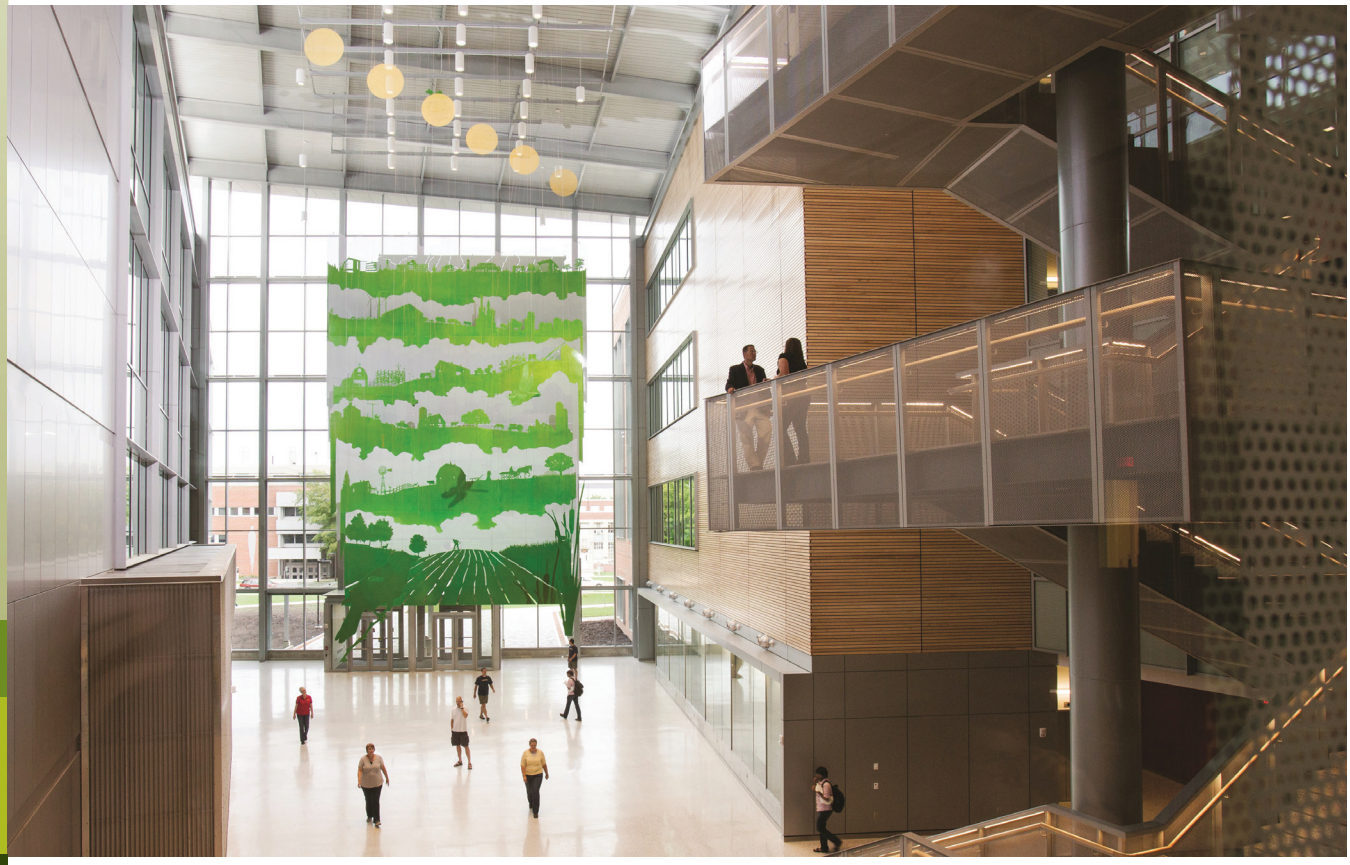
IOWA STATE UNIVERSITY

Financial Report

For the year ended June 30, 2014



Floating World, inspired by the paintings of Grant Wood, juxtaposes Iowa State University's central role in the history of agriculture and simultaneously acknowledges the University's groundbreaking contemporary endeavors. This dramatic work of art spans three stories and features suspended steel panels weighing 3,000 pounds. It is visible from all parts of the Biorenewables Complex atrium and from the outdoors through the grand east window wall.

Photograph by Bob Elbert, University Relations, 2014.

On the cover:

The Biorenewables Complex houses the Biorenewables Research Laboratory and the Agricultural and Biosystems Engineering program – the nation's first program in agricultural engineering and continued world leader in providing engineering solutions to benefit agriculture and the environment. The complex has over 173,000 square feet of modern research labs, classrooms, student spaces and offices offering a state-of-the-art learning and innovation environment and builds on the university's goal to be a key resource advancing the state's efforts to become a world leader in the development of biofuels and other products from renewable resources. Designed under Leadership in Energy and Environmental Design (LEED) guidelines, sustainable features include repurposing storm water from green roofs for water quality research and building uses, a ventilation system that ensures human thermal comfort for all occupants, and chilled beam technology that provides low-energy cooling.

UNIVERSITY OFFICIALS

Steven Leath, *President*

Jonathan A. Wickert, *Senior Vice President and Provost*

Warren R. Madden, *Senior Vice President for Business & Finance*

Thomas L. Hill, *Senior Vice President for Student Affairs*

Michael R. Crum, *Vice President for Economic Development & Business Engagement*

Cathann A. Kress, *Vice President for Extension & Outreach*

Sarah M. Nusser, *Vice President for Research*

Pam Elliott Cain, *Associate Vice President for Business & Finance and University Secretary*

Joan K. Piscitello, *Treasurer*

BOARD OF REGENTS, STATE OF IOWA

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Robert Donley, *Executive Director*

Iowa State University provides this Management's Discussion and Analysis as a narrative overview of the financial activities of the University for the year ended June 30, 2014, along with comparative data for the years ended June 30, 2013, and 2012. Readers are encouraged to consider this information in conjunction with the University's financial statements that follow.

Iowa State University follows GASB Statement No. 39 which requires the primary government to discretely present, within its own statements, the financial statements of certain component units. As explained in Note 1C2, the Iowa State University Foundation, Iowa State University Achievement Fund, and the Original University Foundation (herein collectively referred to as the "Foundation") comprise a legally separate, tax-exempt component unit of the University and, accordingly, the combined financial statements are discretely presented with those of the University. However, since the assets of the Foundation are the exclusive property of the Foundation and do not belong to the University, a discussion of these assets is not included in this Management's Discussion and Analysis.

Implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required restatement of prior year unamortized gains/losses resulting from the refunding of bonds as deferred outflows and inflows of resources. Also, certain amounts previously reported as cash and cash equivalents in prior years have been reclassified as investments to more closely conform to the purpose of those funds.

USING THIS ANNUAL REPORT

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

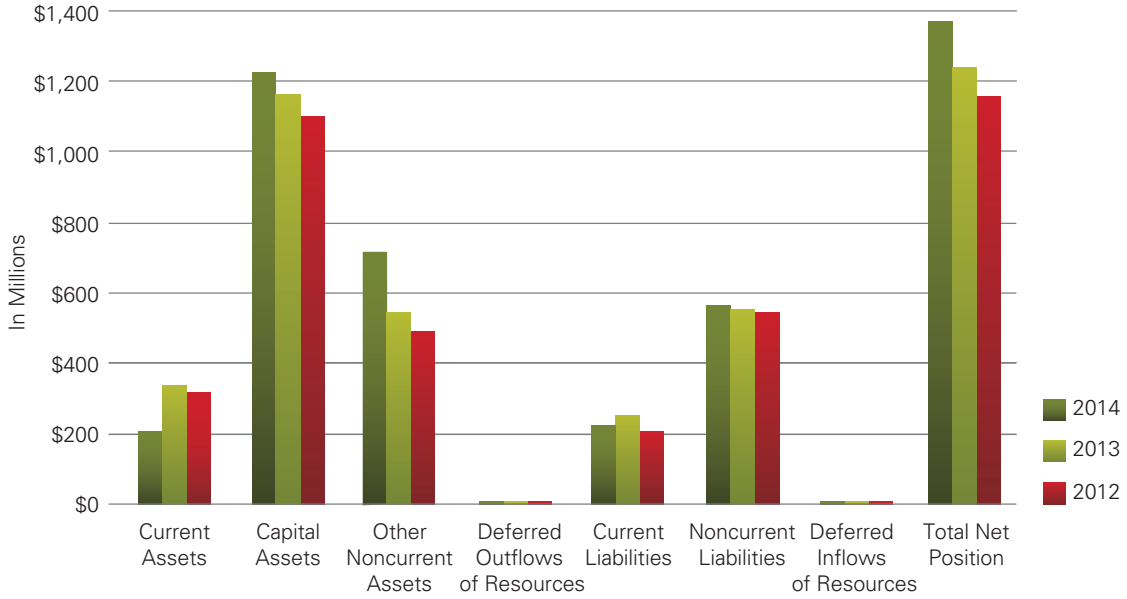
THE UNIVERSITY AS A WHOLE

Statement of Net Position

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

	June 30, 2014	Restated June 30, 2013	Restated June 30, 2012
Current Assets	$ 206,935,347	$ 338,924,281	$ 319,444,498
Capital Assets	1,222,946,668	1,167,208,210	1,100,272,910
Other Noncurrent Assets	715,319,709	544,483,486	488,633,507
Total Assets	2,145,201,724	2,050,615,977	1,908,350,915
Deferred Outflows of Resources	1,710,625	1,829,522	719,449
Current Liabilities	222,509,481	254,261,934	206,136,424
Noncurrent Liabilities	561,156,145	553,702,835	546,417,299
Total Liabilities	783,665,626	807,964,769	752,553,723
Deferred Inflows of Resources	2,681,252	2,851,294	673,647
Total Net Position	$1,360,565,471	$1,241,629,436	$1,155,842,994

Total assets at June 30, 2014, were $2.1 billion, which is $94.6 million higher than the prior year. Net capital assets comprised $1.2 billion of the $2.1 billion in assets, which is a similar proportion to that of June 30, 2013. Total liabilities were $783.7 million at June 30, 2014, a decrease of $24.3 million. The comparison of current and noncurrent assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2014, 2013, and 2012 is shown above.



Net position increased $118.9 million, or 9.6%, for the year. Generally, an increase in net position indicates the financial condition has improved over the year, at least on a short-term basis.

Total net position at June 30, 2014, was $1.4 billion. The largest portion of the University's net position (59.3%) is categorized as Net Investment in Capital Assets. This category contains the land, buildings, infrastructure, land improvements, equipment, and intangible assets owned by the University. The restricted portion of net position (5.1%) is divided into two categories, nonexpendable and expendable. The corpus of the nonexpendable restricted net position is only available for investment purposes. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by the external entities that have placed time or purpose restrictions on the use of the assets. Remaining net position is unrestricted and includes funds used to meet specific purposes, such as funding for the bonded enterprises. The composition of the net position balance is shown below.

	June 30, 2014	June 30, 2013	June 30, 2012
Net Investment in Capital Assets	$ 806,469,982	$ 752,537,104	$ 700,797,978
Restricted Nonexpendable	29,377,097	29,526,529	29,606,528
Restricted Expendable	39,801,951	31,220,404	31,574,159
Unrestricted	484,916,441	428,345,399	393,864,329
Total Net Position	$ 1,360,565,471	$ 1,241,629,436	$ 1,155,842,994

Statement of Revenues, Expenses and Changes in Net Position

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

In general, a public university such as Iowa State University will report an operating loss since the financial reporting model classifies state appropriations as nonoperating revenues. Operating revenues are received for providing goods and services

to the various students, customers and constituencies of the University. Operating expenses are those expenses paid to carry out the missions of the University. Nonoperating revenues are revenues received where goods and services are not provided.

Had state appropriations been included in operating revenues, the operating loss for 2014 would have been $16.1 million compared to $28.7 million for 2013 and $31.3 million for 2012. As noted in the previous section, Changes in Net Position, when all nonoperating and other revenues and expenses are considered, revenues exceeded expenses by $118.9 million for 2014.

In August 2010, the University suffered significant damage from a weather-related flood. The net impairment gain is shown as Extraordinary Items Due to Flood and is described in further detail in Note 11.

	For the Years Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Operating Revenues	$ 806,024,319	$ 770,409,186	$ 726,675,035
Operating Expenses	1,070,723,175	1,030,096,413	983,127,801
Operating Loss	(264,698,856)	(259,687,227)	(256,452,766)
Nonoperating Revenues and Expenses	332,450,330	304,932,357	295,444,624
Income Before Other Revenues, Expenses, Gains and Losses	67,751,474	45,245,130	38,991,858
Other Revenues, Expenses, Gains and Losses	51,184,561	43,120,922	15,542,845
Extraordinary Items Due to Flood		(2,579,610)	991,371
Increase in Net Position	118,936,035	85,786,442	55,526,074
Net Position, Beginning of Year	1,241,629,436	1,155,842,994	1,100,316,920
Net Position, End of Year	$1,360,565,471	$1,241,629,436	$1,155,842,994

Revenues

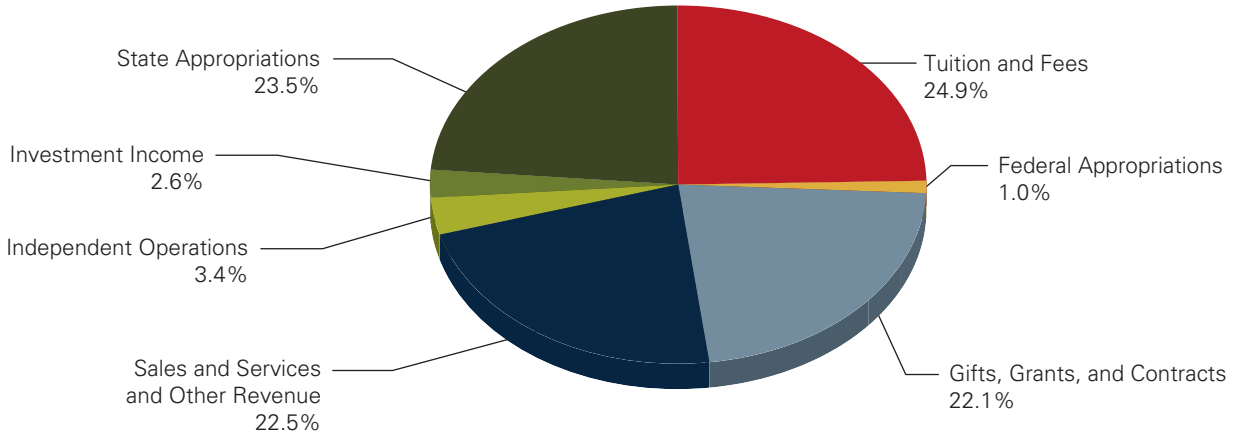
Operating revenues for the year ended June 30, 2014, increased $35.6 million. The major components of this change were tuition and fees, net of scholarship allowances, which increased $26 million, or 9.4%, and auxiliary enterprise revenue which increased $11.7 million, or 6.7%. These increases are primarily attributable to record student enrollment during fiscal year 2014.

Net nonoperating revenues increased $27.5 million, due primarily to increased education appropriations and nonfederal gifts, grants and contracts.

Other revenues, expenses, gains and losses increased $8.1 million. The largest component of this was a $15.5 million increase in capital appropriations, reduced by an $8.2 million decrease in private gifts for capital projects. Capital appropriations are discussed in greater detail later in this Management's Discussion and Analysis.

In summary, total revenues of the University increased $70.6 million in fiscal year 2014 from $1.1 billion to $1.2 billion. The components of these revenues are shown on the following chart.

Total Revenues



In comparing the years ended June 30, 2013, and 2012, operating revenues increased $43.7 million. The major components of that increase were tuition and fees, net of scholarship allowances, which increased $25.2 million, and auxiliary enterprise revenue, which increased $18.4 million. In fiscal year 2013, nonoperating revenues increased $9.5 million over fiscal year 2012, due primarily to increased education appropriations and investment income.

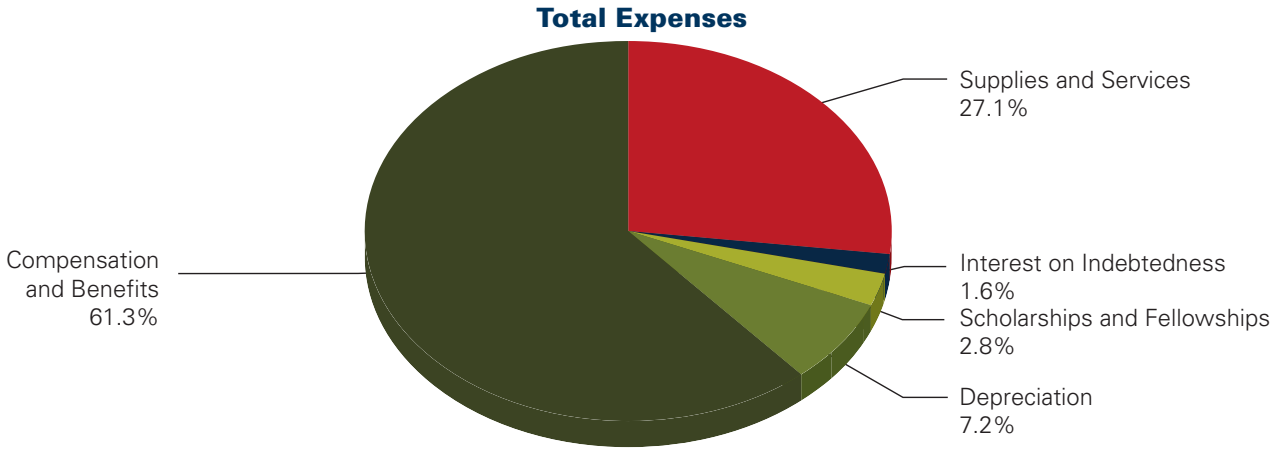
Expenses

Operating expenses were $1.1 billion for fiscal year 2014. This was an increase of $40.6 million, or 3.9%, over the previous year. Changes in the major natural expense categories were:

- Services, repairs, and professional services increased $5.9 million, or 4.8%, primarily in the areas of institutional operation and maintenance, auxiliary enterprises, and public service.
- Supplies increased $11.1 million, or 6.7%, primarily in the areas of academic support and auxiliary enterprises. Support for record student enrollment was primarily responsible for these operating expense increases.
- Compensation and benefits increased $19.1 million, or 3%, primarily in the area of instruction to support the growth in student enrollment.
- Other operating expenses increased $4.5 million, or 4.3%, primarily due to increased depreciation costs on buildings and building improvements.

Operating expenses may be classified according to natural categories as in the previous paragraph, see Note 12, or functionally as shown in the financial statements. From a functional perspective, instruction and auxiliary enterprises, as a percentage of total expenses, have increased slightly.

In summary, total operating expenses for fiscal year 2014 were $1.1 billion, an increase of $37.5 million, or 3.6%. The components of these expenses are shown in the following chart:



Comparing the years ended June 30, 2013, and 2012, operating expenses in fiscal year 2013 increased $47 million over those of fiscal year 2012, which was a 4.8% increase over the previous year. In the natural classifications, percentages of the total have remained relatively consistent over recent years.

Statement of Cash Flows

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

Cash provided by operating activities includes tuition and fees, sales and services of auxiliary enterprises, and grants and contracts revenues. Cash used for operating activities includes payments to employees and to suppliers. Cash provided or

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

As explained in Note 1Q, Reclassifications, the Board of Regents, State of Iowa Policy Manual, Section 7.04.H.2, Financial Reporting of Investments, was amended. Cash and cash equivalents for prior years have been reclassified to be consistent with the current year's presentation. In fiscal year 2014, cash and cash equivalents decreased $8 million, or 12.3%. Sources and uses are shown in the following table.

	For the Years Ended		
	June 30, 2014	June 30, 2013	June 30, 2012
Cash Provided/(Used) by:			
Operating Activities	($185,152,971)	($182,648,095)	($180,936,945)
Non-capital Financing Activities	345,186,923	297,615,615	290,560,499
Capital and Related Financing Activities	(159,281,492)	(60,979,888)	(113,980,609)
Investing Activities	(8,788,854)	(51,351,788)	3,475,176
Net Increase/(Decrease) in Cash	(8,036,394)	2,635,844	(881,879)
Cash and Cash Equivalents, Beginning of Year	65,585,741	62,949,897	63,831,776
Cash and Cash Equivalents, End of Year	$ 57,549,347	$ 65,585,741	$ 62,949,897

As noted previously, the financial reporting model mandates state appropriations be classified as non-capital financing sources of cash. If state appropriations had been classified as operating sources of cash, the cash provided by operations would have been $63.5 million for fiscal year 2014 compared to $48.4 million for fiscal year 2013 and $44.2 million for fiscal year 2012.

CAPITAL ASSETS

At June 30, 2014, the University had $2.4 billion invested in capital assets, with accumulated depreciation and amortization of $1.2 billion, for net capital assets of $1.2 billion. Depreciation and amortization charges for fiscal year 2014 totaled $77.2 million. Capital assets, net of accumulated depreciation and amortization, were as follows:

	June 30, 2014	June 30, 2013	June 30, 2012
Land and Land Improvements, Nondepreciable/Nonamortizable	$ 22,234,346	$ 22,234,346	$ 21,396,022
Construction in Progress and Intangible Assets in Development	105,970,651	108,756,162	61,145,890
Infrastructure and Land Improvements, Depreciable/Amortizable	90,600,305	88,274,571	85,308,707
Buildings	834,502,106	788,133,230	778,845,506
Equipment and Library Collections	163,582,169	157,793,851	151,081,083
Intangible Assets	6,057,091	2,016,050	2,495,702
Total Capital Assets, Net Of Accumulated Depreciation and Amortization	$1,222,946,668	$1,167,208,210	$1,100,272,910

During fiscal year 2014, several projects were placed in service. Some of the largest were Troxel Hall which was funded with private gifts and institutional funds, Frederiksen Court Apartments (Expansion) which was funded with debt financing, the Jeff and Deb Hansen Agriculture Student Learning Center which was funded with private gifts and institutional funds, and the Curtiss Hall renovation, including the Student Services Mall and Harl Commons, which was funded with private gifts and institutional funds.

There were several construction projects in progress at June 30, 2014. These are included in capital assets as construction in progress and will not be depreciated/amortized until the year they are placed in service. The largest of these projects was Sukup Hall, Sukup Atrium and Elings Hall, Phase 2 of the Biorenewables Complex. Sukup Hall, Sukup Atrium and Elings Hall have been funded with capital appropriations and private gifts.

Capital Appropriations, Grants and Contracts

Capital appropriations from the State of Iowa have traditionally been a significant source of funding for construction of new buildings as well as major renovations. The $35.5 million in capital appropriations in the Statement of Revenues, Expenses and Changes in Net Position for fiscal year 2014 represents funding for the Agricultural Biosystems Engineering Biorenewables Laboratory, Research Park Building #5, an economic development core facility at the Research Park, and fire safety and ADA compliance. In fiscal year 2013, $20.1 million represented funding appropriated for the Agricultural Biosystems Engineering Biorenewables Laboratory and Research Park Building #5.

Capital gifts and grants revenue, consisting primarily of private gifts funding for major building projects, was $14.8 million for fiscal year 2014, a decrease of $8.2 million from the prior year. More detailed information about the University's capital assets is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At June 30, 2014, the University had $483.5 million of outstanding debt compared to $465.8 million at the end of the prior year. Detailed information about the University's outstanding debt is presented in Note 6 to the financial statements. The table below summarizes outstanding debt by type:

	June 30, 2014	Restated June 30, 2013	Restated June 30, 2012
Bonds Payable-Academic Building	$157,268,788	$160,926,057	$164,816,460
Bonds Payable-Enterprise Funds	300,877,732	276,098,766	262,491,302
Capital Leases	15,207,197	18,009,952	19,327,307
Notes Payable	10,153,652	10,782,420	11,440,360
Total Debt	$483,507,369	$465,817,195	$458,075,429

In fiscal year 2014, the University issued $43.8 million of Utility System Revenue Bonds, Dormitory Revenue Bonds, and Academic Building Revenue Refunding Bonds. This increase in bonds payable was offset by the normal paying down of debt from other issuances. The University carries an institutional bond rating of Aa2 from Moody's and an AA rating from Standard & Poor's.

ECONOMIC OUTLOOK

During the past fiscal year and projecting forward, the University's economic resources continue to show improvement. Overall economic conditions are improving nationally; Iowa's expansion continues with unemployment below the national average. State reserve funds have reached their targets. The state is continuing to flourish with a strong farm economy, growth in state revenues, and lower unemployment rates. Total state tax receipts in 2014 were $7,423 million. At its fall 2014 meeting, the State Revenue Estimating Conference projected an additional 4.7% increase for fiscal year 2015 and continued growth of 5.1% for fiscal year 2016. These growth rates are higher than any time since 2007.

The State of Iowa Board of Regents, Iowa State University's governing board, has strengthened its legislative and governmental relations programs. The Board of Regents approved a performance based funding model that will significantly increase Iowa State University's share of state appropriations supporting the Regents' universities. The state's economic outlook for the next year is positive. Indications are the universities will continue to receive increased state support.

For fiscal year 2015, the state appropriated a 4% increase in funding, and the Regents held flat tuition for resident undergraduates for the second consecutive year, with modest increases for graduate and nonresident students. Iowa State University had its eighth straight year of increasing enrollment. The University continues to enroll more Iowa high school graduates and more Iowa community college transfers than any other college or university. These rate increases and enrollment growth are projected to generate approximately $45.4 million over last year's budget for general operating support. The University's overall tuition rates and cost of attendance continue to be very competitive with our peer institutions.

The University is continuing to implement its five year strategic plan, "Meeting the Challenges of the 21st Century", and be a treasured resource for Iowa, the nation, and the world. Iowa State's President, Steven Leath, completing his third year, has endorsed this plan and unveiled his goals to ensure that Iowa State University continues to provide a high quality educational experience and address the problem of growing student debt. He is committed to holding down costs, continuing efforts to run the University more efficiently, maximizing other revenue streams and increasing partnerships, and serving Iowans.

The fall 2014 enrollment is a record. There are 34,732 students enrolled, including significant numbers of out-of-state, international, and community college transfers. The University has been able to accommodate these students with classes, completed the building of additional student housing, rented additional beds off campus and is planning to construct an additional 700 bed residence hall. Iowa State University has no parietal rules but wants to accommodate all students who want to live on campus. Enrollment growth is projected to continue over the next several years, exceeding 35,300 for Fall 2015. This enrollment growth has been particularly strong in engineering, agriculture and the sciences, where job opportunities exist. The quality of students continues to be high, as demonstrated by ACT scores.

In fiscal year 2014, sponsored funding impacted by federal budget reductions remained strong, with particular growth in private support and the establishment of federal centers. Faculty and staff continue to be competitive in submitting and getting proposals supported, indicating the high regard the University has with both government and private sponsors. Federal funding into fiscal year 2015 remains somewhat uncertain pending the outcome of negotiations in Washington, but program areas such as biorenewables, engineering, agricultural research and the Ames Laboratory are national priorities with funding expected to continue.

The Board of Regents' preliminary discussions would have no or modest tuition rate increases for the fall of 2015 for resident students for the third year in a row. They are making a budget request of 1.75% in state general fund appropriations. Through the Iowa State University Foundation, a private fund raising campaign is being planned to be launched in the fall of 2015. These initiatives are being positively received by legislative leaders, alumni, and the public.

Several new facilities have been completed or are under development, including agriculture and biosystems engineering facilities, biosciences facilities including teaching laboratories adjacent to Bessey Hall, Hansen Agricultural Student Learning Center, bowling in the Jack Trice Stadium, a state funded Hub Facility, along with private business development in the Iowa State University Research Park. Renovations continue at the College of Veterinary Medicine, Marston Hall, Lagomarcino Hall, McKay Hall and several other campus facilities. Completion of campus student housing, expansion of food service facilities, and transit and parking continue to improve services to the University community. Major renovation of the University's utility plant to replace obsolete coal boilers with modern energy efficient gas boilers is underway and will reduce operating costs and increase reliability. The Regents approved requesting state capital funding along with private support for a new Student Innovation Center facility.

The University's bond ratings continue to remain strong with a number of refinancings occurring during the past year, lowering interest costs. President Steven Leath, completing his third year, has a strong and experienced leadership team effectively guiding the University. The University will focus on enhancing academic programs and services, expanding its research enterprise, and promoting economic development and job creation to ensure that Iowa State University is a leading research university.

CONTACTING IOWA STATE UNIVERSITY'S FINANCIAL MANAGEMENT

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

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying Statement of Net Position, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows, of Iowa State University of Science and Technology, Ames, Iowa, (Iowa State University) and its discretely presented component unit as of and for the years ended June 30, 2014 and 2013, and the related Notes to Financial Statements, which collectively comprise Iowa State University's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, the Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (the "Foundation"), discussed in Note 1, which represent 100% of the assets, net position and revenues of the discretely presented component unit. We also did not audit the financial statements of the blended component units, Iowa State University Research Foundation, Incorporated and Iowa State University Veterinary Services Corporation, discussed in Note 1, which represent 1.8% and .2%, respectively, of the assets and .8% and .3%, respectively, of the revenues of the University. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented and blended component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation and Iowa State University Research Foundation, Incorporated were not audited in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Iowa State University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Iowa State University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Iowa State University and its discretely presented component unit as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years ended June 30, 2014 and 2013 in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements of Iowa State University are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of Iowa State University. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2014 and 2013 and the changes in its financial position and its cash flows for the years ended June 30, 2014 and 2013 in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis and the Schedule of Funding Progress for the Retiree Health Plan on pages 2 through 9 and page 44 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

Our report on Iowa State University's internal control over financial reporting and other tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters required by Government Auditing Standards will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren G Jenkins

WARREN G JENKINS, CPA
Chief Deputy Auditor of State

December 9, 2014

STATEMENT OF NET POSITION ..... *As of June 30, 2014 and 2013*

ASSETS	2014	2013
Current Assets		
Cash and cash equivalents (Note 2A)	$ 9,919,672	$ 19,767,933
Investments (Note 2B)	97,622,195	228,417,612
Accounts receivable, net (Note 3A)	24,499,272	27,006,445
Due from government agencies (Note 3B)	42,622,920	33,920,195
Interest receivable	407,886	377,862
Notes receivable, net (Note 3C)	3,192,480	3,025,537
Inventories (Note 4)	16,987,301	15,952,382
Prepaid expenses	11,683,621	10,456,315
Total Current Assets	**206,935,347**	**338,924,281**
Noncurrent Assets		
Cash and cash equivalents (Note 2A)	47,629,675	45,817,808
Investments (Note 2B)	628,260,300	453,491,755
Accounts receivable, net (Note 3A)	4,366,148	8,044,155
Due from government agencies (Note 3B)	1,872,694	2,872,694
Interest receivable	424,692	447,576
Notes receivable, net (Note 3C)	32,766,200	33,809,498
Capital assets, net (Note 5)	1,222,946,668	1,167,208,210
Total Noncurrent Assets	**1,938,266,377**	**1,711,691,696**
TOTAL ASSETS	**2,145,201,724**	**2,050,615,977**
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss from refunding of debt	**1,710,625**	**1,829,522**
LIABILITIES		
Current Liabilities		
Accounts payable	44,529,692	47,688,950
Salaries and wages payable	2,859,936	2,774,612
Unpaid claims and contingent liabilities (Note 10B)	4,858,000	4,038,000
Unearned revenue	31,630,484	31,452,500
Interest payable	8,151,063	8,668,640
Long-term debt, current portion (Note 6)	22,099,265	18,350,269
Other long-term liabilities, current portion (Note 6)	26,114,461	25,390,442
Deposits held in custody for others	82,266,580	115,898,521
Total Current Liabilities	**222,509,481**	**254,261,934**
Noncurrent Liabilities		
Accounts payable	8,482,842	12,502,777
Long-term debt, noncurrent portion (Note 6)	461,408,104	447,466,926
Other long-term liabilities, noncurrent portion (Note 6)	91,265,199	93,733,132
Total Noncurrent Liabilities	**561,156,145**	**553,702,835**
TOTAL LIABILITIES	**783,665,626**	**807,964,769**
DEFERRED INFLOWS OF RESOURCES		
Unamortized gain from refunding of debt	**2,681,252**	**2,851,294**
NET POSITION		
Net investment in capital assets	806,469,982	752,537,104
Restricted (Note 8):		
Nonexpendable	29,377,097	29,526,529
Expendable	39,801,951	31,220,404
Unrestricted	484,916,441	428,345,399
TOTAL NET POSITION	**$1,360,565,471**	**$1,241,629,436**

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

IOWA STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Tuition and fees, net of scholarship allowances of $100,648,133 and $89,056,326 for the years ended June 30, 2014 and 2013, respectively (Note 1N)	$ 300,770,229	$ 274,813,892
Federal appropriations	12,540,866	12,886,081
Federal grants and contracts	133,325,758	141,357,955
State and local government grants and contracts	16,116,896	18,418,357
Nongovernmental grants and contracts	31,116,359	27,081,770
Sales and services of educational activities	64,094,623	56,905,458
Auxiliary enterprises, net of scholarship allowances of $5,558,333 and $5,268,167 for the years ended June 30, 2014 and 2013, respectively (Note 1N)	185,920,744	174,268,926
Independent operations	40,658,816	40,298,557
Interest on student loans	779,475	708,496
Other operating revenues	20,700,553	23,669,694
TOTAL OPERATING REVENUES	**806,024,319**	**770,409,186**
OPERATING EXPENSES		
Instruction	240,905,105	227,031,529
Research	166,724,881	166,230,183
Public service	73,536,148	71,974,908
Academic support	150,775,541	143,275,609
Student services	30,658,713	28,424,793
Institutional support	38,150,873	46,722,798
Operation and maintenance of plant	73,099,166	66,187,892
Scholarships and fellowships	29,778,416	29,449,823
Auxiliary enterprises	148,325,330	136,907,845
Independent operations	41,039,378	40,287,417
Depreciation/amortization	77,230,237	73,088,842
Other operating expenses	499,387	514,774
TOTAL OPERATING EXPENSES	**1,070,723,175**	**1,030,096,413**
OPERATING LOSS	**(264,698,856)**	**(259,687,227)**
NONOPERATING REVENUES/(EXPENSES)		
State appropriations	248,633,453	231,002,395
Federal grants and contracts	24,323,618	22,969,997
Nonfederal gifts, grants and contracts	46,761,747	42,590,695
Investment income	30,612,319	29,385,133
Interest on indebtedness	(16,985,099)	(16,929,983)
Loss on disposal of capital assets	(591,604)	(1,311,661)
Other nonoperating loss	(304,104)	(2,774,219)
NET NONOPERATING REVENUES/(EXPENSES)	**332,450,330**	**304,932,357**
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	**67,751,474**	**45,245,130**
Capital appropriations	35,510,000	20,050,000
Capital gifts, grants and contracts	14,782,995	23,003,216
Other revenues	891,566	67,706
TOTAL OTHER REVENUES, EXPENSES, GAINS & LOSSES	**51,184,561**	**43,120,922**
EXTRAORDINARY ITEMS DUE TO FLOOD		
Net building impairment gain after insurance recovery (Note 11)		1,884,682
Change in other realizable insurance recoveries		(4,464,292)
NET EXTRAORDINARY ITEMS DUE TO FLOOD		**(2,579,610)**
CHANGE IN NET POSITION	**118,936,035**	**85,786,442**
Net Position, Beginning of Year	1,241,629,436	1,155,842,994
NET POSITION, END OF YEAR	**$1,360,565,471**	**$1,241,629,436**

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

STATEMENT OF CASH FLOWS ..... *For the Years Ended June 30, 2014 and 2013*

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 299,227,831	$ 275,644,657
Federal appropriations	13,617,625	12,146,348
Grants and contracts	186,469,669	187,363,952
Sales of educational activities	63,043,827	56,965,093
Sales and services of auxiliary enterprises	185,862,022	174,796,917
Payments for auxiliary enterprises	(156,334,521)	(141,955,484)
Receipts of independent operations	39,156,025	40,703,862
Collections of loans from students	4,565,595	4,582,045
Payments for salaries and benefits	(582,079,201)	(563,102,189)
Payments for goods and services	(229,745,109)	(218,797,436)
Scholarship payments	(28,975,160)	(29,038,191)
Loans issued to students	(4,232,872)	(3,737,003)
Other operating receipts	24,271,298	21,779,334
NET CASH USED BY OPERATING ACTIVITIES	**(185,152,971)**	**(182,648,095)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
State appropriations	248,633,453	231,002,395
Non-capital gifts, grants and contracts	70,871,439	65,280,705
Direct lending receipts	154,587,757	157,078,217
Direct lending payments	(154,604,102)	(157,212,814)
Funds held for others receipts	321,396,588	305,724,476
Funds held for others payments	(295,698,212)	(304,257,364)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	**345,186,923**	**297,615,615**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	22,860,000	19,050,000
Capital gifts and grants received	15,263,153	16,619,538
Proceeds from capital and refunding debt	43,798,756	85,025,263
Proceeds from sale of capital assets	878,635	884,407
Acquisition and construction of capital assets	(136,203,895)	(135,462,278)
Principal paid on capital debt	(24,789,222)	(19,418,380)
Interest paid on capital debt	(17,872,179)	(18,358,306)
Defeased debt payments	(63,400,443)	(15,275,000)
Other capital and related financing sources	183,703	5,954,868
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(159,281,492)**	**(60,979,888)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends received on investments	2,879,596	21,962,088
Proceeds from sales of investments	702,011,259	729,796,954
Purchases of investments	(713,679,709)	(803,110,830)
NET CASH USED BY INVESTING ACTIVITIES	**(8,788,854)**	**(51,351,788)**
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(8,036,394)**	**2,635,844**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR, AS RESTATED	65,585,741	62,949,897
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 57,549,347**	**$ 65,585,741**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

OPERATING LOSS	**$(264,698,856)**	**$(259,687,227)**
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation/amortization	77,230,237	73,088,842
Changes in assets and liabilities:		
Accounts receivable and due from government agencies	6,463,568	1,166,801
Inventories	(1,047,271)	3,239,351
Prepaid expenses	(1,281,044)	(3,676,814)
Notes receivable	(281,489)	353,315
Accounts payable	(847,663)	(2,163,592)
Unearned revenue	185,902	2,911,293
Compensated absences	(1,353,251)	807,300
Early retirement benefits payable	(3,149,047)	(3,691,880)
Other postemployment benefits obligation	3,684,415	4,847,604
Deferred compensation liability	(58,472)	156,912
NET CASH USED BY OPERATING ACTIVITIES	**$ (185,152,971)**	**$(182,648,095)**

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Capital gifts-in-kind		$ 47,800
Assets acquired under capital leases	$ 32,700	
Net unrealized gain on investments	$ 26,707,075	$ 6,606,040

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

Cash and cash equivalents classified as current assets	$ 9,919,672	$ 19,767,933
Cash and cash equivalents classified as noncurrent assets	47,629,675	45,817,808
TOTAL CASH AND CASH EQUIVALENTS	**$ 57,549,347**	**$ 65,585,741**

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

COMBINED STATEMENTS OF FINANCIAL POSITION ..... *As of June 30, 2014 and 2013*

	2014	2013
ASSETS		
Cash and cash equivalents	$ 2,678,195	$ 1,902,918
Receivables:		
Pledges, net (Note 3D)	74,626,036	63,400,124
Estates	3,849,258	2,079,363
Funds held in trust by others	26,753,128	23,932,132
Total receivables	105,228,422	89,411,619
Investments (Note 2C):		
Pooled investments	713,798,578	639,372,349
Other marketable securities	37,703,493	35,202,620
Real estate and other investments	13,383,133	13,882,140
Total investments	764,885,204	688,457,109
Property and equipment	3,390,319	3,453,638
Other assets	5,037,502	4,702,048
TOTAL ASSETS	**$881,219,642**	**$787,927,332**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 718,985	$ 897,160
Due to related organizations	14,040,058	10,955,865
Bonds payable	2,463,636	2,580,521
Long-term liabilities	2,066,601	1,865,230
Annuities payable	20,559,660	20,556,375
TOTAL LIABILITIES	**39,848,940**	**36,855,151**
NET ASSETS (Note 8)	**841,370,702**	**751,072,181**
TOTAL LIABILITIES AND NET ASSETS	**$881,219,642**	**$787,927,332**

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

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended June 30, 2014 and 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	$ 2,824,612	$ 56,867,981	$ 24,277,046	$ 83,969,639	$ 58,209,317
Investment return:					
Pooled investments	12,913,408	22,514,169	52,492,069	87,919,646	63,171,814
Nonpooled investments	2,178,246	2,038,573	3,120,411	7,337,230	6,227,282
Total investment return	15,091,654	24,552,742	55,612,480	95,256,876	69,399,096
Fundraising service revenue	2,699,364			2,699,364	2,800,102
Return on funds held in trust by others		1,803,116	1,830,793	3,633,909	2,490,469
Other earnings	54,648	1,470,100	335,885	1,860,633	518,861
Net assets released from restrictions	78,070,058	(78,070,058)		–	–
TOTAL REVENUES, GAINS AND OTHER SUPPORT	**98,740,336**	**6,623,881**	**82,056,204**	**187,420,421**	**133,417,845**
EXPENSES					
Program	80,689,389			80,689,389	69,784,717
Operating:					
Fundraising	10,292,397			10,292,397	9,734,586
Administrative	3,740,414			3,740,414	3,504,843
Annuity liability adjustment		605,510	1,794,190	2,399,700	1,639,526
TOTAL EXPENSES	**94,722,200**	**605,510**	**1,794,190**	**97,121,900**	**84,663,672**
CHANGE IN NET ASSETS	**4,018,136**	**6,018,371**	**80,262,014**	**90,298,521**	**48,754,173**
Net Assets, Beginning of Year	22,642,323	208,611,119	519,818,739	751,072,181	702,318,008
NET ASSETS, END OF YEAR	**$ 26,660,459**	**$214,629,490**	**$600,080,753**	**$841,370,702**	**$751,072,181**

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

The University offers courses of study leading to degrees at the undergraduate, graduate, and post-graduate levels. Degrees are available from seven colleges: Agriculture and Life Sciences, Business, Design, Engineering, Human Sciences, Liberal Arts and Sciences, and Veterinary Medicine. Other major operating units of the University are: Agriculture & Home Economics Experiment Station; Extension and Outreach; and the Ames Laboratory, a U.S. Department of Energy sponsored independent operation. The campus consists of approximately 1,813 acres. In addition, farms and other properties, which are stocked and equipped for teaching and research purposes, total approximately 9,625 acres.

B. Basis of Presentation

The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

The University reports as a special-purpose government engaged primarily in business-type activities, as defined by GASB. Accordingly, these financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. As a result, revenues are recognized when earned, expenses are recorded when an obligation has been incurred, and all significant intra-agency transactions have been eliminated.

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

C. Reporting Entity

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

1. **Blended Component Units** – The following entities are legally separate from the University, but are so intertwined with the University that they are, in substance, part of the University. Accordingly, they are blended into the University's financial statements.

   Iowa State University Research Foundation, Inc. was organized as a corporation to assist in securing protection for intellectual property such as patents and copyrights resulting from research, writing, and other projects of members of the Iowa State University community. The financial statements of this entity have been audited by other independent auditors, and their report may be obtained from the Office of the Senior Vice President for Business and Finance at Iowa State University. The revenues of this organization are included in the "Other operating revenues" classification, and ex-

penses are included in the "Institutional support" classification in the Statement of Revenues, Expenses and Changes in Net Position. For the year ended June 30, 2014, the revenues and expenses were $9,822,757 and $4,685,829, respectively.

Iowa State University Veterinary Services Corporation was organized as a corporation to support and promote the welfare and mission of the University and of its faculty, staff, residents, graduates, students and former students, particularly as related to the University's College of Veterinary Medicine. The financial statements of this corporation have been audited by other independent auditors, and their report may be obtained from the Office of the Senior Vice President for Business and Finance at Iowa State University. The revenues of this corporation are included in the "Other operating revenues" classification, and expenses are included primarily in the "Academic support" classification in the Statement of Revenues, Expenses and Changes in Net Position. For the year ended June 30, 2014, these were $3,879,307 and $3,287,338, respectively.

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

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

   Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University and its faculty, graduates, students and former students, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the years ended June 30, 2014 and 2013, the Foundation distributed and expended $80,689,389 and $69,784,717, respectively, on behalf of the University for both restricted and unrestricted purposes as follows:

	2014	2013
Scholarships, loan funds, and awards	$ 23,453,412	$ 20,530,256
Faculty and staff support	7,846,458	7,336,011
College and administrative support	19,247,765	18,178,561
Buildings, equipment, and repairs	29,189,566	22,891,029
Gifts in kind	952,188	848,860
Total Program Support	$ 80,689,389	$ 69,784,717

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

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

Complete financial statements for the Foundation can be obtained from the Foundation at 2505 University Boulevard, Ames, IA 50010-2230 or from the Foundation's website at www.foundation.iastate.edu.

D. Cash and Cash Equivalents

For purposes of the Statement of Net Position and the Statement of Cash Flows, cash and cash equivalents are reported in accordance with Board of Regents policy, section 7.04.H.2. The policy states investments purchased by the Regent institutions through Board authorized brokerage firms that meet the definition of cash equivalents, investments with original purchase dates to maturity of three months or less, shall be reported on the audited financial statements of the Regent institutions as cash equivalents.

E. Investments

Investments are reported in accordance with Board of Regents policy, section 7.04.H.2. The policy states that, to appropriately reflect the Board's overall investment strategy and as outlined in GASB Statement No. 9 paragraph 11, the Board sets forth that all funds held by external investment managers, as defined in section 7.04.C.4 of the Board's investment policy, shall be reported on the audited financial statements of the Regent institutions as investments.

In accordance with the Board of Regents investment policy, the University considers all funds held by external investment managers, regardless of maturity, to be investments. Investments of the University are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

In accordance with FASB 157, 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 approximate fair value because these financial instruments bear interest at rates that approximate current rates the Foundation could obtain on contracts or notes with similar maturities and credit qualities.

F. Inventories

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

G. Capital Assets

Capital assets are recorded at cost at the date of acquisition or at estimated fair market value at the date of donation. Capitalization of interest on assets under construction has been included in the cost of those assets. For equipment,

the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Intangible assets with a cost of $500,000 or more are capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings, 10 to 30 years for infrastructure and land improvements, 2 to 20 years for equipment, 10 years for library collections, and 4 to 20 years for intangible assets.

H. Unearned Revenue

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

I. Compensated Absences

Employees' compensated absences are accrued when earned under the provisions of Chapters 70A and 262 of the Code of Iowa. Accrued vacation is paid at 100% of the employee's hourly rate upon retirement, death, or termination and, with certain exceptions, accrued sick leave is paid at 100% of the employee's hourly rate to a maximum of $2,000 upon retirement. The liability for accrued compensated absences reported in the Statement of Net Position is based on current rates of pay.

J. Noncurrent Liabilities

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

K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows consist of unamortized losses resulting from the refunding of bonds. Deferred inflows consist of unamortized gains resulting from the refunding of bonds. Bond refunding losses and gains, which will be recognized over the life of the bonds, are the difference between the reacquisition price of the new debt and the net carrying amount of the debt being refunded.

L. Net Position

The University's net position is classified as follows:

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

M. Operating Revenues and Expenses

Operating revenues and expenses reported in the Statement of Revenues, Expenses and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain

significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts, and investment income.

N. Revenue Pledged for Debt Service

Tuition and fees are pledged as security for Academic Building Revenue Bonds, Memorial Union Revenue Bonds, and Recreational System Facilities Revenue Bonds. Auxiliary enterprise revenues are pledged as security for Athletic Facilities Revenue Bonds, Dormitory Revenue Bonds, Memorial Union Revenue Bonds, Parking System Revenue Bonds, Recreational System Facilities Revenue Bonds, Regulated Materials Facility Revenue Bonds, and Utility System Revenue Bonds.

O. Auxiliary Enterprise Revenues

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

P. Bond Discounts and Premiums

Bond discounts and premiums are deferred and amortized over the life of the bonds.

Q. Reclassifications

Certain amounts presented for the prior year have been reclassified to be consistent with the current year's presentation. The Board of Regents amended section 7.04.H.2 of its investment policy to set forth that all funds held by external investment managers shall be reported in the audited financial statements as investments. As permitted by GASB Statement No. 9, not all investments that qualify are required to be treated as cash equivalents. Accordingly, certain amounts previously reported as cash and cash equivalents in the prior year have been reclassified as investments to more closely conform to the purpose of those funds. Notes 1D and 1E describe the University's policy for determining which short-term, highly liquid investments are treated as cash equivalents and investments.

NOTE 2 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

A. Cash and Cash Equivalents

A summary of the book and bank balances for cash and cash equivalents at June 30, 2014 and 2013 is as follows:

	June 30, 2014	June 30, 2013
Book Balance	$57,549,347	$65,585,741
Bank Balance:		
Covered by FDIC Insurance or State Sinking Fund	$65,717,720	$62,995,587
Uninsured and Uncollateralized		9,378,842
Total Bank Balance	$65,717,720	$72,374,429

B. Investments (University)

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

For donor-restricted endowments, Chapter 540A of the Code of Iowa permits the University to appropriate an amount of realized and unrealized endowment appreciation as the University determines to be prudent pursuant to a consideration

of the University's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending policy is 5.5%, which includes a 1.25% administrative fee of a three-year moving average market value. Net appreciation of endowment funds available to meet the spending rate distribution was $6,847,691 as of June 30, 2014, and is recorded in restricted expendable net position.

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

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

Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the University will not be able to recover the value of investment or collateral securities in the possession of an outside party. Of the University's $725.9 million investments, $1,754,854 of pooled funds are held by the Iowa State University Research Foundation, not in the University's name.

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

The following issuers represent 5% or more of total operating portfolio assets:

Issuer	Fair Value	% of Total Operating Portfolio Assets
Federal Farm Credit Bank	$ 45,790,474	6%
Federal Home Loan Bank	$ 128,782,647	18%

As of June 30, 2014, the effective duration, credit quality ratings, and fair value of the University's investments were as follows:

		Credit Quality Rating									
	Effective Duration (Years)	TSY/AGY	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	Total Fair Value
Fixed Income:											
U.S. Government Treasuries	1.65	$ 64,234,424	$	$	$	$	$	$	$	$	$ 64,234,424
U.S. Government Agencies	1.84	4,397,007	196,727,856								201,124,863
Corporate Notes and Bonds	1.76		3,423,267	311,124	3,010,495	2,744,102					9,488,988
Mutual Funds, Short Term	5.21	56,631,487	3,525,468	2,523,729	7,544,993	8,834,667	10,332,045	11,074,648	1,528,190	237,023	102,232,250
Mutual Funds, Long Term	2.19					318,546	6,869,004	9,915,865	2,802,410	315,199	20,221,024
Subtotal		$125,262,918	$203,676,591	$ 2,834,853	$ 10,555,488	$ 11,897,315	$ 17,201,049	$ 20,990,513	$ 4,330,600	$ 552,222	397,301,549
Equity and Other:											
Common Stock											12,955,786
Mutual Funds											147,893,381
Private Equity											15,003,036
Foundation Pooled Funds											1,754,854
Real Estate											15,444,613
Money Market											135,529,276
Total Investments											$725,882,495

C. Investments (Foundation)

Investments were comprised of the following balances as of June 30, 2014 and 2013:

Investment	June 30, 2014	June 30, 2013
Pooled Investments:		
Equity	$ 264,596,620	$ 207,005,183
Fixed Income	155,657,504	144,595,381
Hedge Funds	145,571,875	143,049,490
Private Equity	72,056,338	63,534,666
Real Estate	17,737,545	16,808,295
Natural Resources/Commodities	19,786,142	26,954,613
Cash and Cash Equivalents	38,332,340	37,339,328
Accrued Interest	310,214	335,393
Accrued Manager Fees	(250,000)	(250,000)
Total Pooled Investments	713,798,578	639,372,349
Other Marketable Securities:		
Fixed Income	13,769,840	13,927,266
Equity	22,942,815	20,627,614
Cash and Cash Equivalents	990,838	647,740
Total Other Marketable Securities	37,703,493	32,202,620
Real Estate and Other Investments:		
Real Estate	11,773,667	12,305,685
Notes Receivable from Affiliated Entities	1,609,466	1,576,455
Total Real Estate and Other Investments	13,383,133	13,882,140
Total Investments	$ 764,885,204	$ 688,457,109

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

A. Accounts Receivable

Accounts receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Position. At June 30, 2014 and 2013, accounts receivable consisted of the following:

	June 30, 2014	June 30, 2013
Accounts Receivable	$ 30,346,143	$ 36,407,502
Allowance for Doubtful Accounts	(1,480,723)	(1,356,902)
Accounts Receivable, Net	$ 28,865,420	$ 35,050,600

B. Due from Government Agencies

Due from government agencies is composed of $15,855,933 due from state and local government agencies and $28,639,681 due from United States government agencies at June 30, 2014 and $3,209,879 due from state and local government agencies and $33,583,010 due from United States government agencies at June 30, 2013.

C. Notes Receivable

Notes receivable is shown net of allowances for doubtful accounts in the accompanying Statement of Net Position. Notes receivable consisted of the following:

	June 30, 2014	June 30, 2013
Student Loans Receivable	$ 23,287,061	$ 22,999,641
Other Notes Receivable	13,005,221	14,062,363
Allowance for Doubtful Accounts	(333,602)	(226,969)
Notes Receivable, Net	$ 35,958,680	$ 36,835,035

D. Pledges Receivable (Foundation)

The components of net pledges receivable as of June 30, 2014 and 2013 are as follows:

	June 30, 2014	June 30, 2013
Gross Pledges Receivable	$ 81,873,895	$ 68,965,292
Allowance for Uncollectible Pledges	(2,770,349)	(1,670,219)
Discount to Present Value	(4,477,510)	(3,894,949)
Net Pledges Receivable	$ 74,626,036	$ 63,400,124

The Foundation estimates payments on these pledges receivable as of June 30, 2014, will be received as follows:

Year Ending June 30,	Principal
2015	$ 19,707,488
2016	21,100,959
2017	15,142,645
2018	8,386,449
2019	4,310,296
Thereafter	13,226,058
Total	$ 81,873,895

In addition, the Foundation has received notification of deferred gifts totaling approximately $492,000,000 and $472,000,000 as of June 30, 2014 and 2013, respectively, primarily in the form of revocable wills.

NOTE 4 - INVENTORIES

The inventory balances in the Statement of Net Position are comprised of two categories as described in Note 1F above and scheduled below:

	June 30, 2014	June 30, 2013
Supplies, Merchandise, and Grain	$ 13,262,230	$ 13,739,591
Livestock	3,725,071	2,212,791
Total Inventories	$ 16,987,301	$ 15,952,382

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014, is summarized as follows:

	July 1, 2013	Additions	Transfers	Deductions	June 30, 2014
Capital Assets, Nondepreciable/Nonamortizable:					
Land	$ 16,501,213	$	$	$	$ 16,501,213
Land Improvements	5,733,133				5,733,133
Construction in Progress	104,087,668	102,326,662	(100,268,023)	(175,656)	105,970,651
Intangible Assets in Development	4,668,494		(4.668.494)		–
Capital Assets, Nondepreciable/Nonamortizable	130,990,508	102,326,662	(104,936,517)	(175,656)	128,204,997
Capital Assets, Depreciable/Amortizable:					
Buildings	1,397,116,084		89,234,132		1,486,350,216
Land Improvements	26,677,883		1,410,169		28,088,052
Infrastructure	218,756,850		9,623,722		228,380,572
Equipment	268,031,031	21,440,625		(8,285,396)	281,186,260
Library	221,129,540	10,671,646		(241,362)	231,559,824
Intangible Assets	2,409,072		4,668,494		7,077,566
Capital Assets, Depreciable/Amortizable	2,134,120,460	32,112,271	104,936,517	(8,526,758)	2,262,642,490
Accumulated Depreciation/Amortization:					
Buildings	608,982,854	42,865,256			651,848,110
Land Improvements	13,549,363	1,343,827			14,893,190
Infrastructure	143,610,799	7,364,330			150,975,129
Equipment	156,075,043	15,142,063		(6,990,812)	164,226,294
Library	175,291,677	9,887,308		(241,364)	184,937,621
Intangible Assets	393,022	627,453			1,020,475
Accum. Depreciation/Amortization	1,097,902,758	77,230,237		(7,232,176)	1,167,900,819
Depreciable/Amortizable Assets, Net	1,036,217,702	(45,117,966)	104,936,517	(1,294,582)	1,094,741,671
Total Capital Assets, Net	$1,167,208,210	$ 57,208,696	$ –	$ (1,470,238)	$1,222,946,668

Capital assets, net of accumulated depreciation and amortization, purchased with resources provided by outstanding capital lease agreements at June 30, 2014, consisted of $16,883,334 of buildings and $205,605 of equipment.

NOTE 6 - LONG-TERM LIABILITIES

Implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required restatement of prior year unamortized gains/losses resulting from refunding of bonds as deferred outflows and inflows of resources. Long-term liability activity for the year ended June 30, 2014, is summarized as follows:

	Restated July 1, 2013	Additions	Deductions	June 30, 2014	Current Portion
Long-Term Debt:					
Bonds Payable	$437,024,823	$ 43,844,557	$ 22,722,860	$458,146,520	$ 20,250,000
Notes Payable	10,782,420		628,768	10,153,652	580,284
Capital Leases Payable	18,009,952	32,700	2,835,455	15,207,197	1,268,981
Total Long-Term Debt	465,817,195	43,877,257	26,187,083	483,507,369	22,099,265
Other Long-Term Liabilities:					
Compensated Absences	45,120,733	20,165,523	21,248,563	44,037,693	20,715,778
Early Retirement Benefits Payable	7,293,158		3,149,047	4,144,111	2,208,835
Refundable Advances on Student Loans	18,178,893			18,178,893	
Deferred Compensation	323,448	131,141	189,613	264,976	
Due to State	14,032,839	3,639,318	4,777,088	12,895,069	3,189,848
Net Other Postemployment Benefits Obligation	34,174,503	9,638,995	5,954,580	37,858,918	
Total Other Long-Term Liabilities	119,123,574	33,574,977	35,318,891	117,379,660	26,114,461
Total Long-Term Liabilities	$584,940,769	$ 77,452,234	$ 61,505,974	$600,887,029	$ 48,213,726

A. Bonds Payable

Outstanding long-term revenue bond indebtedness at June 30, 2014, consisted of the following:

	Interest Rates	Maturity Dates	Amount
Academic Building	2.00 – 5.25%	2015-2036	$157,325,000
Less: Unamortized Discount			(991,807)
Add: Unamortized Premium			935,595
Athletic Facilities	2.00 – 6.10%	2015-2038	43,150,000
Less: Unamortized Discount			(440,959)
Dormitory	1.00 – 5.00%	2015-2034	139,920,000
Less: Unamortized Discount			(809,089)
Add: Unamortized Premium			650,956
Memorial Union	1.50 – 3.00%	2015-2031	20,155,000
Less: Unamortized Discount			(220,040)
Parking System	2.00 – 3.00%	2015-2023	3,175,000
Add: Unamortized Premium			99,134
Recreational System Facilities	2.00 – 4.75%	2015-2038	50,200,000
Less: Unamortized Discount			(465,534)
Regulated Materials Facility	2.00%	2015-2020	2,755,000
Add: Unamortized Premium			67,235
Utility System	3.00 – 5.00%	2015-2034	40,360,000
Less: Unamortized Discount			(46,032)
Add: Unamortized Premium			2,327,061
Total Bonds Payable			$458,146,520

Debt service requirements to maturity, as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 20,250,000	$ 16,717,655	$ 36,967,655
2016	21,610,000	16,074,244	37,684,244
2017	22,680,000	15,414,565	38,094,565
2018	23,300,000	14,709,149	38,009,149
2019	24,005,000	13,944,676	37,949,676
2020-2024	116,100,000	57,573,147	173,673,147
2025-2029	119,055,000	34,681,716	153,736,716
2030-2034	79,305,000	14,672,378	93,977,378
2035-2038	30,735,000	2,181,647	32,916,647
Less: Unamortized Discount	(2,973,461)		(2,973,461)
Add: Unamortized Premium	4,079,981		4,079,981
Total	$458,146,520	$ 185,969,177	$644,115,697

In December 2013, the University issued $6,000,000 of Academic Building Revenue Refunding Bonds, Series I.S.U. 2013. The bond proceeds, in addition to other University funds, were placed in an irrevocable trust to refund $3,230,000 of Academic Building Revenue Refunding Bonds, Series I.S.U. 2003 and $2,930,000 of Academic Building Revenue Refunding Bonds, Series I.S.U. 2004A. The advance refunding of these bonds permitted the University to realize an economic gain (the difference between the present values of the debt service payments on the old and new debt) of $555,526 and will reduce future aggregate debt service payments over the next 16 years by $563,906.

B. Notes Payable

The University had the following notes payable outstanding at June 30, 2014:

	Interest Rates	Maturity Dates	Amount
Athletic System	0.80 - 5.82%	2015-2030	$ 10,153,652

Debt service requirements to maturity, as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 580,284	$ 364,390	$ 944,674
2016	688,400	331,274	1,019,674
2017	685,615	293,575	979,190
2018	723,610	255,580	979,190
2019	763,714	215,476	979,190
2020-2024	2,425,097	527,834	2,952,931
2025-2029	286,932	172,584	459,516
2030	4,000,000	10,667	4,010,667
Total	$ 10,153,652	$ 2,171,380	$ 12,325,032

C. Capital Leases Payable

The University had the following capital leases outstanding at June 30, 2014:

	Interest Rates	Maturity Dates	Amount
Cyclone Sports Complex	3.86%	2015-2027	$ 10,875,180
Farm Equipment	2.69 – 3.75%	2015-2020	120,763
ISU Veterinary Services Corporation	5.10%	2015-2016	36,010
Sukup Basketball Complex	0.80 – 5.07%	2015-2020	4,175,244
Total			$ 15,207,197

The following is a schedule by year of future minimum lease payments required as of June 30, 2014:

Year Ending June 30,	Principal	Interest	Total
2015	$ 1,268,981	$ 606,058	$ 1,875,039
2016	1,319,754	549,897	1,869,651
2017	1,340,568	491,873	1,832,441
2018	1,396,111	432,058	1,828,169
2019	1,448,589	370,070	1,818,659
2020-2024	5,424,267	1,079,482	6,503,749
2025-2027	3,008,927	206,490	3,215,417
Total	$ 15,207,197	$ 3,735,928	$ 18,943,125

D. Net Other Postemployment Benefits (OPEB) Obligation

Plan Description. The University operates a single-employer retiree benefit plan which provides medical, dental and life insurance benefits for faculty and staff and their spouses. The actuarial valuation was based on 4,686 active and 1,649 retired members in the plan. Employees must be age 55 or older at retirement.

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

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

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

The following table shows the components of the University's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan, and changes in the University's net OPEB obligation:

Annual Required Contribution (ARC)	$ 9,410,080
Interest on Net OPEB Obligation	1,147,767
Adjustment to Annual Required Contribution	(1,659,387)
Annual OPEB Cost	8,898,460
Contributions Made	(5,954,580)
Increase in Net OPEB Obligation	2,943,880
Net OPEB Obligation, Beginning of Year	28,694,172
Net OPEB Obligation, End of Year	$ 31,638,052

For fiscal year 2014, the University contributed $6.0 million to the medical plan. Plan members receiving benefits contributed $2.4 million, or 29% of the premium costs.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	$ 8,898,460	66.9%	$31,638,052
6/30/2013	$10,111,340	58.5%	$28,694,172
6/30/2012	$ 9,764,294	52.3%	$24,496,851

Funded Status and Funding Progress. As of the valuation date, for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was $75.0 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $75.0 million. The covered payroll (annual payroll of active employees covered by the plan) was $333.3 million, and the ratio of the UAAL to the covered payroll was 22.5%. As of June 30, 2014, there were no trust fund assets.

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

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

As of the July 1, 2013 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate based on the pay-as-you-go funding policy. The health care trend rate for 2014 was 9.0% and will be reduced 0.5% each year until reaching the ultimate health care trend rate of 5.0% in 2022. The underlying inflation rate used in the valuation was 2.5%.

Mortality rates are from the RP-2000 Combined Mortality Table fully generational using Scale AA. Annual retirement and termination probabilities were developed by adjusting industry tables to reflect University experience. The UAAL is being amortized over a rolling 30-year open period using the level dollar method.

State of Iowa Postretirement Medical Plan. The University's merit employees are participants in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognizes 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 accrued liability, which was $233.2 million for the State of Iowa as of June 30, 2014. 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, 2014. 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 $6,220,866 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.

NOTE 7 - OPERATING LEASES

The University has leased various buildings and equipment. These leases have been classified as operating leases and, accordingly, all rents are charged to expense as incurred. These leases expire before June 30, 2023, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the leased properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule, by year, of future minimum rental payments required under operating leases which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2014.

Year Ending June 30,	Amount
2015	$2,482,345
2016	1,772,308
2017	1,379,923
2018	722,236
2019	599,789
2020-2023	782,424
Total	$7,739,025

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

Rental expense for the operating leases disclosed above was $2,606,419 and $3,860,718, respectively, for the years ended June 30, 2014 and 2013.

NOTE 8 - RESTRICTED NET POSITION

The University's restricted net position is classified according to externally imposed restrictions. The following table provides detail of the Restricted Net Position balances.

	June 30, 2014	June 30, 2013
Restricted-Nonexpendable:		
Permanently Endowed Funds	$ 29,377,097	$ 29,526,529
Restricted-Expendable:		
Student Loans	11,457,195	11,344,696
Scholarships, Research, and Educational Purposes	6,847,691	7,558,705
Reserve for Debt Service	7,848,779	11,093,144
Capital Projects	13,648,286	1,223,859
Total Restricted-Expendable	39,801,951	31,220,404
Total Restricted Net Position	$ 69,179,048	$ 60,746,933

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

	June 30, 2014	June 30, 2013
Temporarily Restricted:		
College Program Support	$ 73,783,001	$ 75,340,496
Student Financial Aid	41,166,917	41,036,596
Faculty and Staff Support	16,241,267	16,159,763
Research	10,122,164	10,903,016
Building, Equipment, and Maintenance	62,661,928	54,399,970
Other	10,654,213	10,771,278
Total Temporarily Restricted Net Assets	$ 214,629,490	$ 208,611,119
Permanently Restricted:		
College Program Support	$ 198,214,397	$ 179,037,495
Student Financial Aid	216,279,718	183,754,485
Faculty and Staff Support	144,099,541	125,441,657
Research	15,300,761	13,659,169
Building, Equipment, and Maintenance	2,754,908	2,515,085
Other	23,431,428	15,410,848
Total Permanently Restricted Net Assets	$ 600,080,753	$ 519,818,739

NOTE 9 - RETIREMENT PROGRAMS

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

The University contributes to the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) retirement program that is a defined contribution plan. TIAA-CREF administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provisions and contribution requirements. As required by the Board of Regents' policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by the employer fully vest after the completion of three years of employment; employee

contributions vest immediately. As specified by the contract with TIAA-CREF, each employee through the fifth year of employment contributes 3 1/3% of the first $4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first $4,800 of earnings and 10% on earnings above $4,800. Upon completion of five years of service, the participant contributes 5% and the University contributes 10% on all earnings. The University's required and actual contributions amounted to $38,124,419 and $37,196,625, respectively, for the years ended June 30, 2014 and 2013. The employees' required and actual contributions amounted to $19,055,957 and $18,597,748, respectively, for the years ended June 30, 2014 and 2013.

B. Iowa Public Employees' Retirement System

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

Plan members were required to contribute 5.95% of their annual covered salary; the University was required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. For the year ended June 30, 2013, plan members were required to contribute 5.78% of their annual covered salary; the University was required to contribute 8.67% of annual covered payroll. For the year ended June 30, 2012, plan members were required to contribute 5.38% of their annual covered salary; the University was required to contribute 8.07% of annual covered payroll. These contribution requirements are established by State statute. The University's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were $2,373,348, $1,962,387, and $1,477,830, respectively, equal to the required contributions for each year.

C. Retirement Incentive Option

At its March 2009 meeting, the Board of Regents approved the first of three Retirement Incentive Option (RIO) programs, RIO1. The second and third programs, RIO2 and RIO3, were subsequently approved at its October 2009 and April 2010 meetings, respectively. Faculty, professional and scientific employees, merit system employees, and institutional officials who accumulate ten years of service with the University and who attain the age of 60 (RIO1), 57 (RIO2), and 55 (RIO3) by the date of retirement are eligible for participation. These programs are one-time programs with retirement required to occur no later than January 31, 2010, July 30, 2010, and December 31, 2010, respectively. Upon retirement, the participant will be provided health and dental coverage for a period of up to five years with the University providing both the employee and employer share of contributions, not to exceed the employee and spouse/domestic partner rate for the University's professional plans and not to exceed the employee and family rate for the State of Iowa plans. Eligible employees who elect the incentive and reach Medicare eligibility during the incentive period will be allowed to continue in the incentive with the contributions reduced to integrate with Medicare eligibility. For RIO3, the participant may choose to receive continued annuity (Defined Contribution plan only) contributions for a period of up to five years in lieu of the continued medical/dental coverage. The annuity benefit is equal to the University's contribution level during active employment of 10% and based on the participant's full budgeted salary at the time of retirement. Term life insurance benefits are fully insured for eligible retirees and are paid for directly by the life insurance carrier. The University pays a stated premium based on the value of the policy (which is $4,000) directly to the carrier. The stated premium rate is the same as the premium rate for the active employer life coverage in effect during the fiscal year.

Phased Plus Retirement Program

At its April 2010 meeting, the Board of Regents approved the Phased Plus Retirement Program. Faculty, professional and scientific, merit system employees, and institutional officials who had accumulated ten years of service with the University and who attained the age of 55 at the time of initial reduction of employment were eligible for participation in the Phased Plus Retirement Program. This is a one-time program with the maximum phasing period of two years with full retirement required at the end of the specified phasing period. At no time during the phasing period could an employee hold less than a 50% or greater than a 65% appointment. The phased retirement period was required to occur no later than January 1, 2012.

At the end of the appointment, the employee had the option of medical coverage or employer-paid retirement contributions for the balance of five years once phased retirement began, with the same stipulations as the RIO3 program.

At June 30, 2014, 461 employees had elected the Retirement Incentive Option or the Phased Plus Retirement Program for which the University is committed to providing future benefit payments totaling $4,144,111. During the fiscal year ended June 30, 2014, the University paid $3,552,130 for continuing benefits which are financed on a pay-as-you-go basis. In the event of the retiree's death, the University's obligation to pay the cost of the health and dental coverage will cease on the first day of the month following the date of death.

NOTE 10 - COMMITMENTS AND RISK MANAGEMENT

A. Commitments

At June 30, 2014 and 2013, the University had outstanding construction contract commitments of $23,386,633 and $59,077,078, respectively.

B. Risk Management

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

1. Employee Health and Dental Benefits

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

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

	2014	2013
Unpaid Claims and Contingent Liabilities Accrued at July 1, 2013 and 2012	$ 4,038,000	$ 3,938,000
Claims Incurred and Contingent Liabilities Accrued During the Fiscal Year	53,310,081	47,666,567
Payments on Claims During the Fiscal Year	(52,490,081)	(47,566,567)
Unpaid Claims and Contingent Liabilities Accrued at June 30, 2014 and 2013	$ 4,858,000	$ 4,038,000

2. Employee Workers' Compensation/Unemployment Insurance

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

3. Employee Medical and Dependent Care Flexible Spending Programs

Eligible University employees have an option to participate in two flexible spending programs. The Medical Flexible Spending Program allows employees to have a maximum of $2,500 for medical spending deducted from their payroll

on a pre-tax basis. Federal regulations mandate that remaining funds, beyond a $500 carry over amount, are non-refundable. The Dependent Care Flexible Spending Program allows employees to have a maximum of $5,000 for dependent care deducted from their payroll on a pre-tax, non-refundable basis. These pre-tax deductions are used by employees to cover qualified uninsured medical, dental and vision claims under the Medical Flexible Spending Program and/or qualified dependent care expenses under the Dependent Care Flexible Spending Program. The Medical Flexible Spending Program carries an element of self-insurance risk, as required by federal law. Since the University deducts only 1/12 of an annually elected amount from the employee's pay each month, but is liable for the total annual elected amount upon presentation of appropriate claims, it is at risk for the difference between an employee's total reimbursed claims and the amount collected from payroll deductions should the employee terminate before contributing the total amount. The University, by law, cannot seek restitution for this difference. This same risk does not apply to the payroll deduction for the Dependent Care Flexible Spending Program as an employee can only claim what has been deducted from their payroll. These employee contributions are maintained in a separate account, which has carried a surplus balance since inception of the program due to contributions exceeding claims each year. This surplus balance is used to fund the administrative costs of the program.

4. **General Liability**

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

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

5. **Motor Vehicle Insurance**

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

6. **Property Insurance**

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

7. **Business Interruption and Extra Expense Insurance**

   The University self-insures for business interruption losses of its general mission revenues, such as tuition and fees, etc. Commercial insurance is purchased to cover business interruption losses for self-supporting enterprises, such as the Athletic Department, Iowa State Center, Residence Department, University Book Store, etc.

8. **Insurance Settlements**

As a result of a catastrophic flood event in August 2010, the University had claims that exceeded its insurance coverage for Hilton Coliseum and the Scheman Building. The University's commercial property insurance for those buildings was limited to $12 million because they are located in a flood zone, and the losses exceeded the $12 million limit. With the exception of those buildings, the University had no settlements exceeding insurance coverage in any of the past three fiscal years.

NOTE 11 – NET BUILDING IMPAIRMENT GAIN DUE TO FLOOD

In August 2010, the University suffered significant flood damage. The calculation of a net impairment gain associated with several impaired buildings has been updated to reflect the current estimate of damages, restoration, and recovery. This is compliant with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

The impairment loss was measured using the restoration cost approach. The impaired buildings had a historical cost of $24.2 million and a net carrying value of $12.7 million at the time of the impairment. The expected cost to restore the impaired buildings (excluding building contents) is $12.1 million. Restoration costs were deflated using a 3% cost index compounded over the life of each building. The deflation factor was calculated separately for each building and ranged from .53 to .89, with the weighted average being .78. Deflated restoration costs of the impaired buildings is $9.5 million. The amount of the impairment is calculated using a ratio of deflated restoration costs over historical cost, multiplied by the carrying value of each impaired asset. As a result, assets fully depreciated prior to the flood would have an impairment loss of zero, regardless of the damage. The restoration cost ratio was calculated separately for each impaired building; the ratios ranged from 3.78% to 100%, with the weighted average being 39.19%. The resulting total gross impairment loss, based on each asset's carrying value, is $5.0 million. GASB Statement No. 42 requires the impairment loss be reported net of insurance recoveries. The estimated realizable insurance recovery associated with building impairment is $7.6 million, resulting in a net building impairment gain of $2.6 million. The net impairment gain was recorded in previous years, so there is no incremental change in impairment gain to record in the financial statements for the year ended June 30, 2014.

The August 2010 flood and resulting net impairment gain was recorded as an extraordinary event in prior year financial statements as it met the criteria for being both unusual in nature and infrequent in occurrence.

NOTE 12 – OPERATING EXPENSES BY FUNCTION

The following is a summary of operating expenses by functional classification for the year ended June 30, 2014.

	Compensation And Benefits	Supplies	Services, Repairs & Professional Services	Other	Total
Instruction	$ 216,210,233	$ 15,101,464	$ 9,593,408	$	$ 240,905,105
Research	103,307,923	22,999,941	40,417,017		166,724,881
Public Service	46,928,846	10,951,114	15,656,188		73,536,148
Academic Support	101,633,163	29,261,369	19,881,009		150,775,541
Student Services	21,547,119	5,263,882	3,847,712		30,658,713
Institutional Support	34,489,766	1,208,146	2,452,961		38,150,873
Operation & Maintenance	32,139,005	23,732,476	17,227,685		73,099,166
Scholarships & Fellowships				29,778,416	29,778,416
Auxiliary Enterprises	74,547,046	53,726,029	20,052,255		148,325,330
Independent Operations	25,192,400	14,178,227	1,668,751		41,039,378
Depreciation/Amortization				77,230,237	77,230,237
Other Operating Expenses				499,387	499,387
Total Operating Expenses	$ 655,995,501	$ 176,422,648	$ 130,796,986	$ 107,508,040	$ 1,070,723,175

NOTE 13 – SUBSEQUENT EVENTS

Subsequent to June 30, 2014, the Board of Regents, State of Iowa, authorized the sale of Academic Building Revenue Refunding Bonds, Series I.S.U. 2014 for $16,315,000 to be issued on September 1, 2014. These bonds will bear interest at varying rates between 2.0% and 4.0% and will mature in varying amounts from July 1, 2015 through July 1, 2027. The proceeds of these bonds will be used to provide for the defeasance of the July 1, 2015 maturity, to advance refund the outstanding principal of the July 1, 2016 through July 1, 2027 maturities of the Academic Building Revenue Bonds, Series I.S.U. 2005, and to pay the costs of issuing the bonds. The bonds will be payable solely out of gross student fees and charges collected by the University and institutional income received by the University.

Subsequent to June 30, 2014, the Board of Regents, State of Iowa, authorized the sale of Utility System Revenue Bonds, Series I.S.U. 2015 for $16,500,000 to be issued on January 1, 2015. These bonds will bear interest at varying rates between 2.0% and 3.25% and will mature in varying amounts from November 1, 2015 through November 1, 2034. The proceeds of these bonds will be used for the purpose of constructing, equipping, installing and extending certain facilities and other improvements to the utility system of the University, to provide a debt service reserve fund, and to pay the costs of issuing the bonds. The bonds will be payable solely from net revenues of the utility system, and the proceeds of any utility system student fees.

NOTE 14 – PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the University's proportionate share of the employee pension plan.

NOTE 15 - SEGMENT INFORMATION

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

A. Academic Building Revenue Bonds

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

B. Athletic Facilities Revenue Bonds

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

C. Dormitory Revenue Bonds

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

D. Memorial Union Revenue Bonds

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

E. Parking System Revenue Bonds

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

F. Recreational System Facilities Revenue Bonds

The Recreational System Facilities Revenue Bonds were issued to construct, furnish and equip new recreational building space and to complete other improvements to recreational facilities. Revenues pledged for this issue are the net revenues of the recreational facilities system.

G. Regulated Materials Facility Revenue Bonds

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

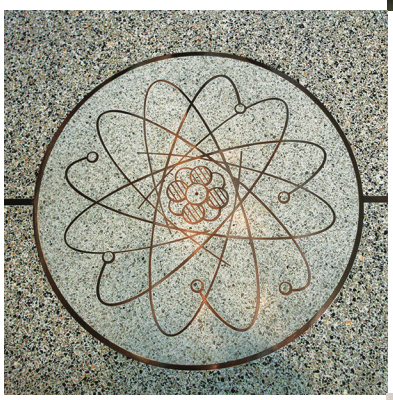
H. Utility System Revenue Bonds

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

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

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

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



SEGMENT INFORMATION

As of and for the year ended June 30, 2014

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Dormitory Revenue Bonds
CONDENSED STATEMENT OF NET POSITION			
Assets:			
Current Assets	$ 9,931,263	$ 9,573,010	$ 12,683,175
Noncurrent Assets	13,076,705	3,075,711	50,629,180
Capital Assets	126,654,704	45,015,935	170,750,303
Total Assets	149,662,672	57,664,656	234,062,658
Deferred Outflows of Resources			807,096
Liabilities:			
Current Liabilities	9,930,486	9,571,298	14,042,967
Noncurrent Liabilities	150,599,167	41,379,041	133,696,468
Total Liabilities	160,529,653	50,950,339	147,739,435
Deferred Inflows of Resources	373,333		725,668
Net Position:			
Net Investment in Capital Assets	(18,862,988)	6,185,331	52,090,139
Restricted	7,599,023	527,275	55,630
Unrestricted	23,651	1,711	34,258,882
Total Net Position	$ (11,240,314)	$ 6,714,317	$ 86,404,651
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
EXPENSES AND CHANGES IN NET POSITION			
Operating Revenues	$253,939,666	$ 11,296,212	$ 93,641,556
Operating Expenses		(1,621,477)	(76,743,682)
Depreciation Expense	(8,000,877)	(1,708,711)	(6,782,676)
Net Operating Income/(Loss)	245,938,789	7,966,024	10,115,198
Nonoperating Revenues/(Expenses)	(6,219,488)	(1,492,242)	(3,896,647)
Other Revenues/(Expenses) and Transfers	(241,610,363)	(6,890,490)	(183,965)
Change in Net Position	(1,891,062)	(416,708)	6,034,586
Beginning Net Position	(9,349,252)	7,131,025	80,370,065
Ending Net Position	$ (11,240,314)	$ 6,714,317	$ 86,404,651
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash and Cash Equivalents Provided/(Used) By:			
Operating Activities	$253,939,666	$ 9,591,107	$ 17,018,295
Non-Capital Financing Activities	32, 916		(823,176)
Capital and Related Financing Activities	(254,805,531)	(10,338,551)	(28,651,105)
Investing Activities	832,949	829, 139	13,468,359
Net Increase/(Decrease)	–	81,695	1,012,373
Beginning Cash and Cash Equivalents	–	7,318,425	–
Ending Cash and Cash Equivalents	$ –	$ 7,400,120	$ 1,012,373

Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational System Facilities Revenue Bonds	Regulated Materials Facility Revenue Bonds	Utility System Revenue Bonds
$ 1,228,888	$ 776,617	$ 2,094,965	$ 467,550	$ 17,029,764
9,608,781	5,295,137	18,112,542	3,489,640	23,268,698
26,649,790	5,189,889	41,943,789	6,858,433	72,181,012
37,487,459	11,261,643	62,151,296	10,815,623	112,479,474
903,529				
1,639,765	745,805	2,225,545	467,550	3,688,151
19,474,446	2,944,251	48,720,893	2,382,388	42,994,246
21,114,211	3,690,056	50,946,438	2,849,938	46,682,397
	176,000		329,167	1,077,083
9,574,708	2,418,254	(915,986)	4,422,532	48,728,128
3,546	665	8,626	465	19,243
7,698,523	4,976,668	12,112,218	3,213,521	15,972,623
$17,276,777	$ 7,395,587	$ 11,204,858	$ 7,636,518	$ 64,719,994
$ 3,348,200	$ 3,927,140	$ 858,107	$ 591,175	$ 41,958,249
(5,643,378)	(2,647,574)	(6,049,889)	(8,600)	(35,751,851)
(1,589,366)	(490,279)	(1,879,055)	(227,666)	(3,696,038)
(3,884,544)	789,287	(7,070,837)	354,909	2,510,360
(426,673)	72,316	(1,794,422)	80,689	(390,538)
8,716,811	(38,961)	10,933,722	250,000	(268,730)
4,405,594	822,642	2,068,463	685,598	1,851,092
12,871,183	6,572,945	9,136,395	6,950,920	62,868,902
$17,276,777	$ 7,395,587	$ 11,204,858	$ 7,636,518	$ 64,719,994
$ (2,275,832)	$ 1,379,270	$ (5,151,655)	$ 582,574	$ 5,716,023
6,939,859	(599,049)	7,110,498	(257,027)	9,608,308
(1,730,456)	(2,883,536)	(9,032,995)	(1,941,595)	(16,898,797)
2,933,571	(2,103,315)	(7,074,152)	(1,616,048)	(1,574,466)
3,102,730	4,120,471	9,220,580	2,829,556	16,674,310
$ 6,036,301	$ 2,017,156	$ 2,146,428	$ 1,213,508	$ 15,099,844

SEGMENT INFORMATION

As of and for the year ended June 30, 2014

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Dormitory Revenue Bonds
DEBT SERVICE COVERAGE			
Debt Service Coverage % Required	N/A	125%	135%
Debt Service Coverage % Actual	N/A	329%	214%
PROPORTION OF REVENUE PLEDGED			
Annual Debt Service	$ 13,240,140	$ 3,002,396	$ 12,471,159
Net Pledged Revenue	$253,985,400	$ 9,879,377	$ 26,631,320
Annual Debt Service / Net Pledged Revenue	5%	30%	47%
REVENUE BONDS PAYABLE			
A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2014, is as follows:			
Beginning Balance, as restated	$160,926,057	$ 43,973,007	$137,338,769
Additions	6,195,761		8,653,630
Deductions	(9,853,030)	(1,263,966)	(6,230,532)
Ending Balance	$157,268,788	$ 42,709,041	$139,761,867
DEBT SERVICE REQUIREMENTS			
A summary of bond debt service for payment of principal and interest follows. As of June 30, the amounts shown for debt service payments due on July 1 were on hand.			
Semi-annual maturity	Jan 1 & Jul 1	Jan 1 & Jul 1	Jan 1 & Jul 1
2015	$ 13,069,121	$ 2,981,431	$ 12,176,948
2016	13,063,800	2,968,746	12,465,174
2017	13,551,772	2,964,455	12,437,576
2018	13,527,256	2,953,503	12,419,248
2019	13,510,719	2,940,930	12,395,091
2020-2024	58,259,929	14,715,353	57,742,890
2025-2029	54,587,188	14,716,852	47,921,528
2030-2034	36,788,622	14,848,350	12,353,847
2035-2038	12,830,797	6,082,887	
Unamortized Discount, Premium	(56,212)	(440,959)	(158,133)
Total	$229,132,992	$ 64,731,548	$179,754,169
COMMITMENTS			
As of June 30, 2014, the University had outstanding construction contract commitments as follows:			
Contract Commitments	$ –	$ –	$ 1,446,007

Memorial Union Revenue Bonds	Parking System Revenue Bonds	Recreational System Facilities Revenue Bonds	Regulated Materials Facility Revenue Bonds	Utility System Revenue Bonds
120%	120%	125%	120%	120%
372%	373%	464%	737%	168%
$ 1,454,979	$ 408,938	$ 3,071,944	$ 504,283	$ 3,945,578
$ 5,412,081	$ 1,526,612	$ 14,240,225	$ 3,714,458	$ 6,628,816
27%	27%	22%	14%	60%
$ 20,676,207	$ 3,596,526	$ 50,514,225	$ 3,290,682	$ 16,709,350
				28,995,166
(741,247)	(322,392)	(779,759)	(468,447)	(3,063,487)
$ 19,934,960	$ 3,274,134	$ 49,734,466	$ 2,822,235	$ 42,641,029
Jan 1 & Jul 1	Jan 1 & Jul 1	Jan 1 & Jul 1	Jan 1 & Jul 1	May 1 & Nov 1
$ 1,372,330	$ 405,637	$ 3,058,794	$ 490,700	$ 3,412,694
1,452,742	408,513	3,311,800	501,700	3,511,769
1,457,293	395,919	3,312,306	487,550	3,487,694
1,456,580	393,325	3,314,068	488,350	3,456,819
1,460,605	405,450	3,317,653	479,050	3,440,178
7,316,006	1,557,900	16,688,681	474,700	16,917,688
7,371,820		16,918,413		12,220,915
2,982,675		17,156,500		9,847,384
		14,002,963		
(220,040)	99,134	(465,534)	67,235	2,281,029
$ 24,650,011	$ 3,665,878	$ 80,615,644	$ 2,989,285	$ 58,576,170
$ 239,765	$ 78,408	$ 1,335,257	$ –	$ 2,730,015

Schedule of Funding Progress For the Retiree Health Plan

For the Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	7/1/2011	$0	$80,803,981	$80,803,981	0.0%	$300,069,181	26.9%
6/30/2013	7/1/2011	$0	$83,880,220	$83,880,220	0.0%	$313,983,698	26.7%
6/30/2014	7/1/2013	$0	$75,043,460	$75,043,460	0.0%	$333,280,268	22.5%

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

Photograph by Jim Heemstra

Photograph by Jim Heemstra

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

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IOWA STATE UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCIENCE with PRACTICE

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

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

We have audited 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 Iowa State University and its discretely presented component unit as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 9, 2014. Our report includes a reference to other auditors who audited the financial statements of the Iowa State University Foundation, Iowa State University Achievement Fund and the Original University Foundation (the "Foundation"), the Iowa State University Research Foundation, Incorporated and the Iowa State University Veterinary Services Corporation 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 for the Iowa State University Veterinary Services Corporation which were reported on separately by those auditors. The financial statements of the Foundation and the Iowa State University Research Foundation, Incorporated were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

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, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which will be reported to management in a separate departmental report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Iowa State University 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.

Mary Mosiman

MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 9, 2014