from the General Fund of the state and the balance in the fund is not to be considered part of the balance of the General Fund of the state. The moneys in the fund do not revert to the General Fund, unless and to the extent the fund exceeds the maximum balance. The maximum balance of the fund is the amount equal to 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 of the adjusted revenue estimate for the General Fund of the state for the current fiscal year. The moneys in this fund may only be appropriated by the General Assembly for nonrecurring emergency expenditures and shall not be appropriated for payment of any collective bargaining agreement or arbitrator's decision negotiated or awarded. The balance in the Cash Reserve Fund may be used in determining the cash position of the General Fund of the state for payment of state obligations. An appropriation shall not be made from the Cash Reserve Fund if the appropriation would cause the fund's balance to be less than three percent of the adjusted revenue estimate for the year for which the appropriation is made unless the bill or joint resolution is approved by vote of at least three-fifths of the members of both chambers of the General Assembly and is signed by the Governor. Also, the appropriation must be contained in a bill or joint resolution in which the appropriation is the only subject matter of the bill or joint resolution, and the bill or joint resolution states the reasons the appropriation is necessary.

STATE OF IOWA

Schedules of Funding Progress Required Supplementary Information

(Expressed in Thousands)

Iowa Judicial Retirement System

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
July 1, 2004	\$ 78,023	99,124	\$ 21,101	78.71%	\$ 20,894	100.99%
July 1, 2005	81,605	105,472	23,867	77.37%	20,684	115.39%
July 1, 2006	86,110	123,670	37,560	69.63%	24,094	155.89%

The increase in unfunded AAL for the July 1, 2006 valuation was primarily due to a change in the eligibility requirements for retirement, which be effective for qualifying employees retiring after 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, 2004	\$ 244,161	\$ 338,799	\$ 94,638	72.07%	\$ 32,520	291.01%
July 1, 2005	251,829	343,117	91,288	73.39%	33,337	273.83%
July 1, 2006	267,813	358,845	91,031	74.63%	36,232	251.04%

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

The decrease in unfunded AAL for the July 1, 2006 valuation was primarily due to a higher than expected rate of return on investments.

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

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

STATE OF IOWA

Combining Balance Sheet Nonmajor Governmental Funds – By Fund Type

June 30, 2006
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS				
Current Assets:				
Cash & Investments	\$ 482,463	\$ 1,897	\$ 11,581	\$ 495,941
Deposits with Trustees	-	496	-	496
Accounts Receivable (net)	33,076	376	-	33,452
Due From Other Funds	4,401	4,112	11	8,524
Inventory	67	-	-	67
Prepaid Expenditures	86	-	-	86
Total Current Assets	520,093	6,881	11,592	538,566
Noncurrent Assets:				
Accounts Receivable (net)	4,940	-	-	4,940
TOTAL ASSETS	\$ 525,033	\$ 6,881	\$ 11,592	\$ 543,506
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	\$ 15,906	\$ 4,796	\$ -	\$ 20,702
Due To Other Funds	14,029	29	-	14,058
Deferred Revenue	25,062	-	-	25,062
TOTAL LIABILITIES	54,997	4,825	-	59,822
FUND BALANCE				
Reserved for:				
Inventory & Prepaid Expenditures	153	-	-	153
Noncurrent Receivables	4,940	-	-	4,940
Specific Purposes	402,719	-	11,592	414,311
Unreserved Fund Equity	62,224	2,056	-	64,280
TOTAL FUND BALANCE	470,036	2,056	11,592	483,684
TOTAL LIABILITIES & FUND BALANCE	\$ 525,033	\$ 6,881	\$ 11,592	\$ 543,506

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, 2006
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	CAPITAL PROJECTS FUNDS	PERMANENT FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS
REVENUES:				
Taxes	\$ 68,936	\$ -	\$ -	\$ 68,936
Receipts from Other Entities	33,628	1,527	-	35,155
Investment Income	20,605	391	208	21,204
Fees, Licenses & Permits	5,117	-	-	5,117
Refunds & Reimbursements	69,740	210	-	69,950
Sales, Rents & Services	4,525	-	-	4,525
Miscellaneous	9,422	-	-	9,422
Contributions	-	-	265	265
GROSS REVENUES	211,973	2,128	473	214,574
Less Revenue Refunds	680	-	-	680
NET REVENUES	211,293	2,128	473	213,894
EXPENDITURES:				
Current:				
Administration & Regulation	14,144	-	-	14,144
Education	53,035	-	-	53,035
Health & Human Rights	492	-	-	492
Human Services	501	-	-	501
Justice & Public Defense	5,172	2	-	5,174
Economic Development	8,036	-	-	8,036
Transportation	401	-	-	401
Agriculture & Natural Resources	4,054	5,881	-	9,935
Capital Outlay:				
Administration & Regulation	7,839	749	-	8,588
Education	4,211	-	-	4,211
Health & Human Rights	347	276	-	623
Human Services	1,169	-	-	1,169
Justice & Public Defense	3,052	15,837	-	18,889
Transportation	-	54	-	54
Agriculture & Natural Resources	137	6,201	-	6,338
Debt Service:				
Principal	2,555	4,885	-	7,440
Interest	38,681	3,306	-	41,987
TOTAL EXPENDITURES	143,826	37,191	-	181,017
REVENUES OVER (UNDER) EXPENDITURES	67,467	(35,063)	473	32,877
OTHER FINANCING SOURCES (USES):				
Transfers In	164,358	33,669	1,000	199,027
Transfers Out	(283,593)	(560)	(477)	(284,630)
Debt Refunding Bonds Issued	1,365,435	-	-	1,365,435
Discount on Capital Appreciation Bonds	(533,473)	-	-	(533,473)
Discount on Term Bonds	(22,081)	-	-	(22,081)
Payment To Bond Escrow Agent	(666,845)	-	-	(666,845)
TOTAL OTHER FINANCING SOURCES (USES)	23,801	33,109	523	57,433
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	91,268	(1,954)	996	90,310
FUND BALANCE JULY 1	378,768	4,010	10,596	393,374
FUND BALANCE JUNE 30	\$ 470,036	\$ 2,056	\$ 11,592	\$ 483,684



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.

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.

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, 2006
(Expressed in Thousands)

	ENDOWMENT FOR IOWA'S HEALTH FUND	ENDOWMENT FOR IOWA'S HEALTH RESTRICTED CAPITALS FUND	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 107,539	\$ 101,636	\$ 81,500	\$ 6,073	\$ 185,715	\$ 482,463
Accounts Receivable (Net)	5,593	1,212	18,070	2,019	6,182	33,076
Due From Other Funds	1,153	-	-	226	3,022	4,401
Inventory	-	-	-	-	67	67
Prepaid Expenditures	-	-	-	22	64	86
Total Current Assets	114,285	102,848	99,570	8,340	195,050	520,093
Noncurrent Assets:						
Accounts Receivable (Net)	-	-	-	-	4,940	4,940
TOTAL ASSETS	\$ 114,285	\$ 102,848	\$ 99,570	\$ 8,340	\$ 199,990	\$ 525,033
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ -	\$ -	\$ 3,237	\$ 177	\$ 12,492	\$ 15,906
Due To Other Funds	-	-	-	641	13,388	14,029
Deferred Revenue	5,037	-	18,203	1,811	11	25,062
TOTAL LIABILITIES	5,037	-	21,440	2,629	25,891	54,997
FUND BALANCE						
Reserved for:						
Inventory & Prepaid Expenditures	-	-	-	22	131	153
Noncurrent Receivables	-	-	-	-	4,940	4,940
Specific Purposes	109,248	102,848	78,130	2,120	110,373	402,719
Unreserved Fund Equity	-	-	-	3,569	58,655	62,224
TOTAL FUND BALANCE	109,248	102,848	78,130	5,711	174,099	470,036
TOTAL LIABILITIES & FUND BALANCE	\$ 114,285	\$ 102,848	\$ 99,570	\$ 8,340	\$ 199,990	\$ 525,033

STATE OF IOWA

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

For the Year Ended June 30, 2006
(Expressed in Thousands)

	ENDOWMENT FOR IOWA'S HEALTH FUND	ENDOWMENT FOR IOWA'S HEALTH RESTRICTED CAPITALS FUND	TOBACCO SETTLEMENT AUTHORITY	IOWA PUBLIC TELEVISION FOUNDATION	OTHER	TOTAL
REVENUES:						
Taxes	\$ 68,936	\$ -	\$ -	\$ -	\$ -	\$ 68,936
Receipts from Other Entities	-	-	-	-	33,628	33,628
Investment Income	2,718	2,354	3,221	438	11,874	20,605
Fees, Licenses & Permits	1,064	-	-	-	4,053	5,117
Refunds & Reimbursements	14,273	-	39,687	-	15,780	69,740
Sales, Rents & Services	-	-	-	-	4,525	4,525
Miscellaneous	-	-	281	7,788	1,353	9,422
GROSS REVENUES	86,991	2,354	43,189	8,226	71,213	211,973
Less Revenue Refunds	-	-	-	-	680	680
NET REVENUES	86,991	2,354	43,189	8,226	70,533	211,293
EXPENDITURES:						
Current:						
Administration & Regulation	-	-	2,929	-	11,215	14,144
Education	-	-	-	3,107	49,928	53,035
Health & Human Rights	-	-	-	-	492	492
Human Services	-	-	-	-	501	501
Justice & Public Defense	-	-	-	-	5,172	5,172
Economic Development	-	-	-	-	8,036	8,036
Transportation	-	-	-	-	401	401
Agriculture & Natural Resources	-	-	-	-	4,054	4,054
Capital Outlay:						
Administration & Regulation	-	-	-	-	7,839	7,839
Education	-	-	-	-	4,211	4,211
Health & Human Rights	-	-	-	-	347	347
Human Services	-	-	-	-	1,169	1,169
Justice & Public Defense	-	-	-	-	3,052	3,052
Agriculture & Natural Resources	-	-	-	-	137	137
Debt Service:						
Principal	-	-	2,555	-	-	2,555
Interest	-	-	38,681	-	-	38,681
TOTAL EXPENDITURES	-	-	44,165	3,107	96,554	143,826
REVENUES OVER (UNDER) EXPENDITURES	86,991	2,354	(976)	5,119	(26,021)	67,467
OTHER FINANCING SOURCES (USES):						
Transfers In	50,249	100,494	-	-	13,615	164,358
Transfers Out	(65,975)	-	(150,743)	(4,410)	(62,465)	(283,593)
Debt Refunding Bonds Issued	-	-	1,365,435	-	-	1,365,435
Discount on Capital	-	-	-	-	-	-
Appreciation Bonds	-	-	(533,473)	-	-	(533,473)
Discount on Term Bonds	-	-	(22,081)	-	-	(22,081)
Payment To Bond Escrow Agent	-	-	(666,845)	-	-	(666,845)
TOTAL OTHER FINANCING SOURCES (USES)	(15,726)	100,494	(7,707)	(4,410)	(48,850)	23,801
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	71,265	102,848	(8,683)	709	(74,871)	91,268
FUND BALANCE JULY 1	37,983	-	86,813	5,002	248,970	378,768
FUND BALANCE JUNE 30	\$ 109,248	\$ 102,848	\$ 78,130	\$ 5,711	\$ 174,099	\$ 470,036

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, 2006
(Expressed in Thousands)

	PRIMARY ROAD FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 517,254	\$ 517,254	\$ 522,863	\$ 5,609
TOTAL APPROPRIATED REVENUE	517,254	517,254	522,863	5,609
RECEIPTS CREDITED TO				
APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	5	5	5	-
Federal Support	197,800	197,800	158,074	(39,726)
Local Governments	4,600	4,600	4,410	(190)
Other States	75	74	3,106	3,032
Reimbursements From Other Agencies	160	160	401	241
Interest	1	1	-	(1)
Bonds & Loans	-	-	1,063	1,063
Fees, Licenses, & Permits	860	860	1,393	533
Refunds & Reimbursements	4,010	4,010	83	(3,927)
Sale of Real Estate	1,710	1,710	3,272	1,562
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	16	16	22	6
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	-	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	2,750	2,750	2,875	125
TOTAL APPROPRIATED RECEIPTS	211,987	211,986	174,704	(37,282)
TOTAL REVENUES AVAILABLE	729,241	729,240	697,567	(31,673)
EXPENDITURES:				
Administration & Regulation	-	-	-	-
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Health & Human Services	-	-	-	-
Transportation	509,524	512,184	536,068	(23,884) *
TOTAL EXPENDITURES	509,524	512,184	536,068	(23,884)
Transfers	247,646	245,909	249,242	(3,333)
TOTAL EXPENDITURES AND TRANSFERS	757,170	758,093	785,310	(27,217)
REVENUES AVAILABLE OVER (UNDER)				
EXPENDITURES AND TRANSFERS	(27,929)	(28,853)	(87,743)	(58,890)
FUND BALANCE JULY 1 (BUDGETARY)	82,672	153,503	153,503	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 54,743	\$ 124,650	\$ 65,760	\$ (58,890)

STATE OF IOWA

ENDOWMENT FOR IOWA'S HEALTH FUND			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
70,000	70,000	68,936	(1,064)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
750	1,000	2,776	1,776
-	50,177	50,177	-
-	-	1,064	1,064
15,396	15,396	14,446	(950)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
86,146	136,573	137,399	826
86,146	136,573	137,399	826
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
65,975	65,975	65,975	-
65,975	65,975	65,975	-
20,171	70,598	71,424	826
38,846	38,301	38,301	-
\$ 59,017	\$ 108,899	\$ 109,725	\$ 826

(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, 2006
(Expressed in Thousands)

(continued)

	TOBACCO TAX-EXEMPT BOND PROCEEDS			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ -	\$ -	\$ -	\$ -
TOTAL APPROPRIATED REVENUE	-	-	-	-
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	-	-	-	-
Other Taxes	-	-	-	-
Wagering Tax Receipts	-	-	-	-
Individual Income Tax Quarterly	-	-	-	-
Sales Tax - DOT	-	-	-	-
Federal Support	-	-	22	22
Local Governments	-	-	-	-
Other States	-	-	-	-
Reimbursements From Other Agencies	-	-	2,989	2,989
Interest	1,800	3,600	4,487	887
Bonds & Loans	-	-	-	-
Fees, Licenses, & Permits	-	-	-	-
Refunds & Reimbursements	-	510	148	(362)
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	-	-	-	-
Rents & Leases	-	-	-	-
Agricultural Sales	-	-	-	-
Other Sales & Services	-	-	-	-
Unearned Receipts	-	-	-	-
Income Tax Checkoffs	-	-	-	-
Other	-	-	-	-
TOTAL APPROPRIATED RECEIPTS	1,800	4,110	7,646	3,536
TOTAL REVENUES AVAILABLE	1,800	4,110	7,646	3,536
EXPENDITURES:				
Administration & Regulation	40,100	75,201	27,332	47,869
Agriculture & Natural Resources	-	-	-	-
Economic Development	-	-	-	-
Education	-	-	-	-
Health & Human Services	-	-	-	-
Transportation	-	-	-	-
TOTAL EXPENDITURES	40,100	75,201	27,332	47,869
Transfers	38,036	39,439	50,291	(10,852)
TOTAL EXPENDITURES AND TRANSFERS	78,136	114,640	77,623	37,017
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(76,336)	(110,530)	(69,977)	40,553
FUND BALANCE JULY 1 (BUDGETARY)	57,205	124,269	124,269	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ (19,131)	\$ 13,739	\$ 54,292	\$ 40,553

STATE OF IOWA

UNDERGROUND STORAGE TANK UNASSIGNED REVENUE			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 10,000	\$ 10,000	\$ 7,844	\$ (2,156)
10,000	10,000	7,844	(2,156)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
5,400	5,400	1,980	(3,420)
-	-	-	-
15	15	7	(8)
-	100	(32)	(132)
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	100	26	(74)
5,415	5,615	1,981	(3,634)
15,415	15,615	9,825	(5,790)
2,376	2,587	2,013	574
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
2,376	2,587	2,013	574
21,200	21,200	18,941	2,259
23,576	23,787	20,954	2,833
(8,161)	(8,172)	(11,129)	(2,957)
16,388	33,770	33,770	-
\$ 8,227	\$ 25,598	\$ 22,641	\$ (2,957)

(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, 2006
(Expressed in Thousands)
(continued)

	OTHER			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
APPROPRIATED REVENUE:				
Transfers	\$ 371,731	\$ 454,482	\$ 374,922	(79,560)
TOTAL APPROPRIATED REVENUE	371,731	454,482	374,922	(79,560)
RECEIPTS CREDITED TO APPROPRIATIONS:				
Use Tax	1,482	1,482	1,482	-
Other Taxes	-	436	1,100	664
Wagering Tax Receipts	8,100	11,635	9,148	(2,487)
Individual Income Tax Quarterly	4,000	4,000	4,000	-
Sales Tax - DOT	-	-	-	-
Federal Support	14,984	72,325	76,048	3,723
Local Governments	200	34,071	34,192	121
Other States	-	-	-	-
Reimbursements From Other Agencies	526	526	2,006	1,480
Interest	2,075	5,655	6,975	1,320
Bonds & Loans	-	-	11	11
Fees, Licenses, & Permits	27,327	27,328	28,489	1,161
Refunds & Reimbursements	28,843	6,769	5,463	(1,306)
Sale of Real Estate	-	-	-	-
Sale of Equipment & Salvage	45	45	2	(43)
Rents & Leases	5	5	6	1
Agricultural Sales	10	10	24	14
Other Sales & Services	926	926	1,790	864
Unearned Receipts	265	311	342	31
Income Tax Checkoffs	150	150	118	(32)
Other	561	670	715	45
TOTAL APPROPRIATED RECEIPTS	89,499	166,344	171,911	5,567
TOTAL REVENUES AVAILABLE	461,230	620,826	546,833	(73,993)
EXPENDITURES:				
Administration & Regulation	215,924	289,460	206,934	82,526
Agriculture & Natural Resources	22,381	22,381	13,140	9,241
Economic Development	30,455	28,543	25,177	3,366
Education	18,920	23,966	11,434	12,532
Health & Human Services	5,050	112,502	102,707	9,795
Transportation	-	-	-	-
TOTAL EXPENDITURES	292,730	476,852	359,392	117,460
Transfers	190,534	216,598	141,660	74,938
TOTAL EXPENDITURES AND TRANSFERS	483,264	693,450	501,052	192,398
REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS	(22,034)	(72,624)	45,781	118,405
FUND BALANCE JULY 1 (BUDGETARY)	33,145	124,342	124,342	-
FUND BALANCE JUNE 30 (BUDGETARY)	\$ 11,111	\$ 51,718	\$ 170,123	\$ 118,405

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

STATE OF IOWA

TOTAL			
ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 898,985	\$ 981,736	\$ 905,629	\$ (76,107)
898,985	981,736	905,629	(76,107)
1,482	1,482	1,482	-
-	436	1,100	664
78,100	81,635	78,084	(3,551)
4,000	4,000	4,000	-
5	5	5	-
212,784	270,125	234,144	(35,981)
4,800	38,671	38,602	(69)
75	74	3,106	3,032
686	686	5,396	4,710
10,026	15,656	16,218	562
-	50,177	51,251	1,074
28,202	28,203	30,953	2,750
48,249	26,785	20,108	(6,677)
1,710	1,710	3,272	1,562
45	45	2	(43)
21	21	28	7
10	10	24	14
926	926	1,790	864
265	311	342	31
150	150	118	(32)
3,311	3,520	3,616	96
394,847	524,628	493,641	(30,987)
1,293,832	1,506,364	1,399,270	(107,094)
258,400	367,248	236,279	130,969
22,381	22,381	13,140	9,241
30,455	28,543	25,177	3,366
18,920	23,966	11,434	12,532
5,050	112,502	102,707	9,795
509,524	512,184	536,068	(23,884)
844,730	1,066,824	924,805	142,019
563,391	589,121	526,109	63,012
1,408,121	1,655,945	1,450,914	205,031
(114,289)	(149,581)	(51,644)	97,937
228,256	474,185	474,185	-
\$ 113,967	\$ 324,604	\$ 422,541	\$ 97,937



COMBINING FINANCIAL STATEMENTS

Nonmajor Capital Projects Funds

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

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

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

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

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

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

STATE OF IOWA

Combining Balance Sheet Nonmajor Capital Projects Funds

June 30, 2006
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	CORRECTIONS CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
ASSETS						
Current Assets:						
Cash & Investments	\$ 868	\$ -	\$ 31	\$ 428	\$ 570	\$ 1,897
Deposits with Trustees	-	496	-	-	-	496
Accounts Receivable	-	-	375	-	1	376
Due From Other Funds	2,876	-	500	703	33	4,112
TOTAL ASSETS	\$ 3,744	\$ 496	\$ 906	\$ 1,131	\$ 604	\$ 6,881
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	\$ 3,277	\$ -	\$ 360	\$ 1,125	\$ 34	\$ 4,796
Due To Other Funds	7	-	16	6	-	29
TOTAL LIABILITIES	3,284	-	376	1,131	34	4,825
FUND BALANCE						
Unreserved Fund Equity	460	496	530	-	570	2,056
TOTAL LIABILITIES & FUND BALANCE	\$ 3,744	\$ 496	\$ 906	\$ 1,131	\$ 604	\$ 6,881

STATE OF IOWA

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

For the Year Ended June 30, 2006
(Expressed in Thousands)

	GENERAL SERVICES CAPITALS FUND	CORRECTIONS CAPITALS FUND	MOTOR VEHICLE FUEL TAX CAPITALS FUND	FISH & GAME CAPITALS FUND	OTHER	TOTAL
REVENUES:						
Receipts from Other Entities	\$ 1,038	\$ -	\$ 439	\$ -	\$ 50	\$ 1,527
Investment Income	-	387	-	-	4	391
Refunds & Reimbursements	-	-	210	-	-	210
TOTAL REVENUES	1,038	387	649	-	54	2,128
EXPENDITURES:						
Current:						
Justice & Public Defense	-	-	-	-	2	2
Agriculture & Natural Resources	-	-	454	5,427	-	5,881
Capital Outlay:						
Administration & Regulation	749	-	-	-	-	749
Health & Human Rights	276	-	-	-	-	276
Justice & Public Defense	15,519	-	-	-	318	15,837
Transportation	-	-	-	-	54	54
Agriculture & Natural Resources	-	-	2,409	3,792	-	6,201
Debt Service:						
Principal	-	4,885	-	-	-	4,885
Interest	-	3,306	-	-	-	3,306
TOTAL EXPENDITURES	16,544	8,191	2,863	9,219	374	37,191
REVENUES OVER (UNDER) EXPENDITURES	(15,506)	(7,804)	(2,214)	(9,219)	(320)	(35,063)
OTHER FINANCING SOURCES (USES):						
Transfers In	14,485	7,714	2,200	9,002	268	33,669
Transfers Out	-	-	(548)	(3)	(9)	(560)
TOTAL OTHER FINANCING SOURCES (USES)	14,485	7,714	1,652	8,999	259	33,109
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,021)	(90)	(562)	(220)	(61)	(1,954)
FUND BALANCE JULY 1	1,481	586	1,092	220	631	4,010
FUND BALANCE JUNE 30	\$ 460	\$ 496	\$ 530	\$ -	\$ 570	\$ 2,056



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, 2006
(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	\$ 1,476	\$ 727	\$ 1,448	\$ 7,919	\$ 11	\$ 11,581
Due From Other Funds	-	11	-	-	-	11
TOTAL ASSETS	\$ 1,476	\$ 738	\$ 1,448	\$ 7,919	\$ 11	\$ 11,592
FUND BALANCE						
Reserved for:						
Specific Purposes	1,476	738	1,448	7,919	11	11,592
TOTAL FUND BALANCE	\$ 1,476	\$ 738	\$ 1,448	\$ 7,919	\$ 11	\$ 11,592

STATE OF IOWA

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

For the Year Ended June 30, 2006
(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	\$ -	\$ 31	\$ 177	\$ -	\$ -	\$ 208
Contributions	-	3	-	262	-	265
	<u>-</u>	<u>3</u>	<u>-</u>	<u>262</u>	<u>-</u>	<u>265</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>34</u>	<u>177</u>	<u>262</u>	<u>-</u>	<u>473</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	1,000	-	-	-	-	1,000
Transfers Out	-	(300)	(177)	-	-	(477)
	<u>-</u>	<u>(300)</u>	<u>(177)</u>	<u>-</u>	<u>-</u>	<u>(477)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,000</u>	<u>(300)</u>	<u>(177)</u>	<u>-</u>	<u>-</u>	<u>523</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>1,000</u>	<u>(266)</u>	<u>-</u>	<u>262</u>	<u>-</u>	<u>996</u>
FUND BALANCE JULY 1	<u>476</u>	<u>1,004</u>	<u>1,448</u>	<u>7,657</u>	<u>11</u>	<u>10,596</u>
FUND BALANCE JUNE 30	<u>\$ 1,476</u>	<u>\$ 738</u>	<u>\$ 1,448</u>	<u>\$ 7,919</u>	<u>\$ 11</u>	<u>\$ 11,592</u>



COMBINING FINANCIAL STATEMENTS

Nonmajor Enterprise Funds

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

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

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

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

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

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

STATE OF IOWA

Combining Statement of Net Assets Nonmajor Enterprise Funds

June 30, 2006
(Expressed in Thousands)

	IOWA COMMUNI- ACTIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
ASSETS						
Current Assets:						
Cash & Investments	\$ 9,529	\$ 18,779	\$ 2,732	\$ 11,260	\$ 1,194	\$ 43,494
Accounts Receivable (Net)	1,546	2,188	2,544	4,722	169	11,169
Interest Receivable	-	261	-	-	-	261
Due From Other Funds	2,936	-	-	32	22	2,990
Inventory	1,013	941	6,513	1,117	572	10,156
Prepaid Expenses	-	58	6	18	102	184
Investment In Prize Annuity	-	7,695	-	-	-	7,695
Total Current Assets	<u>15,024</u>	<u>29,922</u>	<u>11,795</u>	<u>17,149</u>	<u>2,059</u>	<u>75,949</u>
Noncurrent Assets:						
Capital Assets - nondepreciable	117	392	107	210	430	1,256
Capital Assets - depreciable, net	40,053	7,499	4,435	-	864	52,851
Prepaid Expenses	773	-	-	-	-	773
Investment In Prize Annuity	-	18,899	-	-	-	18,899
Prize Deposit	-	3,173	-	-	-	3,173
Total Noncurrent Assets	<u>40,943</u>	<u>29,963</u>	<u>4,542</u>	<u>210</u>	<u>1,294</u>	<u>76,952</u>
TOTAL ASSETS	<u>55,967</u>	<u>59,885</u>	<u>16,337</u>	<u>17,359</u>	<u>3,353</u>	<u>152,901</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	3,671	1,887	1,167	14,475	84	21,284
Due To Other Funds	79	14,588	-	2,328	144	17,139
Interest Payable	-	15	-	-	-	15
Unearned Revenue	189	385	12	-	54	640
Compensated Absences	590	607	-	29	130	1,356
Bonds Payable	-	2,000	-	-	-	2,000
Annuities Payable	-	7,826	-	-	-	7,826
Lottery Prizes Payable	-	2,998	-	-	-	2,998
Total Current Liabilities	<u>4,529</u>	<u>30,306</u>	<u>1,179</u>	<u>16,832</u>	<u>412</u>	<u>53,258</u>
Noncurrent Liabilities:						
Compensated Absences	-	239	576	-	-	815
Bonds Payable	-	3,500	-	-	-	3,500
Annuities Payable	-	18,899	-	-	-	18,899
Lottery Prizes Payable	-	3,173	-	-	-	3,173
Other	-	3	-	-	-	3
Total Noncurrent Liabilities	<u>-</u>	<u>25,814</u>	<u>576</u>	<u>-</u>	<u>-</u>	<u>26,390</u>
TOTAL LIABILITIES	<u>4,529</u>	<u>56,120</u>	<u>1,755</u>	<u>16,832</u>	<u>412</u>	<u>79,648</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	40,170	2,391	4,542	210	1,294	48,607
Unrestricted	11,268	1,374	10,040	317	1,647	24,646
TOTAL NET ASSETS	<u>\$ 51,438</u>	<u>\$ 3,765</u>	<u>\$ 14,582</u>	<u>\$ 527</u>	<u>\$ 2,941</u>	<u>\$ 73,253</u>

STATE OF IOWA

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

For the Year Ended June 30, 2006
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
OPERATING REVENUES:						
Fees, Licenses & Permits	\$ -	\$ 61	\$ -	\$ 10,358	\$ 1,241	\$ 11,660
Refunds & Reimbursements	-	1,269	-	111	-	1,380
Sales, Rents & Services	33,936	339,520	18,652	160,858	458	553,424
Miscellaneous	-	58	53	995	396	1,502
TOTAL OPERATING REVENUES	33,936	340,908	18,705	172,322	2,095	567,966
OPERATING EXPENSES:						
General & Administrative	8,370	-	17	-	-	8,387
Depreciation	8,235	1,418	545	-	133	10,331
Direct Expense	13,327	10,725	13,528	-	127	37,707
Prize Expense	-	122,259	-	-	-	122,259
Personal Services	-	-	1,169	1,262	1,175	3,606
Travel & Subsistence	-	-	20	361	73	454
Supplies & Materials	-	2,897	67	198	63	3,225
Contractual Services	-	121,998	1,781	1,720	221	125,720
Equipment & Repairs	-	-	4	38	54	96
Claims & Miscellaneous	9,728	-	799	106,199	21	116,747
Licenses, Permits & Refunds	-	-	-	523	-	523
State Aids & Credits	-	-	-	2,689	-	2,689
TOTAL OPERATING EXPENSES	39,660	259,297	17,930	112,990	1,867	431,744
OPERATING INCOME (LOSS)	(5,724)	81,611	775	59,332	228	136,222
NONOPERATING REVENUES						
(EXPENSES):						
Taxes	1,704	-	-	5,596	-	7,300
Investment Income	-	938	107	-	10	1,055
Interest Expense	-	(241)	-	-	-	(241)
Gain on Sale of Capital Assets	-	-	-	-	20	20
NET NONOPERATING REVENUES (EXPENSES)	1,704	697	107	5,596	30	8,134
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	(4,020)	82,308	882	64,928	258	144,356
Capital Contributions and Grants	125	-	-	-	-	125
Transfers In	-	-	-	423	225	648
Transfers Out	-	(80,876)	-	(65,813)	-	(146,689)
CHANGE IN NET ASSETS	(3,895)	1,432	882	(462)	483	(1,560)
TOTAL NET ASSETS - JULY 1	55,333	2,333	13,700	989	2,458	74,813
TOTAL NET ASSETS - JUNE 30	\$ 51,438	\$ 3,765	\$ 14,582	\$ 527	\$ 2,941	\$ 73,253

STATE OF IOWA

Combining Statement of Cash Flows Nonmajor Enterprise Funds

For the Year Ended June 30, 2006
(Expressed in Thousands)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash Received From Customers	\$ 35,301	\$ 341,474	\$ 18,886	\$ 170,615	\$ 1,549	\$ 567,825
Cash Received From Miscellaneous	-	1,389	-	995	396	2,780
Cash Payments To Suppliers For Goods & Services	(25,380)	(127,372)	(17,415)	(106,395)	(285)	(276,847)
Cash Payments To Employees for Services	(7,575)	(7,997)	(1,140)	(1,619)	(1,149)	(19,480)
Cash Payments for Prizes	-	(131,445)	-	-	-	(131,445)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,346</u>	<u>76,049</u>	<u>331</u>	<u>63,596</u>	<u>511</u>	<u>142,833</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers In From Other Funds	-	-	-	404	203	607
Transfers Out To Other Funds	-	(81,210)	-	(64,788)	-	(145,998)
Tax Receipts	1,704	-	-	5,596	-	7,300
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>1,704</u>	<u>(81,210)</u>	<u>-</u>	<u>(58,788)</u>	<u>203</u>	<u>(138,091)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	(2,513)	(950)	(176)	-	(193)	(3,832)
Interest Payments	-	(246)	-	-	-	(246)
Debt Payments	-	(2,000)	-	-	-	(2,000)
Capital Contributions and Grants	125	-	-	-	-	125
Proceeds From Sale of Capital Assets	-	68	-	-	20	88
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,388)</u>	<u>(3,128)</u>	<u>(176)</u>	<u>-</u>	<u>(173)</u>	<u>(5,865)</u>

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STATE OF IOWA

(continued)

	IOWA COMMUNI- CATIONS NETWORK	IOWA LOTTERY AUTHORITY	IOWA STATE PRISON INDUSTRIES	LIQUOR CONTROL ACT	OTHER	TOTAL NONMAJOR ENTERPRISE FUNDS
CASH FLOWS FROM INVESTING						
ACTIVITIES:						
Interest & Dividends On Investments	-	802	107	-	10	919
Other	-	9,356	-	-	-	9,356
NET CASH PROVIDED BY INVESTING						
ACTIVITIES	-	10,158	107	-	10	10,275
NET INCREASE (DECREASE) IN CASH & CASH						
EQUIVALENTS	1,662	1,869	262	4,808	551	9,152
CASH & CASH EQUIVALENTS JULY 1	7,867	16,910	2,470	6,452	643	34,342
CASH & CASH EQUIVALENTS JUNE 30	9,529	18,779	2,732	11,260	1,194	43,494
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	<u>\$ 9,529</u>	<u>\$ 18,779</u>	<u>\$ 2,732</u>	<u>\$ 11,260</u>	<u>\$ 1,194</u>	<u>\$ 43,494</u>
RECONCILIATION OF OPERATING INCOME TO						
NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ (5,724)	\$ 81,611	\$ 775	\$ 59,332	\$ 228	\$ 136,222
Adjustments To Reconcile Operating Income (Loss)						
To Net Cash Provided By Operating Activities						
Depreciation	8,235	1,418	545	-	133	10,331
(Increase) Decrease In Accounts Receivable	1,202	1,762	169	(712)	(149)	2,272
(Increase) Decrease In Due From	297	-	-	-	-	297
(Increase) Decrease In Inventory	(538)	155	(724)	(158)	(21)	(1,286)
(Increase) Decrease In Prepaid Expenses	(189)	26	4	477	29	347
Increase (Decrease) In Accounts Payable	763	29	(516)	4,653	48	4,977
Increase (Decrease) In Due To	(1,618)	16	-	-	145	(1,457)
Increase (Decrease) In Unearned Revenue	(136)	182	12	-	(2)	56
Increase (Decrease) In Compensated Absences	54	46	66	4	100	270
Increase (Decrease) In Prizes Payable	-	160	-	-	-	160
Increase (Decrease) In Prize Annuity	-	(9,356)	-	-	-	(9,356)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,346</u>	<u>\$ 76,049</u>	<u>\$ 331</u>	<u>\$ 63,596</u>	<u>\$ 511</u>	<u>\$ 142,833</u>



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, 2006
(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	\$ 802	\$ 6,339	\$ 5,674	\$ 5,906	\$ 12,721	\$ 31,442
Accounts Receivable (Net)	1,825	78	86	19	2,073	4,081
Interest Receivable	-	-	-	-	2	2
Due From Other Funds/Advances						
To Other Funds	49,911	384	1,645	3,957	12,630	68,527
Inventory	-	5,780	3,928	64	1,164	10,936
Prepaid Expenses	-	56	-	1,123	524	1,703
Total Current Assets	<u>52,538</u>	<u>12,637</u>	<u>11,333</u>	<u>11,069</u>	<u>29,114</u>	<u>116,691</u>
Noncurrent Assets:						
Due From Other Funds/Advances						
To Other Funds	-	-	-	-	3,104	3,104
Capital Assets - depreciable (Net)	-	77,039	-	3,179	3,135	83,353
Total Noncurrent Assets	<u>-</u>	<u>77,039</u>	<u>-</u>	<u>3,179</u>	<u>6,239</u>	<u>86,457</u>
TOTAL ASSETS	<u>52,538</u>	<u>89,676</u>	<u>11,333</u>	<u>14,248</u>	<u>35,353</u>	<u>203,148</u>
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	18,260	1,748	1,519	1,966	4,762	28,255
Due To Other Funds/Advances						
From Other Funds	18	212	335	384	9,160	10,109
Unearned Revenue	-	-	8,630	-	-	8,630
Compensated Absences	-	298	-	1,023	1,239	2,560
Capital Leases	-	-	-	-	66	66
Total Current Liabilities	<u>18,278</u>	<u>2,258</u>	<u>10,484</u>	<u>3,373</u>	<u>15,227</u>	<u>49,620</u>
Noncurrent Liabilities:						
Accounts Payable & Accruals	34,260	-	-	-	342	34,602
Due To Other Funds/Advances						
From Other Funds	-	-	-	-	2,299	2,299
Compensated Absences	-	185	-	-	-	185
Capital Leases	-	-	-	-	161	161
Total Noncurrent Liabilities	<u>34,260</u>	<u>185</u>	<u>-</u>	<u>-</u>	<u>2,802</u>	<u>37,247</u>
TOTAL LIABILITIES	<u>52,538</u>	<u>2,443</u>	<u>10,484</u>	<u>3,373</u>	<u>18,029</u>	<u>86,867</u>
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	-	77,039	-	3,179	2,908	83,126
Unrestricted	-	10,194	849	7,696	14,416	33,155
TOTAL NET ASSETS	<u>\$ -</u>	<u>\$ 87,233</u>	<u>\$ 849</u>	<u>\$ 10,875</u>	<u>\$ 17,324</u>	<u>\$ 116,281</u>

STATE OF IOWA

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

For the Year Ended June 30, 2006
(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	\$ 19,737	\$ 1,181	\$ 7,734	\$ 22,992	\$ 47,923	\$ 99,567
Fees, Licenses & Permits	-	-	-	10	154	164
Refunds & Reimbursements	414	41,233	-	1	1,191	42,839
Sales, Rents & Services	-	-	1,821	-	12	1,833
Miscellaneous	-	4,849	-	9	42	4,900
TOTAL OPERATING REVENUES	20,151	47,263	9,555	23,012	49,322	149,303
OPERATING EXPENSES:						
Depreciation	-	11,058	-	341	235	11,634
Personal Services	-	4,692	6	10,240	12,897	27,835
Travel & Subsistence	-	8,843	-	38	8,861	17,742
Supplies & Materials	-	17,928	11	711	14,706	33,356
Contractual Services	2,218	2,352	598	5,584	9,104	19,856
Equipment & Repairs	-	3,127	9,269	6,620	1,289	20,305
Claims & Miscellaneous	17,933	8	-	12	538	18,491
Licenses, Permits & Refunds	-	13	3	-	13	29
TOTAL OPERATING EXPENSES	20,151	48,021	9,887	23,546	47,643	149,248
OPERATING INCOME (LOSS)	-	(758)	(332)	(534)	1,679	55
NONOPERATING REVENUES (EXPENSES):						
Taxes	-	23	-	-	295	318
Investment Income	-	-	-	248	52	300
Interest Expense	-	-	-	-	(2)	(2)
Gain on Sale of Capital Assets	-	-	-	211	3	214
Loss on Sale of Capital Assets	-	(96)	-	-	(59)	(155)
NET NONOPERATING REVENUES (EXPENSES)	-	(73)	-	459	289	675
INCOME (LOSS) BEFORE TRANSFERS	-	(831)	(332)	(75)	1,968	730
Transfers In	-	-	-	-	2,010	2,010
Transfers Out	-	-	(51)	-	(355)	(406)
CHANGE IN NET ASSETS	-	(831)	(383)	(75)	3,623	2,334
TOTAL NET ASSETS - JULY 1	-	88,064	1,232	10,950	13,701	113,947
TOTAL NET ASSETS - JUNE 30	\$ -	\$ 87,233	\$ 849	\$ 10,875	\$ 17,324	\$ 116,281

STATE OF IOWA

Combining Statement of Cash Flows Internal Service Funds

For the Year Ended June 30, 2006
(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	\$ 414	\$ 41,324	\$ 1,785	\$ 51	\$ 42	\$ 43,616
Cash Received From Reciprocal Interfund Activity	17,864	5,952	8,659	21,932	48,069	102,476
Cash Payments To Suppliers For Goods & Services	(18,551)	(24,165)	(9,856)	(13,062)	(24,477)	(90,111)
Cash Payments To Employees For Services	-	(13,525)	(6)	(10,190)	(21,758)	(45,479)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(273)	9,586	582	(1,269)	1,876	10,502
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Transfers In From Other Funds	-	-	-	-	2,010	2,010
Transfers Out To Other Funds	-	-	(51)	-	(355)	(406)
Interest Paid	-	-	-	-	(2)	(2)
Tax Receipts	-	23	-	-	295	318
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	23	(51)	-	1,948	1,920
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition & Construction of Capital Assets	-	(8,818)	-	(493)	(819)	(10,130)
Proceeds From Sale of Capital Assets	-	-	-	211	3	214
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	-	(8,818)	-	(282)	(816)	(9,916)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest & Dividends On Investments	-	-	-	216	50	266
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	-	-	216	50	266
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(273)	791	531	(1,335)	3,058	2,772
CASH & CASH EQUIVALENTS JULY 1	1,075	5,548	5,143	7,241	9,663	28,670
CASH & CASH EQUIVALENTS JUNE 30	802	6,339	5,674	5,906	12,721	31,442
CASH & INVESTMENTS PER STATEMENT OF NET ASSETS	\$ 802	\$ 6,339	\$ 5,674	\$ 5,906	\$ 12,721	\$ 31,442

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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)	\$ -	\$ (758)	\$ (332)	\$ (534)	\$ 1,679	\$ 55
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities						
Depreciation	-	11,058	-	341	235	11,634
(Increase) Decrease In Accounts Receivable	(1,818)	(78)	(36)	31	(1,357)	(3,258)
(Increase) Decrease In Due From	(67)	87	19	(716)	(10,577)	(11,254)
(Increase) Decrease In Inventory	-	(527)	(362)	(9)	85	(813)
(Increase) Decrease In Prepaid Expenses	-	(4)	-	(590)	323	(271)
Increase (Decrease) In Accounts Payable	1,600	(206)	125	464	828	2,811
Increase (Decrease) In Due To	12	4	262	(344)	10,552	10,486
Increase (Decrease) In Unearned Revenue	-	-	906	-	-	906
Increase (Decrease) In Compensated Absences And Other Benefits	-	10	-	88	108	206
Net Cash Provided By Operating Activities	<u>\$ (273)</u>	<u>\$ 9,586</u>	<u>\$ 582</u>	<u>\$ (1,269)</u>	<u>\$ 1,876</u>	<u>\$ 10,502</u>



COMBINING FINANCIAL STATEMENTS

Pension and Other Employee Benefit Trust Funds

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

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

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

STATE OF IOWA

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

June 30, 2006
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE TRUST FUND	SPOC INSURANCE TRUST FUND	TOTAL
ASSETS						
Cash & Cash Equivalents	\$ 101,666	\$ 10,710	\$ 11,884	\$ 654	\$ 1,714	\$ 126,628
Receivables:						
Contributions	38,414	396	45	-	-	38,855
Investments Sold	311,976	4,437	147	-	-	316,560
Foreign Exchange Contracts	60,184	-	-	-	-	60,184
Interest & Dividends	66,924	1,053	-	10	-	67,987
Total Receivables	477,498	5,886	192	10	-	483,586
Investments, at Fair Value:						
Fixed Income Securities	7,359,551	70,433	21,505	-	-	7,451,489
Equity Investments	9,043,025	132,453	56,587	-	-	9,232,065
Real Estate Partnerships	1,728,601	10,052	-	-	-	1,738,653
Investment in Private Equity/Debt	1,549,804	-	-	-	-	1,549,804
Securities Lending Collateral Pool	1,488,100	58,677	-	-	-	1,546,777
Securities on Loan with Brokers	1,454,822	57,488	-	-	-	1,512,310
Total Investments	22,623,903	329,103	78,092	-	-	23,031,098
Capital Assets:						
Land	500	-	-	-	-	500
Other Capital Assets (Net)	3,924	-	-	-	-	3,924
Total Capital Assets	4,424	-	-	-	-	4,424
Total Assets	23,207,491	345,699	90,168	664	1,714	23,645,736
LIABILITIES						
Accounts Payable & Accruals	92,283	336	132	-	5	92,756
Payable for Investments Purchased	1,222,673	7,745	3,926	-	-	1,234,344
Payable to Brokers For Rebate & Collateral	1,487,664	58,677	-	-	-	1,546,341
Total Liabilities	2,802,620	66,758	4,058	-	5	2,873,441
NET ASSETS HELD IN TRUST FOR EMPLOYEES' BENEFITS	\$ 20,404,871	\$ 278,941	\$ 86,110	\$ 664	\$ 1,709	\$ 20,772,295

STATE OF IOWA

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

For the Year Ended June 30, 2006
(Expressed in Thousands)

	IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM	PEACE OFFICERS' RETIREMENT SYSTEM	JUDICIAL RETIREMENT SYSTEM	INSURANCE TRUST FUND	SPOC INSURANCE TRUST FUND	TOTAL
ADDITIONS:						
Contributions:						
Member Contributions	\$ 211,536	\$ 3,146	\$ 1,104	\$ 337	\$ 240	\$ 216,363
Employer Contributions	324,677	5,818	2,040	-	-	332,535
Buy-Back/Buy-In Contributions	11,275	-	-	-	-	11,275
	<u>547,488</u>	<u>8,964</u>	<u>3,144</u>	<u>337</u>	<u>240</u>	<u>560,173</u>
Contributions						
Investment Income:						
Net Increase (Decrease) in Fair Value of Investments	1,657,759	20,097	4,735	(3)	-	1,682,588
Interest	291,225	8,049	1,460	34	-	300,768
Dividends	72,660	1,740	623	-	-	75,023
Other	155,404	-	-	-	-	155,404
	<u>2,177,048</u>	<u>29,886</u>	<u>6,818</u>	<u>31</u>	<u>-</u>	<u>2,213,783</u>
Investment Income						
Less Investment Expense	<u>111,527</u>	<u>3,658</u>	<u>369</u>	<u>-</u>	<u>-</u>	<u>115,554</u>
Net Investment Income	<u>2,065,521</u>	<u>26,228</u>	<u>6,449</u>	<u>31</u>	<u>-</u>	<u>2,098,229</u>
Total Additions	<u>2,613,009</u>	<u>35,192</u>	<u>9,593</u>	<u>368</u>	<u>240</u>	<u>2,658,402</u>
DEDUCTIONS:						
Pension and Annuity Benefits	924,378	16,230	5,083	-	-	945,691
Payments In Accordance with Agreements	-	-	-	811	144	955
Administrative Expense	9,321	111	5	-	-	9,437
Refunds	41,668	15	-	-	-	41,683
	<u>975,367</u>	<u>16,356</u>	<u>5,088</u>	<u>811</u>	<u>144</u>	<u>997,766</u>
Total Deductions						
Change in Net Assets held in Trust for Employees' Pension Benefits	1,637,642	18,836	4,505	(443)	96	1,660,636
Fund Balance - Reserved for Employees' Benefits - July 1	<u>18,767,229</u>	<u>260,105</u>	<u>81,605</u>	<u>1,107</u>	<u>1,613</u>	<u>19,111,659</u>
Fund Balance - Reserved for Employees' Benefits - June 30	<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>



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, 2006
(Expressed in Thousands)

	IOWA EDUCATIONAL SAVINGS PLAN TRUST	VETERANS AFFAIRS	HEALTH ORGANIZATION INSOLVENCY FUND	WAGNER AWARD FUND	BRAILLE & SIGHT SAVING SCHOOL	TOTAL
ASSETS						
Cash	\$ 1,456	\$ 388	\$ 230	\$ 12	\$ 43	\$ 2,129
Investments	1,465,787	-	-	-	-	1,465,787
Accounts Receivable (Net)	-	2	-	-	-	2
Capital Assets (Net)	3	24	-	-	-	27
Prepaid Expense	4	2	-	-	-	6
Inventory	-	13	-	-	-	13
Total Assets	<u>1,467,250</u>	<u>429</u>	<u>230</u>	<u>12</u>	<u>43</u>	<u>1,467,964</u>
LIABILITIES						
Accounts Payable & Accruals	<u>21</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>
Total Liabilities	<u>21</u>	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28</u>
NET ASSETS						
Held in Trust for Individuals, Organizations and Other Governments	<u>\$ 1,467,229</u>	<u>\$ 422</u>	<u>\$ 230</u>	<u>\$ 12</u>	<u>\$ 43</u>	<u>\$ 1,467,936</u>

STATE OF IOWA

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

For the Year Ended June 30, 2006
(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	\$ 279,708	\$ 300	\$ -	\$ -	\$ -	\$ 280,008
Gifts, Bequests, & Endowments	-	75	-	-	-	75
Contributions	279,708	375	-	-	-	280,083
Investment Income:						
Net Increase (decrease) in Fair Value of Investments	109,393	-	-	-	1	109,394
Interest	57	10	-	-	2	69
Investment Income	109,450	10	-	-	3	109,463
Total Additions	389,158	385	-	-	3	389,546
DEDUCTIONS:						
Distributions to Participants	45,623	-	-	-	-	45,623
Other	278	365	-	-	3	646
Total Deductions	45,901	365	-	-	3	46,269
Change in Net Assets held in Trust for Individuals, Organizations and Other Governments	343,257	20	-	-	-	343,277
Net Assets - July 1	1,123,972	402	230	12	43	1,124,659
Net Assets - June 30	\$ 1,467,229	\$ 422	\$ 230	\$ 12	\$ 43	\$ 1,467,936



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, 2006
(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	\$ 403	\$ 1,124	\$ 21,939	\$ 65,886	\$ 29,292	\$ 118,644
Accounts Receivable (Net)	96,240	33,735	-	6,328	51,282	187,585
Total Assets	\$ 96,643	\$ 34,859	\$ 21,939	\$ 72,214	\$ 80,574	\$ 306,229
LIABILITIES						
Accounts Payable & Accruals	\$ 96,643	\$ 34,859	\$ 21,939	\$ 72,214	\$ 80,574	\$ 306,229
Total Liabilities	\$ 96,643	\$ 34,859	\$ 21,939	\$ 72,214	\$ 80,574	\$ 306,229

STATE OF IOWA

Combining Statement of Changes in Assets and Liabilities Agency Funds

For the Year Ended June 30, 2006
(Expressed in Thousands)

	BALANCE JULY 1, 2005	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2006
<u>LOCAL SALES & SERVICES TAX FUND</u>				
ASSETS				
Cash	\$ 273	\$ 496,215	\$ 496,085	\$ 403
Accounts Receivable	77,711	96,240	77,711	96,240
Total Assets	\$ 77,984	\$ 592,455	\$ 573,796	\$ 96,643
LIABILITIES				
Accounts Payable & Accruals	\$ 77,984	\$ 592,455	\$ 573,796	\$ 96,643
Total Liabilities	\$ 77,984	\$ 592,455	\$ 573,796	\$ 96,643
<u>CENTRALIZED PAYROLL TRUSTEE FUND</u>				
ASSETS				
Cash	\$ 6,809	\$ 653,872	\$ 659,557	\$ 1,124
Accounts Receivable	31,338	33,735	31,338	33,735
Total Assets	\$ 38,147	\$ 687,607	\$ 690,895	\$ 34,859
LIABILITIES				
Accounts Payable & Accruals	\$ 38,147	\$ 687,607	\$ 690,895	\$ 34,859
Total Liabilities	\$ 38,147	\$ 687,607	\$ 690,895	\$ 34,859
<u>JUDICIAL-CLERKS OF DISTRICT COURT</u>				
ASSETS				
Cash	\$ 17,207	\$ 296,583	\$ 291,851	\$ 21,939
Total Assets	\$ 17,207	\$ 296,583	\$ 291,851	\$ 21,939
LIABILITIES				
Accounts Payable & Accruals	\$ 17,207	\$ 296,583	\$ 291,851	\$ 21,939
Total Liabilities	\$ 17,207	\$ 296,583	\$ 291,851	\$ 21,939
<u>SCHOOL DISTRICT SURTAX CLEARING</u>				
ASSETS				
Cash	\$ 62,498	\$ 72,753	\$ 69,365	\$ 65,886
Accounts Receivable	3,424	6,328	3,424	6,328
Total Assets	\$ 65,922	\$ 79,081	\$ 72,789	\$ 72,214
LIABILITIES				
Accounts Payable & Accruals	\$ 65,922	\$ 79,081	\$ 72,789	\$ 72,214
Total Liabilities	\$ 65,922	\$ 79,081	\$ 72,789	\$ 72,214
<u>OTHER AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 30,513	\$ 1,135,081	\$ 1,136,302	\$ 29,292
Accounts Receivable	51,637	51,207	51,562	51,282
Total Assets	\$ 82,150	\$ 1,186,288	\$ 1,187,864	\$ 80,574
LIABILITIES				
Accounts Payable & Accruals	\$ 82,150	\$ 1,186,288	\$ 1,187,864	\$ 80,574
Total Liabilities	\$ 82,150	\$ 1,186,288	\$ 1,187,864	\$ 80,574
<u>TOTAL AGENCY FUNDS</u>				
ASSETS				
Cash	\$ 117,300	\$ 2,654,504	\$ 2,653,160	\$ 118,644
Accounts Receivable	164,110	187,510	164,035	187,585
Total Assets	\$ 281,410	\$ 2,842,014	\$ 2,817,195	\$ 306,229
LIABILITIES				
Accounts Payable & Accruals	\$ 281,410	\$ 2,842,014	\$ 2,817,195	\$ 306,229
Total Liabilities	\$ 281,410	\$ 2,842,014	\$ 2,817,195	\$ 306,229



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

STATE OF IOWA

Net Assets by Component

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

	Fiscal Year				
	2002	2003*	2004	2005	2006
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
Restricted	1,255,497	1,373,913	1,382,417	1,209,109	1,190,851
Unrestricted	532,098	(257,172)	(52,741)	133,884	282,317
Total governmental activities net assets	<u>\$ 6,915,418</u>	<u>\$ 6,487,669</u>	<u>\$ 6,794,711</u>	<u>\$ 7,024,401</u>	<u>\$ 7,351,736</u>
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
Restricted	1,212,368	1,123,665	1,181,164	1,221,333	1,353,063
Unrestricted	199,143	804,879	748,682	761,180	785,313
Total business-type activities	<u>\$ 2,735,918</u>	<u>\$ 3,457,474</u>	<u>\$ 3,551,266</u>	<u>\$ 3,765,998</u>	<u>\$ 4,012,387</u>
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
Restricted	2,467,865	2,497,578	2,563,581	2,430,442	2,543,914
Unrestricted	731,241	547,707	695,941	895,064	1,067,630
Total primary government net assets	<u>\$ 9,651,336</u>	<u>\$ 9,945,143</u>	<u>\$ 10,345,977</u>	<u>\$ 10,790,399</u>	<u>\$ 11,364,123</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 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

Changes in Net Assets

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

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

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Changes in Net Assets

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

	Fiscal Year				
	2002	2003*	2004	2005**	2006
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
Corporate Income	111,724	148,214	97,769	176,997	283,112
Sales & Use	1,686,384	1,635,551	1,688,943	1,761,195	1,866,864
Other	598,222	563,751	598,165	596,707	592,888
Restricted for Transportation Purposes:					
Motor Fuel	457,989	464,069	435,358	482,194	440,652
Road Use	255,749	246,238	252,269	252,599	247,125
Unrestricted Investment Earnings	97,704	65,852	62,086	72,166	98,269
Contribution to Permanent Fund Principal	1,450	27	12	62	262
Gain/(Loss) on Sale of Assets	856	(1,685)	671	972	-
Other	73,539	140,672	166,328	129,486	29,810
Transfers	666,765	112,474	122,096	(501,415)	(480,654)
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
Business-type Activities:					
Other Taxes	\$ 8,757	\$ 10,258	\$ -	\$ -	\$ 7,300
Unrestricted Investment Earnings	66,294	95,215	88,881	88,036	93,651
Other	195,627	78,133	58,061	43,102	68,209
Gain/(Loss) on Sale of Assets	(7,491)	(11,264)	7	3	4,169
State Aid to Universities	675,077	681,288	635,488	-	-
Transfers	(666,765)	(112,474)	(122,096)	501,415	480,654
Total Business-type Activities	\$ 271,499	\$ 741,156	\$ 660,341	\$ 632,556	\$ 653,983
Changes in Net Assets					
Governmental activities	\$ 715,986	\$ 149,018	\$ 307,042	\$ 229,690	327,335
Business-type Activities	(395,870)	134,497	93,792	214,732	246,389
Total primary government	\$ 320,116	\$ 283,515	\$ 400,834	\$ 444,422	\$ 573,724

* 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

Fund Balances of Governmental Funds

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

	Fiscal Year				
	2002	2003*	2004	2005	2006
General Fund					
Reserved	\$ 1,409,695	\$ 1,478,105	\$ 1,431,087	\$ 1,364,588	\$ 1,202,023
Unreserved	316,767	180,780	445,627	559,864	897,708
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>
All Other Governmental Funds					
Reserved	\$ 533,606	\$ 474,011	\$ 377,317	\$ 305,386	\$ 419,404
Unreserved, reported in:					
Special revenue funds	31,584	74,762	97,916	83,978	62,224
Capital projects funds	3,101	1,163	2,890	4,010	2,056
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>

* 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			
	1997	1998	1999	2000
Revenues				
Taxes	\$ 5,042,531	\$ 5,304,243	\$ 5,394,206	\$ 5,725,416
Receipts from other entities	2,113,538	2,141,475	2,304,812	2,638,996
Investment income	81,212	102,804	89,797	84,798
Fees, licenses and permits	438,849	470,968	504,882	527,687
Refunds and reimbursement	186,697	180,994	176,285	259,611
Sales, rents and services	11,420	12,091	15,924	17,764
Miscellaneous	55,772	66,223	78,233	104,369
Contributions	-	-	-	-
Gross Revenues	7,930,019	8,278,798	8,564,139	9,358,641
Less revenue refunds	454,442	519,292	568,831	585,580
Total Revenues	7,475,577	7,759,506	7,995,308	8,773,061
Expenditures				
Administration & Regulation	-	-	-	-
General Government & Regulation	822,372	782,362	889,787	943,355
Education	2,130,301	2,233,579	2,320,096	2,476,234
State aid to universities*	-	-	-	-
Health & Human Rights	-	-	-	-
Human Services	-	-	-	-
Health & Human Services	2,170,097	2,389,458	2,487,124	2,658,728
Justice & Public Defense	-	-	-	-
Law, Justice & Public Safety	465,623	504,596	559,546	604,067
Economic Development	158,382	161,905	172,962	183,675
Transportation	782,816	803,174	857,384	1,071,919
Agricultural & Natural Resources	109,664	113,238	129,541	144,150
Capital Outlay	72,273	58,068	31,082	34,499
Debt Service:				
Bond Principal Payment	-	-	-	-
Bond Interest & Fiscal Charges	-	-	-	-
Total Expenditures	6,711,528	7,046,380	7,447,522	8,116,627
Excess of revenues over (under) Expenditures	764,049	713,126	547,786	656,434
Other Financing Sources (Uses)				
Transfers In	138,766	157,766	140,148	157,772
Transfers Out	(676,412)	(762,285)	(756,028)	(777,439)
Leases, Installment Purchases & Other	261	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)	(537,385)	(603,912)	(613,781)	(618,543)
Net change in fund balances	\$ 226,664	\$ 109,214	\$ (65,995)	\$ 37,891
Debt Service as a percentage of non capital expenditures	N/A	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

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

STATE OF IOWA

Tax Revenue By Source - Governmental Funds

For the Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Individual	\$ 2,124,845	\$ 2,301,933	\$ 2,230,147	\$ 2,412,936	\$ 2,549,297	\$ 2,381,482	\$ 2,424,011	\$ 2,609,843	\$ 2,799,745	\$ 2,876,413
Sales	1,238,051	1,276,714	1,380,101	1,427,683	1,319,878	1,460,404	1,434,033	1,475,261	1,498,893	1,600,799
Use Tax	447,001	479,530	492,380	518,055	502,803	514,242	516,400	539,071	578,255	557,841
Fuel Tax	428,003	436,953	449,619	462,290	449,032	457,489	463,703	476,985	528,208	490,470
Corporate Tax	307,054	291,139	322,469	331,463	276,947	234,354	221,367	239,569	281,101	370,333
Inheritance Tax	107,061	108,269	88,121	116,394	108,515	94,746	85,124	82,431	77,003	71,640
Insurance Premium Tax	105,956	108,869	114,345	120,212	126,402	135,582	140,939	139,275	131,183	121,428
Cigarette & Tobacco Tax	100,379	100,704	99,012	97,510	96,295	95,089	95,758	95,085	96,077	98,936
Wagering Tax	127,293	60,152	161,567	182,364	190,397	209,319	182,201	219,461	238,065	249,183
Franchise Tax	34,967	35,564	33,220	31,921	31,842	31,379	35,253	36,292	36,593	35,007
Beer Tax	12,558	12,709	13,249	13,637	13,478	13,774	13,961	14,104	14,070	14,277
Other	9,363	9,001	9,976	10,951	14,454	18,645	11,557	12,209	6,237	4,932
Gross Taxes	5,042,531	5,221,537	5,394,206	5,725,416	5,679,340	5,646,505	5,624,307	5,939,586	6,285,430	6,491,259
Less Refunds	393,102	456,723	510,797	521,802	552,093	662,872	647,825	712,737	689,874	576,733
Net Taxes	\$ 4,649,429	\$ 4,764,814	\$ 4,883,409	\$ 5,203,614	\$ 5,127,247	\$ 4,983,633	\$ 4,976,482	\$ 5,226,849	\$ 5,595,556	\$ 5,914,526

Source: State Accounting System.



STATE OF IOWA

Retail Sales By Business Classification

Sales Tax Annual Period April 1 Through March 31 of the following year 1999 through 2006

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

Sales tax rate has remained at 5% since 1992

Source: Iowa Retail Sales & Use Tax Report

Compiled by the Department of Revenue
Tax Research and Fiscal Analysis Section

STATE OF IOWA

2002		2003		2004		2005		2006	
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>
13,220	\$ 3,953,930	12,738	\$ 4,101,154	13,057	\$ 3,736,575	13,276	\$ 3,472,773	13,608	\$ 3,480,731
7,498	1,973,033	7,137	2,020,801	6,988	2,209,564	6,840	2,382,479	6,744	2,496,945
7,889	4,579,962	7,412	4,664,047	7,183	4,733,819	6,988	4,887,726	6,645	4,851,712
6,295	1,250,659	6,229	1,283,585	6,254	1,317,366	6,299	1,358,506	6,325	1,415,821
15,277	1,505,792	14,662	1,506,153	14,485	1,598,737	14,381	1,611,626	14,251	1,686,072
5,894	703,552	5,671	697,113	5,503	708,476	5,567	742,213	5,786	793,065
9,058	1,176,072	8,397	1,186,576	8,036	1,287,449	7,879	1,382,500	7,509	1,440,372
26,503	2,465,627	26,349	2,500,868	26,377	2,575,410	26,711	2,710,571	27,439	2,895,134
66,258	2,104,698	60,449	2,098,701	58,988	2,201,556	58,479	2,233,187	56,820	2,349,683
109,870	3,659,775	104,259	3,726,722	103,227	3,650,972	104,669	3,775,677	105,712	4,021,968
23,823	2,363,712	21,781	2,266,911	20,156	2,232,352	19,467	2,357,267	18,759	2,486,270
81,088	2,709,818	78,186	2,652,267	74,709	2,847,004	75,087	2,890,776	71,340	3,190,615
372,673	\$ 28,446,630	353,270	\$ 28,704,898	344,963	\$ 29,099,280	345,643	\$ 29,805,301	340,938	\$ 31,108,388

STATE OF IOWA

Ratios of Outstanding Debt by Type

For the Last Ten Fiscal Years
(Expressed in Thousands Except Per Capita)

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage of Personal Income Per Capita	
	Revenue Bond	Capital Leases	Loans & Contracts	Certificates of Participation	Revenue Bond	Capital Leases	Loans & Contracts	Certificates of Participation			
1997	\$ 193,885	\$ 5,287	\$ 1,044	\$ 15,052	\$ 486,254	\$ 30,778	\$ 5,328	\$ 114,519	\$ 852,147	1.32%	299
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

* 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 9).

Source: Comprehensive Annual Financial Report.

STATE OF IOWA

Revenue Bond Coverage

For the Last Ten Years

Governmental Activities – Special Revenue Fund

(Expressed in Thousands)

Tobacco Settlement Authority

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service					
				Principal	Interest	Total	Coverage		
1997- 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		

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			
				Principal	Interest	Total	Coverage
1997	\$ 76,815,781	\$ 63,281,710	\$ 13,534,071	\$ 3,856,000	\$ 1,094,768	\$ 4,950,768	2.73
1998	80,276,177	63,400,748	16,875,429	3,971,000	1,081,140	5,052,140	3.34
1999	83,893,508	63,290,354	20,603,154	4,605,000	2,122,465	6,727,465	3.06
2000	91,042,319	65,815,359	25,226,960	5,981,000	4,460,223	10,441,223	2.42
2001	100,830,624	73,424,183	27,406,441	6,666,000	6,376,485	13,042,485	2.10
2002	108,617,489	79,402,358	29,215,131	8,086,000	7,674,299	15,760,299	1.85
2003	113,836,368	82,975,088	30,861,280	9,367,000	7,340,705	16,707,705	1.85
2004	112,394,878	83,882,964	28,511,914	8,257,000	10,225,965	18,482,965	1.54
2005	121,230,692	92,438,679	28,792,013	10,032,000	9,336,680	19,368,680	1.49
2006	127,115,908	91,162,666	35,953,242	9,982,000	8,754,750	18,736,750	1.92

Athletic/Mutipurpose/Academic Facilities Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service			
				Principal	Interest	Total	Coverage
1997	\$ 116,004,579	\$ 4,374,250	\$ 111,630,329	\$ 7,602,125	\$ 6,141,578	\$ 13,743,703	8.12
1998	119,933,087	4,360,907	115,572,180	8,001,066	5,791,287	13,792,353	8.38
1999	126,341,111	4,579,786	121,761,325	8,258,924	5,675,284	13,934,208	8.74
2000	132,249,308	4,924,730	127,324,578	8,503,354	5,460,915	13,964,269	9.12
2001	138,820,223	5,442,838	133,377,385	8,836,560	5,236,003	14,072,563	9.48
2002	157,240,402	6,507,961	150,732,441	9,354,570	5,162,980	14,517,550	10.38
2003	185,142,936	6,868,499	178,274,437	7,581,000	5,320,988	12,901,988	13.82
2004	210,124,076	6,183,811	203,940,265	7,466,284	5,763,082	13,229,366	15.42
2005	226,961,925	6,998,778	219,963,147	6,006,060	7,134,539	13,140,599	16.74
2006	237,641,714	9,087,430	228,554,284	6,301,745	9,507,206	15,808,951	14.46

STATE OF IOWA

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	
1997	\$ 13,588,776	\$ 9,378,689	\$ 4,210,087	\$ 780,000	\$ 857,692	\$ 1,637,692	2.57
1998	23,782,121	15,787,567	7,994,554	1,455,000	1,007,949	2,462,949	3.25
1999	23,453,618	15,593,311	7,860,307	1,485,000	980,446	2,465,446	3.19
2000	23,471,929	15,031,117	8,440,812	1,550,000	923,538	2,473,538	3.41
2001	27,819,690	17,267,736	10,551,954	2,350,000	1,519,173	3,869,173	2.73
2002	26,383,820	18,409,553	7,974,267	2,450,000	1,498,877	3,948,877	2.02
2003	26,831,745	16,036,342	10,795,403	2,565,000	1,391,103	3,956,103	2.73
2004	25,316,220	17,711,572	7,604,648	3,145,000	1,205,103	4,350,103	1.75
2005	24,551,275	16,449,473	8,101,802	3,270,000	1,069,176	4,339,176	1.87
2006	25,544,450	16,451,131	9,093,319	3,370,000	958,771	4,328,771	2.10

Student Health Facility Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1997	\$ 2,862,238	\$ 936,009	\$ 1,926,229	\$ 180,000	\$ 310,306	\$ 490,306	3.93
1998	4,312,188	2,786,542	1,525,646	370,000	412,963	782,963	1.95
1999	4,395,583	3,041,692	1,353,891	385,000	397,515	782,515	1.73
2000	4,763,942	3,255,673	1,508,269	405,000	381,033	786,033	1.92
2001	4,896,818	3,484,041	1,412,777	420,000	363,193	783,193	1.80
2002	5,204,381	3,729,121	1,475,260	440,000	340,163	780,163	1.89
2003	5,798,079	3,851,479	1,946,600	460,000	320,231	780,231	2.49
2004	6,303,241	4,524,267	1,778,974	480,000	299,232	779,232	2.28
2005	8,874,465	6,503,983	2,370,482	645,000	421,149	1,066,149	2.22
2006	10,057,427	7,550,254	2,507,173	675,000	392,541	1,067,541	2.35

Utility System Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1997	\$ 58,721,211	\$ 43,174,551	\$ 15,546,660	\$ 3,380,000	\$ 4,944,838	\$ 8,324,838	1.87
1998	60,824,062	44,712,668	16,111,394	3,580,000	4,739,795	8,319,795	1.94
1999	62,277,738	46,114,494	16,163,244	4,135,000	4,804,775	8,939,775	1.81
2000	62,856,646	48,076,574	14,780,072	3,400,000	4,144,786	7,544,786	1.96
2001	70,145,668	51,663,023	18,482,645	4,080,000	3,350,911	7,430,911	2.49
2002	88,433,703	70,946,936	17,486,767	4,370,000	3,849,509	8,219,509	2.13
2003	74,477,952	54,174,778	20,303,174	5,155,000	3,422,835	8,577,835	2.37
2004	77,307,581	54,751,123	22,556,458	5,295,000	4,389,517	9,684,517	2.33
2005	82,346,578	59,635,943	22,710,635	6,435,000	4,419,734	10,854,734	2.09
2006	89,162,473	66,941,245	22,221,228	7,135,000	5,374,998	12,509,998	1.78

STATE OF IOWA

Revenue Bond Coverage

For the Last Ten Years

Business Type Activities – University Funds

Parking System Revenue Bonds

				Debt Service			
	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Principal	Interest	Total	Coverage
1997	\$ 6,878,129	\$ 3,726,038	\$ 3,152,091	\$ 700,000	\$ 316,650	\$ 1,016,650	3.10
1998	7,497,050	4,020,696	3,476,354	750,000	277,150	1,027,150	3.38
1999	8,387,412	4,500,990	3,886,422	835,000	234,000	1,069,000	3.64
2000	9,243,734	4,503,851	4,739,883	1,240,000	505,291	1,745,291	2.72
2001	10,054,770	5,668,553	4,386,217	1,275,000	520,620	1,795,620	2.44
2002	10,049,839	6,296,083	3,753,756	1,340,000	436,660	1,776,660	2.11
2003	14,105,470	8,355,493	5,749,977	590,000	685,688	1,275,688	4.51
2004	14,414,350	9,690,321	4,724,029	635,000	1,129,134	1,764,134	2.68
2005	15,898,523	8,999,412	6,899,111	655,000	1,453,384	2,108,384	3.27
2006	16,825,505	10,732,446	6,093,059	1,320,000	1,420,137	2,740,137	2.22

Recreational/Regulated Materials Facility Revenue Bonds

				Debt Service			
	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Principal	Interest	Total	Coverage
1997	\$ 2,748,074	\$ 99,523	\$ 2,648,551	\$ 735,000	\$ 643,570	\$ 1,378,570	1.92
1998	2,807,743	82,854	2,724,889	780,000	602,506	1,382,506	1.97
1999	2,553,732	91,164	2,462,568	835,000	570,517	1,405,517	1.75
2000	2,553,134	107,139	2,445,995	850,000	535,557	1,385,557	1.77
2001	2,126,412	157,433	1,968,979	890,000	502,015	1,392,015	1.41
2002	2,265,134	148,239	2,116,895	950,000	461,358	1,411,358	1.50
2003	2,402,496	187,019	2,215,477	995,000	419,160	1,414,160	1.57
2004	3,418,105	151,659	3,266,446	1,050,000	545,108	1,595,108	2.05
2005	3,743,620	155,928	3,587,692	1,400,000	521,204	1,921,204	1.87
2006	3,938,376	154,369	3,784,007	1,465,000	438,978	1,903,978	1.99

Memorial/Maucker Union Revenue Bonds

				Debt Service			
	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Principal	Interest	Total	Coverage
1997	\$ 21,040,267	\$ 19,725,429	\$ 1,314,838	\$ 325,000	\$ 430,050	\$ 755,050	1.74
1998	21,713,070	20,430,739	1,282,331	350,000	410,987	760,987	1.69
1999	22,486,201	21,104,809	1,381,392	375,000	390,400	765,400	1.80
2000	23,618,087	22,315,896	1,302,191	400,000	368,288	768,288	1.69
2001	22,370,786	20,948,024	1,422,762	425,000	344,650	769,650	1.85
2002	27,208,164	23,657,013	3,551,151	470,000	288,088	758,088	4.68
2003	30,515,004	26,032,039	4,482,965	1,010,000	679,043	1,689,043	2.65
2004	30,140,916	28,122,091	2,018,825	1,050,000	657,168	1,707,168	1.18
2005	37,284,842	32,054,721	5,230,121	1,100,000	1,494,716	2,594,716	2.02
2006	38,367,277	30,738,381	7,628,896	2,065,000	2,012,605	4,077,605	1.87

STATE OF IOWA
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	
1997	\$ 473,454,628	\$ 390,468,868	\$ 82,985,760	\$ 3,125,000	\$ 1,559,031	\$ 4,684,031	17.72
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	782,445,185	677,670,962	104,774,223	580,000	1,118,889	1,698,889	61.67

Center For University Advancement Revenue Bonds

	Gross Revenues	Less: Operating Expenses	Net Available Revenues	Debt Service			Coverage
				Principal	Interest	Total	
1997	\$ 1,175,826	\$ -	\$ 1,175,826	\$ -	\$ 774,158	\$ 774,158	1.52
1998	1,283,220	-	1,283,220	490,000	774,158	1,264,158	1.02
1999	1,485,177	-	1,485,177	730,000	762,520	1,492,520	1.00
2000	1,481,951	-	1,481,951	770,000	733,545	1,503,545	0.99
2001	1,489,440	-	1,489,440	810,000	697,920	1,507,920	0.99
2002	1,526,453	-	1,526,453	850,000	620,353	1,470,353	1.04
2003	1,494,928	-	1,494,928	895,000	578,473	1,473,473	1.01
2004	1,427,308	30,373	1,396,935	945,000	533,840	1,478,840	0.94
2005	1,160,515	17,726	1,142,789	530,000	396,475	926,475	1.23
2006	896,233	-	896,233	510,000	376,975	886,975	1.01

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

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

STATE OF IOWA

Demographic and Economic Statistics

Last Ten Calendar Years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Population (<i>in thousands</i>)	2,848	2,852	2,862	2,869	2,926	2,923	2,937	2,944	2,954	2,966
Personal Income (<i>in millions</i>)	\$63,597	\$65,896	\$68,473	\$73,500	\$78,200	\$79,753	\$83,051	\$85,506	\$90,289	95,858
Per Capita Personal Income	\$22,330	\$23,105	\$23,925	\$25,619	\$26,726	\$27,285	\$28,277	\$29,044	\$30,565	\$32,315

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

Civilian Labor Force (<i>in thousands</i>)	1,599.0	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
Resident Employment (<i>in thousands</i>)	1,539.0	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
Resident Unemployed (<i>in thousands</i>)	60.0	51.4	43.5	40.2	40.9	53.0	66.8	72.2	78.4	75.7
Percent Unemployed	3.8	3.3	2.8	2.6	2.6	3.3	4.0	4.5	4.5	4.6

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

Construction	60.2	62.2	65.5	68.0	66.0	66.2	66.3	66.6	68.4	71.2
Manufacturing	234.8	239.1	250.9	252.8	251.5	240.2	227.5	220.0	222.9	229.5
Trade, Transportation and Utilities	299.2	303.4	308.6	313.6	315.8	311.3	304.9	303.1	305.6	306.8
Information	33.8	34.5	35.7	38.7	40.4	37.4	35.2	33.7	33.5	33.3
Financial Activities	80.0	81.5	86.3	89.0	89.7	92.0	94.0	95.4	96.7	98.3
Professional and Business	96.0	99.9	104.3	106.7	107.6	107.3	105.7	105.2	107.2	112.6
Education and health	170.8	176.0	176.0	178.0	181.9	185.4	188.0	189.8	191.4	195.3
Leisure and Hospitality	120.6	121.5	124.1	126.0	125.5	124.1	124.5	125.5	127.6	129.6
Other Services	55.2	54.4	55.3	56.4	56.8	56.3	56.8	56.2	56.3	56.2
Government	232.9	234.6	236.2	239.5	243.3	245.2	244.2	244.8	244.3	245.5
Total Non-Agricultural Employment	1,383.5	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

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

Significant Classes of Assets By Function

Capital Intensive Departments Only
Last Five Years

	2002	2003	2004	2005	2006
<u>Administration & Regulation</u>					
<i>Department of Administrative Services</i>					
Land (Acres)	133	133	133	133	133
Buildings & Improvements (Square Footage)	1,210,406	1,210,406	1,210,406	1,210,406	1,210,406
Machinery & Equipment	612	556	594	619	580
<i>Department of Alcoholic Beverages</i>					
Land (Acres)	15	15	15	15	15
Buildings & Improvements (Square Footage)	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
Buildings & Improvements (Square Footage)	119,800	119,800	119,800	119,800	119,800
Machinery & Equipment	524	532	544	583	572
<i>Iowa Braille and Sight Saving School</i>					
Land (Acres)	70	70	70	70	70
Buildings & Improvements (Square Footage)	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
<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
Machinery & Equipment	221	221	221	221	221
<i>Veterans Home</i>					
Land (Acres)	158	158	158	158	258
Buildings & Improvements (Square Footage)	742,041	742,041	742,041	742,041	742,041
Machinery & Equipment	182	217	218	225	218
<i>Department of Health</i>					
Machinery & Equipment	205	249	278	311	335
<u>Human Services</u>					
<i>Department of Human Services and Institutions</i>					
Land (Acres)	2,824	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
Machinery & Equipment	1,311	1,318	1,404	1,377	1,424

Source: Information Provided by the Departments.

STATE OF IOWA

Significant Classes of Assets By Function

Capital Intensive Departments Only
Last Five Years

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

Source: Information Provided by the Departments.

STATE OF IOWA

Operating Indicators by Function

Last Five Fiscal Years or as Identified

	2002	2003	2004	2005	2006
<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
Number of State payroll warrants processed*	509,412	498,577	510,463	510,558	524,984
<u>Education</u>					
<i>Department of Education</i>					
Enrollment:					
Public Schools	489,523	487,021	485,011	483,335	483,105
Universities	70,661	71,521	70,566	68,949	67,896
Community Colleges	68,790	73,947	78,292	81,803	82,499
<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
<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
Average Number of Medicaid Recipients	245,781	263,690	281,212	297,376	297,000
<u>Justice & Public Defense</u>					
<i>Department of Corrections</i>					
Average Number of Inmates	8,064	8,375	8,547	8,547	8,721
<u>Economic Development</u>					
<i>Department of Economic Development</i>					
Number of Community Development Block Grant/Home Projects Funded	131	118	116	115	110
<i>Iowa Workforce Development</i>					
Number of Unemployment Claims Accepted (Calendar Year)	111,411	113,570	88,976	91,540	INA
Unemployment Insurance Regular Benefits Paid (In Millions, Calendar Year)	366.7	381.5	312.5	296.3	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
Vehicles weighed (in thousands, Federal Fiscal Year)	INA	1,012	1,005	964	921
<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

* 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

Principal Non Governmental Employers

Prior Calendar Year and Nine Years Ago

CALENDAR YEAR 2005

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

CALENDAR YEAR 1996

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	Finance and Insurance
5	Rockwell Collins	Machinery Manufacturer
6	Iowa Beef Processors, Inc.	Meat Packer
7	Central Iowa Health Systems	Hospital/Des Moines
8	APAC Teleservices, Inc.	Telemarketing
9	Mercy Hospital Medical Center	Hospital/Des Moines
10	K Mart Corp.	Retail General Merchandise

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

Note: Based on 2005 calendar year annual average employment.

Source: Iowa Workforce Development.

STATE OF IOWA

Number of Employees – Primary Government

Last Five Years

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

Source: Department of Administrative Services.



STATE OF IOWA

Schedule of Current Expenditures General Fund

Year Ended June 30, 2006

(Expressed in Thousands)

	Personal Services	Travel & Subsistence	Supplies	Contractual Services	Equipment & Repairs
Administration & Regulation	\$ 132,740	\$ 5,942	\$ 6,725	\$ 52,242	\$ 6,551
Education	59,725	1,547	5,412	28,835	4,174
Health & Human Rights	95,449	2,413	10,006	198,388	4,975
Human Services	324,699	4,745	22,330	130,836	9,018
Justice & Public Defense	510,365	12,692	34,775	110,357	40,779
Economic Development	62,036	1,724	1,966	42,020	3,336
Transportation	203,085	22,398	32,350	89,529	11,585
Agriculture & Natural Resources	92,394	6,232	6,490	32,574	8,823
Total Primary Government	<u>\$ 1,480,493</u>	<u>\$ 57,693</u>	<u>\$ 120,054</u>	<u>\$ 684,781</u>	<u>\$ 89,241</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

Claims & Miscellaneous	Licenses Permits & Refunds	State Aid	Plant Improvement	Adjustments	Current Total Expenditures
\$ 291,218	\$ 32	\$ 202,680	\$ 21,098	\$ 175,949	\$ 895,177
4,546	28	2,763,386	362	19,676	2,887,691
372	4	54,320	-	(6,239)	359,688
7,546	15	3,531,360	460	(111,679)	3,919,330
5,799	115	27,283	14,449	(61,426)	695,188
6,136	8	102,446	-	(10,007)	209,665
111,243	66	32,210	711,456	(831,747)	382,175
772	6	15,896	8,570	(20,520)	151,237
<hr/>					
\$ 427,632	\$ 274	\$ 6,729,581	\$ 756,395	\$ (845,993)	\$ 9,500,151
<hr/>					

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

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