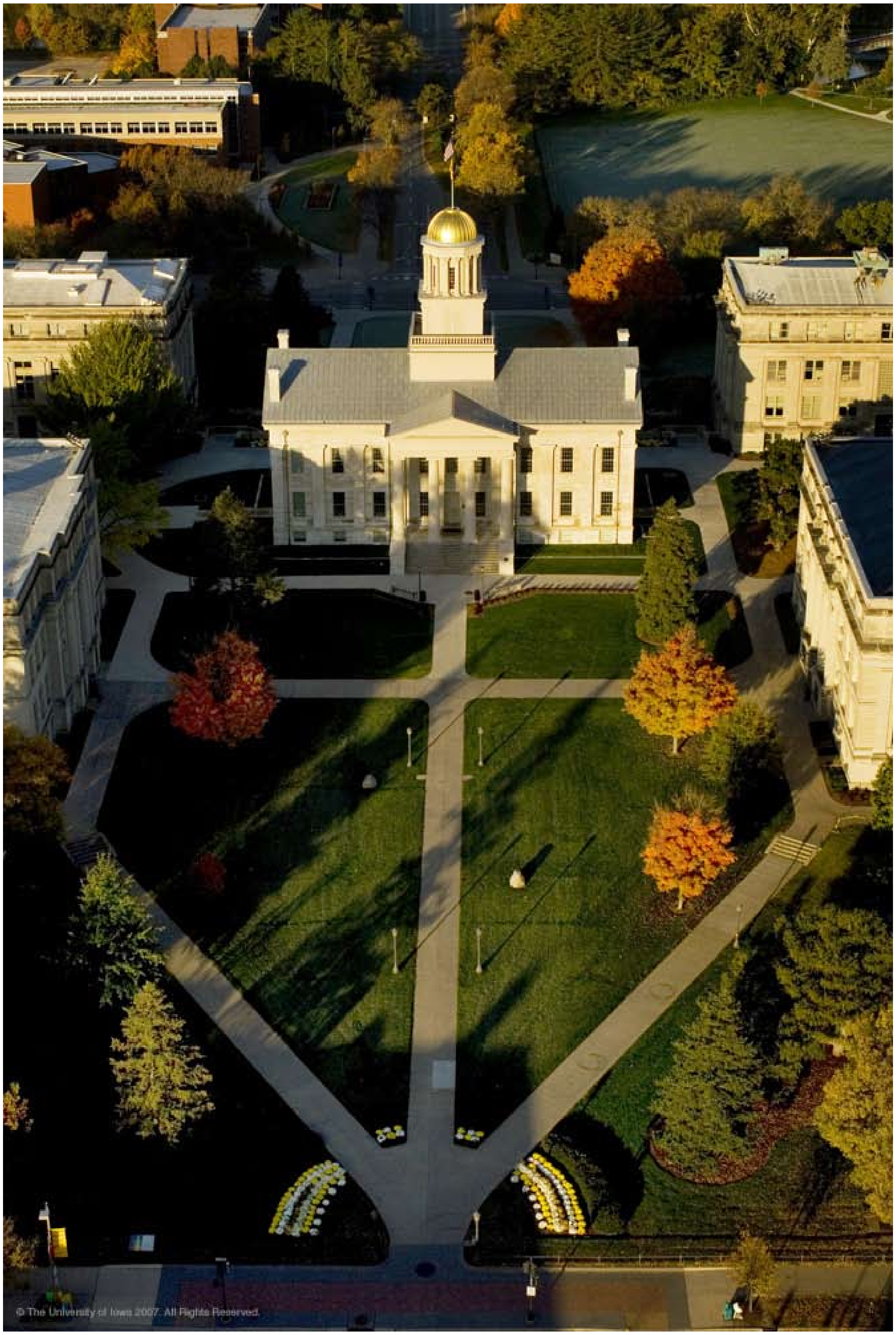
The University of Iowa

Financial Report

July 1, 2006 to June 30, 2007



THE UNIVERSITY OF IOWA

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December 20, 2007

President Mason and Members of the Board of Regents, State of Iowa:

I am pleased to submit the University of Iowa's audited Financial Report for fiscal year 2007. This report presents the financial position and results of operations of the University of Iowa for the past two fiscal years ended June 30, 2006 and June 30, 2007.

The University remains financially sound and stable. Net assets increased by $151.0 million (7.5%) from June 30, 2006 to June 30, 2007, and the University maintained its strong credit ratings by Moody's and Standard & Poor's.

The University of Iowa has thrived throughout the decades, and the immediate past year has contributed to its distinctive history. Below are some highlights:

- The Board of Regents selected Sally Mason as the University's 20th President. President Mason joined the University on August 1, 2007, after serving most recently as Provost at Purdue University.

- The University continues to be recognized as a "best buy" in national publications. Total University enrollment is at a record level of 30,409 students while significant progress has been made in both class academic quality and diversity. The University's resident student tuition and fees remain the lowest within the Big Ten by nearly $1,000 per year, and almost 19% of all tuition collected is redirected to student financial aid.

- The past year saw a dramatic turnaround in state appropriations for the University. Governor Culver in his first budget proposed significant increases in the University's educational operating budget and critical support for ongoing capital needs. The General Assembly and the Governor acted on a state budget for the University during the spring of 2007 which will strengthen the University's quality and support its competitiveness.

- Jean Robillard, Dean of the Carver College of Medicine, was appointed Vice President for Medical Affairs and Dean in January, 2007. This further positioned the University of Iowa health care enterprise to address the consumer-driven and competitive nature of the health care market by organizing the University of Iowa Hospitals & Clinics, the Carver College of Medicine and the University of Iowa Physicians within a common operating entity.

- During the 2007 fiscal year, the University generated an all-time high of $382.6 million in grant and contract awards to support its research, education and service missions. Expectations remain high for future years due to the state's support of the Iowa Institute for Biomedical Discovery, the University's many committed investigators, and research investment throughout the University best exemplified by the Carver Charitable Trust.

- The Regents approved a new, 200,000 square foot Recreation and Wellness Center sited on the main campus to better serve UI students. It is entirely supported by user groups, including students and Intercollegiate Athletics swimming and diving. It will replace aging 1920's era facilities.

- In FY 2006 the University began a program to improve faculty salaries vis-a-vis peer, competitor institutions. Faculty salaries were supplemented by a mid-year increase funded through internal reallocation. The goal of improving faculty salary competitiveness was continued in the FY 2007 budget year and to an even greater degree with budgets established in spring 2007 for FY 2008.

- In addition to President Mason, the University benefited from significant new appointments in 2007. Leadership positions filled across the campus included the appointments of Rita Frantz as Dean of College of Nursing and Donald Letendre as Dean of the College of Pharmacy, and the appointment of Ken Fisher as Associate Vice President for Medical Affairs and Chief Financial Officer of UIHC.

The financial report reflects the efforts of faculty, staff, students, alumni and friends in furthering the mission of this University. We all take enormous pride in being a part of this treasured asset. The University's faculty and staff eagerly look forward to creatively addressing society's most vexing problems, thereby creating a better environment for Iowa and the world.

Very truly yours,

Douglas K. True
Senior Vice President and Treasurer

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis of the University of Iowa's financial statements presents an overview of the University's financial activities for the years ended June 30, 2007, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes that follow.

FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2007, with assets of $3,362 million and liabilities of $1,189 million as compared to June 30, 2006 assets of $3,073 million and liabilities of $1,051 million. Net assets, the difference between total assets and total liabilities, increased by $151.0 million (7.5%) from June 30, 2006 to June 30, 2007. The increase from June 30, 2005 to June 30, 2006 was $119.8 million (6.3%).

The change in net assets reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state appropriations, investment income and gifts 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 incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. The following table summarizes the financial activity for the fiscal years ended June 30, 2007, 2006 and 2005.

Change in Net Assets (in millions)

	2007	2006	2005
Total operating revenues	$ 1,575.5	$ 1,556.8	$ 1,397.0
Total operating expenses	1,859.4	1,794.2	1,646.0
Net operating income (loss)	(283.9)	(237.4)	(249.0)
Net nonoperating revenues (expenses)	415.9	351.5	347.1
Income (loss) before other revenues, expenses	132.0	114.1	98.1
Other revenues (expenses)	19.0	5.7	9.5
Increase in net assets	151.0	119.8	107.6
Net assets, beginning of year	2,022.0	1,902.2	1,794.6
Net assets, end of year	$ 2,173.0	$ 2,022.0	$ 1,902.2

During the fiscal year ended June 30, 2007, the University's operating revenues were consistent with prior year amounts. Operating expenses increased by 3.6%, resulting in a higher operating loss than for the fiscal year ended June 30, 2006. Included in prior year patient services revenue is a one-time receipt of $54.6 million from the federal government as a settlement for prior year Medicaid services disputed. Nearly all of the $54.6 million was remitted to the Iowa Department of Human Services through the College of Medicine and is included in instruction expense. After factoring in state appropriations, investment income, gifts and other revenues, the University increased net assets $151.0 million for the year ended June 30, 2007.

During the fiscal year ended June 30, 2007, net nonoperating revenues (expenses) increased by 18.3% primarily the result of an increase in investment income of $36.8 million and a positive change in loss on disposal of capital assets of $14.4 million over the previous year.

USING THIS ANNUAL REPORT

The University's annual report consists of three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements provide information on the University as a whole and present a long-term and short-term view of the University's activities.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets present the financial position of the University at the end of the fiscal year and report the University's net assets and changes in them during the current fiscal year, respectively. Net assets, the difference between total assets and total liabilities, are one indicator of the current financial condition of the University, while the change in net assets over time determines whether the financial health of the University is improving. To assess the overall health of the University, non-financial factors are relevant as well. Such factors include student enrollment, the University's ability to attract and retain qualified faculty and staff and the overall condition of the University's buildings and infrastructure.

These statements are reported under the accrual basis of accounting. All current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the University's assets, liabilities and net assets at June 30, 2007, 2006 and 2005.

Net Assets, End of Year (in millions)

	2007	2006	2005
Assets:			
Current assets	$ 1,415.2	$ 1,249.0	$ 1,175.6
Capital assets, net	1,823.3	1,706.1	1,577.6
Other noncurrent assets	123.2	118.4	109.9
Total Assets	3,361.7	3,073.5	2,863.1
Liabilities:			
Current liabilities	492.5	451.6	442.7
Noncurrent liabilities	696.2	599.9	518.2
Total Liabilities	1,188.7	1,051.5	960.9
Net Assets:			
Invested in capital assets, net of related debt	1,229.6	1,203.8	1,160.0
Restricted	321.1	326.4	301.5
Unrestricted	622.3	491.8	440.7
Total Net Assets	$ 2,173.0	$ 2,022.0	$ 1,902.2

The following table summarizes the University's revenues, expenses and changes in net assets for the years ended June 30, 2007, 2006 and 2005.

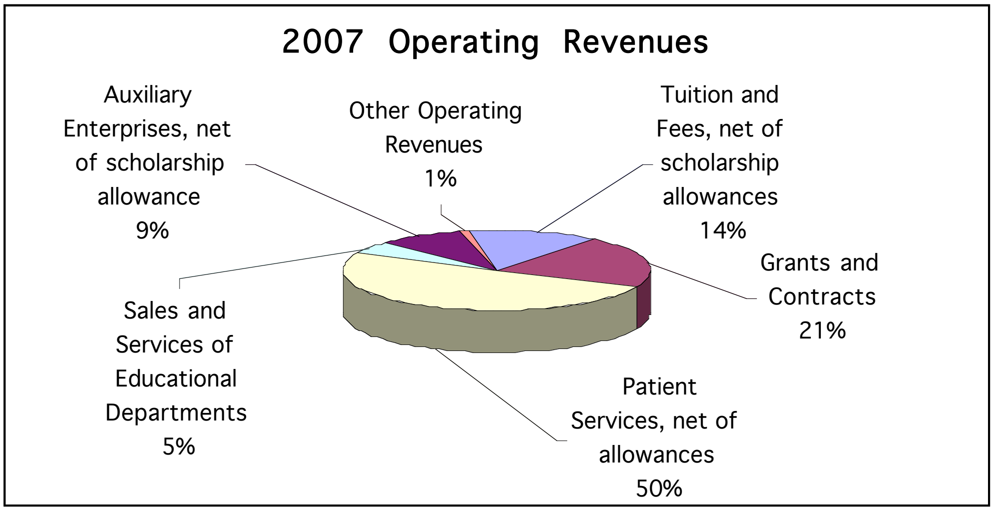
Revenues, Expenses, and Changes in Net Assets (in millions)

	2007	2006	2005
Operating Revenues:			
Tuition and fees, net of scholarship allowances	$ 218.7	$ 203.0	$ 193.0
Grants and contracts	324.6	316.9	310.0
Patient services, net of allowances	792.6	761.6	664.0
Sales and services of educational departments	83.4	86.0	78.0
Auxiliary enterprises, net of scholarship allowances	136.5	121.4	122.0
Other operating revenue	19.7	67.9	30.0
Total Operating Revenues	1,575.5	1,556.8	1,397.0
Operating Expenses:			
Instruction	287.5	334.5	253.2
Research	241.4	241.0	227.0
Academic support	107.1	89.5	83.0
Patient services	729.7	667.2	646.2
Depreciation	127.2	117.2	110.6
Auxiliary enterprises	129.9	122.1	121.6
Other operating expenses	236.6	222.7	204.4
Total Operating Expenses	1,859.4	1,794.2	1,646.0
Operating Income (Loss)	(283.9)	(237.4)	(249.0)
Nonoperating Revenues (Expenses):			
State appropriations	313.3	297.3	283.0
Investment income, net of investment expenses	77.7	40.9	34.9
Gifts	53.7	57.4	55.0
Interest expense	(23.0)	(23.9)	(22.9)
Loss on disposal of capital assets	(5.8)	(20.2)	(2.9)
Net Nonoperating Revenues (Expenses)	415.9	351.5	347.1
Income Before Other Revenues	132.0	114.1	98.1
Other Revenues:			
Capital appropriations, State	9.4	3.9	3.6
Additions to endowments	-	-	0.1
Capital contributions and grants	9.6	1.8	5.8
Net Other Revenues	19.0	5.7	9.5
Increase in Net Assets	151.0	119.8	107.6
Net assets, beginning of year	2,022.0	1,902.2	1,794.6
Net assets, end of year	$ 2,173.0	$ 2,022.0	$ 1,902.2

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in net assets for the fiscal year ended June 30, 2007 of $151.0 million (7.5%).

OPERATING REVENUES

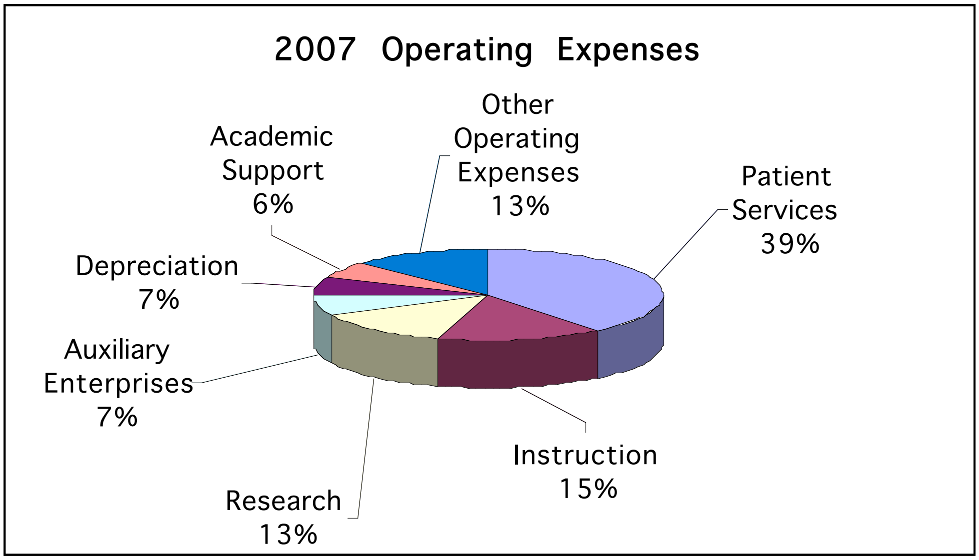
For the fiscal years ended June 30, 2007, 2006 and 2005, operating revenues totaled $1,576 million, $1,557 million and $1,397 million, respectively. Operating revenues for FY 2007 increased by $19.0 million (1.2%) over FY 2006 revenues. The following is a graphic illustration of revenues by source, which are used to fund the University's operating activities for the year ended June 30, 2007.



In the National Institutes of Health (NIH) 2005 report, the University of Iowa was ranked 13th among all public universities receiving NIH funding. Grants, contracts and other sponsored agreements revenue exceeded $324 million in FY 2007, $316 million in FY 2006 and $310 million in FY 2005.

OPERATING EXPENSES

For the fiscal years ended June 30, 2007, 2006 and 2005, operating expenses totaled $1,859 million, $1,794 million and $1,646 million, respectively. Operating expenses increased by $65.2 million (3.6%) over FY 2006. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2007.



Other operating expenses include Public Service (2007, $56 million; 2006, $48 million), Student Services (2007, $23 million; 2006, $26 million), Institutional Support (2007, $63 million; 2006, $58 million), Operation and Maintenance of Plant (2007, $59 million; 2006, $56 million), and Scholarships and Fellowships (2007, $21 million; 2006, $20 million).

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive $415.9 million for the fiscal year ended June 30, 2007 and a positive $351.5 million for the fiscal year ended June 30, 2006.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2007, 2006 and 2005.

Nonoperating Revenues and Expenses (in millions)

	2007	2006	2005
State appropriations	$ 313.3	$ 297.3	$ 283.0
Investment income, net of investment expenses	77.7	40.9	34.9
Gifts	53.7	57.4	55.0
Interest expense	(23.0)	(23.9)	(22.9)
Gain/(Loss) on disposal of capital assets	(5.8)	(20.2)	(2.9)
Net Nonoperating Revenues and Expenses	$ 415.9	$ 351.5	$ 347.1

State appropriations increased by $16.0 million attributable to additional appropriations for the IowaCare Program, the Batelle Platform and the general University fund. Investment income increased by $36.8 due to favorable market conditions and higher invested balances. The loss on the disposal of capital assets for fiscal year 2007 decreased by $14.4 million. The majority of this variance was the result of the $18.2 million loss in fiscal year ending June 30, 2006 due to an increase in our capitalization threshold.

OTHER REVENUES

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, additions to endowments and contributions and grants for capital projects. The other revenues increased from $5.7 million for the year ended June 30, 2006 to $19.0 million for the year ended June 30, 2007. This increase in other revenues is a result of an increase in state appropriation for capital projects of $5.5 million and an increase in capital contributions and grants of $7.8 million.

The University invests its endowments in accordance with the Board of Regents, State of Iowa (Regents) policies to maximize total return over the long term, with an appropriate level of risk. The success of this long-term investment strategy is evidenced by strong returns over sustained periods of time and the University's ability to minimize volatility in returns from year to year. Any reduction in the fair value of the endowment portfolio will not have a significant, immediate impact on the portion of investment income available to support current year operating expenses since the University makes such distributions pursuant to its spending rate policy as described in Note II to the financial statements.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate net cash flows and meet obligations as they come due. The following table summarizes the University's cash flow for the years ended June 30, 2007, 2006 and 2005.

Cash Flows for the Year (in millions)

	2007	2006	2005
Cash provided (used) by:			
Operating activities	$ (150.5)	$ (136.9)	$ (98.3)
Noncapital financing activities	321.7	299.2	291.4
Capital and related financing activities	(149.3)	(179.8)	(203.7)
Investing activities	26.8	69.0	35.0
Net change in cash and cash equivalents	48.8	51.5	24.4
Cash & cash equivalents, beginning of the year	276.3	224.8	200.4
Cash & cash equivalents, end of the year	$ 325.1	$ 276.3	$ 224.8

The University's overall liquidity increased during the year, with a net increase in cash and cash equivalents of $48.8 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2007, 2006 and 2005.

Capital Assets, Net of Depreciation (in millions)

	2007	2006	2005
Land, nondepreciable	$ 19.0	$ 18.9	$ 18.8
Construction in progress, nondepreciable	143.0	267.9	243.5
Art & historical collections, nondepreciable	31.7	29.8	28.6
Library materials, nondepreciable	205.8	194.1	183.1
Land improvements, net	6.9	7.7	8.0
Infrastructure, net	133.3	128.2	124.0
Buildings, net	1,045.6	855.8	752.5
Equipment, net	238.0	203.7	219.1
Total Capital Assets, Net	$ 1,823.3	$ 1,706.1	$ 1,577.6

Several major projects began during the fiscal year ended June 30, 2007. With the September 2006 dedication of the new Art Building, home to the school of Art and Art History, the University is continuing its investment in the arts programs by renovating the old art buildings. Construction continues on the renovation of the Chemistry Building that will significantly improve academic and research programs of the Chemistry department. Several of the new classrooms and labs are expected to open for the Spring 2008 academic term. In February 2007, the University completed the acquisition and fit-out of approximately 100,000 square feet of space in the University Capitol Centre (Old Capitol Mall) to house University police officers, ITS, Iowa Centers for Enterprise and College of Public Health. The assignment of Public Safety to the University Capitol Center and the relocation of the shops areas to the newly constructed Madison Street Services Building paved the way for construction to begin on a new $69 million Campus Recreation & Wellness Center that will provide much needed recreation space for students, faculty and staff.

The University Hospitals & Clinics continues investment in its facilities. Several major projects were completed in FY2007. A $12 million renovation of the Pediatric Inpatient Care Unit was completed in April 2007 and a $40 million renovation of the Ambulatory Services Clinics was completed in March 2007. Phases 1 and 2 of the construction of a new 60,000 square foot Emergency Treatment Center was completed in FY2007. Phase 3 is expected to be finished in January 2008 and the final phase of the project will be completed in April 2009.

Additional information about the University's capital assets is presented in Note IV to the financial statements.

Debt

As of June 30, 2007, the University had $656.7 million in outstanding bonds, notes and capital leases, an increase of $99.4 million from the prior year. Debt principal payments of $27.9 million and interest payments of $29.2 million were made during the year ended June 30, 2007. The following table summarizes outstanding debt by type as of June 30, 2007, 2006 and 2005.

Bonds, Notes and Capital Leases (in millions)

	2007	2006	2005
Revenue bonds	$ 504.7	$ 422.6	$ 348.4
Notes	1.2	1.8	2.4
Capital leases	150.8	132.9	121.7
Total Debt Outstanding	$ 656.7	$ 557.3	$ 472.5

During the year ended June 30, 2007, $102 million of new revenue bonds were issued. The revenue bond proceeds of $27 million are being used to finance academic building, $25 million for hospital improvements and $50 million for general utility infrastructure. The University continues to carry an Aa2 institutional bond rating from Moody's and an AA rating from Standard & Poor's. Additional information related to the University's long-term liabilities is presented in Note V to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's state appropriation support increased $16.0 million in fiscal year 2007. The University is expecting an increase in state appropriations for fiscal year 2008 of nearly $24.0 million. This improvement in state funding has allowed for more moderate growth in tuition and fee increases. The Board of Regents approved a 4.0% increase for Fall 2005 resident undergraduate tuition and mandatory fees, an 9.0% increase for Fall 2006 and an increase of 2.6% for Fall 2007. [Fall 2007 approved tuition increase was 5.2%, but fees actually went down 10.5% due to an energy surcharge last year that was not reinstated this year.] Even with the increases in tuition and fees during these academic years, the University of Iowa has strived to maintain tuition and fees that are affordable to its students and remains the lowest tuition and fee cost among the Big Ten institutions for undergraduate resident students.

The University of Iowa continues to have significant appeal to prospective students. This is attributable, in part, to the University's high academic standards and its national reputation as a best buy due to its relative low cost of education. The University continues to draw a high percentage of students from outside the state of Iowa, most notably from the state of Illinois. Total first year enrollment for the 2007-2008 academic term remained steady at 4,287 from the previous year of 4,289. Total enrollment went from 29,979 in the Fall of 2006 to 30,409 in the Fall 2007.

During the fiscal year ended June 30, 2007, the University generated an all-time record of $382.2 million in grants and contracts for University of Iowa research, education and service. The recent completion of new research labs and related infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts.

The University continues to pursue its long-term investment strategy to maximize total returns, at an appropriate level of risk. Its spending rate policies are being maintained to insulate the University's investments from temporary market volatility.

CONTACTING THE UNIVERSITY OF IOWA'S FINANCIAL MANAGEMENT

This financial report is designed to provide users with a general overview of the University of Iowa'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 Office, University of Iowa, Jessup Hall, Iowa City, IA 52242.

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

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

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of the State University of Iowa, Iowa City, Iowa, (University of Iowa) and its discretely presented component unit as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the State University of Iowa Foundation, discussed in Note I, 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 Measurement Research Foundation, discussed in Note I, which represents .72% and .10%, 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, is 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 the State University of Iowa Foundation were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the University of Iowa 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 the University of Iowa. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years ended June 30, 2007 and 2006 in conformity with U.S. generally accepted accounting principles.

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

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

Our report on the University of Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 14, 2007

Statement of Net Assets

June 30, 2007 (in 000s)
(with comparative statement as of June 30, 2006)

ASSETS	2007	2006
Current Assets:		
Cash and cash equivalents	$ 242,476	$ 201,163
Restricted cash and cash equivalents	56,843	49,932
Investments	772,767	680,845
Restricted investments	-	9,899
Deposits with trustees	53,251	31,457
Accounts receivable, net	199,932	198,884
Notes receivable, current portion, net	3,971	3,415
Interest receivable	3,291	2,156
Due from government agencies	40,845	36,944
Inventories	30,042	29,549
Prepaid expenses and other current assets	11,839	4,759
Total current assets	1,415,257	1,249,003
Noncurrent Assets:		
Restricted cash and cash equivalents	25,746	25,218
Restricted investments	44,557	42,135
Notes receivable, noncurrent portion, net	27,920	27,205
Capital assets, net	1,823,304	1,706,148
Investment in wholly owned subsidiary	24,990	23,783
Total noncurrent assets	1,946,517	1,824,489
Total Assets	3,361,774	3,073,492
LIABILITIES		
Current Liabilities:		
Accounts payable	70,541	67,127
Salaries and wages payable	113,502	107,115
Unpaid claims	26,266	18,560
Interest payable	11,384	10,178
Long term debt, current portion	31,181	27,149
Other long term liabilities, current portion	103,660	95,943
Deposits held in custody for others	135,947	125,552
Total current liabilities	492,481	451,624
Noncurrent Liabilities:		
Long term debt, noncurrent portion	625,541	530,197
Other long term liabilities, noncurrent portion	70,702	69,647
Total noncurrent liabilities	696,243	599,844
Total Liabilities	1,188,724	1,051,468
NET ASSETS		
Invested in capital assets, net of related debt	1,229,649	1,203,834
Restricted:		
Nonexpendable	79,070	71,940
Expendable	242,009	254,429
Unrestricted	622,322	491,821
Total Net Assets	$ 2,173,050	$ 2,022,024

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses and Changes in Net Assets

for the year ended June 30, 2007 (in 000s)
(with comparative statement for the year ended June 30, 2006)

OPERATING REVENUES	2007	2006
Student tuition & fees, net of scholarship allowances of $62,328 and $52,434 for the years ended June 30, 2007 and 2006, respectively (pledged as payment on revenue bonds)	$ 218,745	$ 203,039
Federal grants and contracts	282,213	271,891
State and other governmental grants and contracts	8,619	6,308
Nongovernmental grants and contracts	33,804	38,652
Patient services, net of write-offs, contractual adjustments and indigent care of $822,162 and $686,596 for the years ended June 30, 2007 and 2006, respectively (pledged as payment on revenue bonds)	792,585	761,623
Sales and services of educational departments	83,437	86,018
Interest on student loans	1,338	966
Auxiliary enterprises, net of scholarship allowances of $6,154 and $6,508 for the years ended June 30, 2007 and 2006, respectively (pledged as payment on revenue bonds)	136,496	121,385
Other operating revenue	18,271	66,920
Total Operating Revenues	1,575,508	1,556,802
OPERATING EXPENSES		
Instruction	287,483	334,508
Research	241,424	240,981
Public service	55,957	48,420
Academic support	107,053	89,490
Patient services	729,670	667,266
Student services	22,931	25,905
Institutional support	62,594	58,244
Operation and maintenance of plant	59,443	55,743
Scholarships and fellowships	21,447	19,861
Depreciation	127,241	117,159
Student loan write-offs, collection and administration	814	99
Auxiliary enterprises	129,852	122,084
Other operating expenses	13,466	14,483
Total Operating Expenses	1,859,375	1,794,243
Operating Income (Loss)	(283,867)	(237,441)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	313,321	297,335
Investment income, net of investment expenses of $2,025 and $2,168 for the years ended June 30, 2007 and 2006, respectively	77,727	40,885
Gifts	53,687	57,467
Interest expense	(23,064)	(23,926)
Gain (loss) on disposal of capital assets	(5,784)	(20,239)
Net Nonoperating Revenues (Expenses)	415,887	351,522
Income Before Other Revenues	132,020	114,081
OTHER REVENUES		
Capital appropriations, State	9,393	3,860
Additions to endowments	51	51
Capital contributions and grants	9,562	1,821
Net Other Revenues	19,006	5,732
Increase in Net Assets	151,026	119,813
NET ASSETS		
Net assets, beginning of year	2,022,024	1,902,211
Net assets, end of year	$ 2,173,050	$ 2,022,024

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

for the year ended June 30, 2007 (in 000s)
(with comparative statement for the year ended June 30, 2006)

CASH FLOWS FROM OPERATING ACTIVITIES	2007	2006
Tuition and fees	$ 217,756	$ 198,453
Patient receipts	749,799	760,678
Grants and contracts	320,515	295,293
Payments for salaries and benefits	(1,133,226)	(1,043,389)
Payments for goods and services	(474,115)	(510,167)
Scholarships	(167)	711
Loans issued to students	(7,831)	(7,813)
Collections of loans from students	6,163	8,690
Interest on loans to students	1,580	959
Sales of educational activities	83,942	73,143
Other receipts (payments)	72,532	89,212
Auxiliary enterprise receipts	141,025	127,656
Auxiliary enterprise payments	(128,451)	(130,354)
Net Cash (Used) by Operating Activities	(150,478)	(136,928)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	311,609	291,733
Proceeds from noncapital gifts	53,688	57,467
Funds held for others receipts	249,199	238,804
Funds held for others payments	(266,839)	(277,937)
William D. Ford Direct Lending & Plus Loans receipts	147,666	142,464
William D. Ford Direct Lending & Plus Loans made	(147,666)	(136,410)
Other noncapital receipts (payments)	(25,969)	(16,860)
Net Cash Provided by Noncapital Financing Activities	321,688	299,261
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(216,521)	(235,161)
Interest paid on capital debt and leases	(24,239)	(22,378)
Proceeds from sale of capital assets	756	1,369
Capital appropriations	8,683	3,860
Capital gifts and grants received	7,411	1,561
Principal paid on capital debt and leases	(27,861)	(31,791)
Proceeds from capital debt	102,475	102,700
Net Cash (Used) by Capital & Related Financing Activities	(149,296)	(179,840)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	59,478	41,917
Proceeds from sale and maturities of investments	104,491	173,259
Purchase of investments	(137,131)	(146,141)
Net Cash Provided by Investing Activities	26,838	69,035
Net Increase in Cash & Cash Equivalents	48,752	51,528
Cash & Cash Equivalents, beginning of year	276,313	224,785
Cash & Cash Equivalents, end of year	$ 325,065	$ 276,313

for the year ended June 30, 2007 (in 000s)

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:	2007	2006
Cash and cash equivalents in current assets	$ 242,476	$ 201,163
Current restricted cash and cash equivalents	56,843	49,932
Noncurrent restricted cash and cash equivalents	25,746	25,218
Total Cash & Cash Equivalents	$ 325,065	$ 276,313

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:	2006	2006
Operating income (loss)	$ (283,867)	$ (237,441)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation expense	127,241	117,159
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,048)	(9,178)
Inventories	(494)	(2,893)
Prepaid expenses and other current assets	(7,080)	(2,664)
Due from government agencies, net of receivable from State for capital appropriations	(3,267)	(12,927)
Notes receivable, net	(1,271)	6,054
Accounts payable	3,420	(4,164)
Salaries and wages payable	6,387	7,068
Deferred revenue	6,174	131
Compensated absences	7,159	6,624
Early retirement benefits	(3,832)	(4,697)
Net Cash (Used) by Operating Activities	$ (150,478)	$ (136,928)

SIGNIFICANT NONCASH TRANSACTIONS		
Assets acquired under capital leases	$ 24,663	$ 363
Assets acquired by gift	2,151	260

The accompanying notes are an integral part of these financial statements.

The State University of Iowa Foundation and Affiliates

Balance Sheet

June 30, 2007 (in 000s)

(with comparative statement as of June 30, 2006)

ASSETS	2007	2006
Cash and cash equivalents	$ 54,247	$ 50,801
Receivables:		
Pledges, at net present value, less allowance for doubtful pledges	89,946	109,231
Other receivables and prepaids	397	490
	90,343	109,721
Investments:		
Carried at fair value		
U.S. Government and governmental agency securities	11,926	9,486
Corporation stocks, primarily common stocks	3,002	3,247
Managed separate investment accounts, primarily equity securities	724,245	618,454
Assets in living trusts, testamentary trusts and gift annuities	68,289	63,160
Beneficial interest in perpetual trusts	12,082	11,039
Other		
Real estate	1,294	2,396
Cash value of life insurance	3,566	3,324
Other	936	936
	825,340	712,042
Property leasehold interest and equipment, net	21,947	22,629
TOTAL ASSETS	$ 991,877	$ 895,193

LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 862	$ 903
Accrued vacations	937	876
Annuity and life income obligations	31,549	30,188
Note payable	485	504
Capital lease obligation	8,020	8,555
Amounts held on behalf of others	75,729	68,898
Total liabilities	117,582	109,924
Net Assets:		
Unrestricted	33,932	28,252
Temporarily restricted	457,609	402,352
Permanently restricted	382,754	354,665
Total net assets	874,295	785,269
TOTAL LIABILITIES AND NET ASSETS	$ 991,877	$ 895,193

The accompanying notes are an integral part of these financial statements.

The State University of Iowa Foundation and Affiliates
Statement of Activities
for the year ended June 30, 2007 (in 000s)
(with comparative statement for the year ended June 30, 2006)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Support and revenue:					
Total contributions raised	$ 827	$ 37,990	$ 26,010	$ 64,827	101,404
Change in value of split interest agreements	-	3,174	2,728	5,902	1,905
Less amounts raised on behalf of others	-	(3,313)	(858)	(4,171)	(4,861)
Total contributions and change in value of split interest agreements	827	37,851	27,880	66,558	98,448
Investment income:					
Interest and dividends	3,050	2,057	-	5,107	3,907
Asset based management and service fees	9,197	(8,815)	-	382	377
Net appreciation in fair value of investments	3,250	96,878	-	100,128	39,657
	15,497	90,120	-	105,617	43,941
Less amounts attributed to others	-	(8,934)	-	(8,934)	(4,209)
Total investment income	15,497	81,186	-	96,683	39,732
Other revenue:					
Fundraising service revenue and other	6,862	2,303	-	9,165	9,536
Less amounts attributed to others	-	(434)	-	(434)	(496)
Total other revenue	6,862	1,869	-	8,731	9,040
Net assets released from restrictions and changes in donor restrictions	65,440	(65,649)	209	-	-
Total support and revenue	88,626	55,257	28,089	171,972	147,220
Expenditures and deductions on behalf of The State University of Iowa and its affiliates:					
Programs and expense disbursements:					
Student financial aid	8,736	-	-	8,736	8,663
Faculty and staff support	4,745	-	-	4,745	4,034
Research	7,889	-	-	7,889	8,303
Capital/equipment	21,131	-	-	21,131	5,631
Fellowships	1,436	-	-	1,436	1,438
Professorships	1,889	-	-	1,889	2,083
Faculty chairs	4,474	-	-	4,474	5,071
Program support	16,653	-	-	16,653	19,291
Fundraising	3,629	-	-	3,629	3,250
Management and service fees	1,563	-	-	1,563	1,505
	72,145	-	-	72,145	59,269
Less amounts incurred on behalf of others	(6,707)	-	-	(6,707)	(7,706)
	65,438	-	-	65,438	51,563
Expenses of The State University of Iowa Foundation:					
Operating expenses	17,411	-	-	17,411	15,840
Foundation grants to The State University of Iowa	97	-	-	97	124
	17,508	-	-	17,508	15,964
Total expenses	82,946	-	-	82,946	67,527
Change in net assets	5,680	55,257	28,089	89,026	79,693
Net assets, beginning of year	28,252	402,352	354,665	785,269	705,576
Net assets, end of year	$ 33,932	$ 457,609	$ 382,754	$ 874,295	$ 785,269

The accompanying notes are an integral part of these financial statements.

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The State University of Iowa (University), located in Iowa City, Iowa, is a coeducational university owned and operated by the State of Iowa (State) under the supervision of the Board of Regents, State of Iowa (Board of Regents). The University was established by the First General Assembly on February 25, 1847, and has been in continuous operation since classes began in 1855.

The University is classified as a state instrumentality under Internal Revenue Code Section 115 and it 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.

Basis of Presentation

The 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).

Under GASB Statements No. 34 and No. 35, the basic financial statements are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements present the University as a whole. Previously, the financial statements focused on the accountability of individual fund groups. These GASB Statements establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into four net asset categories:

- Invested in capital assets, net of related debt--Capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted, nonexpendable--Net assets subject to externally imposed constraints in which the donors or other outside sources have stipulated as a condition that the principal is to be retained in perpetuity. Such assets include the University's permanent endowments.
- Restricted, expendable--Net assets whose use by the University is subject to externally imposed constraints that can be fulfilled by actions of the University pursuant to those constraints or that expire by the passage of time.
- Unrestricted--Net assets not subject to externally imposed constraints and may be used by the governing board to meet current obligations for any purpose. Unrestricted net assets are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and are generally designated for academic, research and capital programs or to meet contractual obligations of the University.

When an expense is incurred in which both unrestricted and restricted net assets are available, the University's policy is to first apply the expense against the restricted, and then toward the unrestricted asset.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The University has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989.

Financial Reporting Entity

A separate report is prepared for the State that includes all funds, departments, agencies and universities over which the State exercises or has the ability to exercise oversight authority. The University is included in these financial statements of the State.

The University's financial statements include schools, colleges and departments, the University of Iowa Hospitals & Clinics (UIHC), the Iowa Medical Mutual Insurance Company (IMMIC, a captive insurance company) and certain affiliated operations determined to be a part of the University's financial reporting entity. The University has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the University. In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This statement, which amends GASB Statement No. 14, *The Financial Reporting Entity,* was implemented for the year ended June 30, 2004. 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.

As required by United States Generally Accepted Accounting Principles (GAAP), these financial statements present the University and its component units. These component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University. These component units are separate legal entities from the University, but are so intertwined with the University that they are, in substance, the same as the University.

<u>Blended Component Units</u>
The Iowa Measurement Research Foundation and Miller Endowment, Incorporated are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University. The most recently audited financial statements for the Iowa Measurement Research Foundation may be obtained from the Controller's Office at the University.

<u>Discretely Presented Component Unit</u>
The State University of Iowa Foundation (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. 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, that 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, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the years ended June 30, 2007 and 2006, the Foundation distributed to the University or expended on behalf of the University, $65,438,000 and $51,563,000, respectively, for both restricted and unrestricted purposes.

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements 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.

The Foundation acts as an agent for other organizations benefiting the University of Iowa. Since the Foundation is not considered to be financially interrelated to these organizations as defined by SFAS No. 136, the total amount of funds held on behalf of these organizations has been reflected as a liability on the Balance Sheet (Amounts held on behalf of others). The Foundation does not have variance power to re-direct the assets held for others and the funds are generally payable on demand. On the Statement of Activities, the Foundation reports the gross amounts of support, revenue and expenses with the amount raised and expended on behalf of these organizations shown as a reduction in the gross amounts of support, revenue and expenses.

Assets held on behalf of these organizations include remainder interests in trusts, pledges and investments, which are for the benefit of the University.

The following table identifies these legally separate, tax-exempt organizations (in thousands of dollars):

	Amounts Held on Behalf of Others
Iowa Law School Foundation	$ 61,124
Iowa Scholarship Fund	9,513
University of Iowa Alumni Association	5,060
Others	32
Total	$ 75,729

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 are 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 University of Iowa Foundation, One West Park Road, P.O. Box 4550, Iowa City, Iowa 52240, Attn: Controller.

Basis of Accounting
For financial reporting purposes, the University is considered a special-purpose government engaged only in Business Type Activity 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 is incurred and all significant intra-agency transactions have been eliminated.

Cash and Cash Equivalents
For purposes of 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. However, as permitted by GASB standards, cash equivalents held in Deposits with Trustees are treated as investments.

Investments (University)
Investments are reported at fair value in accordance with GASB Statements No. 31 and No. 34. 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 (Foundation)
Investments are carried at fair value. The fair value of the investments in bonds, corporate stocks, mutual funds and investment management funds is based upon quoted values on national securities exchanges. For limited partnerships where the quoted market prices are not available, fair values are based on information provided by the general partners, which includes quoted market prices for investments when available and estimates of the fair value of investments which are not readily ascertainable.

Pledges Receivable (Foundation)
Pledges receivable are recorded at their net present value of estimated cash flows using the currently effective interest rate, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are met. The provision for losses on doubtful pledges is an adjustment to contributions at the time the pledge is made. Pledges written off totaled $1,541,000 and $39,000 in the years ended 2007 and 2006, respectively.

Inventories
Inventories, primarily made up of expendable materials and supplies held for consumption, are valued using the lower of cost or market, with cost determined on the first-in, first-out or weighted average basis.

Capital Assets
Capital assets estimated to have a useful life greater than one year are stated at cost at the date of acquisition or estimated fair market value at date of receipt in the case of gifts. Effective July 1st, 2005, the equipment capitalization threshold was increased from $2,000 to $5,000, excluding the University of Iowa Hospitals & Clinics (UIHC). The equipment capitalization threshold for the UIHC remains at $2,000. Routine repairs and maintenance costs are expensed as incurred. Interest cost is capitalized on all UIHC construction projects during the construction period. For all other University projects, interest costs are capitalized when the interest cost during the construction period exceeds the interest earned on the investment of debt proceeds. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives (five to fifty years) of the respective assets.

Wholly Owned Subsidiary (University)
The University owns all of the outstanding stock of Musser-Davis Land Company (acquired by gift) and reports such ownership as a wholly owned subsidiary. The Company's operations consist primarily of leasing mineral rights to others and planting seedlings to be harvested by others. The Company's fiscal year ends December 31 and its financial statements are presented on a modified cash basis of accounting. As of December 31, 2006, assets (including investments of $23,093,000) totaled $24,996,000; liabilities were $6,000; and net assets were $24,990,000. As of December 31, 2005, assets (including investments of $21,855,000) totaled $23,789,000; liabilities were $6,000; and net assets were $23,783,000.

Investments in Subsidiaries (Foundation)
The University of Iowa Facilities Corporation (Corporation) is an affiliate of the Foundation because the Foundation elects the Corporation's Board of Directors. The Corporation is organized to assist the Foundation in its programs which support the University. The Corporation accomplishes this objective by acquiring and holding property for the benefit and use of the University. The Corporation may incur debt obligations, either through the issuance of bonds or incurring commercial mortgages, for the purchase of properties. Simultaneously, the Corporation leases these buildings to the University. The lease agreements provide for the University to service the debt and pay for expenses related to the facilities. The leases also provide for the Corporation to convey the title of the facilities to the University at the end of each lease term when the debt agreements are fully amortized.

Since the Corporation has not and will not have an economic interest in the outstanding bonds, the asset and the related debt and revenue and expenses related to the asset are not recorded on the financial statements of the Corporation.

The Corporation also acquires and holds real estate, which will ultimately be deeded to the University of Iowa after a period of time. These assets are recorded on the Corporation's books.

The assets and net income (loss) of the subsidiaries described above are not material to the financial statements and the Foundation uses the equity method of accounting for its investment in these controlled corporations.

Bond Issuance Costs

Bond issuance costs are amortized over the life of the bond.

Deferred Revenue

Deferred revenue includes advance tickets sales, student tuition related to a future fiscal year and amounts received from rents, grants and contracts that have not yet been earned.

Compensated Absences Payable

University employees accumulate vacation and sick leave under the provisions of Chapters 79 and 262 of the Code of Iowa. It is the policy of the State to liquidate these accrued benefits under specific circumstances. The State pays for accrued vacation at 100% of the employee's hourly rate upon retirement, death, or termination, and, with certain exceptions, for accrued sick leave at 100% of the hourly rate to a maximum of $2,000 upon retirement. The liability for accrued compensated absences as reported on the Statement of Net Assets is based on the current rates of pay.

Long Term Debt and Other Long Term Liabilities

Long term debt includes principal amounts of revenue bonds payable, notes payable and capital lease obligations with contractual maturities greater than one year. Other long term liabilities include estimated amounts for accrued early retirement benefits, compensated absences payable, refundable allowances on student loans and deferred revenue that will not be paid or earned within the next fiscal year.

Definition of Operating Activities

Operating activities 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.

Non-Vested Equipment

Capital assets at June 30, 2007 and 2006 include, $4,115,000 and $4,686,000, respectively, of equipment purchased with restricted contract and grant proceeds for which title has not yet been transferred to the University.

Use of Estimates

The preparation of financial statements in conformity with United States 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.

II. CASH DEPOSITS, INVESTMENTS, AND DEPOSITS WITH TRUSTEES

Cash Deposits and Cash Equivalents

As of June 30, 2007 and 2006, the book balance of cash and cash equivalents totaled $325,065,000 and $276,313,000, respectively, and the bank balance of cash and cash equivalents totaled $342,736,000 and $295,604,000, respectively. Of the bank balances as of June 30 2007, $243,567,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $99,169,000 was invested in money market funds as cash equivalents. Of the bank balances as of June 30, 2006, $213,471,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $82,133,000 was invested in money market funds as cash equivalents.

Investments

In accordance with the Code of Iowa, the University's operating portfolio may be invested in obligations of the U.S. government and its agencies, certificates of deposit, prime bankers' acceptances, investment grade commercial paper, repurchase agreements, investments authorized for the Iowa Public Employees Retirement System in Section 97B.7 of the Code of Iowa, investment grade corporate debt, mortgage pass through and asset backed securities with an A rating at time of purchase, and an open-end management investment company organized in trust form registered with the S.E.C. under the Investment Company Act of 1940. The University's endowment portfolio may invest in all of the above as well as certain international and listed domestic equities. The University of Northern Iowa's endowments are pooled with the University's endowments to achieve economies of scale. At June 30, 2007 and 2006, the University included $10,303,000 and $9,253,000, respectively, held for the University of Northern Iowa as Investments and as a Deposit Held in Custody for Others. These funds are pooled by the two universities in order to achieve economies of scale.

For donor restricted endowments, Chapter 540A of the Code of Iowa permits the University to spend endowment income and to appropriate within certain limitations an amount of realized and unrealized endowment appreciation as the University determines to be prudent considering the University's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending rule is that five percent (5%) of market value of the endowment based on a twelve quarter rolling market average will be calculated and distributed.

Net appreciation of permanent endowment funds, which totaled $12,306,000 and $10,419,000 at June 30, 2007 and 2006, respectively, is available to meet spending rate distributions and is recorded in restricted nonexpendable net assets.

The University's investments are recorded at fair value, as determined by quoted market price. As of June 30, 2007, the University had the following investments and quality credit ratings (in thousands of dollars):

Investment Type		Total Market Value	Quality Rating	Effective Duration
University of Iowa Quasi 2 Endowment Pool				
Agency Bonds	$	7,102		**1.33**
Agency Mortgage-Backed Securities		5,396		**3.79**
Agency Pools		6,442		**3.06**
Asset-Backed Securities		10,784	**AAA**	**1.71**
Financials		234	**AA**	**9.93**
Industrials		773	**A-**	**5.63**
Private Placements		1,620	**A-**	**4.74**
TBA's		14,372		**4.78**
US Treasury Bonds and Notes		7,650		**7.21**
Utilities		860	**BBB+**	**4.31**
Mutual Funds - Fixed Income		46,140	**AA**	**4.16**
Total Fixed Income - Quasi 2 Endowment Pool	**$**	**101,373**	**AA+**	**3.96**
University of Iowa Long Term Endowment Pool				
Agency Bonds	$	4,958		**1.32**
Agency Mortgage-Backed Securities		3,692		**3.80**
Agency Pools		4,609		**3.12**
Asset-Backed Securities		7,410	**AAA**	**1.75**
Financials		164	**AA-**	**9.98**
Industrials		514	**A-**	**5.65**
Private Placements		1,115	**A-**	**4.73**
TBA's		10,026		**4.78**
US Treasury Bonds and Notes		5,323		**7.24**
Utitlities		586	**BBB+**	**4.33**
Mutual Funds - Fixed Income		32,744	**AA**	**4.16**
Total Fixed Income - Long Term Endowment Pool	**$**	**71,141**	**AA+**	**3.98**
University of Iowa Non-Endowment Operations				
Agency Bonds	$	24,133		**0.96**
Agency Mortgage-Backed Securities		17,115		**1.76**
Agency Pools		30,808		**2.19**
Asset-Backed Securities		148,644	**AAA**	**1.35**
Financials		32,099	**AA-**	**2.23**
Industrials		9,768	**BBB+**	**2.00**
Municipal - Taxable		1,081	**AAA**	**2.08**
Other Global Corp Bonds		4,144	**A-**	**2.37**
Private Placements		4,133	**A-**	**2.02**
Telecommuinciations		480	**A-**	**0.01**
US Treasury Bonds and Notes		92,537		**1.99**
Utilities		3,823	**BBB+**	**1.87**
Mutual Funds - Fixed Income		51,346	**AA+**	**1.50**
Total Fixed Income - Non-Endowment Operations	**$**	**420,111**	**AAA**	**1.67**
U.S. Equity	$	130,961		
Domestic Equity Mutual Fund		29,099		
International Equity Mutual Funds		47,943		
Principal - Real Estate		14,985		
Alternative Assets - Private Equities		1,711		
Total Long Term Endowment	**$**	**224,699**		
Total Investments		**817,324**		

Prior year disclosures for investment type, credit risk quality ratings, and interest rate sensitivity-duration have not been included because the information is not believed to be of continuing significance.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed using the effective duration. The maximum duration of the University's operating portfolio may not exceed the duration of the Merrill 1-3 year Government/Corporate Index by more than 20%. At time of purchase, the effective maturity of securities in the operating portfolio can not exceed sixty-three months. There is no explicit limit on the average maturity of fixed income securities in the endowment portfolios. The effective duration of each fixed income portfolio shall be within a range of plus or minus 25% of the duration for that portfolio's established benchmark.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University reduces exposure to credit risk by following the operating and endowment portfolios benchmarks as established by the Board of Regents. As of June 30, 2007, the operating portfolio benchmark is AAA and the endowment portfolios benchmark is AAA.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. Except for Treasury or Agency debentures, pass-throughs or REMICs, no more than 5% of the operating and fixed income endowment portfolios are invested in securities of a single issuer.

Deposits with Trustees

Investments on deposit with trustees, paying and co-paying agents for the purpose(s) of paying current obligations of bond principal and interest, for holding Bond Reserve Funds or for holding Construction Funds as specified by bond resolutions at June 30, 2007 and 2006, totaled $53,251,000 and $31,457,000, respectively. At June 30, 2007, $6,591,000 of the $53,251,000 deposits with trustees was invested in U.S. Government Agency securities with a credit quality rating of AAA and an effective duration of 1.028 months.

As authorized by the Board of Regents, the University holds a surety bond, with a face value of $3,500,000, as a substitute for a portion of the balance on deposit with trustee required for debt service of the Utility System Revenue Bonds.

III. ACCOUNTS RECEIVABLE, PLEDGES RECEIVABLE, DUE FROM GOVERNMENT AGENCIES AND NOTES RECEIVABLE

Accounts Receivable (in thousands of dollars)

	University & Blended Component Units	UIHC & Affiliates	Total
Accounts Receivable	$ 146,245	250,416	$ 396,661
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	48,324	148,405	196,729
Accounts Receivable, Net, June 30, 2007	$ 97,921	102,011	$ 199,932
Accounts Receivable	$ 141,955	236,513	$ 378,468
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	41,564	138,020	179,584
Accounts Receivable, Net, June 30, 2006	$ 100,391	98,493	$ 198,884

Pledges Receivable (Foundation)

A summary of the pledges receivable (unconditional promises to give) at June 30, 2007 and 2006 is as follows (in thousands of dollars):

	2007	2006
Gross pledges receivable	$ 106,296	$ 131,379
Less present value discount 2007 $13,565,000; 2006 $18,706,000 and allowance for doubtful pledges 2007 $2,785,000; 2006 $3,442,000	16,350	22,148
Total	$ 89,946	$ 109,231

Pledges receivable at June 30, 2007 are expected to be collected in the following periods (in thousands of dollars):

	Total
In one year or less	$ 39,613
Between one year and five years	50,287
More than five years	16,396
Total	$ 106,296

Due from Government Agencies

Due from government agencies at June 30, 2007 and 2006 are composed of $9,536,000 and $7,264,000, respectively, due from the State of Iowa and $31,309,000 and $29,680,000, respectively, due from United States government agencies.

Notes Receivable

Current notes receivable at June 30, 2007 and 2006 are $4,224,000, net of an allowance of $253,000, and $3,642,000, net of an allowance of $227,000, respectively. Noncurrent notes receivable at June 30, 2007 and 2006 are $29,703,000, net of an allowance of $1,783,000, and $29,013,000, net of an allowance of $1,808,000, respectively.

IV. CAPITAL ASSETS

A summary of capital assets activity for the year ended June 30, 2007 is as follows (in thousands of dollars):

Nondepreciable	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	$ 18,857	185			$ 19,042
Construction in Progress	267,915	143,522	(268,419)		143,018
Art & Historical Collections	29,763	1,998		61	31,700
Library Materials	194,118	13,255		1,553	205,820
Capital Assets, Nondepreciable	510,653	158,960	(268,419)	1,614	399,580
Depreciable					
Land Improvements	19,610	-	32		19,642
Infrastructure	326,533	-	18,315		344,848
Buildings	1,630,945	5,300	250,072	549	1,885,768
Equipment	490,152	87,082		39,970	537,264
Capital Assets, Depreciable	2,467,240	92,382	268,419	40,519	2,787,522
Less Accum. Depreciation	(1,271,745)	(127,241)	-	(35,188)	(1,363,798)
Depreciable Assets, Net	1,195,495	(34,859)	268,419	5,331	1,423,724
Capital Assets, Net	$ 1,706,148	124,101	-	6,945	$ 1,823,304

V. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2007 is as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long term debt:					
Bonds payable	$ 422,650	102,474	20,385	504,739	$ 24,301
Notes payable	1,822	-	647	1,175	680
Capital leases payable	132,874	24,763	6,829	150,808	6,200
Total long term debt	557,346	127,237	27,861	656,722	31,181
Other long-term liabilities:					
Early retirement benefits payable	8,308	434	4,266	4,476	2,643
Compensated absences	94,846	59,325	52,166	102,005	56,103
Refundable allowances on student loans	22,856	145	875	22,126	-
Deferred revenue and Other	39,580	45,755	39,580	45,755	44,914
Total other long-term liabilities	165,590	105,659	96,887	174,362	103,660
Total long-term liabilities	$ 722,936	232,896	124,748	831,084	$ 134,841

Bonds Payable

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2007, as follows (in thousands of dollars):

Bond Issues	Interest Rates Percent	Fiscal Year Maturity Date Range	Amount
Academic Buildings	3.00 - 8.38	1994 - 2029	$ 95,119
Residence Services	3.25 - 6.25	1970 - 2025	57,170
Hospital	4.125 - 9.00	1985 - 2029	23,755
Recreation Building	5.50 - 6.00	1973 - 2009	235
Athletic Facilities	3.00 - 5.30	2007 - 2032	117,075
Telecommunications	2.00 - 5.40	2002 - 2016	20,320
Utility System	2.00 - 5.00	1996 - 2029	142,465
Iowa Memorial Union	2.50 - 4.30	2003 - 2026	12,510
Parking System	3.10 - 5.00	2001 - 2026	25,695
Center for University Advancement	3.75 - 4.75	2006 - 2020	8,555
Student Health Facility	3.60 - 4.75	1999 - 2013	1,840
Total			$ 504,739

As of June 30, 2007, unspent bond proceeds were as follows: $37,541,000, Utilities System Revenue Bonds; $22,970,000, Academic Building Revenue Bonds; $594,000, Iowa Memorial Union Revenue Bonds; $1,095,000, Parking System Revenue Bonds; $367,000, Athletic Facilities Revenue Bonds; $500,000, Hospital Revenue Bonds.

The bonds will mature as follows (in thousands of dollars):

Year Ending June 30	Principal	Interest	Total
2008	$ 24,301	23,694	47,995
2009	24,255	22,884	47,139
2010	25,073	20,808	45,881
2011	24,925	19,996	44,921
2012	26,590	17,077	43,667
2013-2017	121,955	69,436	191,391
2018-2022	114,645	44,661	159,306
2023-2027	95,070	20,756	115,826
2028-2032	47,925	4,545	52,470
Total	$ 504,739	243,857	748,596

As provided in the various bond resolutions, the University has the right to redeem certain bonds prior to the above maturity dates, under stated conditions.

Notes Payable

A borrowing program, known as the Master Lease Plan, began in fiscal 1989 as approved by the Board of Regents to support the purchase of large, specialized pieces of equipment and selected real property. Interest rates range from 3.63% to 5.18%. The University has an additional note payable outside of the Master Lease program with an interest rate of 6.50%. The notes will mature as follows (in thousands of dollars):

Year Ending June 30	Principal	Interest	Total
2008	$ 680	57	737
2009	112	29	141
2010	119	22	141
2011	127	13	140
2012	137	4	141
Total	$ 1,175	125	1,300

Capital Leases Payable

Capital leases outstanding at June 30, 2007, are as follows (in thousands of dollars):

Capital Lease	Interest Rates	Lease Period	Amount
Medical Education and Biomedical Research Facility*	3.13 - 5.38%	1999 - 2023	$ 44,800
Oakdale Research Park*	5.25	2006 - 2021	9,068
Plaza Centre One*	4.59	2002 - 2016	1,309
Roy J. and Lucille A. Carver Biomedical Research Building*	2.00 - 5.90	2002 - 2030	46,575
Pomerantz Center, Series 2003*	5.00	2004 - 2010	11,325
111 Church Street*	5.17	2002 - 2007	483
Copy Machines and Other Equipment	0.37 - 20.75	2003 - 2010	1,568
Old Capitol Town Center*	3.50 - 4.70	2006 - 2031	35,680
Total			$ 150,808

* These capital leases are with The University of Iowa Facilities Corporation (UIFC), a wholly owned subsidiary of The University of Iowa Foundation. UIFC has issued revenue bonds for these facilities that have as their sole source of repayment the proceeds of these capital leases.

The following is a schedule, by year, of future minimum payments required (in thousands of dollars).

Year Ending June 30	Principal	Interest	Total
2008	$ 6,200	7,300	13,500
2009	5,931	7,037	12,968
2010	17,460	6,773	24,233
2011	6,429	5,931	12,360
2012	6,518	5,638	12,156
2013-2017	36,522	23,003	59,525
2018-2022	35,783	13,608	49,391
2023-2027	23,160	6,825	29,985
2028-2031	12,805	1,422	14,227
Total	$ 150,808	77,537	228,345

Assets acquired under these capital leases had a net book value of $165,124,000 as of June 30, 2007.

VI. OPERATING LEASES

The University has leased various buildings to house several departments of the University. These leases have been classified as operating leases. Accordingly, all rents are charged to expense as incurred. These leases expire from fiscal year 2008 to fiscal year 2013, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is an annual schedule of future minimum rental payments required under operating leases which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2007 (in thousands of dollars).

Year Ending June 30	Amount
2008	$ 3,178
2009	2,502
2010	2,257
2011	2,235
2012	438
2013	84
Total	$ 10,694

All leases contain non-appropriation clauses indicating that continuation of the lease is subject to funding by the Iowa State Legislature.

Rental expense for the year ended June 30, 2007, for all operating leases, except those with terms of a month or less that were not renewed, totaled $3,284,000.

VII. RETIREMENT PROGRAMS

Teachers Insurance and Annuity Association

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. TIAA 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 provision 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, 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 the $4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. During fiscal years 2007 and 2006, the University's required and actual contribution amounted to $80,303,000 and $76,042,000, respectively. During fiscal years 2007 and 2006, the employees' required and actual contribution amounted to $40,150,000 and $38,018,000, respectively.

Iowa Public Employees Retirement System

The University contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State. 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. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 3.7% of their annual covered salary and the University is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The University's required contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were $1,053,000, $974,000, and $960,000, respectively, equal to required contributions for each year. The required contribution paid by employees for the years ended June 30, 2007, 2006, and 2005 were $678,000, $626,000, and $617,000, respectively.

VIII. POST-EMPLOYMENT BENEFITS

Early Retirement

An early retirement program was approved by the Board of Regents in June 1986, and modified in July 1990, and in July 1992. In July 2001, the Board of Regents approved discontinuation of the program upon its expiration on June 30, 2002. The Board of Regents authorized each institutional head to exercise discretion as to whether faculty and staff who were qualified for participation in the program on June 30, 2002, may have two years after expiration of the program to request participation. This program expired June 30, 2004. Those eligible for participation were faculty, professional-scientific employees, institutional officials, staff of the Board Office and all merit system employees employed by the Board of Regents for a period of at least fifteen years and who had attained the age of 57 by June 30, 2002. The employee's department head and the appropriate administrative officers approved the employee's participation. The following benefits are applicable during participation in the Early Retirement Program:

1. Life Insurance - A paid-up life insurance policy of $2,000 to $4,000 equal to what the individual would have received if he/she had retired at the age of 65.
2. Health and Dental Insurance - The University will pay the full cost of the single employee premium for health and dental insurance or its standard share of any coverage other than single until the employee reaches eligibility for Medicare benefits. This contribution shall be equal to the amount contributed for an active employee in the same plan.
3. TIAA/CREF Contributions - During the first three years, the University will pay both the employer and employee retirement contributions. During the remaining years in the program, the university will pay only the employer contribution. Contributions are payable for a maximum of five years or until the employee is eligible for full Social Security benefits, whichever occurs first.
4. IPERS Contributions - The employee may only elect a lump sum payment.

The employee may have elected, prior to approval of participation in the program, to accept the present value of all or part of the incentives, except life insurance, as a lump sum payment on the beginning date of participation in the program. The rate of interest used to calculate the present value was established annually by the Board of Regents. The rate approved for fiscal year 2004 was 1%. There are no future rates since the program ended June 30, 2004.

The University has recognized an early retirement benefit liability of $4,476,000 as of June 30, 2007. During fiscal year 2007, expenditures for the 468 participants of the early retirement incentive program totaled $4,266,000.

Regular Retirement

For post-employment benefits of retirees, the University contributes toward the cost of University of Iowa health insurance and the entire cost to purchase a paid-up life insurance policy, which varies in amounts from $2,000 to $4,000, depending upon length of service.

Benefits are financed centrally by the University on a pay-as-you-go basis. Total expenditures for fiscal year 2007 were $2,899,000 with 1,374 eligible participants as of June 30, 2007.

Termination
The University continues terminated employees' benefits for health, dental, vision and hearing aid insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, modified by the Tax Reform Act and the Budget Reconciliation Act of 1986.

Four hundred ninety-nine (499) terminated employees continued their benefits by assuming total financial responsibility. No University costs are associated with the premiums, but claims are the responsibility of the University since the insurance plans are self-insured.

IX. OTHER COMMITMENTS, RISK MANAGEMENT AND ENCUMBRANCES

Commitments
At June 30, 2007 and 2006, the University had outstanding construction contract commitments of $55,504,000 and $80,591,000, respectively.

Risk Management
Following are risk financing and insurance related issues as defined by GASB Statement No. 10.

Property Loss - The University purchases catastrophic property insurance for academic/general funded facilities with a single incident deductible of $2 million, which in the event of a claim, the State provides payment for pursuant to Chapter 29C.20 of the Code of Iowa. A contingent fund exists under Chapter 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property. Claims over $5,000 may be submitted to the State Executive Council for consideration. The University also purchases commercial property insurance for auxiliary enterprise facilities including athletics, utilities, parking, residence halls and family housing, laundry, printing, telecommunications, the Iowa Memorial Union, Virgil M. Hancher Auditorium and the University of Iowa Hospitals & Clinics. The University annual limit is $1 billion, the maximum available on September 1, 2006 renewal.

Liability Loss - The State Appeal Board, subject to the advice and approval of the Attorney General, is authorized to settle tort liability claims against the State as set forth in Chapter 669 of the Code of Iowa. Tort liability claims settled in excess of $5,000 must have the unanimous approval of all the members of the Appeal Board, the State Attorney General and the District Court of the State of Iowa for Polk County. By inter-agency agreement, tort liability claims under $5,000 may be administered by the University subject to a maximum expenditure of $100,000 per year. All other tort claims may be paid from the State's general fund.

Motor Vehicle Liability - The Board of Regents' institutions cooperatively self-insure for automobile liability and physical damage coverage. The Board of Regents' self-insured program covers liability losses up to $250,000 per claim. Claims over $250,000 are self-insured by the State of Iowa, as provided in Chapter 669 of the Code of Iowa. Coverage for physical damage (comprehensive and collision) to University vehicles is included in the Board of Regents' self-insured program. Each loss is subject to a $500 deductible.

Workers' Compensation - The University participates in a State self-funded program. The University pays a monthly premium for this coverage.

Unemployment Compensation - The University self-funds unemployment compensation claims received from Iowa Workforce Development on a reimbursement basis.

Fidelity/Crime Coverage - The State maintains an employee fidelity bond where the first $100,000 in losses is the responsibility of the University. Under the State coverage, losses in excess of the $100,000 deductible are insured up to $2,000,000. The University maintains separate fidelity and crime coverage, which extends to all employees, and includes coverage for robbery and theft. The University's bond provides an additional $8,000,000 in coverage over the state bond.

College of Medicine Faculty Malpractice Claims - Based on actuarial analysis, the College of Medicine has incurred a probable loss of $16,692,000 as of June 30, 2007. From May 26, 2004 to June 30, 2007, the College of Medicine Faculty malpractice insurance coverage was provided by IMMIC, a wholly-owned captive insurance company. The College of Medicine University of Iowa Physicians (UIP) maintains a self-insured retention (SIR) of $3 million per event and each IMMIC policy covers an additional $2 million per event above the SIR. The State of Iowa provides malpractice insurance coverage for claims in excess of $5 million per occurrence and $9 million in the aggregate per fiscal year.

Employee Medical and Dental Claims - The University purchases life, health, dental and disability insurance for eligible permanent employees. Based on actuarial analysis of employee medical and dental claims, the University has incurred but not reported claims of $8,830,000 as of June 30, 2007.

Reconciliation of Loss Contingencies -

	(in thousands of dollars) FY 2007	FY 2006
Claims and contingent liabilities accrued at July 1	$ 18,560	$ 14,042
Claims incurred and contingent liabilities accrued for the current year	100,911	85,113
Payments on claims during the fiscal year	(93,205)	(80,595)
Claims liabilities at June 30	$ 26,266	$ 18,560

Insurance Settlements - For those risks that the University has purchased commercial insurance, settled claims have not exceeded the commercial coverage in any of the past three years.

Encumbrances

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. Purchase orders and contracts on state appropriated funds totaling $2,230,000 were outstanding at June 30, 2007.

X. DEBT DEFEASANCE

There were no advance refunding issues during the fiscal years ending June 30, 2007 or June 30, 2006.

The amount of defeased debt outstanding but removed from the Statement of Net Assets at June 30, 2007, is as follows (in thousands of dollars):

Bond Issues	Amount
Hancher Auditorium	665
Athletics Facilities	8,720
Total	$ 9,385

XI. OPERATING EXPENSES BY FUNCTION

A summary of operating expenses by functional classification for the year ended June 30, 2007 follows (in thousands of dollars):

	Compensation and Benefits	Supplies	Services, Repairs & Goods Purchased for Resale	Depreciation	Total
Instruction	$ 263,613	9,913	13,957	-	$ 287,483
Research	162,675	30,613	48,136	-	241,424
Public service	31,669	6,049	18,239	-	55,957
Academic support	89,514	5,649	11,890	-	107,053
Patient services	421,383	163,792	144,495	-	729,670
Student services	17,040	1,690	4,201	-	22,931
Institutional support	43,550	4,148	14,896	-	62,594
Op. & maint. of plant	677	237	58,529	-	59,443
Scholarships & fellowships	18,794	-	2,653	-	21,447
Depreciation	-	-	-	127,241	127,241
Student loan write-offs, collections & admin	-	-	814	-	814
Auxiliary enterprises	57,335	13,085	59,431	-	129,852
Other operating expenses	-	-	13,467	-	13,466
Total	$ 1,106,250	235,176	390,708	127,241	$ 1,859,375

XII. RESTRICTED NET ASSETS

A summary of restricted net assets follows (in thousands of dollars):

	June 30, 2007	June 30, 2006
Restricted - nonexpendable:		
Permanent endowment	$ 79,070	$ 71,940
Restricted - expendable:		
Research and gifts	$ 25,846	$ 28,583
Student loans	18,552	32,092
Term endowments	24,974	27,489
Capital projects:		
Sinking	25,408	22,693
Construction	31,434	37,139
Reserve	35,841	34,820
Renewal & replacement	16,887	16,582
Unspent proceeds (less accounts payable)	63,067	55,031
Total	$ 242,009	$ 254,429

The Foundation's temporarily restricted net assets at June 30, 2007 and 2006 were restricted for the following (in thousands of dollars):

	FY 2007	FY 2006
Program support	$ 148,625	$ 136,447
Student aid	85,916	62,684
Faculty/staff support	95,274	74,335
Capital/equipment	40,046	49,388
Research	68,198	62,830
Remainder interest in trusts	19,550	16,668
Total	$ 457,609	$ 402,352

The Foundation's net assets during the years ended June 30, 2007 and 2006 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence or passage of time.

The Foundation's permanently restricted net assets at June 30, 2007 and 2006 were restricted for the following (in thousands of dollars):

	FY 2007	FY 2006
Unrestricted	$ 5,667	$ 5,633
Program support	56,563	52,041
Student aid	108,074	90,299
Faculty/staff support	136,967	133,724
Capital/equipment	10,624	11,536
Research	46,335	44,105
Perpetual trusts	6,832	6,271
Remainder interest in trusts	11,692	11,056
Total	$ 382,754	$ 354,665

XIII. SUBSEQUENT EVENTS

In June 2007, the University received approval from the State Board of Regents to issue Hospital Revenue Bonds, Series 2007 in the amount of $25,000,000 in July 2007 for the purpose of reimbursing the UIHC for the costs of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient care facilities, including the Emergency Treatment Center Expansion and Renovation; Pediatric Inpatient Units Renovation; and Ambulatory Surgery Center and Procedure Suites and Replacement Ambulatory Care Clinics Development at the University of Iowa Hospitals and Clinics (UIHC) on the campus of the University, funding a deposit to the Reserve Fund, and paying the costs of issuance of the Bonds.

In June 2007, the University received approval from the State Board of Regents to issue Recreational Facilities Revenue Bonds, Series 2007 in the amount of $26,000,000 in August 2007 for the purpose of financing a portion of the cost of building, furnishing, and equipping a Campus Recreation and Wellness Center (CRWC) on the campus of the University, constructing improvements to the University's Field House, and relocating a portion of the existing facilities currently located on the proposed CRWC site, to fund a deposit to the Reserve Fund, and to pay the costs of issuance of the Bonds.

In September 2007, the University received approval from the State Board of Regents to issue Hospital Revenue bonds, Series 2007A in the amount of $25,000,000 in October 2007 for the purpose of reimbursing the UIHC for the costs of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient care facilities, including the Emergency Treatment Center Expansion and Renovation; Pediatric Inpatient Units Renovation; and Ambulatory Surgery Center and Procedure Suites and Replacement Ambulatory Care Clinics Development at the University of Iowa Hospitals and Clinics (UIHC) on the campus of the University, funding a deposit to the Reserve Fund, and paying the costs of issuance of the Bonds.

XIV. SEGMENT INFORMATION

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in those bonds rely solely on the revenue generated by the individual activities for repayment. The tax-exempt debt proceeds and associated investment income are subject to federal arbitrage regulations. The University's segments are described as follows:

<u>Telecommunications Facilities Revenue Bonds</u>

The Telecommunications Facilities Revenue Bond Funds were created to defray the costs of constructing, equipping, furnishing, and improving the telecommunications facilities of the University. The revenues pledged to these bonds come from charges assessed to the users of the telecommunications facilities.

<u>Utility System Revenue Bonds</u>

The Utility System Revenue Bond Funds were created to defray additional costs to construct, equip and furnish the utility system of the University. The revenues pledged to these bonds come from charges assessed to the users of the utility system.

<u>Student Health Facility Revenue Bonds</u>

The Student Health Facility Revenue Bond Funds were created to defray the costs of constructing, improving, and equipping a student health center at the University. The revenues pledged to these bonds consist of student fees and charges.

<u>Recreation Building Revenue Bonds</u>

The Recreation Building Revenue Bond Funds were created to defray the costs of the construction, operation and maintenance of a recreation building at the University. The revenues pledged to these bonds consist of student fees and charges.

<u>Hospital Revenue Bonds</u>

The Hospital Revenue Bond Funds were created to defray the costs of various construction and renovation projects at the University of Iowa Hospitals & Clinics. The revenues pledged to these bonds consist of charges to patients for medical services.

<u>Center for University Advancement Revenue Bonds</u>

The Center for University Advancement Revenue Bond Funds were created to defray the costs of constructing, furnishing, and equipping a building to be used as the Center for University Advancement at the University. The revenues pledged to these bonds are rental payments received from the University of Iowa Foundation for the use of the building.

<u>Athletic Facilities Revenue Bonds</u>

The Athletic Facilities Revenue Bond Funds were created to defray the costs of constructing and equipping certain athletic and recreational buildings and facilities at the University. The revenues pledged to these bonds are generated by student fees, tickets sold to athletic events and concessions at athletic events.

Residence Services Revenue Bonds
The Residence Services Revenue Bond Funds were created to defray additional costs of constructing, improving and maintaining various residence halls and related facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the residence halls' services.

Parking System Revenue Bonds
The Parking System Revenue Bond Funds were created to defray additional costs of constructing, improving, and equipping various parking facilities at the University. The revenues pledged to these bonds are generated by fees paid by users of the parking facilities.

Iowa Memorial Union (IMU) Revenue Bonds
The Iowa Memorial Union (IMU) Revenue Bond Funds were created to defray the cost of alterations and improvements to the IMU at the University. The revenues pledged to these bonds are generated by fees paid by users of the IMU and from student fees.

June 30, 2007 (in 000s)

	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds	Student Health Facility Revenue Bonds	Recreation Building Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 8,277	47,521	2,178	345
Capital assets	15,089	146,796	4,980	4,920
Other noncurrent assets	1,478	7,213	997	-
Total assets	24,844	201,530	8,155	5,265
Liabilities:				
Current liabilities	4,624	11,285	740	128
Noncurrent liabilities	17,745	136,480	1,570	120
Total liabilities	22,369	147,765	2,310	248
Net Assets:				
Invested in capital assets, net of related debt	(5,231)	4,603	3,140	4,685
Restricted - expendable	5,567	49,185	637	250
Unrestricted	2,139	(23)	2,068	82
Total net assets	$ 2,475	53,765	5,845	5,017

	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds	Student Health Facility Revenue Bonds	Recreation Building Revenue Bonds
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$ 19,275	60,602	1,150	62
Depreciation expense	(3,539)	(6,509)	(338)	(527)
Other operating expenses	(13,452)	(40,668)	(5,527)	(74)
Net operating income (loss)	2,284	13,425	(4,715)	(539)
Nonoperating revenues (expenses)	(462)	(2,577)	63	(1)
Transfers from/(to) University funds	(2,105)	(2,959)	4,573	(575)
Change in net assets	(283)	7,889	(79)	(1,115)
Net assets, beginning of year	2,758	45,876	5,924	6,132
Net assets, end of year	$ 2,475	53,765	5,845	5,017

	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds	Student Health Facility Revenue Bonds	Recreation Building Revenue Bonds
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$ 5,786	11,621	(4,315)	(19)
Net cash provided (used) by noncapital financing activities	(2,050)	(2,959)	(11)	-
Net cash provided (used) by capital and related financing activities	(4,007)	12,511	4,232	7
Net cash provided (used) by investing activities	1,884	6,227	493	12
Net increase (decrease) in cash	1,613	27,400	399	-
Cash & Cash Equivalents, beginning of year	5,090	19,905	1,511	346
Cash & Cash Equivalents, end of year	$ 6,703	47,305	1,910	346

June 30, 2007 (in 000s)

		Hospital Revenue Bonds	Center for University Advancement Revenue Bonds	Athletic Facilities Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$	226,332	883	23,164
Capital assets		497,645	12,941	114,204
Other noncurrent assets		391,206	783	9,221
Total assets		1,115,183	14,607	146,589
Liabilities:				
Current liabilities		136,507	719	21,814
Noncurrent liabilities		30,497	8,020	115,186
Total liabilities		167,004	8,739	137,000
Net Assets:				
Invested in capital assets, net of related debt		467,088	4,386	(2,871)
Restricted - expendable		17,137	1,482	12,586
Unrestricted		463,954	-	(126)
Total net assets	$	948,179	5,868	9,589
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$	814,693	-	27,193
Depreciation expense		(57,168)	(901)	(4,056)
Other operating expenses		(708,788)	-	(11,566)
Net operating income (loss)		48,737	(901)	11,571
Nonoperating revenues (expenses)		30,360	(320)	(1,333)
Transfers from/(to) University funds		(75)	826	(34,423)
Change in net assets		79,022	(395)	(24,185)
Net assets, beginning of year		869,157	6,263	33,774
Net assets, end of year	$	948,179	5,868	9,589
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$	97,531	9	19,575
Net cash provided (used) by noncapital financing activities		4,894	826	(35,790)
Net cash provided (used) by capital and related financing activities		(93,461)	(887)	19,611
Net cash provided (used) by investing activities		(14,583)	59	(2,324)
Net increase (decrease) in cash		(5,619)	7	1,072
Cash & Cash Equivalents, beginning of year		6,138	862	21,873
Cash & Cash Equivalents, end of year	$	519	869	22,945

June 30, 2007 (in 000s)

		Residence Services Revenue Bonds	Parking System Revenue Bonds	IMU Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$	22,473	17,553	8,185
Capital assets		83,575	46,356	14,248
Other noncurrent assets		3,452	2,815	797
Total assets		109,500	66,724	23,230
Liabilities:				
Current liabilities		7,641	3,131	7,156
Noncurrent liabilities		53,740	24,565	11,410
Total liabilities		61,381	27,696	18,566
Net Assets:				
Invested in capital assets, net of related debt		26,404	20,661	1,738
Restricted - expendable		17,873	5,181	3,012
Unrestricted		3,842	13,186	(86)
Total net assets	$	48,119	39,028	4,664

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

		Residence Services Revenue Bonds	Parking System Revenue Bonds	IMU Revenue Bonds
Operating revenues	$	42,797	14,017	24,593
Depreciation expense		(5,446)	(2,371)	(626)
Other operating expenses		(34,035)	(8,619)	(26,986)
Net operating income (loss)		3,316	3,027	(3,019)
Nonoperating revenues (expenses)		(1,108)	(132)	225
Transfers from/(to) University funds		(389)	(1,231)	452
Change in net assets		1,819	1,664	(2,342)
Net assets, beginning of year		46,300	37,364	7,006
Net assets, end of year	$	48,119	39,028	4,664

CONDENSED STATEMENT OF CASH FLOWS

		Residence Services Revenue Bonds	Parking System Revenue Bonds	IMU Revenue Bonds
Net cash provided (used) by operating activities	$	7,878	5,121	(2,281)
Net cash provided (used) by noncapital financing activities		(299)	(1,254)	(3,388)
Net cash provided (used) by capital and related financing activities		(9,624)	(5,162)	(3,350)
Net cash provided (used) by investing activities		1,625	6,294	4,305
Net increase (decrease) in cash		(420)	4,999	(4,714)
Cash & Cash Equivalents, beginning of year		20,140	11,817	7,168
Cash & Cash Equivalents, end of year	$	19,720	16,816	2,454

Acknowledgments

Report prepared by The Department of Accounting Services

Additional assistance provided by Grant Accounting Department, Treasurer's Office, Student Loan Accounting Office, Cashier's Office, Risk Management Office, Property Management Office, UIHC Finance and Accounting Services, Human Resources, Payroll, University Housing and University Relations Photography.

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David A. Vaudt, CPA
Auditor of State

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

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

We have audited the financial statements of the State University of Iowa (University) as of and for the year ended June 30, 2007 and have issued our report thereon dated December 14, 2007 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including a deficiency we consider to be a material weakness.

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, of the significant deficiencies described above, we believe item (A) is a material weakness.

Compliance and Other Matters

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

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we 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 and employees of the State University of Iowa, citizens of the State of Iowa and other parties to whom the State University of Iowa 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 the State University of Iowa 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

March 21, 2008

State University of Iowa

Schedule of Findings

June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Journal Entry Approval – The University does not have a policy requiring review and approval of journal entries by supervisory personnel, nor do the various journal entry systems have a mechanism in place to document supervisory approval. Journal entries are not reviewed and approved by supervisory personnel to ensure only authorized transactions are entered into the system.

Recommendation – The University should implement policies and procedures to ensure supervisory approval of journal entries is obtained and documented.

Response – The University will implement a process to ensure and document approval of journal entries by utilizing the existing Workflow electronic approval system. This process will focus on journals prepared and submitted by individuals throughout campus. The major subsidiary systems (Payroll, Accounts Payable, Asset Management, etc.) currently require approval of transactions prior to journal generation; therefore, they will not be included in this new approval process. Other subsidiary systems will be investigated to determine the feasibility and need for inclusion in the approval process.

Conclusion – Response accepted.

(B) Equipment Accounts Payable – The University's accounting system records accounts payable on the basis of invoice date rather than date received. We identified five vouchers totaling $2 million included in accounts payable for which the related assets were capitalized without adequate documentation evidencing receipt of the equipment by June 30, 2007.

Recommendation – The University should establish procedures to ensure accounts payable and capital assets are reported based on the date the asset is received by the University.

Response – We will expand our existing process to incorporate additional steps in the payables review process. Currently, capital equipment vouchers are automatically placed on hold until departments send a form to Accounts Payable and Purchasing Office (APPO) confirming assets have been received; this form contains a receipt date. The receipt date is not entered into PeopleSoft Accounts Payable but can be viewed as a scanned document. Accounts Payable will send Accounting Services a list of vouchers on hold (no receipt has occurred). This list will be compared to the invoices accrued to help ensure payables are accurate. Furthermore, the Property Management staff will check against the scanned document on the APPO website to confirm receipt date prior to capitalizing assets.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.