FINANCIAL REPORT

JULY 1, 2010 TO JUNE 30, 2011

THE UNIVERSITY OF IOWA

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FOR IOWA AND THE WORLD

The University of Iowa is a comprehensive research university with particular distinction in the arts, humanities, and sciences; a world-class academic health center; and a wide array of exceptional professional programs. While serving as the state's most comprehensive institution of higher learning, the University also enjoys a national and international reputation for excellence, and competes at that level for the best faculty and the most talented graduate and professional students.

UNIVERSITY OF IOWA MISSION

In pursuing its missions of teaching, research, and service, the University seeks to advance scholarly and creative endeavor through leading-edge research and artistic production; to use this research and creativity to enhance undergraduate, graduate, and professional education, health care, and other services provided to the people of Iowa, the nation, and the world; and to educate students for success and personal fulfillment in a diverse world.

THE UNIVERSITY IN 2011

University of Iowa achievements during fiscal year 2011 include:

- Continuing a strategic focus on enrollment that in fall 2011 drew a first-year undergraduate class that is larger and more diverse than ever.
- Attracting more than $456 million in external research funding—the second-highest annual total in university history.
- Implementing strategic plan priorities that include multidisciplinary faculty cluster hires to address 21st century challenges, new student-success initiatives, and arts campus revitalization.
- Enhancing campus infrastructure with technology-rich TILE (Transform, Interact, Learn, Engage) classrooms, an addition to the Dental Science Building, Leadership in Energy and Environmental Design (LEED) certified modernization of Stuit Hall, a new State Hygienic Laboratory, Carver-Hawkeye Arena renovations, and other projects.

ENROLLMENT

Group	Fall 2011	Fall 2010
Total students	30,893	30,825
Undergraduates	21,565	21,176
Graduate and professional	9,328	9,649
Iowa residents	54.8%	57.1%
Total non-residents	45.2%	42.9%
International students	10.6%	9.2%
Minority enrollment	11.9%	11%

EMPLOYMENT

Group (by FTEs)	Fall 2011	Fall 2010
Total faculty and staff	22,011	21,408
Institutional officers	21	22
Tenure-track faculty	1,588	1,596
Clinical-track faculty	522	489
Postdoctoral and other faculty	648	577
Professional and scientific staff	7,715	7,256
Merit staff	4,558	4,582
Residents	741	726
Graduate assistants	2,590	2,623
Temporary	3,628	3,537

EXTERNAL SUPPORT AND GIVING

The University reported strong grants and contracts support during fiscal year 2011, and recorded its second-best year for private giving:

- Fiscal year 2011 grants and contracts: **$456.6 million**
- Total external research support since 1967: **$7.5 billion**
- Rank among public universities in federal research and development support: **21**
- Fiscal year 2011 gifts to the University and the University of Iowa Foundation: **$213.9 million**
- Private giving growth over fiscal year 2010: **12.2 percent**
- Number of UI Foundation contributors: **74,591, a new record**
- Total number of UI Foundation gifts: **123,487**

STUDENT SUCCESS

The UI strategic plan puts renewed emphasis on initiatives that support undergraduate success, including these new or enhanced programs:

- **The IOWA Challenge**, a concise statement of expectations for students
- **On Iowa!**, a three-day immersion experience for first-year students
- **Critical MASS** (Mentoring and Student Support) program for at-risk students
- **SWAT** (Study, Workshops, and Tutoring) program focused on courses with high undergraduate enrollment
- **Office of Retention** to set strategy and coordinate efforts
- **Student Success Team**, a cross-campus, grassroots laboratory for ideas and support

More than 4,000 members of the Class of 2015 took the field at Kinnick Stadium during On Iowa!, forming a block “I” and posing for a class photo that will become an Iowa tradition.

Message from Senior Vice President and Treasurer, Douglas K. True

PRESIDENT MASON AND MEMBERS OF THE BOARD OF REGENTS:

I am pleased to present the University of Iowa's audited Financial Report for fiscal year 2011, summarizing the financial position and results of operations of the University for the past two fiscal years. The University remains financially sound and stable with net assets increasing by $253.8 million (9.7%) during fiscal year 2011 and continued strong credit ratings by Moody's (Aa1) and Standard & Poor's (AA), important indicators of the institution's financial health.

The University is the only Big Ten institution to be recognized as a "best buy" in several national college guides. Our focus on value, sustainability, and academic excellence yielded record enrollment of 30,893 students for fall 2011, as well as our best-prepared, most diverse first-year undergraduate class. The University attracts a significant number of non-resident students without denying access to any qualified Iowan. Growth in student demand is a direct result of dedicated efforts by the faculty, deans, provost, and president to maintain vibrant yet affordable academic programs.

The undergraduate years are not too early to begin creating businesses and jobs. Opportunities that help students enhance their innovative skills include entrepreneurial certificates and specialized instruction through the John Pappajohn Entrepreneurial Center. This past year nearly 4,000 students took entrepreneurship coursework, and the University awarded more than 300 certificates to students from all colleges. Led by Pappajohn Center faculty, the UI Research Foundation, and volunteer faculty, the new Iowa Medical Innovation Group also engages students directly, creating new medical devices and services.

Price and access are critical to a successful university. Our resident undergraduate tuition and fees remain among the lowest in our peer group, nearly $3,800 less than the Big Ten public institution average. To help assure affordability, over 21% of tuition collected in the General Education Fund is redirected to financial aid, with emphasis on students with need. This form of aid has increased nearly 250% over the last 10 years, far exceeding growth in tuition costs. For Iowa resident students this past year, 24% ($27.6 million) of total tuition charges were returned in the form of student financial aid.

The University is investing in comprehensive student success initiatives that will have measurable results. These include expanding first-year seminars, creating new learning-living communities, and investing in the finest, most innovative classroom settings, among them a major transformation to the Main Library. In addition, University Housing has begun designing a new residence hall that will expand the living-learning community model.

Patient care quality and healthcare enterprise financial performance are critical to the University's mission. UI Health Care has continued thoughtfully to manage expenses, improve productivity, and strategically grow patient volume. This success enables investment in projects like the new Children's Hospital while providing Iowans access to the finest professionals and the latest diagnostic and therapeutic care. Also this past year, UI Health Care inaugurated a comprehensive campaign, Iowa First Campaign, to build philanthropic support for these initiatives.

We hope you agree that there is much to be proud of at your University.

Very truly yours,

Douglas K. True
Senior Vice President and Treasurer

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

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, 2011 and 2010. 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 and Affiliates, discussed in Note I, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the component unit, is based on the report of the other auditor.

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 and Affiliates 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 report of the other auditor provides 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, 2011 and 2010 and the changes in its financial position and its cash flows for the years ended June 30, 2011 and 2010 in conformity with U.S. generally accepted accounting principles.

In our opinion, based upon our audits and the report of the other auditor, 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, 2011 and 2010, 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 and the Schedule of Funding Progress on pages 7 through 17 and page 56, respectively, are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion 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, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 30, 2011

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, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes that follow.

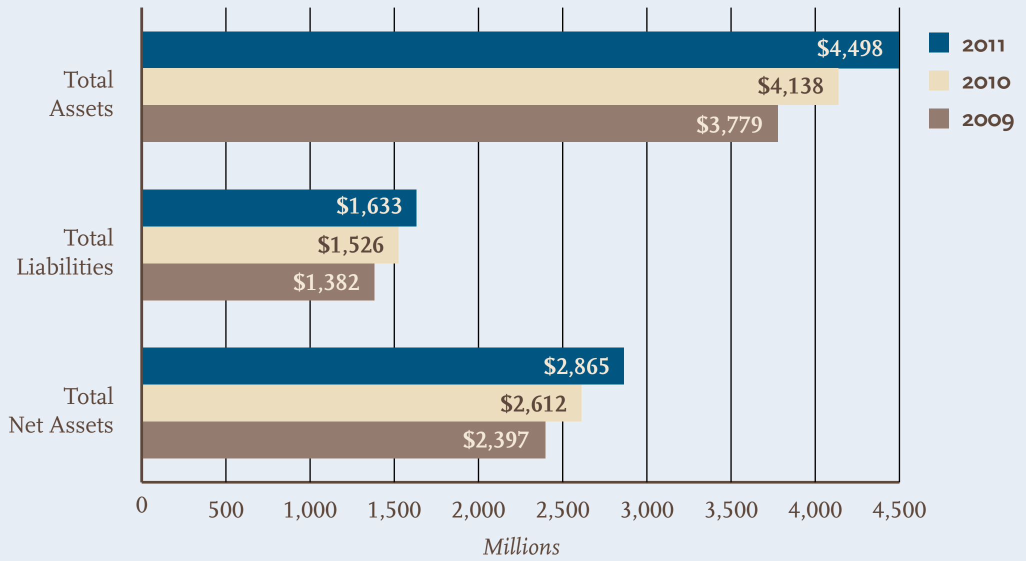
FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2011, with assets of $4,498 million and liabilities of $1,633 million as compared to June 30, 2010 assets of $4,138 million and liabilities of $1,526 million. Net assets, the difference between total assets and total liabilities, increased by $253.8 million (9.7%) from June 30, 2010 to June 30, 2011. The increase from June 30, 2009 to June 30, 2010 was $214.6 million (9.0%).

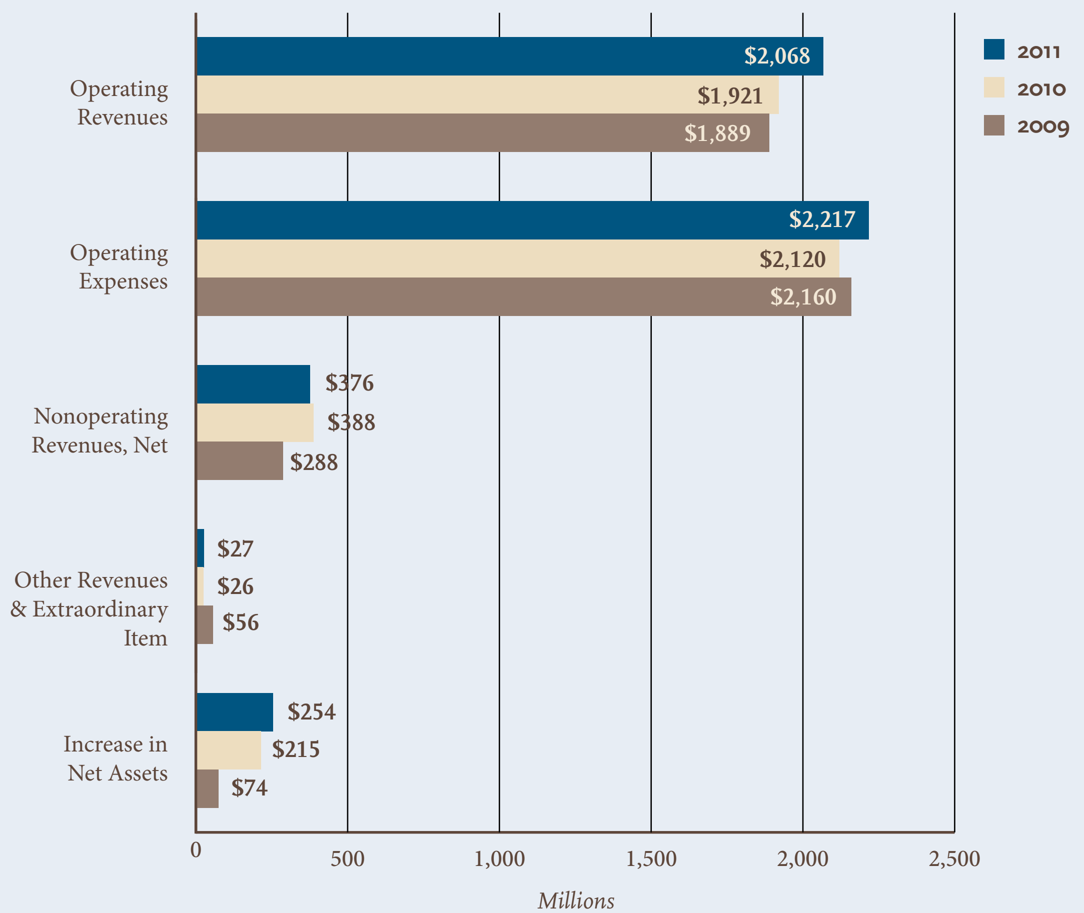
The change in net assets reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state 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 charts compare Total Assets, Total Liabilities and Total Net Assets at June 30, 2011, 2010, and 2009 and the components of changes in Net Assets at June 30, 2011, 2010, and 2009.

STATEMENT OF NET ASSETS



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS



The following table summarizes the financial activity for the fiscal years ended June 30, 2011, 2010 and 2009.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in millions)

	2011	2010	2009
Total operating revenues	$2,067.9	$1,921.1	$1,889.3
Total operating expenses	2,216.5	2,120.4	2,160.1
Net operating income (loss)	(148.6)	(199.3)	(270.8)
Net nonoperating revenues (expenses)	375.6	388.0	288.4
Income (loss) before other revenues, expenses	227.0	188.7	17.6
Net other revenues (expenses)	26.8	41.7	52.9
Increase in net assets before extraordinary item	253.8	230.4	70.5
Net extraordinary item due to 2008 flood	-	(15.8)	3.2
Increase in net assets	253.8	214.6	73.7
Net assets, beginning of year	2,611.7	2,397.1	2,323.4
Net assets, end of year	$2,865.5	$2,611.7	$2,397.1

During the fiscal year ended June 30, 2011, the University increased operating revenues and operating expenses by 7.6% and 4.5%, respectively, resulting in an operating loss of 7.2% compared to 10.4% last year. However, after factoring in state appropriations, investment income, gifts and other revenues, the University increased net assets by $253.8 million for the year ended June 30, 2011.

During the fiscal year ended June 30, 2011, net nonoperating revenues (expenses) decreased by 3.2%, primarily the result of a decrease in state appropriations of $39.5 million.

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, patient volumes, 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. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or paid.

The following table summarizes the University's assets, liabilities and net assets at June 30, 2011, 2010 and 2009.

NET ASSETS, END OF YEAR (in millions)

	2011	2010	2009
Assets			
Current assets	$2,113.8	$1,864.8	$1,583.9
Capital assets, net	2,244.7	2,141.8	2,066.8
Other noncurrent assets	139.9	131.2	128.1
Total Assets	4,498.4	4,137.8	3,778.8
Liabilities			
Current liabilities	607.3	530.3	519.7
Noncurrent liabilities	1,025.6	995.8	862.0
Total Liabilities	1,632.9	1,526.1	1,381.7
Net Assets			
Invested in capital assets, net of related debt	1,393.2	1,354.2	1,356.7
Restricted	323.3	301.7	280.3
Unrestricted	1,149.0	955.8	760.1
Total Net Assets	$2,865.5	$2,611.7	$2,397.1

The following table summarizes the University's revenues, expenses and changes in net assets for the years ended June 30, 2011, 2010 and 2009.

REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in millions)

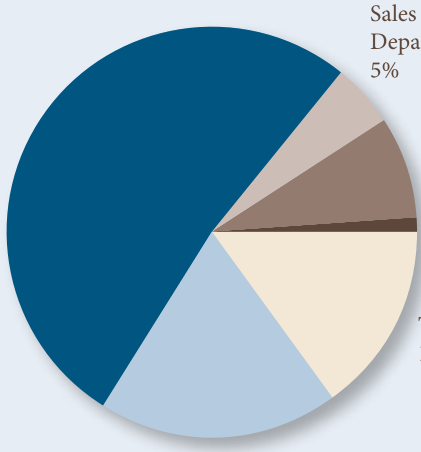
	2011	2010	2009
Operating Revenues:			
Tuition and fees, net of scholarship allowances	$310.1	$277.1	$262.4
Grants and contracts	394.1	400.3	361.5
Patient services, net of allowances	1,065.7	965.7	952.3
Sales and services of educational departments	105.1	109.4	107.6
Auxiliary enterprises, net of scholarship allowances	166.7	164.1	155.6
Other operating revenue	26.2	4.5	49.9
Total Operating Revenues	2,067.9	1,921.1	1,889.3
Operating Expenses:			
Instruction	314.9	308.8	322.8
Research	291.9	292.3	275.2
Academic support	120.3	124.9	125.8
Patient services	882.1	811.9	872.1
Depreciation and amortization	157.5	153.8	149.2
Auxiliary enterprises	157.1	152.1	141.4
Other operating expenses	292.7	276.6	273.6
Total Operating Expenses	2,216.5	2,120.4	2,160.1
Operating Income (Loss)	(148.6)	(199.3)	(270.8)
Nonoperating Revenues (Expenses):			
State appropriations	245.2	284.7	301.5
Investment income (loss), net of investment expenses	104.3	74.6	(37.7)
Gifts	64.8	63.6	61.0
Interest expense	(26.9)	(27.2)	(29.1)
Loss on disposal of capital assets	(11.8)	(7.7)	(7.3)
Net Nonoperating Revenues (Expenses)	375.6	388.0	288.4
Income Before Other Revenues	227.0	188.7	17.6
Other Revenues:			
Capital appropriations, State	9.7	22.4	20.6
Capital contributions and grants	1.1	1.7	10.6
FEMA reimbursement for capital costs, net of expenses	16.0	17.6	21.7
Net Other Revenues	26.8	41.7	52.9
Increase in Net Assets Before Extraordinary Item	253.8	230.4	70.5
Net extraordinary item due to 2008 flood	-	(15.8)	3.2
Increase in Net Assets	253.8	214.6	73.7
Net assets, beginning of year	$2,611.7	$2,397.1	$2,323.4
Net assets, end of year	$2,865.5	$2,611.7	$2,397.1

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, 2011 of $253.8 million (9.7%).

OPERATING REVENUES

For the fiscal years (FY) ended June 30, 2011, 2010 and 2009, operating revenues totaled $2,068 million, $1,921 million and $1,889 million, respectively. Operating revenues for FY 2011 increased by $147 million (7.7%) over FY 2010 revenues. The increase is primarily due to the category of patient services. 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, 2011.

FY2011 OPERATING REVENUES $2,067.9 million

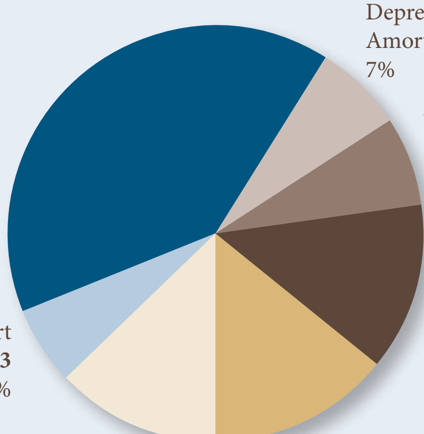


According to the most recent National Science Foundation survey in 2009, the University of Iowa ranked 21st among public universities in terms of federally financed expenditures for research and development. Grants, contracts and other sponsored agreements revenue exceeded $394 million in FY 2011, $400 million in FY 2010 and $361 million in FY 2009.

OPERATING EXPENSES

For the fiscal years ended June 30, 2011, 2010 and 2009, operating expenses totaled $2,216 million, $2,120 million and $2,160 million, respectively. Operating expenses increased by $96 million (4.5%) from FY 2010. The increase is primarily due to patient services. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2011.

FY2011 OPERATING EXPENSES $2,216.5 million



Other operating expenses include Public Service (2011, $70 million; 2010, $66 million), Student Services (2011, $28 million; 2010, $27 million), Institutional Support (2011, $79 million; 2010, $74 million), Operation and Maintenance of Plant (2011, $77 million; 2010, $75 million), Scholarships and Fellowships (2011, $29 million; 2010, $34 million), and Other (2011, $10 million; 2010, $1 million).

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive $375.6 million for the fiscal year ended June 30, 2011 and a positive $388.0 million for the fiscal year ended June 30, 2010.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2011, 2010 and 2009.

NONOPERATING REVENUES (EXPENSES) (in millions)

	2011	2010	2009
Nonoperating Revenues (Expenses)			
State appropriations	$245.2	$284.7	$301.5
Investment income (loss), net of investment expenses	104.3	74.6	(37.7)
Gifts	64.8	63.6	61.0
Interest expense	(26.9)	(27.2)	(29.1)
Loss on disposal of capital assets	(11.8)	(7.7)	(7.3)
Net Nonoperating Revenues (Expenses)	$375.6	$388.0	$288.4

State appropriations decreased by $39.5 million (13.9%) in the fiscal year ended June 30, 2011. However, investment income (loss) increased by $29.7 million (39.8%) in the fiscal year ended June 30, 2011 due to higher returns compared with the fiscal year ended June 30, 2010.

OTHER REVENUES

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, additions to endowments from gifts and contributions and grants for capital projects. The other revenues decreased from $41.7 million for the fiscal year ended June 30, 2010 to $26.8 million for the fiscal year ended June 30, 2011 (35.7%). Capital appropriations, contributions, and grants decreased from $24.1 million for the fiscal year ended June 30, 2010 to $10.8 million for the fiscal year ended June 30, 2011, a decrease of $13.3 million, or 55.2%. For the fiscal years ended June 30, 2011 and 2010, $16.0 million and $17.6 million, respectively, was recognized in FEMA reimbursement for capital costs, net of expenses. The net revenue is intended to fund flood-related expenses.

The University endowment is essentially a perpetuity for the benefit of the University. The endowments and similar long term assets are invested 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. All investment managers and investment strategies are approved by the Regents and reviewed by the Regents at least quarterly. 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.

Other Revenues (Expenses)

After insurance recoveries, FEMA has agreed to reimburse the University at 90% of actual cost of approved project work orders. All FEMA related activity is reported in Other Revenues (Expenses). In fiscal year 2011, the University received $23.0 million in FEMA reimbursements towards flood-related costs expended ($16.0 million for capital costs and $7.0 million for expenses).

REPORTING FOR JUNE 2008 FLOOD

Extraordinary Event

In fiscal year 2008, the University of Iowa sustained significant damage to property and impairment to capital assets as a result of the flooding of the Iowa River. This event was treated as an extraordinary event in prior years as it met the criteria for being both unusual in nature and infrequent in occurrence. Beginning with fiscal year 2011, we are no longer reporting the remaining effects of the flood as an extraordinary event. With the exception of FEMA reimbursements, all other flood-related activity is reported based on the natural classifications of 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 fiscal years ended June 30, 2011, 2010 and 2009.

CASH FLOWS FOR THE YEAR (in millions)

	2011	2010	2009
Cash provided (used) by:			
Operating activities	$37.2	($76.1)	($108.0)
Noncapital financing activities	348.2	369.9	367.0
Capital and related financing activities	(216.8)	(160.3)	(238.2)
Investing activities	(112.6)	(95.9)	47.1
Net change in cash and cash equivalents	**56.0**	**37.6**	**67.9**
Cash and cash equivalents, beginning of year	596.9	559.3	491.4
Cash and cash equivalents, end of year	**$652.9**	**$596.9**	**$559.3**

The University's overall liquidity increased during the year, with a net increase in cash and cash equivalents of $56.0 million. Many factors contribute to this increase, with the most significant being collections of tuition, patient services, and grant and contract receipts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2011, 2010 and 2009.

CAPITAL ASSETS, NET OF DEPRECIATION AND AMORTIZATION
(in millions)

	2011	2010	2009
Nondepreciable			
Land	$37.3	$23.3	$22.4
Construction in progress	236.5	301.7	248.9
Intangibles in development	6.4	11.7	-
Art & historical collections	33.2	32.8	32.7
Library materials	256.9	242.9	230.3
Depreciable			
Land improvements, net	6.2	7.1	7.2
Infrastructure, net	216.2	178.8	185.8
Buildings, net	1,209.0	1,086.6	1,062.8
Equipment, net	198.1	211.4	276.7
Intangibles, net	44.9	45.5	-
Total Capital Assets, Net	$2,244.7	$2,141.8	$2,066.8

The University is nearing completion of several major projects during the fall of 2011. The $47 million Carver-Hawkeye Arena addition and renovation is partially occupied and remaining components of the project will be completed prior to December. The full recovery of Art Building West from damages related to the 2008 flood and protection of the building from future flooding risks reached substantial completion in October. The new College of Public Health building, a 140,000 square foot facility, reached completion in November and, like Art Building West, will be open for students and classes at the start of the 2012 spring semester (January). The new Information Technology Facility located on the Oakdale campus will be complete in October. Construction work continues on the $133 million Pappajohn Biomedical Discovery Center, with completion expected in early 2014. In November, construction activity will begin for a new West Campus Transportation Center and the new Indoor Football Practice Facility, both enabling projects which must be completed prior to the initiation of construction of the UIHC's future Children's Hospital project. The Children's Hospital project, estimated at $270 million, is targeting a bid for initial construction packages near the end of 2012. The UIHC also continues construction on the new Ambulatory Clinic facility at Coralville's Iowa River Landing. This 150,000 square foot building is slated for completion in the fall of 2012. Other projects in design that are targeting initiation of construction by the close of 2012 include the Psychology/General Assignment Classroom facility at $27 million and a new 450 bed residence hall at $48 million.

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

Debt

As of June 30, 2011, the University had $928.5 million in outstanding bonds, notes and capital leases, an increase of $36.1 million over the prior year. Debt principal payments of $35.8 million and interest payments of $28.0 million were made during the fiscal year ended June 30, 2011.

The following table summarizes outstanding debt by type as of June 30, 2011, 2010 and 2009.

BONDS, NOTES AND CAPITAL LEASES

(in millions)

	2011	2010	2009
Revenue bonds	$780.3	$747.4	$639.9
Notes	15.1	15.3	15.4
Capital leases	133.1	129.7	144.3
Total Debt Outstanding	$928.5	$892.4	$799.6

During the fiscal year ended June 30, 2011, $62 million of new revenue bonds were issued. The revenue bond proceeds were $20 million for renovation of Carver Hawkeye Arena, $30 million to help finance a new medical office building, and $12 million for Telecommunications to complete the new Data Center. The University carries an Aa1 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 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 2011-2012 academic term rose from 4,557 to this year's record enrollment of 4,565. Total enrollment went from 30,825 in the Fall of 2010 to 30,893 in the Fall of 2011.

Other revenue streams are also in good condition. During the fiscal year ended June 30, 2011, the University generated a near record of $456 million in grant and contract awards to promote research, education and service. The recent completion of new research labs and continued investment in new research buildings and infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts as new sponsored research and opportunities emerge.

The University of Iowa Hospitals & Clinics continues to be recognized as one of the nation's best teaching hospitals and achieved outstanding operating results for fiscal year 2011 with an operating margin 5.9%. Two of its programs are ranked in the top 10 with an additional 7 programs ranked in the top 50 in the country. Fiscal operations continue to report strong patient census data and good financial performance overall.

The world economy continues a slow but painful rebound with much uncertainty remaining in the global markets. For the first time in the history of the University, the total market value of the university's endowment, including the UI Foundation, exceeded $1 billion. Endowment investment returns were 26.38% for the fiscal year ended June 30, 2011. Fundraising is continuing at a very nice pace as the University moves into the quiet phase of a new major capital campaign.

The state economy is starting to improve, resulting in a moderation of the expected appropriations budget cut to the University. The state reduced the University's general education fund appropriation by $12 million for fiscal year 2012.

Statement of Net Assets
June 30, 2011 (in thousands)
With comparative statement as of June 30, 2010

ASSETS	2011	2010
Current Assets:		
Cash and cash equivalents	$545,140	$472,774
Restricted cash and cash equivalents	82,400	99,985
Investments	1,022,238	813,010
Restricted investments	1	-
Deposits with trustees	28,444	41,651
Accounts receivable, net	261,697	266,620
Notes receivable, current portion, net	3,061	2,854
Interest receivable	864	1,340
Due from government agencies	118,821	119,397
Inventories	31,171	30,481
Prepaid expenses and other current assets	19,985	16,649
Total current assets	2,113,822	1,864,761
Noncurrent Assets:		
Restricted cash and cash equivalents	25,410	24,181
Restricted investments	63,196	58,849
Notes receivable, noncurrent portion, net	23,286	24,177
Capital assets, net	2,244,742	2,141,764
Investment in wholly owned subsidiary	27,937	24,110
Total noncurrent assets	2,384,571	2,273,081
Total Assets	$4,498,393	$4,137,842
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$96,839	$82,437
Salaries and wages payable	134,876	126,979
Unpaid claims	25,654	29,107
Interest payable	13,514	14,592
Long term debt, current portion	55,398	35,443
Other long term liabilities, current portion	100,388	95,147
Deposits held in custody for others	180,664	146,587
Total current liabilities	607,333	530,292
Noncurrent Liabilities:		
Long term debt, noncurrent portion	873,116	856,907
Other long term liabilities, noncurrent portion	152,447	138,935
Total noncurrent liabilities	1,025,563	995,842
Total Liabilities	1,632,896	1,526,134
Net Assets:		
Invested in capital assets, net of related debt	1,393,162	1,354,232
Restricted:		
Nonexpendable	72,752	64,893
Expendable	250,519	236,838
Unrestricted	1,149,064	955,745
Total Net Assets	2,865,497	2,611,708
Total Liabilities and Net Assets	$4,498,393	$4,137,842

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, 2011 (in thousands)

With comparative statement for the year ended June 30, 2010

Operating Revenues	2011	2010
Student tuition & fees, net of scholarship allowances of $94,809 and $82,705 for the years ended June 30, 2011 and 2010, respectively (pledged as payment on revenue bonds)	$310,106	$277,053
Federal grants and contracts	343,764	345,068
State and other governmental grants and contracts	11,984	9,572
Nongovernmental grants and contracts	38,319	45,683
Patient services, net of write-offs, contractual adjustments and indigent care of $1,388,042 and $1,192,362 for the years ended June 30, 2011 and 2010, respectively (pledged as payment on revenue bonds)	1,065,744	965,672
Sales and services of educational departments	105,099	109,359
Interest on student loans	784	810
Auxiliary enterprises, net of scholarship allowances of $6,808 and $6,071 for the years ended June 30, 2011 and 2010, respectively (pledged as payment on revenue bonds)	166,651	164,135
Other operating revenue	25,482	3,711
Total Operating Revenues	2,067,933	1,921,063
Operating Expenses		
Instruction	314,892	308,768
Research	291,945	292,313
Public service	69,612	65,898
Academic support	120,347	124,923
Patient services	882,072	811,812
Student services	28,305	26,899
Institutional support	78,973	73,697
Operation and maintenance of plant	76,591	74,701
Scholarships and fellowships	28,757	33,838
Depreciation and amortization	157,518	153,823
Student loan write-offs, collection and administration	639	648
Auxiliary enterprises	157,135	152,145
Other operating expenses	9,760	961
Total Operating Expenses	2,216,546	2,120,426
Operating Income (Loss)	(148,613)	(199,363)
Nonoperating Revenues (Expenses)		
State appropriations	245,191	284,717
Investment income, net of investment expenses of $1,090 and $1,072 for the years ended June 30, 2011 and 2010, respectively	104,332	74,677
Gifts	64,819	63,564
Interest expense	(26,924)	(27,242)
Loss on disposal of capital assets	(11,814)	(7,700)
Net Nonoperating Revenues (Expenses)	375,604	388,016
Income Before Other Revenues	226,991	188,653
Other Revenues		
Capital appropriations, State	9,701	22,423
Capital contributions and grants	1,106	1,653
FEMA reimbursement for capital costs, net of expenses	15,991	17,666
Net Other Revenues	26,798	41,742
Increase in Net Assets before Extraordinary Items	253,789	230,395
Extraordinary Item Due To Flood		
Net extraordinary item due to 2008 flood	-	(15,785)
Increase in Net Assets	253,789	214,610
Net Assets		
Net assets, beginning of year	2,611,708	2,397,098
Net assets, end of year	$2,865,497	$2,611,708

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

Statement of Cash Flows

For the Year ended June 30, 2011 (in thousands)

With comparative statement for the year ended June 30, 2010

	2011	2010
Cash Flows From Operating Activities		
Tuition and fees	$308,256	$278,615
Patient receipts	1,063,479	959,749
Grants and contracts	390,571	359,837
Payments for salaries and benefits	(1,185,793)	(1,138,985)
Payments for goods and services	(657,892)	(630,822)
Scholarships	(28,757)	(33,838)
Loans issued to students	(4,872)	(4,064)
Collections of loans from students	5,360	5,287
Interest on loans to students	733	748
Sales of educational activities	106,492	106,635
Other receipts (payments)	24,998	7,822
Auxiliary enterprise receipts	171,753	165,015
Auxiliary enterprise payments	(157,135)	(152,145)
Net Cash Provided (Used) by Operating Activities	37,193	(76,146)
Cash Flows From Noncapital Financing Activities		
State appropriations	245,191	284,717
Proceeds from noncapital gifts	64,819	63,564
Funds held for others receipts	306,213	246,072
Funds held for others payments	(268,057)	(224,412)
William D. Ford Direct Lending & Plus Loans receipts	212,286	200,722
William D. Ford Direct Lending & Plus Loans made	(212,046)	(200,733)
Other noncapital receipts (payments)	(240)	12
Net Cash Provided by Noncapital Financing Activities	348,166	369,942
Cash Flows From Capital And Related Financing Activities		
Acquisition and construction of capital assets	(261,138)	(249,410)
Interest paid on capital debt and leases	(28,002)	(26,264)
Proceeds from sale of capital assets	296	738
Capital appropriations	8,504	23,648
Capital gifts and grants received	532	1,309
Deposits with trustee	13,208	(9,262)
Principal paid on capital debt and leases	(35,827)	(48,101)
Proceeds from capital debt and leases	61,605	138,175
Other capital and related financing receipts	29,749	74,121
Other capital and related financing payments	(5,680)	(65,254)
Net Cash (Used) by Capital and Related Financing Activities	(216,753)	(160,300)
Cash Flows From Investing Activities		
Interest and dividends on investments	34,057	32,732
Proceeds from sale and maturities of investments	397,492	264,014
Purchase of investments	(544,145)	(392,622)
Net Cash (Used) by Investing Activities	(112,596)	(95,876)
Net Increase in Cash & Cash Equivalents	56,010	37,620
Cash and Cash Equivalents, beginning of year	596,940	559,320
Cash and Cash Equivalents, end of year	$652,950	$596,940

Statement of Cash Flows

For the year ended June 30, 2011 (in thousands)

With comparative statement for the year ended June 30, 2010

	2011	2010
Reconciliation Of Cash And Cash Equivalents to the Statement Of Net Assets:		
Cash and cash equivalents in current assets	$545,140	$472,774
Current restricted cash and cash equivalents	82,400	99,985
Noncurrent restricted cash and cash equivalents	25,410	24,181
Total Cash and Cash Equivalents	**$652,950**	**$596,940**
Reconciliation Of Operating Income (Loss) To Net Cash Used By Operating Activities:		
Operating income (loss)	$(148,613)	$(199,363)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	157,518	153,823
Changes in operating assets and liabilities:		
Accounts receivable, net	1,995	(13,627)
Interest receivable	50	62
Inventories	(690)	(625)
Prepaid expenses and other current assets	(3,335)	(3,644)
Due from government agencies, net of receivable from State for capital appropriations	(10,452)	(38,735)
Notes receivable, net	685	1,060
Accounts payable	16,811	(17,169)
Salaries and wages payable	7,897	(749)
Unpaid claims liability	(3,453)	3,440
Other long term liabilities	221	4,594
Deferred revenue	3,812	3,999
Other postemployment benefits other than pension liability	11,095	16,143
Compensated absences	5,239	1,708
Early retirement benefits	(1,587)	12,937
Net Cash Provided (Used) by Operating Activities	**$37,193**	**$(76,146)**
Significant Noncash Transactions		
Assets acquired under capital leases	**$11,272**	**$3,508**
Assets acquired by gift	574	344

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

Balance Sheet

June 30, 2011 (in thousands)

With comparative statement as of June 30, 2010

ASSETS	2011	2010
Cash and cash equivalents	$30,012	$41,881
Receivables:		
Pledges, at net present value, less allowance for doubtful pledges	108,089	115,689
Other receivables and prepaids	373	355
	108,462	116,044
Investments:		
Carried at fair value		
U.S. Government and governmental agency securities	5,099	14,035
Corporation stocks, primarily common stocks	3,284	3,126
Managed separate investment accounts, primarily equity securities	872,552	679,470
Assets in living trusts, testamentary trusts and gift annuities	57,101	47,682
Beneficial interest in perpetual trusts	11,347	9,592
Other		
Real estate	7,244	3,930
Cash value of life insurance	4,661	4,431
Other	936	936
	962,224	763,202
Property leasehold interest and equipment, net	21,108	21,768
TOTAL ASSETS	$1,121,806	$942,895
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$1,275	$1,240
Accrued vacations	809	780
Annuity and life income obligations	25,748	23,700
Capital lease obligation	5,685	6,295
Amounts held on behalf of others	80,916	65,919
Total liabilities	114,433	97,934
Net Assets:		
Unrestricted	24,794	19,702
Temporarily restricted	485,018	353,546
Permanently restricted	497,561	471,713
Total net assets	1,007,373	844,961
Total Liabilities And Net Assets	$1,121,806	$942,895

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

THE STATE UNIVERSITY OF IOWA FOUNDATION AND AFFILIATES

Statement of Activites

For the year ended June 30, 2011 (in thousands)

With comparative statement for the year ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total	2010 Total
Support and revenue:					
Total contributions raised	$292	$56,118	$21,955	$78,365	$89,097
Change in value of split interest agreements	17	4,625	4,913	9,555	2,743
Less amounts raised on behalf of others	-	(4,099)	(2,677)	(6,776)	(5,469)
Total contributions and change in value of split interest agreements	**309**	**56,644**	**24,191**	**81,144**	**86,371**
Investment income:					
Interest and dividends	1,092	1,783	-	2,875	2,360
Asset based management and service fees	10,078	(9,942)	-	136	197
Net appreciation in fair value of investments	6,869	166,454	-	173,323	93,962
Less amounts attributed to others	-	(14,252)	-	(14,252)	(8,734)
Total investment income	**18,039**	**144,043**	**-**	**162,082**	**87,785**
Other revenue:					
Fundraising service revenue and other	7,532	1,420	-	8,952	10,606
Less amounts attributed to others	-	(8)	-	(8)	(249)
Total other revenue	**7,532**	**1,412**	**-**	**8,944**	**10,357**
Net assets released from restrictions and changes in donor restrictions	68,970	(70,627)	1,657	-	-
Total support and revenue	**94,850**	**131,472**	**25,848**	**252,170**	**184,513**
Expenditures and deductions on behalf of The State University of Iowa and its affiliates:					
Programs and expense disbursements:					
Student financial aid	13,704	-	-	13,704	10,963
Faculty and staff support	3,755	-	-	3,755	3,380
Research	11,411	-	-	11,411	9,917
Capital/equipment	17,832	-	-	17,832	12,301
Fellowships	1,272	-	-	1,272	1,813
Professorships	2,062	-	-	2,062	2,452
Faculty chairs	3,986	-	-	3,986	3,989
Program support	14,306	-	-	14,306	13,326
Fundraising	4,799	-	-	4,799	4,404
Management and service fees	1,882	-	-	1,882	1,809
	75,009	-	-	75,009	64,354
Less amounts incurred on behalf of others	(6,040)	-	-	(6,040)	(5,895)
	68,969	**-**	**-**	**68,969**	**58,459**
Expenses of The State University of Iowa Foundation:					
Operating expenses	20,771	-	-	20,771	19,670
Foundation grants to The State University of Iowa	18	-	-	18	37
	20,789	**-**	**-**	**20,789**	**19,707**
Total expenses	**89,758**	**-**	**-**	**89,758**	**78,166**
Change in net assets	**5,092**	**131,472**	**25,848**	**162,412**	**106,347**
Net assets, beginning of year	19,702	353,546	471,713	844,961	738,614
Net assets, end of year	**$24,794**	**$485,018**	**$497,561**	**$1,007,373**	**$844,961**

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

Notes to 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. 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/amortization 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 which 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 assets.

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 the 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. 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 they are, in substance, the same as the University.

Blended Component Units

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.

Discretely Presented Component Unit

The State University of Iowa Foundation and Affiliates (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation's financial statements include its affiliated organization, the University of Iowa Facilities Corporation, wholly controlled by the Foundation. The Foundation acts primarily as a fundraising 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, 2011 and 2010, the Foundation distributed to the University or expended on behalf of the University $68,969,000 and $58,459,000, 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. 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 redirect 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):

	Amounts Held on Behalf of Others
Iowa Law School Foundation	$65,419
Iowa Scholarship Fund	9,716
University of Iowa Alumni Association	5,148
Others	633
Total	$80,916

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)

In accordance with FASB 157, Fair Value Measurements, investments of the Foundation are carried at fair value as determined by values provided by an external investment manager and quoted market values. The carrying values of other investments and long-term liabilities approximate fair values because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

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 $5,356,000 and $1,452,000 in the fiscal years ended 2011 and 2010, respectively.

INVENTORIES

Inventories, primarily 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. The purchased equipment capitalization threshold is $5,000. Beginning with fiscal year 2011, the threshold for leased capital equipment has increased from $5,000 to $50,000. The capitalization threshold for intangibles (software) is $500,000, except for UIHC which is $5,000. Routine repair 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 and amortization 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, 2010, assets (including investments of $26,168,000) totaled $27,937,000, liabilities were $0 and net assets were $27,937,000. As of December 31, 2009, assets (including investments of $22,256,000) totaled $24,110,000, liabilities were $0 and net assets were $24,110,000.

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 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 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

Generally, bond premium, discount and issuance costs are deferred and amortized over the life of the bonds using the effective interest rate method.

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 in 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, accrued other postemployment benefits, compensated absences payable, refundable allowances on student loans and deferred revenue that will not be paid or earned within the next fiscal year.

FRINGE BENEFITS

The University utilizes the fringe benefits pool method to account for fringe benefits. Under the fringe benefits pool method, fringe benefits are expensed as a percentage of actual salary or wage costs. The use of fringe benefits rates rather than actual fringe benefits costs is accepted by the Federal Government and widely used by universities. Rates are reviewed annually prior to the beginning of the fiscal year and adjusted to reflect differences between the rates charged and actual benefits costs as well as future benefits projections. The Federal Government must approve the annual rate study.

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 purchased with restricted contract and grant proceeds have been excluded from the Statement of Net Assets at June 30, 2011.

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.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current year presentations.

II. Cash Deposits, Investments, And Deposits With Trustees

CASH DEPOSITS AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, the book balance of cash and cash equivalents totaled $652,950,000 and $596,940,000, respectively, and the bank balance of cash and cash equivalents totaled $667,525,000 and $607,925,000, respectively. Of the bank balances as of June 30 2011, $62,250,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $605,275,000 was invested in money market funds as cash equivalents. Of the bank balances as of June 30, 2010, $228,529,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $379,396,000 was invested in money market funds as cash equivalents.

INVESTMENTS

In accordance with Chapter 12B.10A, section 5d of the Code of Iowa, the University's portfolios 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.7A of the Code of Iowa, investment grade corporate debt, mortgage pass through and asset backed securities with an A rating at time of purchase, an open-end management investment company organized in trust form registered with the S.E.C. under the Investment Company Act of 1940, the Common Fund for nonprofit organizations, and common stocks. In order to achieve economies of scale, the University of Northern Iowa's endowments and a portion of its operating portfolio are pooled with the University's investments. The University's endowment portfolio included $7,951,000 and $6,954,000 at June 30, 2011 and 2010, respectively, held for the University of Northern Iowa. The University's operating portfolio included $25,818,000 held for the University of Northern Iowa at June 30, 2011. The University of Northern Iowa investments are recorded as a Deposit Held in Custody for Others.

For donor restricted endowments, Chapter 540A of the Code of Iowa permits the University to spend the net appreciation of realized and unrealized earnings as the University determines to be prudent. The University's spending policy adjusts dollar payouts by the trailing calendar year Consumer Price Index (inflation rate). Total payout is banded at no less than 4% and no greater than 6% of calendar year end market values.

Net appreciation of permanent endowment funds, which totaled $11,431,000 and $7,398,000 at June 30, 2011 and 2010, 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 of June 30, 2011, the University had the following investments and quality credit ratings (in thousands):

INVESTMENT TYPE	Effective Duration (Years)	TSY/ AGY/NA	AAA	AA	A	BBB	B	Total Market Value
Fixed Income								
Corporate Notes and Bonds	4.22		$5,603	$1,276	$7,696	$3,663		$18,238
U.S. Government Agencies	3.58	$41,147	41,372					82,519
U.S. Treasury Obligations	3.54	74,326						74,326
Mutual Funds	5.70		108,623	311,543	16,989		69,142	506,297
		$115,473	$155,598	$312,819	$24,685	$3,663	$69,142	$681,380
Equity and Other								
U.S. Equity Mutual Funds								176,467
Non-U.S. Equity Mutual Funds								113,098
REIT Mutual Funds								59,569
Real Assets								16,139
Private Equity								8,673
Certificates of deposit								30,109
Total Investments								$1,085,435

INTEREST RATE RISK

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. This risk is measured using effective duration. At the time of purchase, the effective maturity of direct investment purchases by the University in the operating portfolio cannot exceed sixty-three months. There is no explicit limit on the average maturity of fixed income securities in the endowment portfolios. Each fixed income portfolio is managed to an appropriate benchmark.

CREDIT RISK

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University manages exposure to credit risk by measuring portfolios against benchmarks as established by the Board of Regents. As of June 30, 2011, the operating portfolio benchmark and the long-term bond portfolio benchmark is AA1 (Barclays Capital Aggregate Bond Index).

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 University investment portfolios are invested in securities of a single issuer. All direct investment purchases by the University in the operating portfolio are US Treasury and Agency securities.

DEPOSITS WITH TRUSTEES

Investments on deposit with trustees, paying and copaying 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, 2011 and 2010, totaled $28,444,000 and $41,651,000, respectively. At June 30, 2011, $14,776,000 of the $28,444,000 deposits with trustees was invested in U.S. Government Agency securities with a credit quality rating of AAA and an effective duration of 1.295 years.

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)

	University and Blended Component Units	UIHC, Affiliates and UI Physicians	Total
Accounts Receivable	$102,377	$444,381	$546,758
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	2,652	282,409	285,061
Accounts Receivable, Net, June 30, 2011	$99,725	$161,972	$261,697
Accounts Receivable	$127,258	$410,033	$537,291
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	2,972	267,699	270,671
Accounts Receivable, Net, June 30, 2010	$124,286	$142,334	$266,620

PLEDGES RECEIVABLE (FOUNDATION)

A summary of the pledges receivable (unconditional promises to give) at June 30, 2011 and 2010 is as follows (in thousands):

	2011	2010
Gross pledges receivable	$127,070	$132,487
Less present value discount of $15,804 for 2011 and $13,485 for 2010 and allowance for doubtful pledges of $3,177 for 2011 and $3,312 for 2010.	18,981	16,798
Total	$108,089	$115,689

Pledges receivable at June 30, 2011 are expected to be collected in the following periods (in thousands):

	Total
In one year or less	$52,418
Between one year and five years	55,033
More than five years	19,619
Total	$127,070

DUE FROM GOVERNMENT AGENCIES

Due from government agencies at June 30, 2011 and 2010 are composed of $5,515,000 and $17,332,000, respectively, due from the State of Iowa and $113,306,000 and $102,065,000, respectively, due from United States government agencies.

NOTES RECEIVABLE

Current notes receivable at June 30, 2011 and 2010 are $3,306,000, net of an allowance of $245,000, and $3,085,000, net of an allowance of $231,000, respectively. Noncurrent notes receivable at June 30, 2011 and 2010 are $25,150,000, net of an allowance of $1,864,000, and $26,135,000, net of an allowance of $1,958,000, respectively.

IV. Capital Assets

A summary of capital assets activity for the year ended June 30, 2011 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Nondepreciable					
Land	$23,250	14,009	-	-	$37,259
Construction in Progress	301,770	189,788	(254,967)	-	236,591
Intangibles in Development	11,725	3,332	(2,805)	5,895	6,357
Art and Historical Collections	32,780	430	-	-	33,210
Library Materials	242,863	15,818	-	1,759	256,922
Capital Assets, Nondepreciable	612,388	223,377	(257,772)	7,654	570,339
Depreciable					
Land Improvements	21,424	122	-	-	21,546
Infrastructure	428,585	-	52,718	-	481,303
Buildings	2,106,137	-	202,249	3,967	2,304,419
Equipment	567,028	46,599	-	33,622	580,005
Intangibles	71,355	3,014	2,805	3,015	74,159
Capital Assets, Depreciable	3,194,529	49,735	257,772	40,604	3,461,432
Less Accum. Depreciation/ Amortization	(1,665,153)	(157,518)	-	(35,642)	(1,787,029)
Depreciable Assets, Net	1,529,376	(107,783)	257,772	4,962	1,674,403
Capital Assets, Net	$2,141,764	115,594	-	12,616	$2,244,742

Beginning with fiscal year 2011, the threshold for leased capital equipment increased from $5,000 to $50,000. Equipment capital leases below the threshold were retired from the asset management system and the resulting write-off totaled $286,000.

V. Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2011 is as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$747,437	66,725	33,860	780,302	$32,397
Notes payable	15,263	-	127	15,136	15,136
Capital leases payable	129,650	11,272	7,846	133,076	7,865
Total long-term debt	892,350	77,997	41,833	928,514	55,398
Other long term liabilities:					
Early retirement benefits payable	13,141	-	1,586	11,555	3,623
Other postemployment benefits other than pensions	26,684	11,095	-	37,779	-
Compensated absences	115,898	45,803	40,564	121,137	41,187
Refundable allowances on student loans	21,801	170	98	21,873	-
Deferred revenue and other	56,558	55,727	51,794	60,491	55,578
Total other long term liabilities	234,082	112,795	94,042	252,835	100,388
Total long term liabilities	$1,126,432	190,792	135,875	1,181,349	$155,786

BONDS PAYABLE

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2011, as follows (in thousands):

	Interest Rates (Percent)	Fiscal Year Maturity Date Range	Amount
Bond Issues			
Academic Buildings	3.00 - 8.38	1994 - 2034	$134,587
Residence Services	2.00 - 4.65	2006 - 2025	44,775
Hospital	3.00 - 6.125	2005 - 2037	127,185
Recreational Facilities	3.00 - 4.875	2011 - 2035	76,625
Athletic Facilities	2.00 - 5.30	2007 - 2037	152,910
Telecommunications	2.00 - 4.50	2005 - 2037	45,525
Utility System	2.00 - 5.00	2004 - 2036	162,090
Iowa Memorial Union	3.50 - 4.30	2007 - 2026	9,015
Parking System	3.25 - 5.00	2007 - 2026	20,620
Center for University Advancement	3.75 - 4.75	2006 - 2020	6,295
Student Health Facility	3.60 - 4.75	1999 - 2013	675
Total			$780,302

As of June 30, 2011, unspent bond proceeds totaled $61,872,000. Unspent bond proceeds by segment are: $9,330,000 Academic Building Revenue Bonds, $8,705,000 Utilities System Revenue Bonds, $3,364,000 Recreation Facilities Revenue Bonds, $7,992,000 Athletic Facilities Revenue Bonds, $21,348,000 Hospital Revenue Bonds, and $11,133,000 Telecommunications Facilities Revenue Bonds.

The bonds will mature as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$32,397	32,126	$64,523
2013	62,425	30,459	92,884
2014	36,945	28,319	65,264
2015	34,410	26,988	61,398
2016	33,870	25,687	59,557
2017-2021	181,520	107,398	288,918
2022-2026	188,080	67,845	255,925
2027-2031	142,305	29,433	171,738
2032-2036	63,530	7,073	70,603
2037	4,820	103	4,923
Total	$780,302	355,431	$1,135,733

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.

NOTE PAYABLE

The University has a note payable with an interest rate of 6.50% per annum, as well as a line of credit with an interest rate of 1.773% per annum. The note will mature as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2012	$15,136	226	$15,362

Assets acquired under the note payable (excluding line of credit) had a net book value of $790,000 as of June 30, 2011.

CAPITAL LEASES PAYABLE

Capital leases outstanding at June 30, 2011, are as follows (in thousands):

Capital Lease	Interest Rates	Lease Period	Amount
Medical Education and Biomedical Research Facility*	2.50%–5.38%	1999–2023	$33,395
Oakdale Research Park*	2.23%	2006–2021	6,994
Plaza Centre One*	4.59%	2002–2016	793
Roy J. and Lucille A. Carver Biomedical Research Bldg*	2.00%–5.90%	2002–2030	42,030
Copy Machines and Other Equipment	6.56%–11.67%	2004–2013	184
Old Capitol Town Center	3.50%–4.70%	2006–2031	30,940
University Athletic Club*	5.05%	2009–2016	5,100
College of Public Health*	2.00%–4.25%	2011–2030	13,640
Total			**$133,076**

**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 University of Iowa Foundation has characterized the bonds as conduit debt obligations and omitted them from the University of Iowa Foundation's financial statements. Although these bonds have characteristics of conduit debt, GASB has stated such debt is not conduit debt when the issuer (University of Iowa Foundation) and the beneficiary (University of Iowa) are within the same financial reporting entity. The University of Iowa Foundation did not include the liability for the bonds and the due from University of Iowa in its financial statements. Because there is no significant effect on the net assets of the University of Iowa Foundation or the University of Iowa as a result of the Foundation's reporting, the financial statements have been prepared to reflect the reporting method used by the Foundation in its annual financial statements for the year ended June 30, 2011.*

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

Year Ending June 30	Principal	Interest	Total
2012	$7,865	5,913	$13,778
2013	8,111	5,639	13,750
2014	8,443	5,349	13,792
2015	8,672	5,034	13,706
2016	12,270	4,614	16,884
2017-2021	42,190	17,416	59,606
2022-2026	28,300	9,343	37,643
2027-2031	17,225	2,296	19,521
Total	**$133,076**	**55,604**	**$188,680**

Assets acquired under these capital leases had a net book value of $161,639,000 as of June 30, 2011. In fiscal year 2011, the threshold for leased capital equipment increased from $5,000 to $50,000.

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 2012 to fiscal year 2032, 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 non-cancellable lease terms in excess of one year as of June 30, 2011 (in thousands).

Year Ending June 30	**Amount**
2012	$6,805
2013	4,744
2014	2,376
2015	1,261
2016	686
2017-2021	2,725
2022-2026	1,000
2027-2031	227
2032	2
Total	$19,826

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, 2011, for all operating leases, except those with terms of a month or less that were not renewed, totaled $7,538,000.

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 provisions and contribution requirements. As required by the Board of Regents policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, 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. The Board of Regents has approved a temporary reduction of the University required contribution from November 2009 through June 2011. During this period of time, the University, through the fifth year of employment, was required to contribute 5.33% of the first $4,800 of earnings and 8% on earnings above the $4,800. Upon completion of five years of service, the University was required to contribute 8% on all earnings. During fiscal years 2011 and 2010, the University's required and actual contribution amounted to $74,154,000 and $79,767,000, respectively. During fiscal years 2011 and 2010, the employees' required and actual contribution amounted to $46,332,000 and $45,986,000, 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 4.5%, 4.3% and 4.1%, respectively, of their annual covered salary and the University is required to contribute 6.95%, 6.65% and 6.35%, respectively, of annual covered payroll for the years ended June 30, 2011, 2010 and 2009. Contribution requirements are established by State statute. The required contribution paid by employees for the years ended June 30, 2011, 2010, and 2009 were $1,576,000, $1,070,000 and $943,000, respectively. The University's required contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were $2,428,000, $1,654,000 and $1,460,000, respectively, equal to required contributions for each year.

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. New programs were approved in April 2009 and March 2010. In July 2001, the Board of Regents approved discontinuation of the 1986 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 April 2009 and March 2010 early retirement program included the same health, dental and retirement incentives as the prior early retirement program. The criteria for the April 2009 program was age 57, and the criteria for the March 2010 program was age 55 with at least 10 years of service.

The University has recognized an early retirement benefit liability of $11,555,000 as of June 30, 2011, calculated on merit, faculty and P & S employee personnel. The early retirement liability for health and dental insurance has been rolled into the new GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. During fiscal year 2011, retirement expenditures for the four hundred twenty-one (421) participants in the early retirement incentive program totaled $3,039,000.

REGULAR RETIREMENT

The University implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), for the fiscal year ended June 30, 2008. The Statement requires the University to record and disclose an actuarially determined liability for the present value of projected future benefits for retired and active employees.

PLAN DESCRIPTION

The University operates a single-employer retiree benefit plan. 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.

FUNDING POLICY

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Health insurance total expenditures for fiscal year 2011 were $4,018,000 with 1,555 eligible participants as of June 30, 2011. Life insurance total expenditures for fiscal year 2011 were $54,000 with 2,915 eligible participants as of June 30, 2011.

ANNUAL OPEB COST AND NET OPEB OBLIGATION FOR PROFESSIONAL & SCIENTIFIC AND FACULTY

For fiscal year 2011, the University contributed $8.2 million to the plan. Plan members receiving benefits contributed 44 percent of the premium costs. In fiscal year 2011, total member contributions were $6.4 million.

The University currently plans to continue to finance retiree healthcare benefits on a pay-as-you-go basis from internal University monies. However, the University plans to earmark internal assets in the amount of 65 percent of the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The University will amortize the initial unfunded accrued liability (UAL) over an open thirty year period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess). The current ARC of $15.0 million is 1.8% of annual payroll.

The following table presents the OPEB obligation for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2011 (in thousands):

Annual Required Contribution	$14,968
Interest on Net OPEB Obligation	1,266
Adjustment to Annual Required Contribution	(1,004)
Annual OPEB Cost (Expense)	$15,230
Contributions Made	**(8,162)**
Increase in Net OPEB Obligation	$7,068
Net OPEB Obligation (Asset) - Beginning of Year	18,221
Net OPEB Obligation (Asset) - End of the Year	$25,289

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2007. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations are summarized as follows (in thousands):

	Annual OPEB Costs	Percentage of Annual OPEB Cost	Net OPEB Obligation
Fiscal Year Ended			
6/30/09	$11,289	46.6%	$10,540
6/30/10	$14,224	46.0%	$18,221
6/30/11	$15,230	53.6%	$25,289

FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2011, the actuarial accrued liability (AAL) for benefits was $143.8 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $143.8 million. The covered payroll (annual payroll of active employees covered by the plan) was $822.6 million and the ratio of the UAAL to the covered payroll was 17.5%. As of June 30, 2011, there were no trust fund assets.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the segments, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects for legal or contractual funding limitations on the pattern of cost sharing between the employer and plan member in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.95% discount rate based on the University's funding policy (earmarking 65% of the ARC internally) and the expected long-term returns on the University's internal capital. The projected annual healthcare trend rate is 8% initially, reduced in increments to an ultimate rate of 5% after six years. The expected long-term payroll growth rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percent of pay on an open basis over thirty years.

TERMINATION

The University continues faculty, P&S, and merit exempt 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.

Three hundred ninety-four (394) 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.

OTHER POSTEMPLOYMENT BENEFITS

The University's merit employees are participants in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognized the implicit rate subsidy for the OPEB Plan as required by GASB Statement No. 45. The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial liability, which is approximately $378.0 million for the State of Iowa at June 30, 2011, The University's portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB Plan are provided on a state-wide basis and are available in the State of Iowa's Comprehensive Annual Financial Report for the year ended June 30, 2011. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The University recognized a net OPEB liability of $12.5 million for other postemployment benefits, which represents the University's portion of the State's net OPEB liability. The University's portion of the net OPEB liability was calculated using the ratio of full time equivalent University merit employees compared to all full time equivalent employees of the State of Iowa.

The University recognized a net OPEB liability of $25.3 million for its retiree benefit plan and a liability of $12.5 million for its allocated portion of the State's net OPEB liability, for a total net OPEB liability of $37.8 million.

IX. Other Commitments and Risk Management

COMMITMENTS

At June 30, 2011 and 2010, the University had outstanding construction contract commitments of $197,510,000 and $128,924,000, 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's annual limit is $1 billion, the maximum available on the November 1, 2010 renewal.

The properties of the Utility and Telecommunications Systems are appraised annually and specific coverage and valuation data are as follows:

Utility System specific coverage is as follows:

Utility System Operations Building & Content	$714,703,000
Power Plant Building & Content	$189,766,000

Telecommunications Facilities premium is based on the following values:

Building	$29,148,000
Contents	$8,635,000
Income	$5,758,000

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 cumulative probable loss of $15,264,000 as of June 30, 2011. Since May 26, 2004, 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 $10,390,000 as of June 30, 2011.

Reconciliation of Loss Contingencies (in thousands)—

	FY 2011	FY 2010
Claims and contingent liabilities accrued at July 1	$29,107	$25,667
Claims incurred and contingent liabilities accrued for the current year	126,373	127,672
Payments on claims during the fiscal year	(129,826)	(124,232)
Claims liabilities at June 30	$25,654	$29,107

Insurance Settlements—For those risks that the University has purchased commercial insurance, only the property insurance has claims in excess of the commercial coverage due to the 2008 flood. All other settled claims have not exceeded commercial coverage in the past three years.

X. Debt Defeasance

In April of 2011, the University issued $5,120,000 of Dormitory Revenue Refunding Bonds, Series S.U.I. 2011, with an average interest rate of 3.510% and accrued interest of $9,000 to refund $5,680,000 of outstanding Dormitory Revenue Bonds, Series S.U.I 1999 with interest rates ranging between 4.30 and 4.75%.

Net bond proceeds of $5,386,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Dormitory Revenue Bonds, Series S.U.I 1999 was called on May 1, 2011.

The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $592,000 and reduced the aggregate debt service payments by $630,000 over the next nine years.

The amount of defeased debt outstanding but removed from the Statement of Net Assets at June 30, 2011, is as follows:

	Amount (in thousands)
Bond Issues	
Athletics Facilities	$7,010
Residence Services	19,905
Total	$26,915

XI. Operating Expenses By Function

A summary of operating expenses by functional classification for the year ended June 30, 2011 follows (in thousands):

	Compensation & Benefits	Supplies	Other	Depreciation & Amortization	Total
Instruction	$294,678	10,273	9,941	-	$314,892
Research	193,678	36,700	61,567	-	291,945
Public service	38,351	5,951	25,310	-	69,612
Academic support	105,033	6,273	9,041	-	120,347
Patient services	502,126	215,921	164,025	-	882,072
Student services	19,362	2,170	6,773	-	28,305
Institutional support	50,529	6,745	21,699	-	78,973
Operations and maintenance of plant	750	1,254	74,587	-	76,591
Scholarships and fellowships	14,214	-	14,543	-	28,757
Depreciation and amortization	-	-	-	157,518	157,518
Student loan write-offs, collection and administration	-	-	639	-	639
Auxiliary enterprises	70,072	14,840	72,223	-	157,135
Other operating expenses	478	2,988	6,294	-	9,760
Total	**$1,289,271**	**303,115**	**466,642**	**157,518**	**$2,216,546**

XII. Restricted Net Assets

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

	June 30, 2011	June 30, 2010
Restricted - nonexpendable:		
Permanent endowment	$72,752	$64,893
Restricted - expendable:		
Research and gifts	$67,298	$56,347
Student loans	21,312	20,479
Term endowments	37,983	42,736
Capital projects:		
Sinking	33,428	31,241
Reserve	66,911	63,423
Renewal & replacement	23,587	22,612
Total	**$250,519**	**$236,838**

The Foundation's temporarily restricted net assets at June 30, 2011 and 2010 were restricted for the following (in thousands):

	FY 2011	FY 2010
Program support	$154,754	$123,470
Student aid	83,123	44,746
Faculty/staff support	92,020	52,350
Capital/equipment	70,199	69,762
Research	66,581	49,431
Remainder interest in trusts	18,341	13,787
Total	$485,018	$353,546

The Foundation's net assets during the years ended June 30, 2011 and 2010 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, 2011 and 2010 were restricted for the following (in thousands):

	FY 2011	FY 2010
Undesignated	$6,873	$6,833
Program support	84,803	75,566
Student aid	149,346	141,975
Faculty/staff support	172,019	167,028
Capital/equipment	8,347	8,292
Research	60,177	59,530
Perpetual trusts	6,560	5,597
Remainder interest in trusts	9,436	6,892
Total	$497,561	$471,713

XIII. Subsequent Events

In August 2011, the University received approval from the State Board of Regents to issue Utility System Revenue Refunding Bonds, Series 2011 in the amount of $10,195,000 in August 2011 for the purpose of advance refunding the outstanding principal of the November 1, 2012 through November 1, 2022 maturities of the Board's Utility System Revenue Bonds, Series S.U.I. 2002, dated March 1, 2002, and to pay the costs of issuing the Bonds. These bonds will bear interest at varying rates between 2.0% and 3.0% and will mature in varying amounts from November 1, 2012 through November 1, 2022.

In August 2011, the University received approval from the State Board of Regents to issue University of Iowa Facilities Corporation Revenue Bonds, (John and Mary Pappajohn Biomedical Discovery Building Project) Series 2011 in the amount of $28,000,000 for the purpose of funding the costs of constructing and equipping the John and Mary Pappajohn Biomedical Discovery Building, to fund a debt service reserve fund, and to pay the costs of issuing the Bonds. These bonds will bear interest at varying rates between 2.0% and 4.375% and will mature in varying amounts from June 1, 2013 through June 1, 2037. The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University of Iowa. Although the bonds would be issued by the Facilities Corporation, they are deemed by Internal Revenue Service rulings to be issued "on behalf" of the Board of Regents and the State of Iowa. The Board must, therefore, approve the sale and terms of the bonds. The Corporation's interest in the facility will be leased to the Board during the term of the bonds. Upon retirement of the bonds, the portion of the facility financed by the Facilities Corporation will be conveyed to the University, subject to approval of the Board of Regents.

In September 2011, the University received approval from the State Board of Regents to issue Hospital Revenue Bonds, Series S.U.I. 2011 in the amount of $26,800,000 for the purpose of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient care facilities, including construction of a new medical office building (the "Medical Office Building") and related space, including finish materials, fixtures, furnishings, equipment, and appliances (the "Related Expenditures," and together with the Medical Office Building, the "Project"), funding a debt service reserve fund, and paying the costs of issuing said Bonds. These bonds will bear interest at varying rates between 2.0% and 4.0% and will mature in varying amounts from September 1, 2013 through September 1, 2032.

In September 2011, the University received approval from the State Board of Regents to issue University of Iowa Facilities Corporation Revenue Refunding Bonds, Series 2011 (Medical Education and Biomedical Research Facility Project) in the amount of $5,555,000. The proceeds of the Bonds will be used to refund, as an advance refunding, the outstanding principal of the June 1, 2012 through June 1, 2023 maturities of the Corporation's $7,810,000 Revenue Bonds, Series 2002 and pay the costs of issuing the bonds. This refunding transaction is being undertaken to achieve debt service savings. These bonds will bear interest at varying rates between 2.0% and 3.0% and will mature in varying amounts from June 1, 2012 through June 1, 2023. The University of Iowa Facilities Corporation was incorporated in 1967 as a not-for-profit supporting organization of the University of Iowa Foundation to assist in maintaining, developing, increasing, and extending the facilities and services of the University of Iowa. Although the bonds would be issued by the Facilities Corporation, they are deemed by Internal Revenue Service rulings to be issued "on behalf" of the State Board of Regents and the State of Iowa. The Board must, therefore, approve the sale and terms of the bonds. The Corporation issues the debt and leases the facility to the Board for use by the University during the term of the bonds. Upon retirement of the bonds, the facility is conveyed to the University, subject to approval of the Board of Regents.

On September 22, 2011, the Treasurer of the State University of Iowa became the Successor Trustee, Registrar and Paying Agent for Utility System Revenue Bonds. Pursuant to the Trust Indenture (and Supplemental Indentures) upon payment in full, defeasance or otherwise discharge of the Prior Outstanding Utility Revenue Bonds, the Trustee shall be removed upon direction of the Issuer. Wells Fargo Bank, National Association was removed as Trustee, Registrar and Paying Agent with respect to the Series 2004 Bonds, Series 2006 Bonds, Series 2006A Bonds, Series 2007 Bonds, Series 2007A Bonds, Series 2009 Bonds, Series 2010 Bonds, the Series 2011 Bonds and any Additional Bonds.

In October 2011, the University received approval from the State Board of Regents to issue Hospital Revenue Refunding Bonds, Series S.U.I. 2011A in the amount of $20,355,000. The proceeds of the Bonds will be used to refund, as an advance refunding, the outstanding principal and accrued interest of the September 1, 2012 through September 1, 2028 maturities of the Board's $25,000,000 Hospital Revenue Bonds, Series 2002 and to pay the costs of issuing the bonds. These bonds will bear interest at varying rates between 2.0% and 4.125% and will mature in varying amounts from September 1, 2012 through September 1, 2028. This refunding transaction is being undertaken to achieve debt service savings.

XIV. Segment Information

A segment represents identifiable activities for which one or more revenue bonds or other revenue-backed debt is outstanding. Investors in Academic Building Revenue Bonds rely on pledged tuition and fees revenues generated by the University for repayment. Investors in bonds of all other bond enterprises rely solely on the revenue generated by the individual activities for repayment. The University's segments are described as follows:

ACADEMIC BUILDING REVENUE BONDS

The Academic Building Revenue Bond Funds were created to defray the costs of constructing and renovating academic buildings of the University.

ATHLETIC FACILITIES REVENUE BONDS

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.

CENTER FOR UNIVERSITY ADVANCEMENT REVENUE BONDS

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.

HOSPITAL REVENUE BONDS

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.

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.

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.

RECREATIONAL FACILITIES REVENUE BONDS

The Recreational Facilities Revenue Bonds were created to defray the costs of building, furnishing, and equipping the Campus Recreation and Wellness Center and constructing improvements to the University Field House at the University. The revenues pledged to these bonds consist of student fees and charges.

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.

STUDENT HEALTH FACILITY REVENUE BONDS

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.

TELECOMMUNICATIONS FACILITIES REVENUE BONDS

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.

UTILITY SYSTEM REVENUE BONDS

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.

FUND ACCOUNTING

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

TRANSFERS IN (OUT)

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

Segment Reporting (in thousands)

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$46,020	$34,285	$792	$303,528
Capital assets	389,291	131,831	9,336	507,357
Other noncurrent assets	12,207	12,796	953	609,948
Total assets	447,518	178,912	11,081	1,420,833
Liabilities:				
Current liabilities	15,919	25,368	750	125,438
Noncurrent liabilities	128,847	150,183	5,685	188,356
Total liabilities	144,766	175,551	6,435	313,794
Net Assets:				
Invested in capital assets, net of related debt	264,034	(13,087)	3,041	368,301
Restricted - expendable	38,718	16,599	1,605	17,177
Unrestricted	-	(151)	-	721,561
Total net assets	$302,752	$3,361	$4,646	$1,107,039
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$284,920	$34,818	$ -	$1,033,448
Depreciation expense	(17,375)	(4,706)	(901)	(70,062)
Other operating expenses	(836)	(12,505)	-	(903,039)
Net operating income (loss)	266,709	17,607	(901)	60,347
Nonoperating revenues (expenses)	(1,058)	(4,466)	(261)	28,551
Transfers from/(to) University funds	(249,514)	(18,466)	859	(2,955)
Change in net assets	16,137	(5,325)	(303)	85,943
Net assets, beginning of year	286,615	8,686	4,949	1,021,096
Net assets, end of year	$302,752	$3,361	$4,646	$1,107,039
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$283,689	$24,267	$ -	$142,300
Net cash provided (used) by noncapital financing activities	(274,635)	(15,888)	859	1,552
Net cash provided (used) by capital and related financing activities	(27,265)	(11,567)	(881)	(41,515)
Net cash provided (used) by investing activities	95	(512)	30	(101,883)
Net increase (decrease) in cash	(18,116)	(3,700)	8	454
Cash and cash equivalents, beginning of year	36,583	36,883	779	974
Cash and cash equivalents, end of year	$18,467	$33,183	$787	$1,428
DEBT SERVICE COVERAGE				
Debt service coverage % - Required	N/A	125%	100%	130%
Debt service coverage % - Actual	N/A	246%	100%	1690%
PORTION OF REVENUE PLEDGED				
Annual debt service (principal & interest)	$11,757	$9,592	$890	$9,935
Net operating revenue (pledged)	285,097	23,553	890	167,881
Annual debt service/Net Operating Revenue (%)	4%	41%	100%	6%

	IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
	$9,168	$4,662	$9,787	$24,162	$4,014	$19,209	$50,402
	28,489	42,368	87,302	93,695	4,409	30,125	215,117
	805	16,734	7,434	4,465	1,446	7,566	1,399
	38,462	63,764	104,523	122,322	9,869	56,900	266,918
	4,898	3,594	5,042	7,414	759	6,848	11,970
	8,565	19,547	75,397	43,082	345	42,735	153,864
	13,463	23,141	80,439	50,496	1,104	49,583	165,834
	19,474	21,748	14,040	48,920	3,734	(4,268)	61,732
	1,289	3,122	10,505	19,586	707	7,138	35,091
	4,236	15,753	(461)	3,320	4,324	4,447	4,261
	$24,999	$40,623	$24,084	$71,826	$8,765	$7,317	$101,084
	$28,580	$15,370	$3,296	$53,017	$1,419	$23,096	$78,394
	(1,053)	(2,565)	(2,368)	(5,317)	(351)	(1,695)	(11,081)
	(31,230)	(11,316)	(5,762)	(39,540)	(6,086)	(15,607)	(50,058)
	(3,703)	1,489	(4,834)	8,160	(5,018)	5,794	17,255
	1,895	(666)	(1,401)	(597)	(43)	(1,089)	(6,169)
	4,500	(1,011)	6,246	(1,187)	5,706	(3,376)	(8,995)
	2,692	(188)	11	6,376	645	1,329	2,091
	22,307	40,811	24,073	65,450	8,120	5,988	98,993
	$24,999	$40,623	$24,084	$71,826	$8,765	$7,317	$101,084
	($2,733)	$4,931	($2,622)	$14,046	($4,623)	$8,422	$28,767
	(520)	(1,037)	(1,354)	(665)	(14)	(4,301)	(12,698)
	3,272	(4,106)	1,945	(11,891)	5,232	(11,604)	(23,628)
	(58)	(3,054)	132	1,899	1,654	(2,663)	1,182
	(39)	(3,266)	(1,899)	3,389	2,249	(10,146)	(6,377)
	705	7,247	11,478	16,557	1,476	26,939	38,441
	$666	$3,981	$9,579	$19,946	$3,725	$16,793	$32,064
	120%	120%	125%	135%	120%	110%	120%
	210%	242%	160%	334%	1444%	180%	200%
	$814	$2,211	$4,758	$4,797	$362	$4,234	$14,765
	1,063	4,054	7,523	14,134	904	7,556	28,335
	77%	55%	63%	34%	40%	56%	52%

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2011 is as follows:

REVENUE BONDS PAYABLE	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Beginning Balance	$140,197	$135,975	$6,885	$100,685
Less: Payments	5,610	2,840	590	3,500
Plus: New Issuances	-	19,775	-	30,000
Ending Balance	$134,587	$152,910	$6,295	$127,185

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2011, the amount shown for debt service payments due on July 1st were on hand.

PRINCIPAL AND INTEREST MATURITY	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Semi-annual maturity	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Mar & Sep 1st
Due on demand	$17	$ -	$ -	$ -
2012	11,539	9,870	878	10,040
2013	38,841	10,111	853	10,394
2014	10,170	10,185	862	10,391
2015	9,082	10,625	859	10,384
2016	9,098	10,596	850	10,332
2017-2021	40,956	53,600	3,369	51,526
2022-2026	35,472	55,168	-	51,069
2027-2031	21,845	55,673	-	30,428
2032-2036	2,336	21,176	-	9,816
2037	-	1,275	-	1,994
Total Principal and Interest	$179,356	$238,279	$7,671	$196,374

As of June 30, 2011, the University has entered into contract commitments for construction projects as follows:

COMMITMENTS	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Contract Commitments	$20,209	$7,787	$ -	$45,341

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
$9,445	$21,845	$77,175	$47,300	$985	$36,620	$170,325
430	1,225	550	7,645	310	2,925	8,235
-	-	-	5,120	-	11,830	-
$9,015	$20,620	$76,625	$44,775	$675	$45,525	$162,090

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	May & Nov 1st
$ -	$ -	$ -	$ -	$ -	$ -	$ -
806	2,186	4,733	3,921	354	4,502	15,678
804	2,178	5,079	4,637	353	3,946	15,688
801	2,173	5,923	4,697	-	4,368	15,693
803	2,179	5,995	4,716	-	3,811	12,945
803	2,175	4,856	4,722	-	3,113	13,013
4,020	9,993	25,870	23,684	-	11,941	63,960
4,064	6,875	27,245	9,690	-	12,032	54,309
-	-	25,302	-	-	12,230	26,259
-	-	19,711	-	-	9,865	7,698
-	-	-	-	-	1,654	-
$12,101	$27,759	$124,714	$56,067	$707	$67,462	$225,243

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
$2,456	$2,190	$521	$7,366	$542	$3,765	$8,524

Required Supplementary Information
June 30, 2011

The following schedule represents the University's actuarially determined funding progress using the projected unit credit actuarial cost method. See Note VIII in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB cost, Net OPEB Obligation, and funded status and funding progress.

SCHEDULE OF FUNDING PROGRESS BY VALUATION DATE
(in thousands)

Fiscal Year Ended	*Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a percentage of Covered Payroll
6/30/09	7/1/08	-	$123,448	$123,448	0.00%	$815,393	15.10%
6/30/10	7/1/09	-	$136,939	$136,939	0.00%	$828,488	16.50%
6/30/11	7/1/10	-	$143,831	$143,831	0.00%	$822,594	17.50%

THE UNIVERSITY OF IOWA

OFFICE OF THE CONTROLLER
ACCOUNTING & FINANCIAL REPORTING

Terry L. Johnson
Associate Vice President and University Controller

Selina J. Martin
Associate Controller

Steve Romont
Director, Accounting & Financial Reporting

Deanna Green
Assistant Director, Accounting & Financial Reporting

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Printed by UI Printing Services

♲ Printed on recycled paper

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, B5 Jessup Hall, Iowa City, IA 52242 or phone 319-335-0062. An electronic version can be found at http://www.uiowa.edu/~fusas/annualreports.

The University of Iowa

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

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, 2011, and have issued our report thereon dated November 30, 2011 under separate cover. Our report was modified to include a reference to another auditor. 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. The financial statements of the State University of Iowa Foundation and Affiliates were audited by another auditor, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies.

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 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.

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

February 10, 2012

State University of Iowa

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Donated Land – The University received land valued at $3,745,289, but did not record the donated land on the capital asset record and did not recognize gift revenue on the Statement of Revenues, Expenses and Changes in Net Assets.

Recommendation – The University should implement policies and procedures to ensure the value of donated land is properly recorded in the financial statements.

Response – We will develop a policy and document procedures to properly record the value of donated land in the Asset Management system and the annual financial statements.

Conclusion – Response accepted.

(B) Early Retirement Liability – The Board of Regents approved early retirement incentive programs which allowed eligible employees to retire after meeting established criteria related to age and years of service. The liability for the early retirement programs was not reviewed by an independent person during the financial statement preparation process, resulting in a $1,612,428 understatement of the early retirement liability. This was corrected for financial reporting purposes.

Recommendation – An independent person should review the early retirement liability for accuracy.

Response – Accounting & Financial Reporting will work with the Benefits Office to revise and document their process for calculating the early retirement liability. The new procedures will also include an extra step for the Benefits Office to conduct audit sampling of employees to further ensure accuracy of the calculation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.