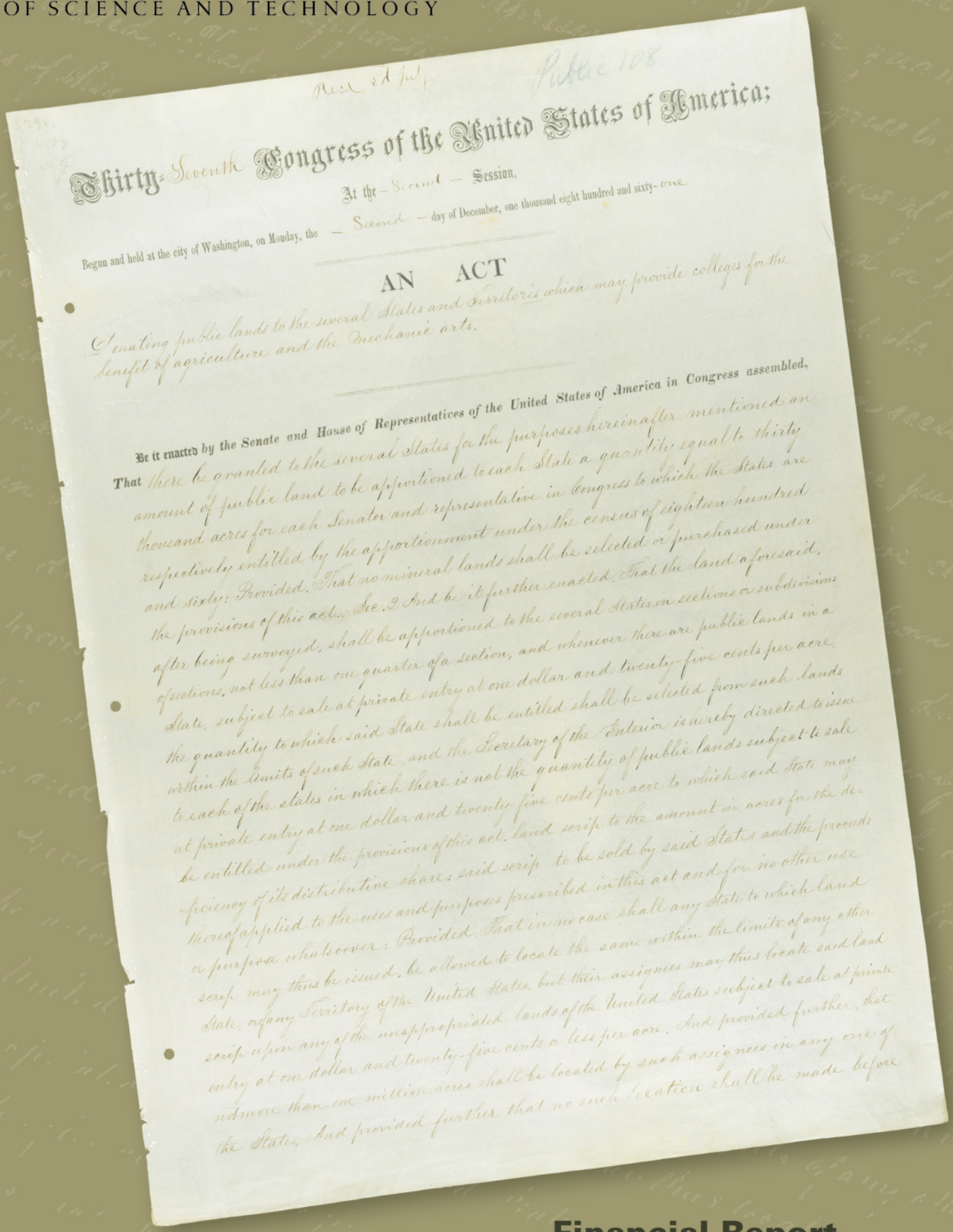
IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY



Rec'd 2d Jul

Public 108.

Thirty-Seventh Congress of the United States of America;

At the — Second — Session,

Begun and held at the city of Washington, on Monday, the — Second — day of December, one thousand eight hundred and sixty-one

AN ACT

Granting public lands to the several States and Territories which may provide colleges for the benefit of agriculture and the mechanic arts.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

That there be granted to the several States for the purposes hereinafter mentioned an amount of public land to be apportioned to each State a quantity equal to thirty thousand acres for each Senator and representative in Congress to which the States are respectively entitled by the apportionment under the census of eighteen hundred and sixty: Provided, That no mineral lands shall be selected or purchased under the provisions of this act. Sec. 2. And be it further enacted, That the land aforesaid, after being surveyed, shall be apportioned to the several States in sections or subdivisions of sections, not less than one quarter of a section, and whenever there are public lands in a State, subject to sale at private entry at one dollar and twenty-five cents per acre, the quantity to which said State shall be entitled shall be selected from such lands within the limits of such State, and the Secretary of the Interior is hereby directed to issue to each of the states in which there is not the quantity of public lands subject to sale at private entry at one dollar and twenty-five cents per acre to which said State may be entitled under the provisions of this act, land scrip to the amount in acres for the deficiency of its distributive share; said scrip to be sold by said States and the proceeds thereof applied to the uses and purposes prescribed in this act and for no other use or purpose whatsoever: Provided, That in no case shall any State to which land scrip may thus be issued, be allowed to locate the same within the limits of any other State, or any Territory of the United States, but their assignees may thus locate said land scrip upon any of the unappropriated lands of the United States subject to sale at private entry at one dollar and twenty-five cents or less per acre. And provided further, that not more than one million acres shall be located by such assignees in any one of the States, And provided further that no such location shall be made before

Financial Report

For the year ended June 30, 2008

On the cover:

The Morrill Act is an important piece of Iowa State University's history. The official document was on display at the Christian Petersen Art Museum in Morrill Hall during March and April 2008. The act, signed by President Abraham Lincoln in 1862, enabled the states to establish land-grant colleges to make higher education accessible to all. Iowa was the first state to accept the Morrill Act's provisions, and Iowa State was designated Iowa's land-grant institution. This year's display was the first time the Morrill Act had been available for public view since 1979. Previously, the document had never been exhibited outside of Washington, D.C.

http://www.extension.iastate.edu/vpnews/articles/2008/04Morrill.htm

UNIVERSITY OFFICIALS

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Elizabeth Hoffman, Executive Vice President and Provost
Warren R. Madden, Vice President for Business & Finance
Thomas L. Hill, Vice President for Student Affairs
Theodore H. Okiishi, Interim Vice President for Research & Economic Development
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Pam Elliott Cain, Associate Vice President for Business & Finance & University Secretary
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Robert Donley, Executive Director

For the year ended June 30, 2008

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, 2008, along with comparative data for the years ended June 30, 2007, and 2006. 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.

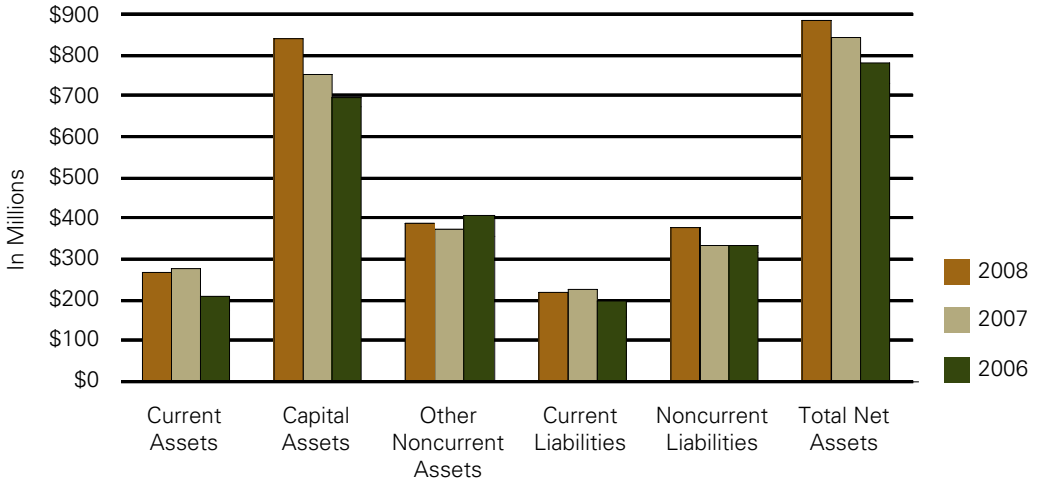
THE UNIVERSITY AS A WHOLE

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, 2008	*June 30, 2007*	*June 30, 2006*
Current Assets	*$ 266,229,286*	*$ 276,948,838*	*$ 209,454,433*
Capital Assets	*833,065,139*	*755,060,122*	*695,658,025*
Other Noncurrent Assets	*390,632,369*	*372,746,857*	*406,452,276*
Total Assets	*1,489,926,794*	*1,404,755,817*	*1,311,564,734*
Current Liabilities	*221,827,988*	*225,434,219*	*199,597,639*
Noncurrent Liabilities	*378,387,096*	*335,344,550*	*333,318,463*
Total Liabilities	*600,215,084*	*560,778,769*	*532,916,102*
Total Net Assets	*$ 889,711,710*	*$ 843,977,048*	*$ 778,648,632*

Total assets at June 30, 2008, were $1.49 billion, which is $85.2 million higher than the prior year. Net capital assets comprised $833.1 million of the $1.49 billion in assets, which is a similar proportion to that of 2007. Total liabilities were $600.2 million at June 30, 2008, an increase of $39.4 million. The comparison of current and noncurrent assets, liabilities, and net assets as of June 30, 2008, 2007, and 2006 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 $45.7 million, or 5.4%, 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 $15.1 million in 2008. This was due to construction funds on hand from several bond issuances in 2008.
- Capital assets, net of depreciation, increased $78 million. Capital assets are discussed in greater detail later in this Management's Discussion & Analysis.
- Accounts receivable decreased $7.2 million due primarily to the collection of the one-time licensing revenue receivable of the Iowa State University Research Foundation that existed at June 30, 2007.

Total net assets at June 30, 2008, were $889.7 million. The largest portion of the university's net assets (61.1%) 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 (8.1%) is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted net 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 2006.

	June 30, 2008	*June 30, 2007*	*June 30, 2006*
Invested in Capital Assets, Net of Related Debt	*$543,281,522*	*$502,553,811*	*$463,017,681*
Restricted Nonexpendable	*31,534,140*	*30,847,113*	*28,891,868*
Restricted Expendable	*40,414,460*	*41,633,934*	*35,743,095*
Unrestricted	*274,481,588*	*268,942,190*	*250,995,988*
Total Net Assets	*$889,711,710*	*$843,977,048*	*$778,648,632*

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 2008 would have been $9.9 million compared to $20.7 million for 2007 and $22.7 million for 2006.

As noted in the previous section, when all nonoperating and other revenues and expenses are considered, revenues exceeded expenses by $45.7 million for 2008.

	For the Years Ended		
	June 30, 2008	*June 30, 2007*	*June 30, 2006*
Operating Revenues	*$571,550,723*	*$544,382,372*	*$524,389,695*
Operating Expenses	*857,287,056*	*815,697,211*	*792,672,007*
Operating Loss	*(285,736,333)*	*(271,314,839)*	*(268,282,312)*
Nonoperating Revenues and Expenses	*301,037,980*	*314,981,165*	*305,685,950*
Income Before Other Revenues, Expenses, Gains and Losses	*15,301,647*	*43,666,326*	*37,403,638*
Other Revenues, Expenses, Gains and Losses	*30,433,015*	*21,662,090*	*11,111,766*
Increase in Net Assets	*45,734,662*	*65,328,416*	*48,515,404*
Net Assets, Beginning of Year	*843,977,048*	*778,648,632*	*730,133,228*
Net Assets, End of Year	*$889,711,710*	*$843,977,048*	*$778,648,632*

Revenues

Operating revenues for the year ended June 30, 2008, increased $27.2 million. Major components of this change were:

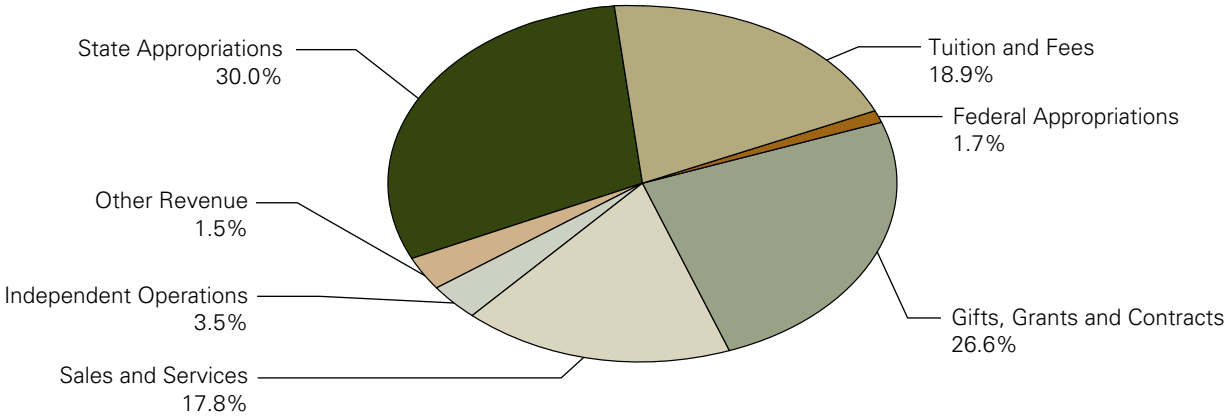
- Tuition and fees, net of scholarship allowances, increased $10.1 million, or 6.2%. The increase is attributable to a 5.2% increase in the tuition rate coupled with an increase in enrollment.
- Revenue from auxiliary enterprises increased $7.9 million, or 7%, primarily in Department of Residence/ISU Dining and Athletics.
- Other operating revenues decreased $5.1 million. Prior year revenues were unusually high due to a major summer event in Conference Services and licensing revenue at the Iowa State University Research Foundation.
- Federal appropriations increased $6.3 million since funds are only drawn when spent and the timing of spending can vary significantly between years.

Nonoperating revenues decreased $9.4 million, comprised primarily of a $25.3 million increase in state appropriations offset by a $37.3 million negative change in investment income. In the prior year, investments provided $33.8 million in nonoperating revenue but lost $3.5 million in FY08 which is reflective of national market conditions.

Other revenues increased $8.8 million, due primarily to an increase in capital gifts, grants, and contracts, primarily from the Iowa State University Foundation. Major gifts are explained in more detail in the Capital Assets section.

In summary, total revenues of the university increased $26.4 million in fiscal year 2008 from $894.2 to $920.6 million. The components of these revenues are shown on the following graph.

Total Revenues



In comparing the years ended June 30, 2007, and 2006, operating revenues increased $20 million. The major elements of this increase were tuition and fees, net of scholarship allowances, which increased $7.5 million, revenue from auxiliary enterprises which increased $6.3 million and other operating revenues that increased $6.6 million. In fiscal 2007, nonoperating revenues increased $9.2 million over 2006, due to strong investment income.

Expenses

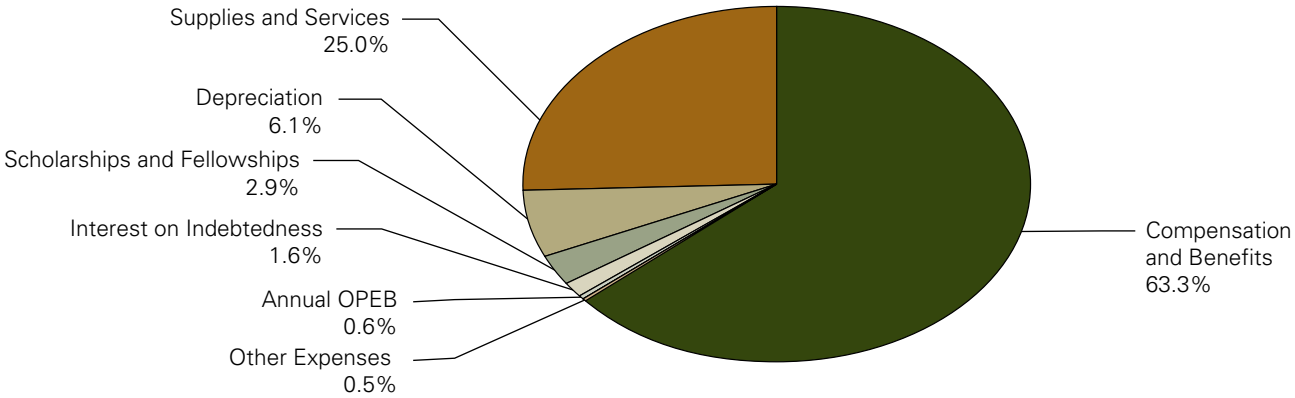
Operating expenses were $857.3 million for the 2008 fiscal year. This was an increase of 5.1%, or $41.6 million, over the previous year. Changes in the major natural expense categories were:

- Compensation and benefits increased $23 million, or 4.3%.
- Supplies increased $5.3 million, or 4.5%.
- Services and repairs increased $3.3 million, or 3.5%.
- Other operating expenses increased $10 million, or 13.4%, with the addition of the expense for other postemployment benefits and an increase in depreciation expense and scholarship expense.

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 instruction, research, and auxiliary enterprises.

In summary, total expenses for 2008 were $874.8 million, an increase of $46 million, or 5.6%. The components of these expenses are shown in the following graph:

Total Expenses



Comparing the years ended June 30, 2007, and 2006, operating expenses in fiscal 2007 increased $23 million over those of 2006, which was a lesser change than in 2006. In the natural classifications, percentages of the total have remained relatively consistent over recent years. Functionally, auxiliary enterprises and academic support 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 $55.6 million, or 53.9%, in 2008. An increase in cash is typically considered a positive financial indicator..

	For the Years Ended		
	June 30, 2008	*June 30, 2007*	*June 30, 2006*
Cash Provided/(Used) by:			
Operating Activities	*($229,879,947)*	*($222,001,462)*	*($211,824,152)*
Non-capital Financing Activities	*321,920,438*	*296,631,599*	*312,167,827*
Capital and Related Financing Activities	*(69,724,245)*	*(90,248,441)*	*(38,060,784)*
Investing Activities	*33,329,739*	*36,847,949*	*(68,842,921)*
Net Increase/(Decrease) in Cash	*55,645,985*	*21,229,645*	*(6,560,030)*
Cash and Cash Equivalents, Beginning of Year	*103,324,978*	*82,095,333*	*88,655,363*
Cash and Cash Equivalents, End of Year	*$158,970,963*	*$103,324,978*	*$ 82,095,333*

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 $46 million for 2008 compared to $28.6 million for 2007 and $33.7 million for 2006.

CAPITAL ASSETS

At June 30, 2008, the university had $1.6 billion invested in capital assets, with accumulated depreciation of $813.6 million for net capital assets of $833.1 million. Depreciation charges for fiscal year 2008 totaled $53.5 million. Capital assets, net of accumulated depreciation, were as follows:

	June 30, 2008	*June 30, 2007*	*June 30, 2006*
Land and Land Improvements, Nondepreciable	*$ 18,774,370*	*$ 17,274,605*	*$ 16,154,572*
Construction in Progress	*102,672,520*	*69,431,192*	*44,338,738*
Infrastructure and Land Improvements, Depreciable	*81,018,163*	*82,965,951*	*85,179,620*
Buildings	*513,880,731*	*474,824,572*	*450,375,529*
Equipment and Library Collections	*116,719,355*	*110,563,802*	*99,609,566*
Total Capital Assets, Net Of Accumulated Depreciation	*$833,065,139*	*$755,060,122*	*$695,658,025*

During fiscal year 2008, several major projects were placed in service, including the addition and renovation of Coover Hall which was funded with proceeds from the Academic Building Revenue Bonds and private gifts, the renovation of the Memorial Union which was funded with proceeds from Memorial Union Revenue Bonds and the Dairy Science Education and Discovery Facility which was funded with the proceeds of the sale of the Ankeny Dairy Farm.

Several major construction projects were in progress at June 30, 2008. 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:

- Lloyd Veterinary Medical Center
- Alumni Center
- Hach Hall
- Jack Trice Stadium improvements

The Lloyd Veterinary Medical Center has been funded with proceeds from Academic Building Revenue Bonds and private gifts. The Alumni Center has been funded primarily with private gifts. Hach Hall has been funded with proceeds from Academic Building Revenue Bonds, capital appropriations, and private gifts. The improvements at Jack Trice Stadium have been funded by Athletic Facilities Revenue Bonds and 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 fiscal year 2008, $5.6 million in capital appropriations was received for a renewable fuels building and an additional $.6 million was received for the veterinary laboratory which initially received $2 million in 2007. Also in 2007, $5 million in capital appropriations were received for a new chemistry building (Hach Hall) and $1 million for a biorenewables facility. No capital appropriations were received in 2006.

In addition, capital gifts and grants revenue of $23.7 million was recognized, an amount more than double that of fiscal 2007. Most of the increase was from the ISU Foundation—major construction projects funded with private gifts were identified in the previous section of this MD&A. More detailed information about the university's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2008 the university had $343.1 million in outstanding long-term debt compared to $303 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 long-term debt by type:

	June 30, 2008	*June 30, 2007*	*June 30, 2006*
Bonds Payable-Academic Building	*$104,297,568*	*$ 84,923,594*	*$ 72,427,128*
Bonds Payable-Enterprise Funds	*234,815,788*	*212,141,262*	*221,598,092*
Capital Leases	*2,441,607*	*4,173,540*	*4,295,120*
Notes Payable	*1,574,864*	*1,755,719*	*1,835,102*
Total Long-Term Debt	*$343,129,827*	*$302,994,115*	*$300,155,442*

In 2008, issuance of additional Academic Building Revenue Bonds increased academic building bonds payable by $19.4 million. Bonds payable in the enterprise funds increased $22.7 million which was comprised of $20.1 million from the issuance of Athletic Facilities Revenue Bonds and $9.3 million for additional Dormitory Revenue Bonds. These increases in the enterprise funds were partially offset by the normal paying down of debt from the other issuances. In 2007, Academic Building Revenue Bonds increased $12.5 million from a new issuance.

The 2008 decrease in capital leases is due to the payment of the Jack Trice Stadium leases.

ECONOMIC OUTLOOK

During the past fiscal year the university's economic resources continued to improve. The university completed one of its best legislative sessions in many years. There was a 6.1% increase in state operating appropriations for fiscal year 2009 as well as funding approval for a new chemistry building (Hach Hall), the Biorenewables Research Laboratory and planning funds for Phase II of the Veterinary Medicine Renovation. 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 university was able to recruit 98 new faculty in critical areas to respond to enrollment growth. In the third year of the university's strategic plan, *Forward Thinking*, we have begun to strengthen key academic areas and infrastructure. As the economy in the Fall of 2008 has continued to decline, the overall impact on the university is not yet known. Historically, Iowa has not seen wide fluctuations in revenues and is going into the year with adequate reserves. However, there is the possibility of some reduction in state support and the outlook for fiscal 2010 is less certain.

This year the university implemented a new budget model placing greater responsibility for both revenue and expenses with the colleges and major operating units. The initial implementation is going well with units becoming more entrepreneurial and resources and expenses becoming more focused on effectiveness and institutional priorities. We anticipate this budget process will be effective in the current economic climate.

The university's enrollment is above projections with 26,856 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 is beginning a strategic planning process 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 tuition support based upon the Higher Education Price Index, which for fiscal 2010 would increase basic support by 4.2%. A priority for state funding continues to be placed upon improving competitive faculty salaries to recruit and retain faculty members who are the very best in their fields.

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 cross-disciplinary initiatives including the Bioeconomy Institute, CyberInnovation Institute, Egg Industry Center, Center for Carbon Capturing Crops, Center for the Study of Violence, Asteroid Deflection Research Center, Biobased Industry Center, and the Engineering Research Center on Biorenewable Chemicals, 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 University.

The university continues to have a very successful private philanthropy program through the ISU Foundation. Progress continues on a comprehensive fund-raising campaign, "Campaign Iowa State: With Pride and Purpose" with an

$800 million goal. Last year set an all time record of $135.4 million raised, exceeding our goal by $25 million. The university has seen a 253% increase in annual fund raising since 2003. In spite of the current economic uncertainty the Foundation continues to meet its fund raising goals.

Although the economic climate is uncertain, the political leadership in Iowa, including the Governor, is indicating support for initiatives by the Board of Regents, State of Iowa. Supporting education continues to be a state priority. The university continues to receive strong support from elected federal officials who are in key positions in Congress. 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. The university has launched a major effort in sustainability, not only to educate current students, but also to reduce energy consumption and to minimize our impact on global climate change. Iowa is uniquely positioned with ethanol facilities and the ability to grow alternative crops to make a significant contribution.

In order to continue to provide a high quality educational experience, tuition rates were increased 3.2% for fall 2008. 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 2008 were $274.1 million. Although the university has a broad base of sponsored funding, it continues to focus on core strategic initiatives. 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 continues its operating contract for the Ames Laboratory with the U.S. Department of Energy. A new Director has been hired and we continue to meet the performance expectations of the U. S. Department of Energy. Initiatives in information assurance, food safety and biorenewable resources are receiving increased support.

Projects that are currently being planned or under construction are a new chemistry building (Hach Hall), renovation of the College of Veterinary Medicine, Biorenewables Complex, continuing renovation of the student Memorial Union facility, stadium improvements, an addition to the College of Design, improvements to student dining facilities, and renovation of Snedecor Hall.

In beginning to develop a new strategic plan, the university is taking steps to work toward a long-term vision to the year 2050. In order to become a "magnet and world class" university, a major objective of the President is to attract outstanding students and faculty. The university is focusing on addressing the major problems facing our planet, especially those dealing with food, energy infrastructure, water and sustainability.

Although there is uncertainty in the economy, overall financial resources remain solid. The university's 2009 operating budget is balanced and conservative. Our revenue mix is diverse and our bond rating was upgraded in October 2008. With modest existing debt, continuing strong enrollments, and strong levels of sponsored funding we anticipate being able to deal with economic fluctuations and possible reductions in state support. In spite of the economic uncertainty, the university is strengthening its academic excellence making 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

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

To the 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, 2008 and 2007. 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 2.6% and 0%, 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.

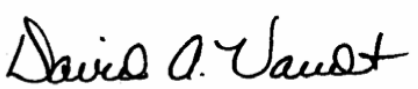
As discussed in Note 1, the financial statements of Iowa State University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of Iowa State University. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2008 and 2007 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, 2008 and 2007, 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.

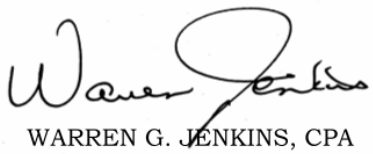
As discussed in Note 13, since June 30, 2008, Iowa State University's investment portfolio has incurred significant declines in the value reported in the accompanying financial statements due to a global financial crisis that persists as of the date of this report. The amount and extent of recovery, if any, the period over which recovery may occur and the amount of losses, if any, Iowa State University will recognize in future financial statements are indeterminable.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 2 through 9 and page 43, respectively, are not required parts of the financial statements, but are 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. We did not audit the information and express no opinion thereon.

Our 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, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 9, 2008

IOWA STATE UNIVERSITY
STATEMENT OF NET ASSETS

As of June 30, 2008 and 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents (Note 2A)	$ $77,644,520	$ 40,504,788
Investments (Note 2B)	120,224,175	159,547,541
Deposits with trustees (Note 2D)	98,403	98,403
Accounts receivable, net (Note 3A)	21,032,397	28,687,039
Due from government agencies (Note 3B)	24,422,681	25,740,050
Interest receivable	1,807,882	2,059,262
Student loans receivable, net (Note 3C)	78,189	10,656
Inventories (Note 4)	16,805,881	16,314,942
Prepaid expenses	4,115,158	3,986,157
Total Current Assets	**266,229,286**	**276,948,838**
Noncurrent Assets		
Cash and cash equivalents (Note 2A)	81,326,443	62,820,190
Investments (Note 2B)	272,564,668	273,748,205
Accounts receivable, net (Note 3A)	4,737,019	4,310,710
Due from government agencies (Note 3B)	5,689,000	6,870,000
Interest receivable	467,259	649,302
Prepaid expenses	3,994	2,458
Student loans receivable, net (Note 3C)	25,783,615	24,285,621
Equity in wholly owned subsidiary (Note 1B)	60,371	60,371
Capital assets, net of accumulated depreciation (Note 5)	833,065,139	755,060,122
Total Noncurrent Assets	**1,223,697,508**	**1,127,806,979**
TOTAL ASSETS	**1,489,926,794**	**1,404,755,817**
LIABILITIES		
Current Liabilities		
Accounts payable	41,420,291	47,910,920
Salaries and wages payable	2,800,746	3,402,895
Unpaid claims liability (Note 10B)	4,019,000	3,544,000
Deferred revenue	40,696,800	44,678,071
Interest payable	8,638,826	7,173,575
Long-term debt, current portion (Note 6)	17,273,399	17,365,991
Other long-term liabilities, current portion (Note 6)	22,189,242	20,368,732
Deposits held in custody for others	84,789,684	80,990,035
Total Current Liabilities	**221,827,988**	**225,434,219**
Noncurrent Liabilities		
Accounts payable	9,242,650	7,377,901
Long-term debt, noncurrent portion (Note 6)	325,856,428	285,628,124
Other long-term liabilities, noncurrent portion (Note 6)	43,288,018	42,338,525
Total Noncurrent Liabilities	**378,387,096**	**335,344,550**
TOTAL LIABILITIES	**600,215,084**	**560,778,769**
NET ASSETS		
Invested in capital assets, net of related debt	543,281,522	502,553,811
Restricted (Note 8):		
Nonexpendable	31,534,140	30,847,113
Expendable	40,414,460	41,633,934
Unrestricted	274,481,588	268,942,190
TOTAL NET ASSETS	$ 889,711,710	$ 843,977,048

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, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $50,565,107 and $45,291,303 for the years ended June 30, 2008 and 2007, respectively (Note 1N)	$ 173,889,637	$ 163,789,711
Federal appropriations	15,820,799	9,510,794
Federal grants and contracts	129,737,446	129,121,646
State and local government grants and contracts	18,485,228	19,955,337
Nongovernmental grants and contracts	26,133,444	20,606,913
Sales and services of educational activities	43,608,659	41,904,684
Auxiliary enterprises, net of scholarship allowances of $3,774,110 and $4,092,779 for the years ended June 30, 2008 and 2007, respectively (Note 1N)	120,464,592	112,553,299
Independent operations	32,511,223	30,773,156
Interest on student loans	460,504	627,913
Other operating revenues	10,439,191	15,538,919
TOTAL OPERATING REVENUES	**571,550,723**	**544,382,372**
OPERATING EXPENSES		
Instruction	196,710,564	183,567,531
Research	158,231,457	153,245,825
Public service	78,981,630	78,957,060
Academic support	93,642,304	90,911,931
Student services	31,878,613	29,939,903
Institutional support	27,934,951	26,817,740
Operation and maintenance of plant	50,741,498	49,462,927
Scholarships and fellowships	25,757,938	23,268,272
Auxiliary enterprises	101,025,446	97,025,832
Independent operations	33,231,923	30,869,562
Depreciation	53,513,910	50,925,193
Other postemployment benefit cost, net of contributions	5,194,285	
Other operating expenses	442,537	705,435
TOTAL OPERATING EXPENSES	**857,287,056**	**815,697,211**
OPERATING LOSS	**(285,736,333)**	**(271,314,839)**
NONOPERATING REVENUES/(EXPENSES)		
State appropriations	275,861,180	250,565,704
Federal grants and contracts	13,636,854	11,887,295
Nonfederal gifts, grants and contracts	32,572,462	30,735,789
Investment income/(loss)	(3,475,945)	33,818,185
Interest on indebtedness	(13,947,362)	(13,061,536)
Gain/(Loss) on disposal of capital assets	(1,043,076)	871,376
Other nonoperating income/(loss)	(2,566,133)	164,352
NET NONOPERATING REVENUES/(EXPENSES)	**301,037,980**	**314,981,165**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	**15,301,647**	**43,666,326**
Capital appropriations	6,247,000	8,000,000
Capital gifts, grants and contracts	23,731,015	11,393,182
Additions to permanent endowments	455,000	2,337,379
Disbursed to trustee for debt defeasance		(68,471)
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	**30,433,015**	**21,662,090**
INCREASE IN NET ASSETS	**45,734,662**	**65,328,416**
Net Assets, Beginning of Year	843,977,048	778,648,632
NET ASSETS, END OF YEAR	**$ 889,711,710**	**$ 843,977,048**

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, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 173,526,930	$ 164,038,174
Federal appropriations	16,059,799	10,288,652
Grants and contracts	170,213,532	174,101,485
Sales of educational activities	43,362,812	41,801,830
Sales and services of auxiliary enterprises	119,717,027	114,994,804
Receipts of independent operations	32,360,440	30,661,392
Interest on loans to students	492,258	666,866
Collections of loans from students	3,420,148	6,145,526
Payments for salaries and benefits	(554,248,247)	(530,927,926)
Payments for goods and services	(223,932,163)	(208,922,068)
Scholarship payments	(24,895,486)	(22,910,944)
Loans issued to students	(5,072,891)	(7,476,756)
Other operating receipts	19,115,894	5,537,503
NET CASH USED BY OPERATING ACTIVITIES	**(229,879,947)**	**(222,001,462)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	275,861,180	250,565,704
Non-capital gifts, grants and contracts	46,393,132	44,476,315
Direct lending receipts	145,246,652	137,291,014
Direct lending payments	(145,339,294)	(138,043,917)
Funds held for others receipts	262,716,424	251,094,914
Funds held for others payments	(262,957,656)	(248,752,431)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	**321,920,438**	**296,631,599**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	7,428,000	3,952,500
Capital gifts and grants received	17,686,167	13,550,219
Proceeds from capital debt	68,836,068	33,477,525
Proceeds from sale of capital assets	962,278	2,615,779
Acquisition and construction of capital assets	(127,611,311)	(104,903,649)
Principal paid on capital debt	(18,469,492)	(16,976,683)
Interest paid on capital debt	(15,176,278)	(14,225,772)
Defeased debt payments	(2,018,686)	(8,152,871)
Other capital and related financing sources/(payments)	(1,360,991)	414,511
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(69,724,245)**	**(90,248,441)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received on investments	20,116,862	20,625,198
Proceeds from sales of investments	552,230,150	288,719,328
Purchases of investments	(539,017,273)	(272,496,577)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**33,329,739**	**36,847,949**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**55,645,985**	**21,229,645**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	103,324,978	82,095,333
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 158,970,963	$ 103,324,978

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	**$(285,736,333)**	**$(271,314,839)**
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	53,513,910	50,925,193
Changes in assets and liabilities:		
Accounts receivable, net	10,365,490	(5,316,253)
Inventories	(499,842)	(1,185,783)
Prepaid expenses	(125,376)	(523,036)
Student loans receivable	(1,637,190)	(1,210,135)
Accounts payable	(5,466,758)	1,763,469
Deferred revenue	(5,895,816)	5,014,792
Compensated absences	1,535,820	1,828,454
Early retirement benefits payable	(1,246,320)	(2,112,359)
Other postemployment benefits obligation	5,194,285	
Deferred compensation liability	118,183	129,035
NET CASH USED BY OPERATING ACTIVITIES	**$(229,879,947)**	**$(222,001,462)**

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

Capital gifts-in-kind	$ 3,466,765	$ 190,000

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

Cash and cash equivalents classified as current assets	$ 77,644,520	$ 40,504,788
Cash and cash equivalents classified as noncurrent assets	81,326,443	62,820,190
TOTAL CASH AND CASH EQUIVALENTS	$ 158,970,963	$ 103,324,978

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, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 8,263,437	$ 7,217,683
Receivables:		
Pledges, net (Note 3D)	69,379,501	49,822,377
Estates	4,433,213	2,045,846
Funds held in trust by others	18,106,387	18,667,445
Total receivables	91,919,101	70,535,668
Investments (Note 2C):		
Pooled investments	490,901,510	485,630,146
Other marketable securities	36,135,126	42,734,086
Equity in subsidiary	2,209,667	2,244,896
Real estate and other investments	10,770,070	8,246,733
Total investments	540,016,373	538,855,861
Property and equipment	3,356,484	3,473,439
Other assets	3,325,799	3,394,212
TOTAL ASSETS	**$646,881,194**	**$623,476,863**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 1,929,386	$ 673,140
Due to related organizations	6,836,878	6,008,949
Bonds payable	3,067,575	3,162,538
Long-term liabilities	2,999,608	5,140,723
Annuities payable	21,665,526	22,655,284
TOTAL LIABILITIES	**36,498,973**	**37,640,634**
NET ASSETS (Note 8)	**610,382,221**	**585,836,229**
TOTAL LIABILITIES AND NET ASSETS	**$646,881,194**	**$623,476,863**

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, 2008 and 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	$ 2,642,839	$ 63,974,299	$ 36,374,213	$102,991,351	$ 69,887,385
Investment return					
Pooled investments	8,907,652	14,475,154	(37,013,320)	(13,630,514)	65,789,166
Nonpooled investments	366,029	(328,490)	(304,524)	(266,985)	5,917,354
Equity in net income/(loss) of subsidiary	264,771			264,771	404,007
Total investment return	9,538,452	14,146,664	(37,317,844)	(13,632,728)	72,110,527
Fundraising service revenue	1,918,499			1,918,499	2,258,940
Return on funds held in trust by others		132,445	(333,618)	(201,173)	1,632,561
Other earnings	29,296	1,019,673	93,951	1,142,920	663,916
Net assets released from restrictions	53,528,985	(53,528,985)		-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	**67,658,071**	**25,744,096**	**(1,183,298)**	**92,218,869**	**146,553,329**
EXPENSES					
Program	53,837,576			53,837,576	45,600,017
Operating:					
Fundraising	9,324,390			9,324,390	8,623,656
Administrative	3,466,938			3,466,938	2,941,065
Annuity liability adjustment	595,557	(447,587)	896,003	1,043,973	2,524,265
TOTAL EXPENSES	**67,224,461**	**(447,587)**	**896,003**	**67,672,877**	**59,689,003**
CHANGE IN NET ASSETS	**433,610**	**26,191,683**	**(2,079,301)**	**24,545,992**	**86,864,326**
Net Assets, Beginning of Year	14,758,238	134,565,849	436,512,142	585,836,229	498,971,903
NET ASSETS, END OF YEAR	**$15,191,848**	**$160,757,532**	**$434,432,841**	**$610,382,221**	**$585,836,229**

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

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 9,500 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, 2008, 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, 2008, the revenues and expenses were ($771,169) and $1,700,943, respectively. The negative revenues were a result of unrealized loss on investments.

   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 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, 2008 and 2007, the Foundation distributed and expended $53,837,576 and $45,600,017, respectively, on behalf of the university for both restricted and unrestricted purposes as follows:

	2008	*2007*
Scholarships, loan funds, and awards	*$ 13,733,418*	*$ 13,457,228*
Faculty and staff support	*5,636,842*	*5,055,477*
College and administrative support	*12,052,903*	*9,210,087*
Buildings, equipment, and repairs	*22,025,673*	*17,313,320*
Gifts-in-kind	*388,740*	*563,905*
Total Program Support	*$ 53,837,576*	*$ 45,600,017*

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 University Boulevard, Ames, IA 50010-2230 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, merchandise, and grain for resale and livestock. Inventories of supplies and merchandise are valued at the lower of cost (primarily weighted average) or market. Inventories of livestock and grain 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 asset 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 in 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, net other postemployment benefits obligation, 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, 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 Athletic Facilities Revenue Bonds, 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, and Utility System Revenue Bonds.

O. Auxiliary Enterprise Revenues

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

P. Bond Issuance Costs

Bond issuance costs are expensed in the year the bonds are sold. Bond discounts and premiums are deferred and amortized over the life of the bonds.

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, 2008, encumbered balance carried forward to fiscal year 2009 was $12,121,673.

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, 2008 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, 2008 and 2007, the book balances of cash and cash equivalents were $158,970,963 and $103,324,978, respectively. As of June 30, 2008 and 2007, the bank balances were $166,014,354 and $109,896,039, respectively, of which $76,438,643 and $53,970,197, 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, 2008 and 2007, $89,575,711 and $55,925,842, 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 policy is 5.5%, which includes a 1.25% administrative fee of a three-year moving average market value.

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 $392.8 million investments, $1,563,027 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, 2008, were as follows:

	Fair Value	*Effective Duration*	*Credit Quality Rating*
Fixed Income:			
U. S. Government Agencies	*$ 164,894,222*	*1.35*	*TSY/AGY/AAA*
Corporate Notes and Bonds	*11,038,167*	*1.94*	*AAA/AA/A/BBB/BB/NR*
Mutual Funds, Short Term	*80,143,640*	*1.90*	*AA*
Mutual Funds, Long Term	*21,090,863*	*3.84*	*A*
Subtotal	*277,166,892*		
Equity:			
Common Stock	*33,513,601*		
Mutual Funds	*67,431,028*		
Private Equity	*2,293,159*		
Foundation Pooled Funds	*1,563,027*		
Real Estate	*10,821,136*		
Total Investments	*$ 392,788,843*		

C. Investments (Foundation)

Investments were comprised of the following balances as of June 30, 2008 and 2007:

Investment	*June 30, 2008*	*June 30, 2007*
Pooled Investments:		
Traditional Structures – values based on quoted market prices:		
Equity	$ 92,099,191	$101,464,869
Fixed Income	122,145,493	117,223,290
Natural Resources	15,107,484	16,150,480
Money Market Funds	5,500,592	3,228,523
Accrued Interest	187,003	249,907
Accrued Manager Fees	(250,000)	(300,240)
	234,789,763	238,016,829
Alternative Structures – underlying investment values based on quoted market prices:		
Equity	82,468,897	55,557,196
Fixed Income	20,936,643	18,688,916
Equity Exposure	28,603,634	68,349,524
Natural Resources	8,300,128	8,078,656
Hedge Funds	9,234,707	
	149,544,009	150,674,292
Alternative Structures – underlying investment values based on estimates provided by fund managers or general partners:		
Hedge Fund of Funds	74,462,951	74,719,182
Private Equity	29,091,848	21,379,029
Real Estate	3,012,939	840,814
	106,567,738	96,939,025
Total Pooled Investments	490,901,510	485,630,146
Other Marketable Securities:		
Fixed Income	20,456,602	23,723,872
Equity	15,678,524	19,010,214
Total Other Marketable Securities	36,135,126	42,734,086
Equity in Subsidiary	2,209,667	2,244,896
Real Estate and Other Investments:		
Real Estate	5,872,032	5,894,232
Notes Receivable	4,034,322	1,481,358
Notes Receivable from Affiliated Entities	863,716	863,716
Real Estate Contracts		7,298
Accrued Interest		129
Total Real Estate and Other Investments	10,770,070	8,246,733
Total Investments	$540,016,373	$538,855,861

D. Deposits with Trustees

Funds on deposit with trustees for the purpose of paying current obligations of bond principal and interest at June 30, 2008 and 2007, totaled $98,403 and $98,403, 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, 2008 and 2007, accounts receivable consisted of the following:

	June 30, 2008	*June 30, 2007*
Accounts Receivable	*$26,578,300*	*$33,789,978*
Allowance for Doubtful Accounts	*(808,884)*	*(792,229)*
Accounts Receivable, Net	*$25,769,416*	*$32,997,749*

B. Due from Government Agencies

Due from government agencies is composed of $7,618,176 due from state and local government agencies and $22,493,505 due from United States government agencies at June 30, 2008 and $9,600,274 due from state and local government agencies and $23,009,776 due from United States government agencies at June 30, 2007.

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, 2008	*June 30, 2007*
Student Loans Receivable	*$26,027,401*	*$24,463,430*
Allowance for Doubtful Accounts	*(165,597)*	*(167,153)*
Student Loans Receivable, Net	*$25,861,804*	*$24,296,277*

D. Pledges Receivable (Foundation)

The components of the net pledges receivable as of June 30, 2008 and 2007 are as follows:

	June 30, 2008	*June 30, 2007*
Gross Pledges Receivable	*$82,804,447*	*$58,744,503*
Allowance for Uncollectible Pledges	*(3,579,335)*	*(2,511,805)*
Discount to Present Value	*(9,845,612)*	*(6,410,321)*
Net Pledges Receivable	*$69,379,501*	*$49,822,377*

The Foundation estimates payments on these pledges receivable as of June 30, 2008, will be received as follows:

Year Ending June 30,	*Principal*
2009	*$ 22,707,251*
2010	*20,031,425*
2011	*12,051,133*
2012	*9,672,268*
2013	*6,377,644*
Thereafter	*11,964,726*
Total	*$ 82,804,477*

In addition, the Foundation has received notification of deferred gifts totaling approximately $365,000,000 and $294,000,000 as of June 30, 2008 and 2007, 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, 2008	June 30, 2007
Supplies, Merchandise, and Grain for Resale	$14,469,414	$13,887,881
Livestock	2,336,467	2,427,061
Total Inventories	$16,805,881	$16,314,942

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, is summarized as follows:

	July 1, 2007	Additions	Transfers	Deductions	June 30, 2008
Capital Assets, Nondepreciable:					
Land	$ 11,651,472	$ 2,102,405	$	$ (602,640)	$ 13,151,237
Land Improvements	5,623,133				5,623,133
Construction in Progress	69,431,192	100,737,804	(67,465,473)	(31,003)	102,672,520
Capital Assets, Nondepreciable	86,705,797	102,840,209	(67,465,473)	(633,643)	121,446,890
Capital Assets, Depreciable:					
Buildings	885,419,188	3,419,757	61,333,981	(992,326)	949,180,600
Land Improvements	17,391,339		409,201		17,800,540
Infrastructure	174,038,289		5,722,291		179,760,580
Equipment	198,142,834	18,026,245		(8,748,169)	207,420,910
Library	162,550,033	9,238,070		(711,447)	171,076,656
Capital Assets, Depreciable	1,437,541,683	30,684,072	67,465,473	(10,451,942)	1,525,239,286
Accumulated Depreciation:					
Buildings	410,594,616	25,627,521		(922,268)	435,299,869
Land Improvements	7,521,530	791,555			8,313,085
Infrastructure	100,942,147	7,287,725			108,229,872
Equipment	123,916,374	12,144,344		(7,446,516)	128,614,202
Library	126,212,691	7,662,765		(711,447)	133,164,009
Accumulated Depreciation	769,187,358	53,513,910	-	(9,080,231)	813,621,037
Depreciable Assets, Net	668,354,325	(22,829,838)	67,465,473	(1,371,711)	711,618,249
Total Capital Assets, Net	$ 755,060,122	$ 80,010,371	$ -	$ (2,005,354)	$ 833,065,139

Capital assets, net of accumulated depreciation, purchased with resources provided by outstanding capital lease agreements at June 30, 2008, consisted of $87,458 of buildings and $2,785,606 of equipment.

NOTE 6 - LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2008, is summarized as follows:

	July 1, 2007	Additions	Deductions	June 30, 2008	Current Portion
Long-Term Debt:					
Bonds Payable	$297,064,856	$ 58,036,858	$ 15,988,358	$339,113,356	$ 16,145,000
Notes Payable	1,755,719	498,210	679,065	1,574,864	600,085
Capital Leases Payable	4,173,540	29,190	1,761,123	2,441,607	528,314
Total Long-Term Debt	302,994,115	58,564,258	18,428,546	343,129,827	17,273,399
Other Long-Term Liabilities:					
Compensated Absences	38,416,703	20,872,017	19,187,257	40,101,463	18,448,737
Early Retirement Benefits Payable	2,210,318		1,246,320	963,998	606,367
Accrued Interest Payable	1,196,240		1,196,240	-	
Refundable Advances on Student Loans	18,178,893			18,178,893	
Deferred Revenue	2,478,680		1,784,664	694,016	302,298
Deferred Compensation	226,423	118,182		344,605	
Net Other Postemployment Benefits Obligation	-	7,730,634	2,536,349	5,194,285	2,831,840
Total Other Long-Term Liabilities	62,707,257	28,720,833	25,950,830	65,477,260	22,189,242
Total Long-Term Liabilities	$365,701,372	$ 87,285,091	$ 44,379,376	$408,607,087	$ 39,462,641

A. Bonds Payable

Outstanding long-term revenue bond indebtedness at June 30, 2008, consisted of the following:

	Interest Rates	Maturity Dates	Amount
Academic Building	3.00 – 6.85%	2009-2036	$ 104,950,000
Less: Unamortized Discount			(652,432)
Athletic Facilities	4.10 – 6.10%	2010-2034	20,395,000
Less: Unamortized Discount			(267,642)
Dormitory	3.00 – 5.50%	2009-2030	137,985,000
Less: Unamortized Discount			(201,000)
Less: Unamortized Refunding Loss			(55,000)
Indoor Multi-Purpose Facility	2.65 – 4.50%	2009-2021	5,100,000
Less: Unamortized Discount			(67,167)
Memorial Union	3.00 – 4.625%	2009-2031	23,375,000
Less: Unamortized Discount			(291,711)
Parking System	3.60 – 5.00%	2009-2023	5,030,000
Recreational Facility	3.25 – 3.75%	2009-2011	3,255,000
Add: Unamortized Premium			32,881
Regulated Materials Facility	3.00 – 4.55%	2009-2020	5,645,000
Less: Unamortized Discount			(44,709)
Student Health Facility	5.20 – 5.50%	2009-2014	2,475,000
Utility System	2.60 – 4.85%	2009-2027	32,660,000
Less: Unamortized Discount			(209,864)
Total Bonds Payable			$ 339,113,356

Debt service requirements to maturity, as of June 30, 2008, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2009	*$ 16,145,000*	*$ 16,165,376*	*$ 32,310,376*
2010	*17,675,000*	*13,853,766*	*31,528,766*
2011	*18,725,000*	*13,116,941*	*31,841,941*
2012	*18,905,000*	*12,346,659*	*31,251,659*
2013	*18,225,000*	*11,577,513*	*29,802,513*
2014-2018	*76,085,000*	*47,581,734*	*123,666,734*
2019-2023	*72,750,000*	*31,835,624*	*104,585,624*
2024-2028	*71,805,000*	*15,355,466*	*87,160,466*
2029-2033	*24,040,000*	*3,712,312*	*27,752,312*
2034-2036	*6,515,000*	*380,303*	*6,895,303*
Less: Unamortized Discount	*(1,734,525)*		*(1,734,525)*
Add: Unamortized Premium	*32,881*		*32,881*
Less: Unamortized Refunding Loss	*(55,000)*		*(55,000)*
Total	*$ 339,113,356*	*$165,925,694*	*$505,039,050*

In April 2008, the university issued $10,500,000 in Dormitory Revenue Refunding Bonds, Series I.S.U. 2008, the proceeds of which were placed in an irrevocable trust to advance refund $10,445,000 of Dormitory Revenue Bonds, Series I.S.U. 1998. 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 $705,258 and will reduce future aggregate debt service payments over the next 12 years by $782,213.

B. Notes Payable

The university had the following notes payable outstanding at June 30, 2008:

	Interest Rates	*Maturity Dates*	*Amount*
Design College Computer	*4.78 – 6.11%*	*2009-2011*	*$ 807,793*
Ice Arena Facility	*5.95%*	*2009-2013*	*767,071*
Total			*$ 1,574,864*

Debt service requirements to maturity, as of June 30, 2008, are as follows:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2009	*$ 603,106*	*$ 83,038*	*$ 686,144*
2010	*432,947*	*49,732*	*482,679*
2011	*260,333*	*26,840*	*287,173*
2012	*182,918*	*13,888*	*196,806*
2013	*95,560*	*2,843*	*98,403*
Total	*$ 1,574,864*	*$ 176,341*	*$ 1,751,205*

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 2012 and bear interest rates ranging from 3.56% to 5.63%. The principal balance was $529,195 and $1,957,755, respectively, as of June 30, 2008 and 2007.

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 7.49%. The principal balance of these leases was $1,912,412 and $2,215,785 respectively, as of June 30, 2008 and 2007.

The following is a schedule by year of future minimum lease payments required as of June 30, 2008:

Year Ending June 30,	*Principal*	*Interest*	*Total*
2009	*$ 528,314*	*$ 129,519*	*$ 657,833*
2010	*481,381*	*101,852*	*583,233*
2011	*499,897*	*74,828*	*574,725*
2012	*510,575*	*46,926*	*557,501*
2013	*421,440*	*19,345*	*440,785*
Total	*$ 2,441,607*	*$ 372,470*	*$2,814,077*

D. Net Other Postemployment Benefits (OPEB) Obligation

The university implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* during the year ended June 30, 2008.

Plan Description - The university operates a single-employer retiree benefit plan which provides medical, dental and life insurance benefits for faculty and staff and their spouses. There are 4,547 active and 1,470 retired members in the plan. Employees must be age 55 or older at retirement.

The medical and prescription drug benefit, which is a self-funded plan, is administered by Wellmark Blue Cross Blue Shield of Iowa. The dental benefit, which is also self-funded, is administered by Delta Dental of Iowa. The life insurance benefit is administered by Principal Mutual Life Insurance Co. Retirees pay full group-blended rates for medical and prescription drug coverage, which results in an implicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit. Retirees continuously enrolled in the university-sponsored plan for a minimum of 10 years preceding retirement are eligible for a university-sponsored term life policy which results in an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the university. The university currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The university's annual OPEB cost is calculated based on the annual required contribution (ARC) of the university, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the university's annual OPEB cost for the year ended June 30, 2008, the amount actually contributed to the plan, and changes in the university's net OPEB obligation:

Annual Required Contribution (ARC)	*$7,730,634*
Interest on Net OPEB Obligation	*-*
Adjustment to Annual Required Contribution	*-*
Annual OPEB Cost	*7,730,634*
Contributions Made	*(2,536,349)*
Increase in Net OPEB Obligation	*5,194,285*
Net OPEB Obligation, Beginning of Year	*-*
Net OPEB Obligation, End of Year	*$5,194,285*

For the fiscal year 2008, the University contributed $2.5 million to the medical plan. Plan members receiving benefits contributed $1.3 million, or 34% of the premium costs.

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2007. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2008. The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2008 are summarized as follows:

Fiscal Year Ended	*Annual OPEB Cost*	*Percentage of Annual OPEB Cost Contributed*	*Net OPEB Obligation*
6/30/2008	*$7,730,634*	*32.8%*	*$5,194,285*

Funded Status and Funding Progress - As of July 1, 2007, the most recent actuarial valuation date for the period July 1, 2007 through June 30, 2008, the actuarial accrued liability was $56.8 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $56.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $302.1 million, and the ratio of the UAAL to the covered payroll was 18.8%. As of June 30, 2008, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2007 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate based on the pay-as-you-go funding policy. The projected annual medical trend rate is 8.5%. The ultimate medical trend rate is 5%. The medical trend rate is held at 8.5% for three years and then is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Healthy Fully Generational Mortality Table. Annual retirement and termination probabilities were developed by adjusting industry tables to reflect university experience. The UAAL is being amortized over a 30-year open period using the level dollar method.

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, 2014, 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, 2008.

Year Ending June 30,	*Amount*
2009	*$1,569,800*
2010	*1,571,574*
2011	*1,095,022*
2012	*149,045*
2013	*54,939*
Total	*$4,440,380*

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 $1,730,518 and $1,781,597, respectively, for the years ended June 30, 2008 and 2007.

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, 2008	*June 30, 2007*
Restricted-Nonexpendable:		
Permanently Endowed Funds	*$ 31,534,140*	*$ 30,847,113*
Restricted-Expendable:		
Student Loans	*8,910,464*	*8,694,116*
Scholarships, Research, and Educational Purposes	*13,545,981*	*13,699,880*
Reserve for Debt Service	*12,978,396*	*12,553,100*
Capital Projects	*4,979,619*	*6,686,838*
Total Restricted-Expendable	*40,414,460*	*41,633,934*
Total Restricted Net Assets	*$ 71,948,600*	*$ 72,481,047*

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

	June 30, 2008	*June 30, 2007*
Temporarily Restricted:		
College Program Support	*$ 43,239,288*	*$ 37,275,654*
Student Financial Aid	*18,436,337*	*17,798,272*
Faculty and Staff Support	*9,631,161*	*7,791,625*
Research	*9,878,195*	*9,628,020*
Building, Equipment, and Maintenance	*76,867,976*	*58,899,555*
Other	*2,704,575*	*3,172,723*
Total Temporarily Restricted Net Assets	*$160,757,532*	*$134,565,849*
Permanently Restricted:		
College Program Support	*$164,293,259*	*$168,426,330*
Student Financial Aid	*153,446,478*	*163,379,746*
Faculty and Staff Support	*87,389,894*	*74,458,540*
Research	*13,421,166*	*14,158,111*
Building, Equipment, and Maintenance	*2,350,920*	*2,600,189*
Other	*13,531,124*	*13,489,226*
Total Permanently Restricted Net Assets	*$434,432,841*	*$436,512,142*

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 $33,749,478 and $32,038,914 respectively, for the years ended June 30, 2008 and 2007. The employees' required and actual contributions amounted to $16,874,739 and $16,019,458 respectively, for the years ended June 30, 2008 and 2007.

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 3.9% of their annual covered salary; the university is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. For the years ended June 30, 2007 and 2006, plan members were required to contribute 3.7% of their annual covered salary while the university was required to contribute 5.75% of annual covered payroll. These contribution requirements are established by State statute. The university's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were $716,819, $687,839, and $730,484, 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 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, 2008, 104 employees had elected to receive these early retirement benefits, for which the university is committed to future benefit payments totaling $963,998 as reported on the Statement of Net Assets. During the fiscal years ended June 30, 2008 and 2007, the university paid $1,390,318 and $2,178,274, 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, 2008 and 2007, the university had outstanding construction contract commitments of $46,368,202 and $56,227,385, 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.

	2008	*2007*
Unpaid Claims and Contingent Liabilities Accrued at July 1, 2007 and 2006	*$ 3,544,000*	*$ 3,536,000*
Claims Incurred and Contingent Liabilities Accrued During the Fiscal Year	*40,080,111*	*38,212,290*
Payments on Claims During the Fiscal Year	*(39,605,111)*	*(38,204,290)*
Unpaid Claims and Contingent Liabilities Accrued at June 30, 2008 and 2007	*$ 4,019,000*	*$ 3,544,000*

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, 2008.

	Compensation And Benefits	Supplies	Services, Repairs & Professional Services	Other	Total
Instruction	$172,666,029	$ 12,040,309	$ 12,004,226	$	$196,710,564
Research	103,751,755	19,591,202	34,888,500		158,231,457
Public Service	52,603,126	9,184,784	17,193,720		78,981,630
Academic Support	74,583,731	7,973,495	11,085,078		93,642,304
Student Services	18,705,193	6,481,065	6,692,355		31,878,613
Institutional Support	28,710,225	(1,051,095)	275,821		27,934,951
Operation & Maintenance	28,762,393	20,657,529	1,321,576		50,741,498
Scholarships & Fellowships				25,757,938	25,757,938
Auxiliary Enterprises	52,808,488	38,010,319	10,206,639		101,025,446
Independent Operations	21,254,930	10,079,226	1,897,767		33,231,923
Depreciation				53,513,910	53,513,910
Other Postemployment Benefit Cost				5,194,285	5,194,285
Other Operating Expenses				442,537	442,537
Total Operating Expenses	$553,845,870	$122,966,834	$ 95,565,682	$ 84,908,670	$857,287,056

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 Academic Building Revenue Bonds rely on pledged tuition and fee revenue generated by the university for repayment. Investors in bonds of all other bond enterprises rely solely on the revenue generated from the individual activities for repayment. The university's segments are described as follows:

A. Academic Building Revenue Bonds

The Academic Building Revenue Bonds were issued to construct and renovate academic buildings of the university. Revenues pledged for these issues are gross student fees and institutional income received by the university.

B. Athletic Facilities Revenue Bonds

The Athletic Facilities Revenue Bonds were issued to construct and equip intercollegiate athletic facilities. Revenues pledged for these issues are net revenues of the athletic facilities system.

C. 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.

D. 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.

E. 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.

F. 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.

G. 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.

H. 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.

I. 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.

J. 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 Student Health Center operations, and gift income.

K. 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.

Fund Accounting - In order to ensure the observance of limitations and restrictions placed on the use of available resources, the accounts are maintained in accordance with the principles of fund accounting. Each fund provides a separate set of self-balancing accounts which comprises its assets, liabilities, net assets, revenues and expenses. Fund accounting is the procedure by which resources for various purposes are classified, for accounting and reporting purposes, into funds according to the activities or objectives specified. The university has set up accounts which are consistent with the flow of funds per requirements of the bond covenants.

Transfers - After meeting certain requirements specified in the bond agreements, the balance of net receipts may be transferred to the university for its general operations. However, all such monies that have been transferred shall be returned by the university, if necessary, to satisfy the requirements of the bond indentures.

Insurance – The university maintains property and business interruption insurance coverage on various bonded enterprise facilities per requirements of the bond covenants.

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IOWA STATE UNIVERSITY
SEGMENT INFORMATION

As of and for the year ended June 30, 2008

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Dormitory Revenue Bonds	Ice Arena Facility Revenue Notes
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current Assets	$ 9,442,752	$ 6,954,840	$ 10,876,155	$ 98,403
Noncurrent Assets	20,286,433	5,105,231	44,406,756	479,931
Capital Assets	87,757,631	18,145,047	128,096,300	3,093,988
Total Assets	117,486,816	30,205,118	183,379,211	3,672,322
Liabilities:				
Current Liabilities	9,676,741	6,937,058	11,067,756	176,234
Noncurrent Liabilities	99,694,518	22,842,647	134,284,559	613,657
Total Liabilities	109,371,259	29,779,705	145,352,315	789,891
Net Assets:				
Invested in Capital Assets, Net of Related Debt	(63,202)	400,296	16,231,733	2,402,500
Restricted	8,533,781	7,335	21,795,163	479,931
Unrestricted	(355,022)	17,782		
Total Net Assets	$ 8,115,557	$ 425,413	$ 38,026,896	$ 2,882,431
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating Revenues	$141,021,100	$ 3,797,790	$ 65,308,392	$ -
Operating Expenses		(1,206,638)	(48,833,642)	
Depreciation Expense	(4,570,273)		(4,477,717)	(100,908)
Net Operating Income/(Loss)	136,450,827	2,591,152	11,997,033	(100,908)
Nonoperating Revenues/(Expenses)	(3,062,854)	(81,596)	(4,505,914)	(22,743)
Other Revenues/(Expenses) and Transfers	(132,518,027)	(2,084,143)	(1,772,693)	185,485
Change in Net Assets	869,946	425,413	5,718,426	61,834
Beginning Net Assets	7,245,611	-	32,308,470	2,820,597
Ending Net Assets	$ 8,115,557	$ 425,413	$ 38,026,896	$ 2,882,431
CONDENSED STATEMENT OF CASH FLOWS				
Net Cash and Cash Equivalents Provided/(Used) By:				
Operating Activities	$141,021,100	$ 8,754,767	$ 16,551,765	$ -
Non-Capital Financing Activities				
Capital and Related Financing Activities	(149,698,588)	2,300,707	(2,750,452)	(11,321)
Investing Activities	9,169,402	(1,295,473)	(1,606,792)	25,080
Net Increase/(Decrease)	491,914	9,760,001	12,194,521	13,759
Beginning Cash and Cash Equivalents	6,729,470	-	12,764,245	466,172
Ending Cash and Cash Equivalents	$ 7,221,384	$ 9,760,001	$ 24,958,766	$ 479,931

Indoor Multipurpose Facility Revenue Bonds	Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational Facility Revenue Bonds	Regulated Materials Facility Revenue Bonds	Student Health Facility Revenue Bonds	Utility System Revenue Bonds
$ 718,063	$ 1,262,016	$ 779,144	$ 1,113,719	$ 495,496	$ 3,562,900	$ 24,101,566
972,738	4,581,939	2,522,894	1,226,951	2,297,795	1,458,582	6,684,395
9,091,686	31,729,967	6,095,815	5,446,057	8,224,430	4,333,686	54,454,899
10,782,487	37,573,922	9,397,853	7,786,727	11,017,721	9,355,168	85,240,860
717,928	1,419,412	555,166	1,112,963	495,331	802,326	4,479,843
5,109,552	22,589,759	4,882,744	2,232,881	5,215,291	2,175,000	29,901,044
5,827,480	24,009,171	5,437,910	3,345,844	5,710,622	2,977,326	34,380,887
4,892,502	10,965,679	1,791,065	3,213,176	3,622,952	2,158,686	24,319,904
54,374	2,887,157	2,168,878	1,227,876	1,690,244	1,458,711	4,238,647
8,131	(288,085)		(169)	(6,097)	2,760,445	22,301,422
$ 4,955,007	$ 13,564,751	$ 3,959,943	$ 4,440,883	$ 5,307,099	$ 6,377,842	$ 50,859,973
$ 46,463	$ 2,646,362	$ 3,100,534	$ -	$ 522,896	$ 8,216,086	$ 33,456,277
(49,628)	(4,530,849)	(2,262,869)			(8,180,498)	(27,314,208)
(252,540)	(1,389,585)	(393,589)	(255,176)	(227,666)	(255,664)	(2,762,296)
(255,705)	(3,274,072)	444,076	(255,176)	295,230	(220,076)	3,379,773
(197,932)	(682,213)	(95,159)	(36,705)	(142,437)	86,783	(83,745)
520,000	7,306,160	40,000	1,117,296	250,000	408,181	393,169
66,363	3,349,875	388,917	825,415	402,793	274,888	3,689,197
4,888,644	10,214,876	3,571,026	3,615,468	4,904,306	6,102,954	47,170,776
$ 4,955,007	$ 13,564,751	$ 3,959,943	$ 4,440,883	$ 5,307,099	$ 6,377,842	$ 50,859,973
$ (3,165)	$ (1,836,918)	$ 780,326	$ -	$ 522,896	$ 157,189	$ 5,280,892
(192)	(584,023)	(881,411)	(118,147)	(359,815)	(26,241)	(8,397,014)
(485,056)	3,141,052	118,884	55,322	(510,555)	231,798	5,463,330
(488,413)	720,111	17,799	(62,825)	(347,474)	362,746	2,347,208
569,709	2,295,107	2,105,663	682,075	2,045,611	3,301,688	24,011,170
$ 81,296	$ 3,015,218	$ 2,123,462	$ 619,250	$ 1,698,137	$ 3,664,434	$ 26,358,378

IOWA STATE UNIVERSITY
SEGMENT INFORMATION

As of and for the year ended June 30, 2008

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Dormitory Revenue Bonds	Ice Arena Facility Revenue Notes
DEBT SERVICE COVERAGE				
Debt Service Coverage % Required	N/A	120%	135%	N/A
Debt Service Coverage % Actual	N/A	395%	205%	N/A
PROPORTION OF REVENUE PLEDGED				
Annual Debt Service	$ 11,075,182	$ 713,046	$ 10,259,306	$ 196,806
Net Pledged Revenue	$142,006,210	$ 2,813,746	$ 21,078,656	$ 205,484
Annual Debt Service / Net Pledged Revenue	8%	25%	49%	96%
REVENUE BONDS/NOTES PAYABLE				
A summary of revenue bonds and notes payable activity, by segment, for the year ended June 30, 2008, is as follows:				
Beginning Balance	$ 84,923,595	$ -	$128,425,000	$ 911,749
Additions	24,710,500	20,127,358	13,199,000	
Deductions	(5,336,527)		(3,895,000)	(144,678)
Ending Balance	$104,297,568	$ 20,127,358	$137,729,000	$ 767,071
REVENUE PLEDGED FOR DEBT SERVICE				
A summary of debt service for payment of principal and interest follows. As of June 30th, the amounts shown for debt service payments due on July 1st were on hand.				
Semi-annual maturity	Jan&Jul1st	Jan&Jul1st	Jan&Jul1st	Jan&Jul1st
2009	$ 11,650,741	$ 1,308,751	$ 10,508,542	$ 196,806
2010	10,557,604	1,480,396	10,657,581	196,806
2011	10,754,750	1,479,441	10,775,470	196,806
2012	11,239,096	1,482,354	10,794,636	196,806
2013	9,758,648	1,474,271	10,811,386	98,403
2014-2018	35,298,930	7,378,779	53,917,408	
2019-2023	25,593,126	7,376,629	50,809,802	
2024-2028	23,513,559	7,385,097	43,987,997	
2029-2033	8,872,110	7,388,227	6,597,994	
2034-2036	5,415,703	1,479,600		
Unamortized Discount, Premium, Refunding Loss	(652,432)	(267,642)	(256,000)	
Total	$152,001,835	$ 37,965,903	$208,604,816	$ 885,627
COMMITMENTS				
As of June 30, 2008, the university had outstanding construction contract commitments as follows:				
Contract Commitments	$ 16,691,798	$ 2,880,779	$ 8,633,882	$ -

Indoor Multipurpose Facility Revenue Bonds	Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational Facility Revenue Bonds	Regulated Materials Facility Revenue Bonds	Student Health Facility Revenue Bonds	Utility System Revenue Bonds
135%	120%	120%	120%	120%	120%	120%
218%	315%	213%	157%	380%	367%	184%
$ 516,260	$ 1,603,350	$ 473,773	$ 1,169,075	$ 605,663	$ 433,573	$ 4,073,775
$ 1,123,072	$ 5,055,805	$ 1,009,282	$ 1,840,304	$ 2,299,916	$ 1,591,717	$ 7,503,208
46%	32%	47%	64%	26%	27%	54%
$ 5,332,667	$23,700,029	$ 5,265,000	$ 4,339,322	$ 5,971,227	$ 2,760,000	$35,063,017
(299,834)	(616,740)	(235,000)	(1,051,441)	(370,936)	(285,000)	(2,612,881)
$ 5,032,833	$23,083,289	$ 5,030,000	$ 3,287,881	$ 5,600,291	$ 2,475,000	$32,450,136
Jan&Jul1st	Jan&Jul1st	Jan&Jul1st	Jan&Jul1st	Jan&Jul1st	Jan&Jul1st	May&Nov1st
$ 512,086	$ 1,593,675	$ 469,363	$ 1,151,931	$ 599,887	$ 425,772	$ 4,089,628
513,038	1,594,025	470,107	1,145,800	598,188	424,625	4,087,402
512,635	1,588,850	469,963	1,135,906	595,681	422,450	4,106,795
510,984	1,592,722	469,025		596,750	419,308	4,146,784
508,293	1,594,933	467,402		596,244	420,046	4,171,290
2,541,375	7,994,682	2,337,271		2,994,580	842,550	10,361,159
1,517,594	8,042,687	2,343,205		1,186,934		7,715,647
	8,089,391					4,184,422
	4,893,981					
(67,167)	(291,711)		32,881	(44,709)		(209,864)
$ 6,548,838	$36,693,235	$ 7,026,336	$ 3,466,518	$ 7,123,555	$ 2,954,751	$42,653,263
$ -	$ 796,636	$ 110,816	$ -	$ -	$ -	$ 271,908

NOTE 13 - SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Board of Regents, State of Iowa, authorized the sale of Academic Building Revenue Bonds, Series I.S.U. 2008A for $25,000,000 issued on November 1, 2008. These bonds will bear interest at varying rates between 4.875% and 5.25% and will mature in varying amounts from July 1, 2011 through July 1, 2030. The proceeds of these bonds will be used to pay a portion of the costs of constructing additions to and improving, remodeling, repairing, and equipping the Chemistry Building (Hach Hall) facilities on the campus of the university, funding the debt service reserve fund, and paying the costs of issuance. These bonds will be payable solely from gross student fees and charges levied against students attending the university.

Capital markets have experienced unprecedented volatility and selling pressure since June 30, 2008, due to a global financial crisis that persists as of the date of this report. As a result, the university's investments reported in the accompanying financial statements have incurred declines in value. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, that the university will recognize in future financial statements cannot be determined. On June 30, 2008, the university held investments of $80.1 million in the Commonfund Intermediate Term Fund. (Commonfund is an asset manager serving colleges and universities). On September 29, 2008, notice was received from Commonfund that Wachovia Bank resigned as Trustee of the Commonfund Short Term Fund (STF) and concurrently put a redemption limit on participant withdrawals. Although Iowa State University had only a small investment with the STF, this limitation by Wachovia on withdrawals led to a sudden increase in redemption requests from the Commonfund Intermediate Term Fund (ITF) as institutions that were invested in the STF sought other avenues for liquidity to meet operating cash needs. The Commonfund indicated that the liquidity of the ITF would be restricted for a period expected to be no longer than nine to twelve months. At that time, the university's market value in the ITF was $77.4 million. At the time of the issuance of the financial statements, 38% of the ITF had become unrestricted and had been redeemed by the university.

For the Year Ended June 30, 2008

Schedule of Funding Progress
For the Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1,2007	$0	$56,842,690	$56,842,690	0.0%	$302,143,432	18.8%

See Note 6D in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

IOWA STATE UNIVERSITY CONTROLLER'S DEPARTMENT FINANCIAL ACCOUNTING AND REPORTING STAFF

Stephanie Fox, Controller
Carol Yanda, Manager of Financial Accounting & Reporting
Kevin Houlette, Senior Accountant
Alicia Duncan, Accountant
Lana Jarvis, Accountant
Robin Jones, Accountant

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IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY

SCIENCE
with
PRACTICE

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

To the 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, 2008 and have issued our report thereon dated December 9, 2008 under separate cover. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (collectively referred to as the "Foundation") and the Iowa State University Research Foundation, Incorporated, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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 deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies 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 deficiencies described above are material weaknesses.

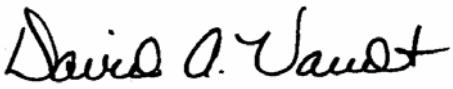
Compliance and Other Matters

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.

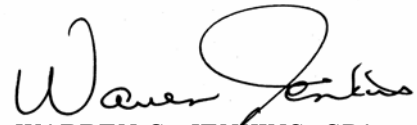
The University's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the University's responses, we did not audit the University's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees 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, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 12, 2009

Iowa State University of Science and Technology

Schedule of Findings

Year ended June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Bookstore Inventory – The University Bookstore (Bookstore) maintains retail inventory on a perpetual basis and annually counts 100% of the inventory. The Bookstore made numerous adjustments totaling $196,289 to reported retail inventory as a result of this count. Year end inventories for electronics, computers, software and gift items were written down by 25.6%, 17.6%, 16.8%, and 4.5%, respectively. Additionally, five of twenty-five items tested had variances after the system was updated.

Recommendation – The University should implement procedures to properly safeguard Bookstore inventory and ensure Bookstore inventory is accurate.

Response – The University concurs with the Auditor's recommendation and has implemented the following corrective action:

Cycle counts. The University Bookstore (UBS) has focused more on conducting cycle counts of inventory on a regular basis. For instance, a group of merchandise classes will be counted and compared to quantities and values in the accounting system during a given month and a different series of classes will be reviewed the next month.

Security cameras. UBS is currently engaged in the bidding process for security cameras for the retail floor, as well as the stock room and office areas. The current plans call for a total of 49 cameras, which will record 24 hours per day. These cameras will help to reduce external (as well as internal) theft, which adds to the UBS' annual shrinkage.

Write-off procedures. The process for write-offs has been better delineated and shared with staff involved with merchandise management.

Conclusion – Response accepted.

(B) Employee Travel Reimbursement – The University utilizes a travel reimbursement system which permits departments to on-line employee requests for reimbursement and to retain required supporting documentation in the department. The Accounting Office selects a random number of employee reimbursements and requests the supporting documentation from the departments to audit for compliance with University travel policies.

For one of fifteen reimbursements tested, the Accounting Office had audited the reimbursement, but non-compliance with University policies was not identified. The amount in question was eventually reimbursed by the employee.

Additionally, two claims selected by the Accounting Office were not audited timely because the supporting documentation requested from the departments was not received.

Recommendation – The Accounting Office should ensure travel claims are audited timely and accurately. Additionally, the University should ensure non-compliant expenses are reimbursed by employees.

Response – The reimbursement on which non-compliance was not detected was caused by an incorrect assumption being made in the department processing the reimbursement. When the Auditors requested additional information, the department realized the error and the employee refunded that portion of the reimbursement. A step has been added to the audit process so adequate information on vehicle ownership will be collected in the future.

Months ago, the University recognized the need for more timely auditing of reimbursements and has been working on a system enhancement that will enable electronic copies of supporting documentation to be attached and routed with the electronic reimbursement request. This will greatly reduce the amount of follow-up required which, in turn, improves the timeliness of auditing. The enhancement should be operational by June 2009.

In November 2008, the University began adding over-reimbursements to the employee's accounts receivable, the standard method by which the University collects payments owed. The Accounts Receivable system sends monthly notices of payments due to the employee and will add a finance charge to overdue accounts.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.