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IOWA STATE UNIVERSITY

FINANCIAL REPORT

For the year ended June 30, 2007

On the cover:

What We Love About Iowa State was commissioned by Iowa State University in 2007 to commemorate its Sesquicentennial celebration in 2007-2008. Sticks, Inc. owner and artist Sarah Grant created the large art mural, 6'x 8', using ideas submitted by Iowa State students, faculty, staff and alumni. It is currently on exhibit in the Parks Library, main floor.

Art On Campus Collection, University Museums, Iowa State University, Ames, Iowa U2007.34

UNIVERSITY OFFICIALS

BOARD OF REGENTS, STATE OF IOWA

For the year ended June 30, 2007

Iowa State University provides this Management's Discussion and Analysis as a narrative overview of the financial activities of the university for the year ended June 30, 2007, along with comparative data for the years ended June 30, 2006, and 2005. Readers are encouraged to consider this information in conjunction with the university's financial statements that follow.

Iowa State University follows GASB Statement No. 39 which requires the primary government to discretely present, within its own statements, the financial statements of certain component units. As explained in Note 1B3, the Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") are a legally separate, tax-exempt component unit of the university and, accordingly, the combined financial statements are discretely presented with those of the university. However, since the assets of the Foundation are the exclusive property of the Foundation and do not belong to the university, a discussion of these assets is not included in this Management's Discussion and Analysis.

USING THIS ANNUAL REPORT

This analysis is intended to serve as an introduction to Iowa State University's basic financial statements. These basic financial statements consist of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These provide information on the university as a whole and present both a short term as well as a longer term view of the university's financial position. These basic financial statements also include the Notes to the Financial Statements which explain and provide further detail of the basic statements.

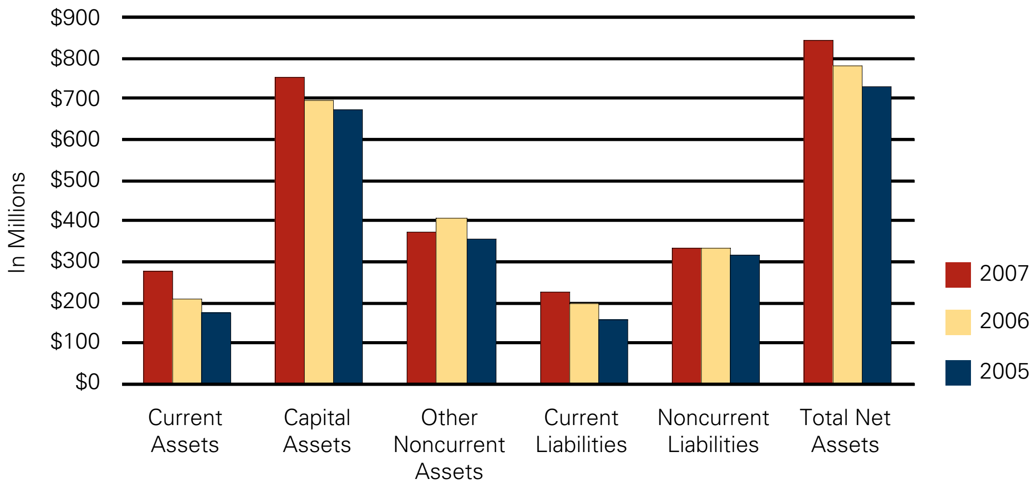
THE UNIVERSITY AS A WHOLE

Statement of Net Assets

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. Net Assets—the difference between assets and liabilities—is one indicator of the current financial condition of the university, while the change in net assets (shown on the next statement) is an indicator of whether the overall financial condition has improved during the year. The Statement of Net Assets is also a good source for readers to determine how much the university owes to outside vendors, investors, and lending institutions. Similarly, the Statement presents the available assets that can be used to satisfy those liabilities.

	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Current Assets	$ 276,948,838	$ 209,454,433	$ 176,888,165
Capital Assets	755,060,122	695,658,025	671,676,503
Other Noncurrent Assets	372,746,857	406,452,276	357,216,970
Total Assets	1,404,755,817	1,311,564,734	1,205,781,638
Current Liabilities	225,434,219	199,597,639	155,926,064
Noncurrent Liabilities	335,344,550	333,318,463	319,722,346
Total Liabilities	560,778,769	532,916,102	475,648,410
Total Net Assets	$ 843,977,048	$ 778,648,632	$ 730,133,228

Total assets at June 30, 2007, were $1.4 billion, which is $93.2 million higher than the prior year. Net capital assets comprised $755.1 million of the $1.4 billion in assets, which is a similar proportion to that of 2006. Total liabilities were $560.8 million at June 30, 2007, an increase of $27.9 million. The comparison of current and noncurrent assets, liabilities, and net assets as of June 30, 2007, 2006, and 2005 is shown above. The proportional increases in assets and liabilities are explained in more detail in the Changes in Net Assets section.



Changes in Net Assets

Net assets increased $65.3 million, or 8.4%, for the year. Generally, an increase in net assets indicates that the financial condition has improved over the year, at least on a short-term basis. Significant changes in net assets occurred in the following areas:

- Cash and cash equivalents plus investments increased $21.4 million in 2007. This was due to construction funds on hand from a recent issue of Academic Building Revenue Bonds combined with significant increases in investment values over the prior year.
- Capital assets, net of depreciation, increased $59.4 million. Capital assets are discussed in greater detail later in this Management's Discussion & Analysis.
- Accounts receivable increased $6.3 million due to a $9.7 million increase in licensing revenue receivable at the Iowa State University Research Foundation. This increase was offset in part by a $1.5 million reduction in receivables for funding capital projects and a $1.3 million reduction in Department of Residence receivables. The latter receivable was unusually high in 2006 due to the Special Olympics National Games.
- Deposits held in custody for others increased $13.4 million, primarily from the increase in investments held in the Dormitory Bond Reserve.

Total net assets at June 30, 2007, were $844 million. The largest portion of the university's net assets (59.5%) is categorized as Invested in Capital Assets, Net of Related Debt. This category contains the land, buildings, infrastructure, land improvements, and equipment owned by the university. The restricted portion of the net assets (8.6%) is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted assets is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by the external entities that have placed time or purpose restrictions on the use of the assets. The remaining net assets are unrestricted net assets, including those used to meet specific purposes such as funding for the bonded enterprises. The composition of the net asset balances is shown below. The categories, as a percentage of total net assets, have not changed significantly since 2005.

	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Invested in Capital Assets, Net of Related Debt	*$502,553,811*	*$463,017,681*	*$437,496,011*
Restricted Nonexpendable	*30,847,113*	*28,891,868*	*28,481,172*
Restricted Expendable	*41,633,934*	*35,743,095*	*36,953,615*
Unrestricted	*268,942,190*	*250,995,988*	*227,202,430*
Total Net Assets	*$843,977,048*	*$778,648,632*	*$730,133,228*

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented in the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the operating and nonoperating revenues earned by the university, the operating and nonoperating expenses incurred by the university, and any other revenues, expenses, gains and losses earned or incurred by the university.

In general, a public university such as Iowa State University will report an operating loss since the financial reporting model classifies state appropriations as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the university. Operating expenses are those expenses paid to carry out the missions of the university. Nonoperating revenues are revenues received where goods and services are not provided.

Had state appropriations been included in operating revenues, the operating loss for 2007 would have been $20.7 million compared to $22.7 million for 2006 and $14.2 million for 2005.

As noted in the previous section, when all nonoperating and other revenues and expenses are considered, revenues exceeded expenses by $65.3 million for 2007.

	For the Years Ended		
	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Operating Revenues	*$544,382,372*	*$524,389,695*	*$501,750,646*
Operating Expenses	*815,697,211*	*792,672,007*	*752,141,362*
Operating Loss	*(271,314,839)*	*(268,282,312)*	*(250,390,716)*
Nonoperating Revenues and Expenses	*314,981,165*	*305,685,950*	*273,167,354*
Income Before Other Revenues, Expenses, Gains and Losses	*43,666,326*	*37,403,638*	*22,776,638*
Other Revenues, Expenses, Gains and Losses	*21,662,090*	*11,111,766*	*9,755,338*
Increase in Net Assets	*65,328,416*	*48,515,404*	*32,531,976*
Net Assets, Beginning of Year	*778,648,632*	*730,133,228*	*697,601,252*
Net Assets, End of Year	*$843,977,048*	*$778,648,632*	*$730,133,228*

Revenues

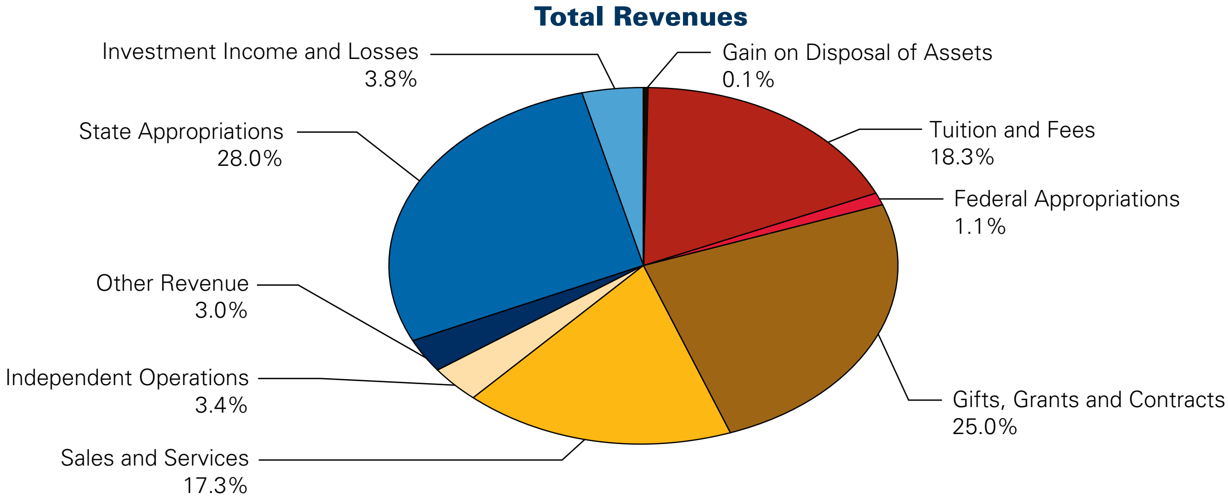
Operating revenues for the year ended June 30, 2007, increased $20 million. Major components of this change were:

- Tuition and fees, net of scholarship allowances, increased $7.5 million, or 4.8%.
- Revenue from auxiliary enterprises increased $6.3 million or 5.9%. The ISU Center had a $1.7 million increase due to additional revenues from the Special Olympics National Games. The Department of Residence/ISU Dining also increased $1.3 million, or 2.5%.
- Other operating revenues increased $6.6 million, primarily due to a major summer event in Conference Services and licensing revenue at the Iowa State University Research Foundation.
- State and local grants and contracts increased $4 million due to additional support from the Iowa Department of Economic Development.
- Federal appropriations decreased $4.6 million since funds are only drawn when spent and the timing of spending can vary significantly between years. Federal grants and contracts decreased $2.8 million which is representative of a national decline in the availability of Federal research funding.

Nonoperating revenues increased $9.2 million, due primarily to an $18.8 million increase in investment income which resulted from significantly higher interest rates and a 16% rate of return on endowment funds. State appropriations increased $5 million and non-Federal gifts, grants and contracts increased $3.5 million. Gain on disposal of assets decreased $19.1 million since the FY06 gain included $21 million from the sale of the Ankeny Dairy Farm that year.

Other revenues increased $10.6 million, due primarily to an $8 million capital appropriation in FY07. There were no capital appropriations in FY06.

In summary, total revenues of the university increased $38.8 million in 2007 from $855.4 million to $894.2 million. The components of these revenues are shown on the following graph.



In comparing the years ended June 30, 2006, and 2005, operating revenues increased $22.6 million. The major elements of this increase were tuition and fees, net of scholarship allowances, which increased $4.3 million, Federal grants and contracts which increased $4.2 million and sales and services of educational activities that increased $4.1 million. In fiscal 2006, nonoperating revenues increased $32.3 million, due primarily to the $21 million gain from the sale of the Ankeny Dairy Farm.

Expenses

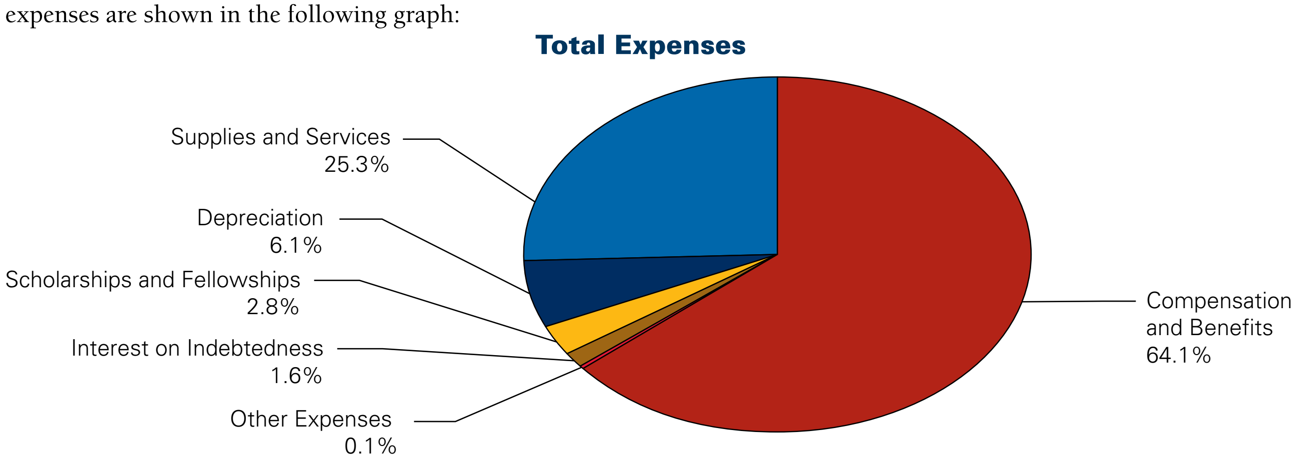
Operating expenses were $815.7 million for the 2007 fiscal year. This was an increase of 2.9%, or $23 million, over the previous year. Changes in the major natural expense categories were:

- Compensation and benefits increased $19.3 million, or 3.8%.
- Supplies increased $6 million, or 5.4%.
- Services and repairs decreased $4 million, or 4.2%. Most of this was in the research function and includes a reduction in payments to subcontractors.

Operating expenses may be classified according to natural categories as in the previous paragraph or functionally as shown in the financial statements. From a functional perspective, the largest dollar increases were in the auxiliaries that were discussed previously in the Revenue section and in academic support. The increase in academic support was due largely to a reorganization of information technology units into a single entity categorized as academic support. Previously, academic computing and administrative computing were separate units with academic computing categorized as academic support and administrative computing classified as institutional support.

Nonoperating expenses were very consistent with the prior year, declining by less than 1%.

In summary, total expenses for 2007 were $828.8 million, an increase of $22 million, or 2.7%. The components of these expenses are shown in the following graph:



Comparing the years ended June 30, 2006, and 2005, operating expenses in fiscal 2006 increased $40.5 million over those of 2005, which is a greater change than in 2007. In the natural classifications, percentages of the total have remained relatively consistent over recent years. Functionally, research and auxiliaries had the majority of the increase. Non-operating expenses were also very consistent in the prior two years.

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of the university for the fiscal year. This Statement also aids in the assessment of the university's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing. The Statement of Cash Flows presents information related to cash inflows and outflows, categorized as operating, non-capital financing, capital and related financing, and investing activities.

Cash provided by operating activities includes tuition and fees and grant and contract revenues. Cash used for operating activities includes payments to employees and to suppliers. Cash provided or used by non-capital financing activities includes state appropriations, the receipt and disbursement of the federal direct loan program, and non-capital gifts. Cash provided or used for capital and related financing activities represents proceeds from debt, the principal and interest payments towards debt, capital appropriations, capital gifts and grants, and the purchase and construction of capital assets. Cash provided or used by investing activities includes purchases and sales of investments as well as investment income and losses realized.

Cash and cash equivalents increased $21.2 million, or 25.9%, in 2007. An increase in cash is typically considered a positive financial indicator. However, decreases in cash as seen in the previous two years were a result of investment strategies shifting from cash equivalents to investments.

	For the Years Ended		
	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Cash Provided/(Used) by:			
Operating Activities	($222,001,462)	($211,824,152)	($209,240,903)
Non-capital Financing Activities	296,631,599	312,167,827	276,769,645
Capital and Related Financing Activities	(90,248,441)	(38,060,784)	(59,348,318)
Investing Activities	36,847,949	(68,842,921)	(80,600,110)
Net Increase/(Decrease) in Cash	21,229,645	(6,560,030)	(72,419,686)
Cash and Cash Equivalents, Beginning of Year	82,095,333	88,655,363	161,075,049
Cash and Cash Equivalents, End of Year	$103,324,978	$ 82,095,333	$ 88,655,363

As noted previously, the financial reporting model mandates that state appropriations be classified as non-capital financing sources of cash. If state appropriations had been classified as operating sources of cash, the cash provided by operations would have been $28.6 million for 2007 compared to $33.7 million for 2006 and $26.9 million for 2005.

CAPITAL ASSETS

At June 30, 2007, the university had $1.5 billion invested in capital assets, with accumulated depreciation of $769.2 million for net capital assets of $755.1 million. Depreciation charges for fiscal year 2007 totaled $50.9 million. Capital assets, net of accumulated depreciation, were as follows:

	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Land and Land Improvements, Nondepreciable	$ 17,274,605	$ 16,154,572	$ 9,998,926
Construction in Progress	69,431,192	44,338,738	39,069,583
Infrastructure and Land Improvements, Depreciable	82,965,951	85,179,620	67,914,630
Buildings	474,824,572	450,375,529	460,026,612
Equipment and Library Collections	110,563,802	99,609,566	94,666,752
Total Capital Assets, Net Of Accumulated Depreciation	$755,060,122	$695,658,025	$671,676,503

During fiscal year 2007, several major projects were placed in service, including the Hixson-Lied Student Success Center, which was funded with private gifts, and the renovation of Morrill Hall, which was funded from a variety of sources.

Several major construction projects were in progress at June 30, 2007. These are included in capital assets as construction in progress and will not be depreciated until the year they are placed in service. These projects include:

- Veterinary Medicine Hospital & Lab renovation
- Memorial Union renovation
- Coover Hall addition
- Dairy Science Education and Discovery Facility
- Alumni Center

The Veterinary Medicine Hospital & Lab renovation and the Coover Hall addition have been funded with proceeds from Academic Building Revenue Bonds and private gifts. The Memorial Union renovation has been funded with proceeds from Memorial Union Revenue Bonds. The Dairy Science Education and Discovery Facility has been funded with the proceeds of the sale of the Ankeny Dairy Farm. The Alumni Center has been funded primarily with private gifts.

Capital Appropriations, Grants and Contracts

Capital appropriations from the State of Iowa have traditionally been a significant source of funding for construction of new buildings as well as major renovations. In FY07, $5 million in capital appropriations were received for a new chemistry building, $2 million for a veterinary laboratory and $1 million for a biorenewables facility. While no capital appropriations were received in 2006, appropriations of $1.9 million in 2005 were received for improvements to miscellaneous classrooms and auditoriums.

In addition, capital gifts and grants revenue of $11.4 million was recognized, an amount similar to that received in FY06. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2007, the university had $303 million in outstanding debt compared to $300.2 million at the end of the prior year. Detailed information about the university's outstanding debt is presented in Note 6 to the financial statements. The table below summarizes outstanding debt by type:

	June 30, 2007	*June 30, 2006*	*June 30, 2005*
Bonds Payable-Academic Building	*$ 84,923,594*	*$ 72,427,128*	*$ 58,330,000*
Bonds Payable-Enterprise Funds	*212,141,262*	*221,598,092*	*222,715,480*
Capital Leases	*4,173,540*	*4,295,120*	*2,121,819*
Notes Payable	*1,755,719*	*1,835,102*	*1,898,974*
Total Debt	*$302,994,115*	*$300,155,442*	*$285,066,273*

In 2007, issuance of additional Academic Building Revenue bonds increased academic bonds payable by $12.5 million. The decrease in enterprise bonds payable is indicative of declining debt in all issuances. FY06 also included two issuances of Academic Building Revenue bonds that increased academic bonds payable by $14.1 million.

The 2006 increase in capital leases was for the Hilton Coliseum video scoreboard system.

ECONOMIC OUTLOOK

The university's economic outlook continues to improve. The university just completed one of its best legislative sessions in many years. There was a 10.4% increase in state appropriations for FY08 as well as funding for the new Chemistry Building and the Biorenewables Research Laboratory. The increased state support permitted additional funding for faculty and staff salaries which increases the competitiveness of compensation packages in the recruitment of new faculty and staff. The state appropriations provided sufficient support to fill gaps that had occurred from one time funding of past years. Consistent with the university's strategic plan, *Forward Thinking*, we have begun to strengthen key academic areas and infrastructure after several years of budget reductions. Looking forward towards 2008, state revenues continue to improve above budget projections, providing the opportunity for increased state support.

The university's enrollment is above projections with 26,160 students on campus this Fall, a 2.7% increase in overall enrollment compared to last year. We continue to enroll more Iowa high school graduates and more transfer students from Iowa's community colleges than any other university in the state.

The Board of Regents, State of Iowa have adopted a strategic plan that is intended to provide resources essential for high quality public education, cutting-edge research and creative activities, along with needed public services. These plans propose increases in operating support based upon the Higher Education Price Index, which for the next year would increase basic support by 3.2%. A priority continues to be placed upon improving competitive faculty salaries to recruit and retain faculty members who are the very best in their fields. If approved, these state appropriations, when combined with a 3.2% tuition increase, would provide $31.3 million in additional funding.

Iowa State's mission, as stated in *Forward Thinking*, is to "create, share and apply knowledge to make Iowa and the world a better place". Transforming the world through the discovery and application of knowledge is what land-grant institutions were created to do, and our vision to "be the best at advancing the land-grant ideals and putting science and technology to work". That means achieving excellence in all areas of our mission.

Forward Thinking identifies five institutional priorities for the fulfillment of the university's mission and the achievement of its vision. Those five priorities are:

- **Education.** Strengthen undergraduate, graduate, and professional education to enhance student success at Iowa State University and beyond.
- **Programs.** Increase the number of graduate, professional, and research programs that are among the very best—especially in areas that build on the university's strengths and address local and global critical needs.
- **Economic Impact.** Translate discoveries into viable technologies, products, and services to strengthen the economies of Iowa and the world.
- **Iowa Life.** Elevate the state's appeal as a place to live, learn, work, and play.
- **University Life.** Ensure that the university is a great place to learn and work.

This past year the university launched several new centers and institutes, including: the Cyber Innovation Institute, Engineering Policy and Leadership Institute, Center for Agricultural Law and Taxation, and the Grape and Wine Industry Institute, all of which promise to enhance faculty and student collaborations, sponsored funding, economic development, and bring increased recognition to the high impact interdisciplinary work done at Iowa State.

To support the work of our faculty, staff, and students, the university significantly upgraded some important infrastructure. The university completely rebuilt C6, which is now the most realistic virtual reality environment in the world. We launched the Keck Lab for High-Throughput Atom Scale Analysis and joined universities of Iowa, Minnesota and Wisconsin to create the BOREAS-Net, a high-capacity communications network, 64 times faster than our prior network.

In the facilities area, the university opened the new Hixson Lied Student Success Center, which our students love, rededicated the beautifully restored Morrill Hall and completed major portions of the Memorial Union addition, including the Great Hall renovation. A number of other capital projects are planned and underway.

The university continues to have a very successful private philanthropy program. New gifts and future commitments totaled $105.5 million in the past year, up 15.7% over the previous year and 176% over the past 5 years. The Iowa State University Foundation launched a capital campaign, "Campaign Iowa State: With Pride and Purpose," an $800 million goal to be completed in 2010. More than $520 million has been raised to date.

The political leadership in Iowa, including the new Governor, is indicating support for initiatives by the Board of Regents, State of Iowa to increase state funding. Supporting education continues to be a state priority. The three public universities are cooperating in a state-wide effort to increase public support. The university continues to receive strong support from elected federal officials who are in key positions in Congress. Private giving and endowment returns are improving. With only three public four-year higher education institutions, governed by a single board, the public universities are strategically seen as critical in improving the state's economic climate. Iowa State University continues its commitment in biorenewables and alternative energy resources. There is a great deal of interest in both the private and public sectors to develop alternative fuels. Iowa is uniquely positioned with ethanol facilities and the ability to grow alternative crops.

In order to continue to provide a high quality educational experience, tuition rates were increased 5.2% for Fall 2007. The university's overall tuition rates remain competitive with surrounding public and other peer institutions. The university continued the great success of its learning communities, the Center for Teaching Excellence, and other initiatives to improve faculty teaching skills and student learning. Students continue to report very high employment rates in their respective fields and/or continuing professional or graduate education. Employers and others clearly value an Iowa State University degree.

A third major source of revenue is sponsored funding. Awards received in fiscal year 2007 were $272 million. Although the university has a broad base of sponsored funding, it continues to focus on core strategic initiatives. Over the past five years, sponsored funding has increased 20.7%. The university continues to be rated very high in R&D 100 awards, number of patents and invention disclosures received, and in licenses executed. The university was successful in renewing its operating contract for the Ames Laboratory with the U.S. Department of Energy. Initiatives in information assurance, food safety and bio-renewable resources are receiving increased support.

Currently being planned or under construction are a new Chemistry Building, Alumni Center, renovation of the College of Veterinary Medicine, Coover Hall renovation for Electrical and Computer Engineering, continuing renovation of the student Memorial Union facility, stadium improvements, Dairy and Animal Science facilities and a renovation of Snedecor Hall.

Iowa State University continues to make important progress toward fulfilling the goals of its 2005-2010 Strategic Plan, *Forward Thinking*. We continue our historic missions to be the best at advancing the land-grant ideals and putting science and technology to work. More than 20% of Iowa's population has interacted with Iowa State University to receive education, to improve their quality of life, and to improve economic prospects for them, their companies and their communities.

The economy is improving and state support increasing. The university is strengthening its academic excellence that makes it one of the nation's best universities in fulfilling its land-grant mission.

CONTACTING IOWA STATE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide users with a general overview of Iowa State University's finances and to demonstrate the university's accountability for the funds received. Questions regarding this report or requests for additional financial information should be directed to the Controller's Department, Iowa State University, 3607 Administrative Services Building, Ames, IA 50011-3607.

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Members of the
Board of Regents, State of Iowa:

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of Iowa State University of Science and Technology, Ames, Iowa, (Iowa State University) and its discretely presented component unit as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (herein collectively referred to as the "Foundation"), discussed in note 1, which represents 100% of the assets and revenues of the discretely presented component unit. We also did not audit the financial statements of the blended component unit, Iowa State University Research Foundation, Incorporated, discussed in note 1, which represents 3.1% and 1%, respectively, of the assets and revenues of the University. 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 the discretely presented and blended component units, are based on the reports of the other auditors.

We conducted our audits 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 Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (the "Foundation") and Iowa State University Research Foundation, Incorporated 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 audits and the reports of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Iowa State University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of Iowa State University. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Iowa State University and its discretely presented component unit at June 30, 2007 and 2006, and the respective changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages 2 through 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

The report on Iowa State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters required by Government Auditing Standards will be issued under separate cover. 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 audits.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2007

IOWA STATE UNIVERSITY
STATEMENT OF NET ASSETS

As of June 30, 2007 and 2006

	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2A)	$ 40,504,788	$ 12,331,748
Investments (Note 2B)	159,547,541	129,432,165
Deposits with trustees (Note 2D)	98,403	98,403
Accounts receivable, net (Note 3A)	28,687,039	20,393,297
Due from government agencies (Note 3B)	25,740,050	26,861,367
Interest receivable	2,059,262	1,737,153
Student loans receivable, net (Note 3C)	10,656	
Inventories (Note 4)	16,314,942	15,137,553
Prepaid expenses	3,986,157	3,462,747
Total Current Assets	**276,948,838**	**209,454,433**
Noncurrent Assets		
Cash and cash equivalents (Note 2A)	62,820,190	69,763,585
Investments (Note 2B)	273,748,205	303,711,128
Deposits with trustees (Note 2D)		19,708
Accounts receivable, net (Note 3A)	4,310,710	6,341,749
Due from government agencies (Note 3B)	6,870,000	2,822,500
Interest receivable	649,302	611,957
Prepaid expenses	2,458	
Student loans receivable, net (Note 3C)	24,285,621	23,121,278
Equity in wholly owned subsidiary (Note 1B)	60,371	60,371
Capital assets, net of accumulated depreciation (Note 5)	755,060,122	695,658,025
Total Noncurrent Assets	**1,127,806,979**	**1,102,110,301**
TOTAL ASSETS	**1,404,755,817**	**1,311,564,734**
LIABILITIES		
Current Liabilities		
Accounts payable	47,910,920	42,541,222
Salaries and wages payable	3,402,895	3,517,302
Unpaid claims liability (Note 10B)	3,544,000	3,536,000
Deferred revenue	44,678,071	39,181,869
Interest payable	7,173,575	7,507,796
Long-term debt, current portion (Note 6)	17,365,991	16,402,636
Other long-term liabilities, current portion (Note 6)	20,368,732	19,334,456
Deposits held in custody for others	80,990,035	67,576,358
Total Current Liabilities	**225,434,219**	**199,597,639**
Noncurrent Liabilities		
Accounts payable	7,377,901	4,329,218
Long-term debt, noncurrent portion (Note 6)	285,628,124	283,752,806
Other long-term liabilities, noncurrent portion (Note 6)	42,338,525	45,236,439
Total Noncurrent Liabilities	**335,344,550**	**333,318,463**
TOTAL LIABILITIES	**560,778,769**	**532,916,102**
NET ASSETS		
Invested in capital assets, net of related debt	502,553,811	463,017,681
Restricted (Note 8):		
Nonexpendable	30,847,113	28,891,868
Expendable	41,633,934	35,743,095
Unrestricted	268,942,190	250,995,988
TOTAL NET ASSETS	$ 843,977,048	$ 778,648,632

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $45,291,303 and $42,474,275 for the years ended June 30, 2007 and 2006, respectively (Note 1N)	$ 163,789,711	$ 156,244,465
Federal appropriations	9,510,794	14,135,558
Federal grants and contracts	129,121,646	131,934,811
State and local government grants and contracts	19,955,337	15,954,563
Nongovernmental grants and contracts	20,606,913	18,596,835
Sales and services of educational activities	41,904,684	40,154,920
Auxiliary enterprises, net of scholarship allowances of $4,092,779 and $3,737,489 for the years ended June 30, 2007 and 2006, respectively (Note 1N)	112,553,299	106,268,991
Independent operations	30,773,156	31,764,515
Interest on student loans	627,913	443,862
Other operating revenues	15,538,919	8,891,175
TOTAL OPERATING REVENUES	**544,382,372**	**524,389,695**
OPERATING EXPENSES		
Instruction	183,567,531	179,145,194
Research	153,245,825	159,850,053
Public service	78,957,060	74,619,377
Academic support	90,911,931	75,605,208
Student services	29,939,903	29,538,212
Institutional support	26,817,740	28,126,450
Operation and maintenance of plant	49,462,927	51,414,987
Scholarships and fellowships	23,268,272	24,269,829
Auxiliary enterprises	97,025,832	88,195,082
Independent operations	30,869,562	32,983,619
Depreciation	50,925,193	48,386,078
Other operating expenses	705,435	537,918
TOTAL OPERATING EXPENSES	**815,697,211**	**792,672,007**
OPERATING LOSS	**(271,314,839)**	**(268,282,312)**
NONOPERATING REVENUES/(EXPENSES)		
State appropriations	250,565,704	245,570,307
Federal grants and contracts	11,887,295	11,048,991
Nonfederal gifts, grants and contracts	30,735,789	27,235,782
Investment income	33,818,185	15,024,971
Interest on indebtedness	(13,061,536)	(12,811,112)
Gain on disposal of capital assets	871,376	19,954,332
Other nonoperating income/(loss)	164,352	(337,321)
NET NONOPERATING REVENUES/(EXPENSES)	**314,981,165**	**305,685,950**
INCOME BEFORE OTHER REVENUES, EXPENSES GAINS AND LOSSES	**43,666,326**	**37,403,638**
Capital appropriations	8,000,000	
Capital gifts, grants and contracts	11,393,182	11,782,645
Additions to permanent endowments	2,337,379	345,000
Loss on refunding bonds		(410,000)
Disbursed to trustee for debt defeasance	(68,471)	(605,879)
TOTAL OTHER REVENUES, EXPENSES, GAINS & LOSSES	**21,662,090**	**11,111,766**
INCREASE IN NET ASSETS	**65,328,416**	**48,515,404**
Net Assets, Beginning of Year	778,648,632	730,133,228
NET ASSETS, END OF YEAR	**$ 843,977,048**	**$ 778,648,632**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY
STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 164,038,174	$ 154,615,928
Federal appropriations	10,288,652	14,912,302
Grants and contracts	174,101,485	173,335,323
Sales of educational activities	41,801,830	39,452,963
Sales and services of auxiliary enterprises	114,994,804	104,842,273
Receipts of independent operations	30,661,392	32,171,860
Interest on loans to students	666,866	586,906
Collections of loans from students	6,145,526	6,405,190
Payments for salaries and benefits	(530,927,926)	(511,827,104)
Payments for goods and services	(208,922,068)	(202,991,798)
Scholarship payments	(22,910,944)	(23,969,971)
Loans issued to students	(7,476,756)	(7,743,679)
Other operating receipts	5,537,503	8,385,655
NET CASH USED BY OPERATING ACTIVITIES	**(222,001,462)**	**(211,824,152)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	250,565,704	245,570,307
Non-capital gifts, grants and contracts	44,476,315	39,069,486
Direct lending receipts	137,291,014	137,353,022
Direct lending payments	(138,043,917)	(137,620,677)
Funds held for others receipts	251,094,914	282,341,336
Funds held for others payments	(248,752,431)	(254,545,647)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	**296,631,599**	**312,167,827**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	3,952,500	2,891,000
Capital gifts and grants received	13,550,219	10,437,972
Proceeds from capital debt	33,477,525	30,230,630
Proceeds from sale of capital assets	2,615,779	21,859,780
Acquisition and construction of capital assets	(104,903,649)	(72,451,699)
Principal paid on capital debt	(16,976,683)	(16,019,183)
Interest paid on capital debt	(14,225,772)	(14,073,409)
Defeased debt payments	(8,152,871)	
Other capital and related financing payments	414,511	(935,875)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(90,248,441)**	**(38,060,784)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received on investments	20,625,198	15,574,824
Proceeds from sales of investments	288,719,328	253,568,350
Purchases of investments	(272,496,577)	(337,986,095)
NET CASH PROVIDED/(USED) BY INVESTING ACTIVITIES	**36,847,949**	**(68,842,921)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**21,229,645**	**(6,560,030)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,095,333	88,655,363
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 103,324,978	$ 82,095,333

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	**$(271,314,839)**	**$(268,282,312)**
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	50,925,193	48,386,078
Changes in assets and liabilities:		
Accounts receivable, net	(5,316,253)	(4,341,049)
Inventories	(1,185,783)	(659,554)
Prepaid expenses	(523,036)	(373,564)
Student loans receivable	(1,210,135)	(948,610)
Accounts payable	1,763,469	6,236,237
Deferred revenue	5,014,792	9,013,644
Compensated absences	1,828,454	1,407,613
Early retirement benefits payable	(2,112,359)	(2,360,023)
Deferred compensation liability	129,035	97,388
NET CASH USED BY OPERATING ACTIVITIES	**$(222,001,462)**	**$(211,824,152)**

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital gifts-in-kind	$ 190,000	$ 109,500

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS

Cash and cash equivalents classified as current assets	$ 40,504,788	$ 12,331,748
Cash and cash equivalents classified as noncurrent assets	62,820,190	69,763,585
TOTAL CASH AND CASH EQUIVALENTS	$ 103,324,978	$ 82,095,333

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 7,217,683	$ 4,691,921
Receivables:		
Pledges, net (Note 3D)	49,822,377	39,468,345
Estates	2,045,846	13,731,561
Funds held in trust by others	18,667,445	16,865,088
Total receivables	70,535,668	70,064,994
Investments (Note 2C):		
Pooled investments	485,630,146	404,747,397
Other marketable securities	42,734,086	40,392,897
Equity in subsidiary	2,244,896	2,161,867
Real estate and other investments	8,246,733	8,743,243
Total investments	538,855,861	456,045,404
Property and equipment	3,473,439	3,486,961
Other assets	3,394,212	3,022,132
TOTAL ASSETS	**$623,476,863**	**$537,311,412**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 673,140	$ 628,059
Due to related organizations	6,008,949	6,261,356
Bonds payable	3,162,538	3,408,280
Long-term liabilities	5,140,723	4,948,953
Annuities payable	22,655,284	23,092,861
TOTAL LIABILITIES	**37,640,634**	**38,339,509**
NET ASSETS (Note 8)	**585,836,229**	**498,971,903**
TOTAL LIABILITIES AND NET ASSETS	**$623,476,863**	**$537,311,412**

See the accompanying notes which are an integral part of these financial statements.

IOWA STATE UNIVERSITY FOUNDATION
IOWA STATE UNIVERSITY ACHIEVEMENT FUND
ORIGINAL UNIVERSITY FOUNDATION
COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2007 and 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	$ 2,818,824	$ 47,422,003	$ 19,646,558	$ 69,887,385	$ 68,422,819
Investment return					
Pooled investments	8,420,466	14,124,586	43,244,114	65,789,166	27,811,621
Nonpooled investments	548,908	1,815,312	3,553,134	5,917,354	2,930,652
Equity in net income/(loss) of subsidiary	404,007			404,007	168,473
Total investment return	9,373,381	15,939,898	46,797,248	72,110,527	30,910,746
Fundraising service revenue	2,258,940			2,258,940	2,258,096
Return on funds held in trust by others		275,740	1,356,821	1,632,561	(142,901)
Other earnings	20,726	539,724	103,466	663,916	531,409
Net assets released from restrictions	45,356,643	(45,356,643)		-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	**59,828,514**	**18,820,722**	**67,904,093**	**146,553,329**	**101,980,169**
EXPENSES					
Program	45,600,017			45,600,017	38,784,042
Operating:					
Fundraising	8,623,656			8,623,656	7,308,468
Administrative	2,941,065			2,941,065	2,749,022
Annuity liability adjustment	68,817	626,755	1,828,693	2,524,265	2,797,269
TOTAL EXPENSES	**57,233,555**	**626,755**	**1,828,693**	**59,689,003**	**51,638,801**
CHANGE IN NET ASSETS	**2,594,959**	**18,193,967**	**66,075,400**	**86,864,326**	**50,341,368**
Net Assets, Beginning of Year	12,163,279	116,371,882	370,436,742	498,971,903	448,630,535
NET ASSETS, END OF YEAR	**$14,758,238**	**$134,565,849**	**$436,512,142**	**$585,836,229**	**$498,971,903**

See the accompanying notes which are an integral part of these financial statements.

For the Year Ended June 30, 2007

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Iowa State University of Science and Technology (Iowa State University), located in Ames, Iowa, is a land grant institution owned and operated by the State of Iowa, under the governance of the Board of Regents, State of Iowa (Board of Regents). The Board of Regents is appointed by the governor and confirmed by the state senate. Because the Board of Regents holds the corporate powers of Iowa State University, the university is not deemed to be legally separate. Accordingly, for financial reporting purposes, the university is included in the financial report of the State of Iowa, the primary government, as required by U.S. generally accepted accounting principles. The university is classified as a state instrumentality under Internal Revenue Code Section 115 and is exempt from federal income taxes. Certain activities of the university may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The university offers courses of study leading to degrees at the undergraduate, graduate, and post-graduate levels. Degrees are available from seven colleges: Agriculture and Life Sciences, Business, Design, Engineering, Human Sciences, Liberal Arts and Sciences, and Veterinary Medicine. Other major operating units of the university are: Agriculture & Home Economics Experiment Station; statewide Cooperative Extension Service; and the Ames Laboratory, a U.S. Department of Energy sponsored Independent Operation. The campus consists of approximately 1,794 acres. In addition, farms and other properties, which are stocked and equipped for teaching and research purposes, total approximately 9,463 acres.

B. Reporting Entity

As required by accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), these financial statements present the financial position and financial activities of the university (the primary government) and certain other entities for which the nature and significance of their relationship with the university are such that exclusion would cause the university's financial statements to be misleading or incomplete. The GASB classification of these entities for the university's financial reporting purposes does not affect their respective legal or organizational relationships to the university.

1. **Wholly Owned Subsidiary –** Effective July 1, 1987, the university formed the ISU Equities Corp., (ISUEC), as a wholly owned subsidiary. The university has recorded the investment in this wholly owned subsidiary following the equity method of accounting. The university's carrying value as of June 30, 2007, was $60,371, the carrying value of ISUEC.

2. **Blended Component Units –** The Iowa State University Research Foundation, Inc. and Miller Endowment, Incorporated are entities which are legally separate from the university, but are so intertwined with the university that they are, in substance, part of the university. Accordingly, they are blended into the university's financial statements.

   Iowa State University Research Foundation, Inc. was organized as a corporation to assist in securing protection for intellectual property such as patents and copyrights resulting from research, writing, and other projects of members of the Iowa State University community. The financial statements of this entity have been audited by other independent auditors, and their report may be obtained from the Office of the Vice President for Business and Finance at Iowa State University. The revenues of this organization are included in the "Other operating revenues" classification and expenses included in the "Institutional support" classification in the Statement of Revenues, Expenses and Changes in Net Assets. For the year ended June 30, 2007, the revenues and expenses were $9,366,389 and $2,887,969, respectively.

   Miller Endowment, Incorporated was established December 18, 1995 pursuant to the will and codicil of F. Wendell Miller. The will and codicil appointed the presidents of Iowa State University and the State University of Iowa as co-executors of the Miller Estate and co-trustees of the Miller Endowment Trust, a charitable trust, and further directed that the two universities be equal beneficiaries of the income from said trust. The will and codicil also directed the trustees to have the right and discretion to create a charitable corporation, to be "Miller Endowment, Incorporated", to own, administer and control the affairs and property of the trust. This corporation has been organized under Chapter 504A of the Code of Iowa and Section 501(C)(3) of the Internal Revenue Code. During fiscal year 1998, the assets of the trust were officially transferred to Miller Endowment, Incorporated. Since the net revenues and assets of the corporation are solely for the equal benefit of the two universities, one half of the value of the corporation's transactions has been blended into the university's operations. For investment management purposes, all assets of the trust are pooled with the university's endowment funds. Accordingly, the State University of Iowa's half of the trust is included in the university's Cash and Cash Equivalents, Investments, and Deposits Held in Custody for Others.

3. **Discretely Presented Component Unit –** The Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") are a legally separate, tax-exempt component unit of the university. The combined financial statements of the Foundation's organizations are presented in these financial statements because the organizations have a common Board of Directors, common management, and the common objective to promote the welfare of the university and its faculty, graduates, students, and former students. The mission of the Foundation is to secure and manage private gifts that support the university's aspiration to become the nation's best land-grant university. The Foundation strives to maximize the interest, involvement and, ultimately, enduring commitment of donors, and to manage donated assets for the benefit of the university in accordance with donors' wishes.

Although the university does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the university and its faculty, graduates, students and former students, the Foundation is considered a component unit of the university and is discretely presented in the university's financial statements. During the years ended June 30, 2007 and 2006, the Foundation distributed and expended $45,600,017 and $38,784,042, respectively, on behalf of the university for both restricted and unrestricted purposes as follows:

	2007	*2006*
Scholarships, loan funds, and awards	*$ 13,457,228*	*$ 13,220,044*
Faculty and staff support	*5,055,477*	*4,422,484*
College and administrative support	*9,210,087*	*7,608,639*
Buildings, equipment, and repairs	*17,313,320*	*12,744,266*
Gifts in kind	*563,905*	*788,609*
Total Program Support	*$ 45,600,017*	*$ 38,784,042*

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (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 Foundation's financial information in the university's financial reporting entity for these differences.

Although the university is the exclusive beneficiary of the Foundation, the Foundation is independent of the university in all respects. The Foundation is not a subsidiary or affiliate of the university and is not directly or indirectly controlled by the university. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the university. The university is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The university does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the university. Third parties dealing with the university should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Complete financial statements for the Foundation can be obtained from the Foundation at 2505 Elwood Drive, Ames, IA 50010-8644 or from the Foundation's website at www.foundation.iastate.edu.

C. Financial Statement Presentation

The university's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB.)

The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive entity-wide perspective of the university by requiring a Management's Discussion and Analysis; a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows.

When an expense is incurred for which both unrestricted and restricted net assets are available, the university's policy is to first apply the restricted resources before the unrestricted resources.

The university has the option to apply all FASB pronouncements issued after November 30, 1989, unless those pronouncements conflict or contradict GASB. The university has elected not to apply FASB pronouncements issued after the applicable date.

D. Basis of Accounting

For financial reporting purposes, the university is considered a special-purpose government engaged only in business-type activities as defined in GASB Statement No. 35. Accordingly, the financial statements of the university have been prepared using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses are recorded when an obligation has been incurred, and all significant intra-agency transactions have been eliminated.

E. Cash and Cash Equivalents

For purposes of the Statement of Net Assets and the Statement of Cash Flows, the university considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash.

F. Investments

Investments of the university are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments of the Foundation are carried at fair value as determined by values provided by an external investment manager and quoted market values. The carrying values of other investments and long-term liabilities approximate fair value because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

G. Inventories

Inventories consist of supplies and merchandise for resale and livestock. Inventories of supplies and merchandise are valued at the lower of cost (primarily weighted average) or market. Inventories of livestock are reported at year-end market value.

H. Capital Assets

Capital assets are recorded at cost at the date of acquisition or at estimated fair market value at the date of donation. Capitalization of interest on assets under construction has been included in the cost of those assets. For equipment, the university's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings, 10 to 30 years for infrastructure and land improvements, 2 to 20 years for equipment, and 10 years for library collections.

I. Deferred Revenue

Deferred revenue includes items such as advance ticket sales, summer school tuition not earned during the current year, and amounts received from grants and contracts that have not yet been earned.

J. Compensated Absences

Employees' compensated absences are accrued when earned under the provisions of Chapters 79 and 262 of the Code of Iowa. Accrued vacation is paid at 100% of the employee's hourly rate upon retirement, death, or termination and, with certain exceptions, accrued sick leave is paid at 100% of the employee's hourly rate to a maximum of $2,000 upon retirement. The liability for accrued compensated absences as reported on the Statement of Net Assets is based on the current rates of pay.

K. Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences, refundable advances on student loans, and other liabilities that will not be paid within the next fiscal year.

L. Net Assets

The university's net assets are classified as follows:

1. **Invested in capital assets, net of related debt –** Capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction, or improvement of those assets.
2. **Restricted, nonexpendable –** Net assets subject to externally imposed restrictions in which the donors or other outside sources have stipulated the principal is to be maintained inviolate and retained in perpetuity and invested for the purpose of producing income which will either be expended or added to principal.
3. **Restricted, expendable –** Net assets subject to externally imposed restrictions on use of resources either legally or contractually.
4. **Unrestricted –** Net assets not subject to externally imposed restrictions and which may be used to meet current obligations for any purpose or designated for specific purposes by action of management or the Board of Regents.

M. Operating Revenues and Expenses

Operating revenues and expenses reported on the Statement of Revenues, Expenses and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the university's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income.

N. Revenue Pledged for Debt Service

Tuition and fees are pledged as security for Academic Building Revenue Bonds, Fieldhouse-Auditorium Revenue Bonds, Ice Arena Facility Revenue Notes, Indoor Multipurpose Use and Training Facility Revenue Bonds, Memorial

Union Revenue Bonds, Recreational Facility Revenue Bonds, and Student Health Facility Revenue Bonds. Auxiliary enterprise revenues are pledged as security for Dormitory Revenue Bonds, Indoor Multipurpose Use and Training Facility Revenue Bonds, Memorial Union Revenue Bonds, Parking System Revenue Bonds, Regulated Materials Facility Revenue Bonds, Student Health Facility Revenue Bonds, Telecommunications Facilities Revenue Bonds, and Utility System Revenue Bonds.

O. Auxiliary Enterprise Revenues

Auxiliary enterprise revenues primarily represent revenues generated by the Athletic Department, University Book Store, Iowa State Center, Memorial Union, Parking System, Reiman Gardens, Residence Department, ISU Dining, Student Health Center, Telecommunications System, and Utility System.

P. Debt Issuance Costs

Debt issuance costs are expensed in the year the revenue debt is sold.

Q. Encumbrances

The university utilizes encumbrance accounting for budgetary control purposes. According to Section 8.33 of the Code of Iowa, the university is permitted to carry encumbrances for specialized equipment and building repairs forward to the next fiscal year relating to the Agriculture Experiment Station, Cooperative Extension Service, and Special Purpose Funds. The June 30, 2007, encumbered balance carried forward to fiscal year 2008 was $197,142.

As allowed in Section 262.9(18) of the Code of Iowa, the university has utilized non-tuition components of the General University funds first. Accordingly, General University funds remaining at June 30, 2007 are comprised solely of student fees and charges and are exempt from reversion.

R. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - CASH, CASH EQUIVALENTS, INVESTMENTS AND DEPOSITS WITH TRUSTEES

A. Cash and Cash Equivalents

As of June 30, 2007 and 2006, the book balances of cash and cash equivalents were $103,324,978 and $82,095,333, respectively. As of June 30, 2007 and 2006, the bank balances were $109,896,039 and $89,838,061, respectively, of which $53,970,197 and $50,292,473, respectively, were covered by Federal Depository Insurance (FDIC) or by the State's Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Of the bank balances as of June 30, 2007 and 2006, $55,925,842 and $39,545,588, respectively, were uninsured and uncollateralized.

B. Investments (University)

In accordance with the Code of Iowa and the Board of Regents' policy, the university's operating portfolio may be invested in obligations of the U.S. government or its agencies, certain high rated commercial paper, highly rated corporate bonds, certain limited maturity zero coupon securities, fully insured or collateralized certificates of deposits and savings, eligible bankers acceptances of 180 days or less, certain repurchase agreements, high quality money market funds and highly rated guaranteed investment contracts. The university's endowment portfolio may invest in all of the above as well as certain listed investment grade securities, certain shares of investment companies, and new issues of investment grade common stock.

For donor-restricted endowments, Chapter 540A of the Code of Iowa permits the university to appropriate an amount of realized and unrealized endowment appreciation as the university determines to be prudent pursuant to a consideration of the university's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The university's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the university. The university's spending rule for fiscal year 2007 was that 4.25 percent of market value based on a three-year rolling market average was calculated and distributed per the requirements of the endowment.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The university manages this risk within the portfolio using the effective duration method which is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the university. The university reduces exposure to this risk by following the operating and endowment portfolio benchmarks as established by the Board of Regents.

Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the university will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Of the university's $433.3 million investments, $1,703,022 of Pooled Funds are held by the Foundation, not in the university's name.

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of the university's investment in a single issuer. The university reduces exposure to this risk by complying with the Board of Regents investment policy which requires that, except for U. S. Government securities, no more than 5% of the investment portfolio shall be invested in securities of a single issuer.

The fair value, effective duration, and Standard & Poor's credit quality rating of the university's investments at June 30, 2007, were as follows:

	Fair Value	*Effective Duration*	*Credit Quality Rating*
Fixed Income:			
U. S. Government Agencies	*$ 189,384,210*	*1.35*	*TSY/AGY*
Corporate Notes and Bonds	*6,249,068*	*0.63*	*AAA/AA/A/BBB*
Mutual Funds, Short Term	*79,665,581*	*1.50*	*AA*
Mutual Funds, Long Term	*20,642,329*	*4.16*	*AA*
Subtotal	*295,941,188*		
Equity:			
Common Stock	*76,210,678*		
Mutual Funds	*48,143,927*		
Private Equity	*1,005,588*		
Foundation Pooled Funds	*1,703,022*		
Real Estate	*10,291,343*		
Total Investments	*$ 433,295,746*		

C. Investments (Foundation)

Investments were comprised of the following balances as of June 30, 2007 and 2006:

Investment	*June 30, 2007*	*June 30, 2006*
Pooled Investments:		
Traditional Structures – values based on quoted market prices:		
Equity	*$101,464,869*	*$ 87,268,692*
Fixed Income	*117,223,290*	*142,050,798*
Natural Resources	*16,150,480*	*7,305,278*
Money Market Funds	*3,228,523*	*8,453,052*
Accrued Interest	*249,907*	*247,683*
Accrued Manager Fees	*(300,240)*	*(250,000)*
	238,016,829	*245,075,503*
Alternative Structures – underlying investment values based on quoted market prices:		
Equity	*55,557,196*	*24,898,291*
Fixed Income	*18,688,916*	
Equity Exposure	*68,349,524*	*56,932,373*
Natural Resources	*8,078,656*	*7,413,747*
	150,674,292	*89,244,411*
Alternative Structures – underlying investment values based on estimates provided by fund managers or general partners:		
Hedge Fund of Funds	*74,719,182*	*51,173,168*
Private Equity	*21,379,029*	*19,104,315*
Real Estate	*840,814*	*150,000*
	96,939,025	*70,427,483*
Total Pooled Investments	*485,630,146*	*404,747,397*
Other Marketable Securities:		
Fixed Income	*23,723,872*	*21,443,035*
Equity	*19,010,214*	*18,949,862*
Total Other Marketable Securities	*42,734,086*	*40,392,897*
Equity in Subsidiary	*2,244,896*	*2,161,867*
Real Estate and Other Investments:		
Real Estate	*5,894,232*	*6,283,232*
Notes Receivable	*1,481,358*	*1,569,764*
Notes Receivable from Affiliated Entities	*863,716*	*863,716*
Real Estate Contracts	*7,298*	*25,970*
Accrued Interest	*129*	*561*
Total Real Estate and Other Investments	*8,246,733*	*8,743,243*
Total Investments	*$538,855,861*	*$456,045,404*

D. Deposits with Trustees

Funds on deposit with trustees for the purpose of paying current obligations of bond principal and interest at June 30, 2007 and 2006, totaled $98,403 and $98,403, respectively. In addition, funds on deposit with a trustee for the purpose of financing capital lease purchases at June 30, 2007 and 2006, totaled $0 and $19,708, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE, DUE FROM GOVERNMENT AGENCIES, STUDENT LOANS RECEIVABLE, AND PLEDGES RECEIVABLE

A. Accounts Receivable

Accounts receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. At June 30, 2007 and 2006, accounts receivable consisted of the following:

	June 30, 2007	*June 30, 2006*
Accounts Receivable	*$33,789,978*	*$27,669,129*
Allowance for Doubtful Accounts	*(792,229)*	*(934,083)*
Accounts Receivable, Net	*$32,997,749*	*$26,735,046*

B. Due from Government Agencies

Due from government agencies is composed of $9,600,274 due from state and local government agencies and $23,009,776 due from United States government agencies at June 30, 2007 and $4,936,950 due from state and local government agencies and $24,746,917 due from United States government agencies at June 30, 2006.

C. Student Loans Receivable

Student loans receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Assets. Student loans receivable consisted of the following:

	June 30, 2007	*June 30, 2006*
Student Loans Receivable	*$24,463,430*	*$23,308,434*
Allowance for Doubtful Accounts	*(167,153)*	*(187,156)*
Student Loans Receivable, Net	*$24,296,277*	*$23,121,278*

D. Pledges Receivable (Foundation)

The components of the net pledges receivable as of June 30, 2007 and 2006 are as follows:

	June 30, 2007	*June 30, 2006*
Gross Pledges Receivable	*$58,744,503*	*$48,133,609*
Allowance for Uncollectible Pledges	*(2,511,805)*	*(2,711,811)*
Discount to Present Value	*(6,410,321)*	*(5,953,453)*
Net Pledges Receivable	*$49,822,377*	*$39,468,345*

The Foundation estimates payments on these pledges receivable as of June 30, 2007, will be received as follows:

Year Ending June 30,	*Principal*
2008	*$ 21,546,656*
2009	*11,811,411*
2010	*8,348,251*
2011	*5,377,076*
2012	*4,177,470*
Thereafter	*7,483,639*
Total	*$ 58,744,503*

In addition, the Foundation has received notification of deferred gifts totaling approximately $294,000,000 and $259,000,000 as of June 30, 2007 and 2006, respectively, primarily in the form of revocable wills.

NOTE 4 - INVENTORIES

The inventory balances on the Statement of Net Assets are comprised of two distinct categories as described in Note 1G above and scheduled below:

	June 30, 2007	June 30, 2006
Supplies and Merchandise for Resale	$13,887,881	$12,592,008
Livestock	2,427,061	2,545,545
Total Inventories	$16,314,942	$15,137,553

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, is summarized as follows:

	July 1, 2006	Additions	Transfers	Deductions	June 30, 2007
Capital Assets, Nondepreciable:					
Land	$ 10,838,674	$ 813,466	$	$ (668)	$ 11,651,472
Land Improvements	5,315,898		307,235		5,623,133
Construction in Progress	44,338,738	79,226,202	(54,083,494)	(50,254)	69,431,192
Capital Assets, Nondepreciable	60,493,310	80,039,668	(53,776,259)	(50,922)	86,705,797
Capital Assets, Depreciable:					
Buildings	837,905,290		47,956,898	(443,000)	885,419,188
Land Improvements	16,859,744		531,595		17,391,339
Infrastructure	168,750,523		5,287,766		174,038,289
Equipment	189,304,750	22,164,961		(13,326,877)	198,142,834
Library	152,987,530	9,867,064		(304,561)	162,550,033
Capital Assets, Depreciable	1,365,807,837	32,032,025	53,776,259	(14,074,438)	1,437,541,683
Accumulated Depreciation:					
Buildings	387,529,761	23,348,375		(283,520)	410,594,616
Land Improvements	6,751,752	769,778			7,521,530
Infrastructure	93,678,895	7,263,252			100,942,147
Equipment	123,539,551	12,169,699		(11,792,876)	123,916,374
Library	119,143,163	7,374,089		(304,561)	126,212,691
Accumulated Depreciation	730,643,122	50,925,193	-	(12,380,957)	769,187,358
Depreciable Assets, Net	635,164,715	(18,893,168)	53,776,259	(1,693,481)	668,354,325
Total Capital Assets, Net	$ 695,658,025	$ 61,146,500	$ -	$ (1,744,403)	$ 755,060,122

Capital assets, net of accumulated depreciation, purchased with resources provided by outstanding capital lease agreements at June 30, 2007, consisted of $1,152,036 of buildings and $3,508,005 of equipment.

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2007, is summarized as follows:

	July 1, 2006	Additions	Deductions	June 30, 2007	Current Portion
Long-Term Debt:					
Bonds Payable	$294,025,220	$ 18,189,518	$ 15,149,882	$297,064,856	$ 16,025,000
Notes Payable	1,835,102	575,184	654,567	1,755,719	595,781
Capital Leases Payable	4,295,120	531,477	653,057	4,173,540	745,210
Total Long-Term Debt	300,155,442	19,296,179	16,457,506	302,994,115	17,365,991
Other Long-Term Liabilities:					
Compensated Absences	36,534,103	19,592,818	17,710,218	38,416,703	17,538,674
Early Retirement Benefits Payable	4,322,677		2,112,359	2,210,318	1,113,818
Accrued Interest Payable	2,444,154		1,247,914	1,196,240	1,196,240
Refundable Advances on Student Loans	18,178,893			18,178,893	
Deferred Revenue	2,993,680		515,000	2,478,680	520,000
Deferred Compensation	97,388	129,035		226,423	
Total Other Long-Term Liabilities	64,570,895	19,721,853	21,585,491	62,707,257	20,368,732
Total Long-Term Liabilities	$364,726,337	$ 39,018,032	$ 38,042,997	$365,701,372	$ 37,734,723

A. Bonds Payable

Outstanding long-term revenue bond indebtedness at June 30, 2007, consisted of the following:

	Interest Rates	Maturity Dates	Amount
Academic Building	3.00 – 6.85%	2008-2028	$ 85,305,000
Less: Unamortized Discount			(381,406)
Dormitory	3.00 – 5.75%	2008-2030	128,425,000
Fieldhouse-Auditorium	5.00%	2008	370,000
Indoor Multi-Purpose	2.20 – 4.50%	2008-2021	5,405,000
Less: Unamortized Discount			(72,333)
Memorial Union	2.50 – 4.625%	2008-2031	24,005,000
Less: Unamortized Discount			(304,971)
Parking System	3.30 – 5.00%	2008-2023	5,265,000
Recreational Facility	3.25 – 3.75%	2008-2011	4,290,000
Add: Unamortized Premium			49,322
Regulated Materials Facility	3.00 – 4.55%	2008-2020	6,020,000
Less: Unamortized Discount			(48,773)
Student Health Facility	5.10 – 5.50%	2008-2014	2,760,000
Telecommunications Facility	4.40%	2008	915,000
Utility System	2.00 – 4.85%	2008-2027	35,285,000
Less: Unamortized Discount			(221,983)
Total Bonds Payable			$ 297,064,856

Debt service requirements to maturity, as of June 30, 2007, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2008	*$ 16,025,000*	*$ 13,956,738*	*$ 29,981,738*
2009	*16,145,000*	*13,316,310*	*29,461,310*
2010	*16,835,000*	*11,341,055*	*28,176,055*
2011	*17,760,000*	*10,631,340*	*28,391,340*
2012	*17,805,000*	*9,891,854*	*27,696,854*
2013-2017	*72,335,000*	*39,191,060*	*111,526,060*
2018-2022	*62,245,000*	*24,983,311*	*87,228,311*
2023-2027	*59,135,000*	*11,315,281*	*70,450,281*
2028-2031	*19,760,000*	*1,212,500*	*20,972,500*
Less: Unamortized Discount	*(1,029,466)*		*(1,029,466)*
Add: Unamortized Premium	*49,322*		*49,322*
Total	*$297,064,856*	*$135,839,449*	*$432,904,305*

In September 2006, the university issued $5,510,000 in Academic Building Revenue Refunding Bonds, Series I.S.U. 2006, the proceeds of which were placed in an irrevocable trust to advance refund $5,305,000 of Academic Building Revenue Refunding Bonds, Series I.S.U. 1995. The refunding of these bonds permitted the university to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $312,774 and will reduce the aggregate debt service payments over the next 9 years by $82,141.

In September 2006, the university issued $9,200,000 in Dormitory Revenue Refunding Bonds, Series I.S.U. 2006A, the proceeds of which were placed in an irrevocable trust to advance refund $8,725,000 of Dormitory Revenue Bonds, Series I.S.U. 2000A. The refunding of these bonds permitted the university to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $613,181 and will reduce future aggregate debt service payments over the next 21 years by $1,122,999.

Also, in June 2007, the university deposited funds into a trust fund held by the university treasurer to defease $360,000 of Fieldhouse-Auditorium Revenue Bonds, Series 1968. As a result, the Series 1968 bonds are considered defeased, and the liability for those bonds has been removed from the financial statements.

B. Notes Payable

The university had the following notes payable outstanding at June 30, 2007:

	Interest Rates	*Maturity Dates*	*Amount*
Design College Computer	*3.87 – 6.11%*	*2008-2010*	*$ 843,969*
Ice Arena Facility	*5.95%*	*2008-2013*	*911,750*
Total			*$1,755,719*

Debt service requirements to maturity, as of June 30, 2007, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2008	*$ 595,781*	*$ 91,845*	*$ 687,626*
2009	*444,275*	*61,136*	*505,411*
2010	*264,684*	*37,262*	*301,946*
2011	*172,501*	*24,305*	*196,806*
2012	*182,918*	*13,888*	*196,806*
2013	*95,560*	*2,843*	*98,403*
Total	*$1,755,719*	*$ 231,279*	*$1,986,998*

C. Capital Leases Payable

The university has an equipment master lease agreement to finance the acquisition of certain equipment. The lease payments are due semi-annually through fiscal year 2014 and bear interest rates ranging from 3.27% to 5.63%. The principal balance was $1,957,755 and $1,753,678, respectively, as of June 30, 2007 and 2006.

In addition to the master lease agreement, the university has other capital lease agreements with various manufacturers. These lease payments are due through fiscal year 2013 at interest rates ranging from 1.9% to 6.09%. The principal balance of these leases was $2,215,785 and $2,541,442 respectively, as of June 30, 2007 and 2006.

The following is a schedule by year of future minimum lease payments required as of June 30, 2007:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2008	*$ 745,210*	*$ 207,303*	*$ 952,513*
2009	*709,965*	*171,915*	*881,880*
2010	*671,438*	*135,842*	*807,280*
2011	*698,761*	*100,011*	*798,772*
2012	*727,340*	*62,925*	*790,265*
2013-2014	*620,826*	*29,897*	*650,723*
Total	*$4,173,540*	*$ 707,893*	*$4,881,433*

NOTE 7 - OPERATING LEASES

The university has leased various buildings and equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. These leases expire before June 30, 2012, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the leased properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule, by year, of future minimum rental payments required under operating leases, which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2007.

Year Ending June 30,	*Amount*
2008	*$ 1,645,057*
2009	*1,707,829*
2010	*1,032,823*
2011	*600,083*
2012	*10,906*
Total	*$4,996,698*

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

Rental expense for the operating leases disclosed above was $1,781,597 and $1,286,841, respectively, for the years ended June 30, 2007 and 2006.

NOTE 8 - RESTRICTED NET ASSETS

The university's restricted net assets are classified according to externally imposed restrictions. The following table provides detail of the Restricted Net Assets balances.

	June 30, 2007	June 30, 2006
Restricted-Nonexpendable:		
Permanently Endowed Funds	$ 30,847,113	$ 28,891,868
Restricted-Expendable:		
Student Loans	8,694,116	8,798,031
Scholarships, Research, and Educational Purposes	13,699,880	13,110,271
Reserve for Debt Service	12,553,100	13,438,930
Capital Projects	6,686,838	395,863
Total Restricted-Expendable	41,633,934	35,743,095
Total Restricted Net Assets	$ 72,481,047	$ 64,634,963

The Foundation's temporarily and permanently restricted net assets are available for the following purposes:

	June 30, 2007	June 30, 2006
Temporarily Restricted:		
College Program Support	$ 37,275,654	$ 33,995,684
Student Financial Aid	17,798,272	16,977,640
Faculty and Staff Support	7,791,625	5,797,090
Research	9,628,020	7,160,561
Building, Equipment, and Maintenance	58,899,555	49,802,095
Other	3,172,723	2,638,812
Total Temporarily Restricted Net Assets	$134,565,849	$116,371,882
Permanently Restricted:		
College Program Support	$168,426,330	$148,151,896
Student Financial Aid	163,379,746	135,420,712
Faculty and Staff Support	74,458,540	61,476,789
Research	14,158,111	12,473,589
Building, Equipment, and Maintenance	2,600,189	2,292,530
Other	13,489,226	10,621,226
Total Permanently Restricted Net Assets	$436,512,142	$370,436,742

NOTE 9 - RETIREMENT PROGRAMS

A. Teachers Insurance and Annuity Association (TIAA-CREF)

The university contributes to the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) retirement program that is a defined contribution plan. TIAA-CREF administers the retirement plan for the university. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provisions and contribution requirements. As required by the Board of Regents' policy, all eligible university 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 with TIAA-CREF, each employee through the fifth year of employment contributes 3 1/3% of the first $4,800 of earnings and 5% on the balance of earnings. The university, through the fifth year of employment, is required to contribute 6 2/3% of the first $4,800 of earnings and 10% on earnings above $4,800. Upon completion of five years of service, the participant contributes 5% and the university 10% on all earnings. The university's required and actual contributions amounted to $32,038,914 and $30,950,326, respectively, for the years ended June 30, 2007 and 2006. The employees' required and actual contributions amounted to $16,019,458 and $15,475,163, respectively, for the years ended June 30, 2007 and 2006.

B. Iowa Public Employees' Retirement System

The university contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary; the university is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. These contribution requirements are established by State statute. The university's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were $687,839, $730,484, and $697,173, respectively, equal to the required contributions for each year.

C. Early Retirement

Faculty, professional and scientific employees, merit system employees, institutional officials, and staff of the Board Office not under the Regent Merit System who were employed by the Board of Regents for a period of at least fifteen continuous years and who attained the age of 57 by June 30, 2002 were eligible for participation in the early retirement incentives program. During the years of participation in the program, the university provides the following fringe benefits based upon the employee's salary at the time of retirement and adjusted for changes in benefits that occur at specific ages: (1) the employer's contributions for health and dental insurance until the employee is eligible for Medicare coverage; (2) a $4,000 paid-up life insurance policy; and (3) for employees covered by the TIAA/CREF retirement program, employee's and employer's contributions for up to three years and employer's contributions for up to an additional two years, with contributions payable for a maximum of five years or until eligible for full Social Security benefits, whichever occurs first (contributions for employees covered by IPERS are available as a cash payment equal to the present value of the benefits). As an alternative, if the employer agrees, all or part of the incentives except the $4,000 life insurance policy could be provided as a cash payment equal to the present value of the benefit(s) for which it is substituted.

At its July 2001 meeting, the Board of Regents approved discontinuation of the early retirement incentive program upon its expiration on June 30, 2002. The Board also authorized each institutional head to exercise discretion as to whether faculty and staff who qualified for participation in the program on June 30, 2002, may have two years after expiration of the program to request participation. As a result of this change, faculty and staff of the university who were qualified for participation as of June 30, 2002, had through June 30, 2004, to elect participation.

As of June 30, 2007, 170 employees had elected to receive these early retirement benefits, for which the university is committed to future benefit payments totaling $2,210,318 as reported on the Statement of Net Assets. During the fiscal years ended June 30, 2007 and 2006, the university paid $2,178,274 and $2,846,800, respectively, for continuing benefits. All incentive payments are financed on a pay-as-you-go basis.

NOTE 10 - COMMITMENTS AND RISK MANAGEMENT

A. Commitments

At June 30, 2007 and 2006, the university had outstanding construction contract commitments of $56,227,385 and $27,481,293, respectively.

B. Risk Management

Iowa State University has elected to self-insure, or internally assume, certain potential losses where management believes it is more economical to manage these risks internally. The university's exposure and management of various risks are delineated below.

1. Employee Health and Dental Benefits

The State of Iowa purchases commercial health and dental insurance for general service staff of the university. The university and employees share the cost of the premium and reimburse the State for the coverage. The university self-funds its medical and dental insurance for non-general service staff employees. The university insures its medical claims with stop-loss insurance at 120% in aggregate for the HMO plan, 125% in aggregate for all other plans, and a $300,000 individual maximum.

The following schedule presents the changes in claims liabilities for self-funded medical and dental insurance. The claims liabilities were calculated according to generally accepted actuarial principles in accordance with Actuarial Standard of Practice No. 5, and based on data provided by the university and the health plan vendors.

	2007	*2006*
Unpaid Claims and Contingent Liabilities Accrued at July 1, 2006 and 2005	*$ 3,536,000*	*$ 3,083,000*
Claims Incurred and Contingent Liabilities Accrued During the Fiscal Year	*38,212,290*	*37,109,296*
Payments on Claims During the Fiscal Year	*(38,204,290)*	*(36,656,296)*
Unpaid Claims and Contingent Liabilities Accrued at June 30, 2007 and 2006	*$ 3,544,000*	*$ 3,536,000*

2. Employee Workers' Compensation/Unemployment Insurance

The State of Iowa self-insures, on behalf of the university, for losses related to workers' compensation and unemployment claims on state supported employees. The Iowa Department of Administrative Services (DAS) administers both programs. At the beginning of the fiscal year, DAS calculates an annual workers' compensation premium to be paid in quarterly increments for non-state supported employees of the university. The university's share of unemployment claims for non-state supported employees is also billed quarterly. The university establishes an internal rate for each program and separately charges each department for the benefits. Receipts from these charges are deposited into two separate reserve funds, considered self-insured pools, from which the quarterly payments are made. Since these reserves are maintained at a level adequate to pay the required premiums by adjusting the internal rates, no additional risk is assumed.

3. Employee Medical and Dependent Care Flexible Spending Programs

Eligible university employees have an option to participate in one or two flexible spending programs where they can elect to have a maximum of $5,000 deducted from payroll on a pre-tax, non-refundable basis for either or both programs. These pre-tax deductions are used by the employee to cover qualified uninsured medical, dental and vision claims under the Medical Flexible Spending Program and/or qualified dependent care expenses under the Dependent Care Flexible Spending Program. The Medical Flexible Spending Program carries an element of self-insurance risk, as required by federal law. Since the university deducts only 1/12 of an annually elected amount from the employee's pay each month, but is liable for the total annual elected amount upon presentation of appropriate claims, it would be at risk for the difference between an employee's total reimbursed claims and the amount collected from payroll deductions should the employee terminate before contributing the total amount. The university, by law, cannot seek restitution for this difference. This same risk does not apply to the payroll deduction for the Dependent Care Flexible Spending Program as an employee can only claim what has been deducted from their payroll. These employee contributions are maintained in a separate account, which has carried a surplus balance since inception of the program due to contributions exceeding claims each year. This surplus balance is used to fund the administrative costs of the program.

4. General Liability

The State maintains an employee fidelity bond whereby the first $100,000 of losses is the responsibility of the university. Losses between $100,000 and $2,000,000 are insured. The university also maintains an employee blanket bond to cover losses up to $4,000,000.

The State of Iowa self-insures, on behalf of the university, losses related to tort claims. The Board of Regents entered into a 28E agreement with the Department of Management, the State Appeal Board, and the Attorney General for resolution of tort claims of $5,000 or less. Regents institutions are authorized to approve individual claims up to $5,000, but not to exceed $100,000 in aggregate per year. Tort claims settled in excess of $5,000 must be unanimously approved by all members of the State Appeal Board, the Attorney General, and the District Court of the State of Iowa for Polk County. Tort claims may be paid from the State's General Fund without limit.

5. Motor Vehicle Insurance

The Board of Regents' institutions cooperatively self-insure for liability losses related to motor vehicles up to $250,000. Each Regents' institution is required to pay a pre-determined monthly premium for each vehicle into the cooperative insurance pool. Losses in excess of $250,000 are self-insured by the State as provided in Chapter 669 of the Code of Iowa. The university self-insures its vehicles for physical damage. In addition to liability coverage, the insurance pool also self-insures for comprehensive and collision damage.

6. Property Insurance

The State of Iowa self-insures, on behalf of the university, property deemed general university property which is exclusive of property belonging to self-supporting enterprises. A contingency fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (includes general university property). The Code of Iowa states that claims in excess of $5,000 may be submitted to the Executive Council for consideration. When a loss exceeds $500,000, it is necessary to seek an appropriation from the General Assembly. The university purchases catastrophic commercial property insurance, including earthquake and flood coverage, for its general fund buildings with a $2,000,000 per incident deductible. The university commercial insurance program also includes coverage for enterprise facilities such as the residence system, Iowa State Center, power plant, etc., with deductibles ranging from $10,000 to $1,000,000 per occurrence.

7. Business Interruption and Extra Expense Insurance

The university self-insures for business interruption losses of its general mission revenues, such as tuition and fees, etc. Commercial insurance is purchased to cover business interruption losses for self-supporting enterprises such as the golf course, residence system, Iowa State Center, etc.

8. Insurance Settlements

The university had no settlements exceeding insurance coverage in any of the past three fiscal years.

NOTE 11 – OPERATING EXPENSE BY FUNCTION

The following is a summary of operating expenses by functional classification for the year ended June 30, 2007.

	Compensation And Benefits	Supplies	Services, Repairs & Professional Services	Other	Total
Instruction	$162,173,633	$ 10,991,358	$ 10,402,540	$	$183,567,531
Research	101,524,971	17,839,079	33,881,775		153,245,825
Public Service	51,230,733	10,988,179	16,738,148		78,957,060
Academic Support	75,234,216	5,631,467	10,046,248		90,911,931
Student Services	17,423,867	5,991,925	6,524,111		29,939,903
Institutional Support	23,153,769	1,723,408	1,940,563		26,817,740
Operation & Maintenance	27,432,547	20,517,958	1,512,422		49,462,927
Scholarships & Fellowships				23,268,272	23,268,272
Auxiliary Enterprises	52,172,400	34,646,188	10,207,244		97,025,832
Independent Operations	20,456,670	9,371,940	1,040,952		30,869,562
Depreciation				50,925,193	50,925,193
Other Operating Expenses				705,435	705,435
Total Operating Expenses	$530,802,806	$117,701,502	$ 92,294,003	$ 74,898,900	$815,697,211

NOTE 12 - SEGMENT INFORMATION

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in those bonds rely solely on the revenue generated from the individual activities for repayment. The university's segments are described as follows:

A. Dormitory Revenue Bonds

The Dormitory Revenue Bonds were issued to build various residence halls, suites, and apartments. Revenues pledged for these issues are the net rents, profits, and income from the Department of Residence facilities of the university.

B. Ice Arena Facility Revenue Notes

The Ice Arena Facility Revenue Notes were issued in 2000 to construct, improve, and equip an Ice Arena Facility. Revenues pledged for this issue are the student ice arena facility fees.

C. Indoor Multipurpose Use and Training Facility Revenue Bonds

The Indoor Multipurpose Use and Training Facility Revenue Bonds were issued in 2003 to construct the Stephen and Debora Bergstrom Indoor Multipurpose Use and Training Facility. Revenues pledged for this issue are gift income and the rents, profits, and income derived from the operation of the facility, including the Multipurpose Use and Training Facility Student Fee.

D. Memorial Union Revenue Bonds

The Memorial Union Revenue Bonds were issued in 2004 to improve, remodel, repair, and construct additions to the Memorial Union Building and the Memorial Union Parking Facility and to refund the outstanding Memorial Union Series 2000 Notes. Revenues pledged for this issue are the net revenues of the Memorial Union and student building fees.

E. Parking System Revenue Bonds

The Parking System Revenue Bonds were issued in 2002 to recondition and expand vehicle parking spaces with the construction of a connecting roadway at Jack Trice Stadium. In addition, the bonds were used to construct a single level parking deck on the university campus. Revenues pledged for this issue are the net revenues of the university's parking system.

F. Recreational Facility Revenue Bonds

The Recreational Facility Revenue Bonds issued in 2004 refunded in advance of maturity the 2005 through 2010 maturities of the Recreational Facility Revenue Refunding Bonds, Series 1994, which had previously refunded the Recreational Facility Revenue Bonds of 1987. These bonds were issued to construct, improve, and equip a combined recreation/athletic facility now known as the Lied Recreation Athletic Center. Revenues pledged for this issue are the student recreational facility fees and the student athletic fees.

G. Regulated Materials Facility Revenue Bonds

The Regulated Materials Facility Revenue Bonds were issued in 2003 to construct, furnish, and equip a regulated materials facility now known as the Environmental Health & Safety Services Building. Revenues pledged for this issue are the net revenues of the Regulated Materials Facility system.

H. Student Health Facility Revenue Bonds

The Student Health Facility Revenue Bonds were issued in 1995 to construct, improve, and equip a student health center now known as the Thomas H. Thielen Student Health Center. Revenues pledged for this issue are the Student Health Facility Fees, net income from the Student Health Center operations, and gift income.

I. Telecommunications Facility Revenue Bonds

The Telecommunications Facility Revenue Bonds were issued in 1997 to construct, improve, and equip the telecommunications facilities for the university. Revenues pledged for this issue are the net rents, profits, and income from the telecommunications facilities of the university.

J. Utility System Revenue Bonds

The Utility System Revenue Bonds were issued to construct, improve and equip various components of the university's utility system. Revenues pledged for this issue are the net revenues of the utility system, utility system student fees and interest on investments.

As of and for the year ended June 30, 2007

	Dormitory Revenue Bonds	Ice Arena Facility Revenue Notes	Indoor Multipurpose Facility Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS			
Assets:			
Current Assets	$ 9,598,051	$ 98,403	$ 929,483
Noncurrent Assets	29,074,872	466,172	2,530,267
Capital Assets	128,397,547	3,194,896	9,344,226
Total Assets	167,070,470	3,759,471	12,803,976
Liabilities:			
Current Liabilities	9,742,364	171,803	928,985
Noncurrent Liabilities	125,019,636	767,071	6,986,347
Total Liabilities	134,762,000	938,874	7,915,332
Net Assets:			
Invested in Capital Assets,			
Net of Related Debt	13,821,283	2,354,425	4,835,209
Restricted	18,487,187	466,172	43,986
Unrestricted			9,449
Total Net Assets	$ 32,308,470	$ 2,820,597	$ 4,888,644
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
Operating Revenues	$ 60,863,682	$	$
Operating Expenses	(45,127,077)		
Depreciation Expense	(4,411,915)	(100,908)	(252,540)
Net Operating Income/(Loss)	11,324,690	(100,908)	(252,540)
Nonoperating Revenues/(Expenses)	(4,577,680)	(29,191)	(189,023)
Other Revenues/(Expenses) and Transfers	(498,525)	182,202	515,000
Change in Net Assets	6,248,485	52,103	73,437
Beginning Net Assets	26,059,985	2,768,494	4,815,207
Ending Net Assets	$ 32,308,470	$ 2,820,597	$ 4,888,644
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash and Cash Equivalents Provided/(Used) By:			
Operating Activities	$ 17,151,533	$	$
Non-Capital Financing Activities			
Capital and Related Financing Activities	(11,861,653)	(14,604)	(1,920)
Investing Activities	497,474	27,117	475,599
Net Increase/(Decrease)	5,787,354	12,513	473,679
Beginning Cash and Cash Equivalents	6,976,891	453,659	96,030
Ending Cash and Cash Equivalents	$ 12,764,245	$ 466,172	$ 569,709

Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational Facility Revenue Bonds	Regulated Materials Facility Revenue Bonds	Student Health Facility Revenue Bonds	Telecommunications Facility Revenue Bonds	Utility System Revenue Bonds
$ 1,250,957	$ 768,933	$ 1,114,783	$ 491,568	$ 3,375,741	$ 1,024,429	$ 22,318,236
6,712,644	2,437,223	1,277,114	2,047,825	1,403,255	7,699,713	9,750,533
27,790,731	6,103,647	5,639,899	8,452,096	4,589,350	14,713,970	53,128,164
35,754,332	9,309,803	8,031,796	10,991,489	9,368,346	23,438,112	85,196,933
1,361,644	590,002	1,112,006	490,956	790,392	1,228,040	4,769,955
24,177,812	5,148,775	3,304,322	5,596,227	2,475,000	56,779	33,256,202
25,539,456	5,738,777	4,416,328	6,087,183	3,265,392	1,284,819	38,026,157
7,349,636	1,553,897	2,335,577	3,469,682	2,114,350	14,713,970	23,071,693
2,999,588	2,017,129	1,280,264	1,434,680	1,403,720	7,449,953	4,513,927
(134,348)		(373)	(56)	2,584,884	(10,630)	19,585,156
$10,214,876	$ 3,571,026	$ 3,615,468	$ 4,904,306	$ 6,102,954	$22,153,293	$ 47,170,776
$ 2,450,151	$ 3,064,799	$	$ 521,591	$ 7,677,692	$ 7,232,075	$ 31,884,187
(4,107,563)	(2,212,874)			(7,830,293)	(4,888,750)	(27,171,657)
(546,642)	(374,722)	(233,707)	(227,666)	(252,479)	(3,410,089)	(2,633,216)
(2,204,054)	477,203	(233,707)	293,925	(405,080)	(1,066,764)	2,079,314
97,889	(95,977)	(49,390)	(138,508)	93,028	455,309	141,597
3,626,965	(5,332)	1,105,784	605,742	399,787	513,702	441,449
1,520,800	375,894	822,687	761,159	87,735	(97,753)	2,662,360
8,694,076	3,195,132	2,792,781	4,143,147	6,015,219	22,251,046	44,508,416
$10,214,876	$ 3,571,026	$ 3,615,468	$ 4,904,306	$ 6,102,954	$22,153,293	$ 47,170,776
$(1,643,794)	$ 809,868	$	$ 521,591	$ (171,097)	$ 2,377,793	$ 4,243,334
(9,469,068)	(695,827)	(81,765)	(361,282)	(170,424)	(5,421,128)	(9,713,108)
7,473,915	129,018	74,577	703,606	236,695	2,233,090	991,763
(3,638,947)	243,059	(7,188)	863,915	(104,826)	(810,245)	(4,478,011)
5,934,054	1,862,604	689,263	1,181,696	3,406,514	3,531,954	28,489,181
$ 2,295,107	$ 2,105,663	$ 682,075	$ 2,045,611	$ 3,301,688	$ 2,721,709	$ 24,011,170

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the Board of Regents, State of Iowa, authorized the sale of Athletic Facilities Revenue Bonds, Series I.S.U. 2007 for $12,175,000 to be issued on October 1, 2007 and Series I.S.U. 2007A for $8,220,000 to be issued on November 1, 2007. These bonds will bear interest at varying rates between 4.1% and 6.1% and will mature in varying amounts from July 1, 2009 through July 1, 2033. The proceeds of these bonds will be used for paying the costs of constructing and equipping improvements at Jack Trice Stadium (the University's intercollegiate football stadium), funding the debt service reserve fund, and paying the costs of issuance. These bonds will be payable solely from the net revenues of the Athletic Facilities System of the University.

Also subsequent to June 30, 2007, the Board of Regents, State of Iowa, authorized the sale of Dormitory Revenue Bonds, Series I.S.U. 2007 for $13,400,000 to be issued on November 1, 2007. These bonds will bear interest at varying rates between 4.0% and 4.5% and will mature in varying amounts from July 1, 2009 through July 1, 2028. The proceeds of these bonds will be used for paying the costs of constructing, improving, and furnishing East Campus dining facilities at the University, funding the debt service reserve fund, and paying the costs of issuance. The bonds will be payable solely from the net rent, profits, and income of the Dormitory System of the University.

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David A. Vaudt, CPA
Auditor of State

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

To the Members of the Board of Regents, State of Iowa

We have audited the financial statements of Iowa State University of Science and Technology (University) as of and for the year ended June 30, 2007 and have issued our report thereon dated December 12, 2007 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we expressed our conclusion on the University's response, we did not audit the University's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees of Iowa State University of Science and Technology, citizens of the State of Iowa and other parties to whom the Iowa State University of Science and Technology may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 7, 2008

Iowa State University of Science and Technology

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

Department Reconciliation to Accounts Receivable System – Each semester, dormitory system room assessments are electronically transferred to the University accounts receivable system and subsequently billed to students. While adequate reconciliations are performed prior to the transfer, there is no reconciliation to ensure data received and billed by the accounts receivable system matches the room assessments from the dormitory system.

Recommendation – The University should follow guidelines for "Departmental Batch Transfer into the University Receivables System and Reconciliation" to help ensure all data sent to the accounts receivable system is complete.

Response – The Accounts Receivable Office tracks all errors produced by departmental transfers and provides Batch Transfer Edit Reports which inform the transferring department of the number of records as well as the total dollars transferred into the receivables system. These reports are designed to enable the departments to ensure transfers to the Receivables system are accurate and complete.

In Fall 2007, Department of Residence charges were brought into the Receivables system along with the Registrar's tuition fee assessments. A detailed report of all transferred charges was provided but the reports did not separate the Department of Residence charges into an individual category which complicated the reconciliation. Since that time, we have enhanced, and will continue to enhance, our reporting to assist our transferring departments with reconciliations.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

No matters were noted.