The University of Iowa

FINANCIAL REPORT

JULY 1, 2009–JUNE 30, 2010

THE UNIVERSITY OF IOWA

ORGANIZED FEB. 25TH 1847.

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FOR IOWA AND THE WORLD

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

UNIVERSITY OF IOWA MISSION

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

THE UNIVERSITY IN 2010

University of Iowa achievements during fiscal year 2010 include:

- Setting enrollment growth goals and strategies that drew a record-breaking first year class for fall 2010.
- Developing a new five-year strategic plan that foregrounds student success, achievements in research and the arts, and opportunities for Iowans.
- Attracting an unprecedented $466 million in external research funding.
- Charting the University's overall economic impact on the state of Iowa at $6 billion per year—nearly $16 for every $1 in state funding.
- Weathering an economic downturn without compromising affordable education, recovery from the flood of 2008, and other priorities.
- Revitalizing facilities with projects like the Campus Recreation and Wellness Center.

The Campus Recreation and Wellness Center opened in August 2010.

Enrollment

Group	Fall 2010	Fall 2009
Total students	30,825	30,328
Undergraduates	21,176	20,575
Graduate and professional	9,649	9,753
Iowa residents	57.1%	58.8%
Total non-residents	42.9%	41.2%
International students	9.2%	8%
Minority enrollment	11%	10.3%

Employment

Group	Fall 2010	Fall 2009
Total faculty and staff	26,331	25,813
Institutional officers	22	20
Tenure-track faculty	1,596	1,642
Clinical-track faculty	489	463
Postdoctoral and other faculty	577	533
Professional and scientific staff	7,256	7,313
Merit staff	4,582	4,774
Residents	726	729
Graduate assistants	2,623	2,591
Temporary	3,537	3,257

EXTERNAL SUPPORT AND GIVING

The University reported record-breaking grants and contracts—most to support research—in 2010, and recorded one of its best years for private giving:

- Fiscal year 2010 grants and contracts: **$466.5 million**
- Growth over 2009: **9%**
- Total external research support since 1967: **$7.1 billion**
- Rank among public universities in federal research and development support: **20**
- Fiscal year 2010 gifts to the University and the University of Iowa Foundation: **$190.6 million**
- Number of UI Foundation contributors: **73,332, up 10,000 from 2009**
- Total number of UI Foundation gifts: **119,706, 17% higher than 2009**

ECONOMIC IMPACT

In 2010, the University contracted the firm Tripp Umbach to assess the University's economic, employment and government revenue impact using fiscal 2009 data:

- Annual impact on the Iowa economy: **$6 billion**
- Return on public investment: **Nearly $16 for every $1 in state appropriations**
- Jobs created, directly and indirectly: **51,818**
- Spending on capital goods and services: **$1.4 billion**

More results at www.uiowa.edu/impact.

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

PRESIDENT MASON AND MEMBERS OF THE BOARD OF REGENTS:

I am pleased to present the University of Iowa's audited Financial Report for fiscal year 2010. This report presents the financial position and results of operations of the University of Iowa for the past two fiscal years ended June 30, 2009 and June 30, 2010. The University remains financially sound and stable with net assets increasing by $214.6 million (9.0%) during fiscal year 2010, and with maintenance of its strong credit ratings by Moody's (Aa1) and Standard & Poor's (AA). These ratings are important indicators of the financial health of the institution. The University achieved this financial assessment despite receiving $44 million less in General Education Fund operating appropriations from the state than it did in the prior fiscal year.

The University continues to be recognized as a "best buy" in national publications and is at a record enrollment level of 30,825 students for the Fall 2010 term. The Registrar reports having its best prepared and most diverse entering undergraduate class. The University continues to attract a significant number of non-resident students without denying access to any qualified Iowan. This growth in student demand is a direct result of the University's dedication to maintaining strong academic programs at an affordable price.

Combined tuition and fees for resident undergraduate students remains the lowest in the Big Ten by over $1,500 per year and is nearly $3,500 less than the Big Ten average for public institutions. To help assure affordability, over 21% of all tuition collected is redirected to student financial aid with emphasis on students with financial need. The University understands the importance of investing in a comprehensive set of student success initiatives that will have measurable results. An example of such a result this past year is the improvement of the first year student retention rate from 83% to 86%.

Patient care quality and financial performance is critical to all aspects of the University's mission. UIHC over the past year moved thoughtfully to manage its expense and improve productivity while growing patient care volume. This success in both quality and finance enables UIHC to invest in projects like the new Children's Hospital and many other opportunities that will improve the access by Iowans to the latest diagnostic and therapeutic care.

The University continues to enhance its reputation as a leading research institution and increased its awards by 9% from one year ago to set an all-time record of $466.5 million sponsored (external) grants and contracts—principally research. The University ranks 13th in National Institutes of Health funding and 20th in National Science Foundation funding among all public universities.

The flood of 2008 will have a long and lasting imprint on the University of Iowa. Over the next several years transformative changes will occur that will set the stage for significant achievement in the arts for generations to come. Planning is underway to construct a new performing arts center and construct a new home for the University's School of Music in downtown Iowa City, as well as development of a permanent replacement for the displaced Studio Arts facilities.

This financial report reflects the efforts of faculty, staff, alumni and friends in furthering the mission of the University. We all take enormous pride in being a part of this great enterprise and look forward to reporting one year from now our continuous progress in serving society.

Douglas K. True
Senior Vice President and Treasurer

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

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

We have audited the accompanying statement of net assets, and the related statements of revenues, expenses and changes in net assets and cash flows, of the State University of Iowa, Iowa City, Iowa, (University of Iowa) and its discretely presented component unit as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, the State University of Iowa Foundation and Affiliates, discussed in Note I, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the component unit, is based on the report of the other auditor.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the State University of Iowa Foundation were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits and the report of the other auditor provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the University of Iowa are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the University of Iowa. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2010 and 2009 and the changes in its financial position and its cash flows for the years ended June 30, 2010 and 2009 in conformity with U.S. generally accepted accounting principles.

In our opinion, based upon our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Iowa and its discretely presented component unit at June 30, 2010 and 2009, and the respective changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 7 through 16 and page 56, respectively, are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2010

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis of the University of Iowa's financial statements presents an overview of the University's financial activities for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and related footnotes that follow.

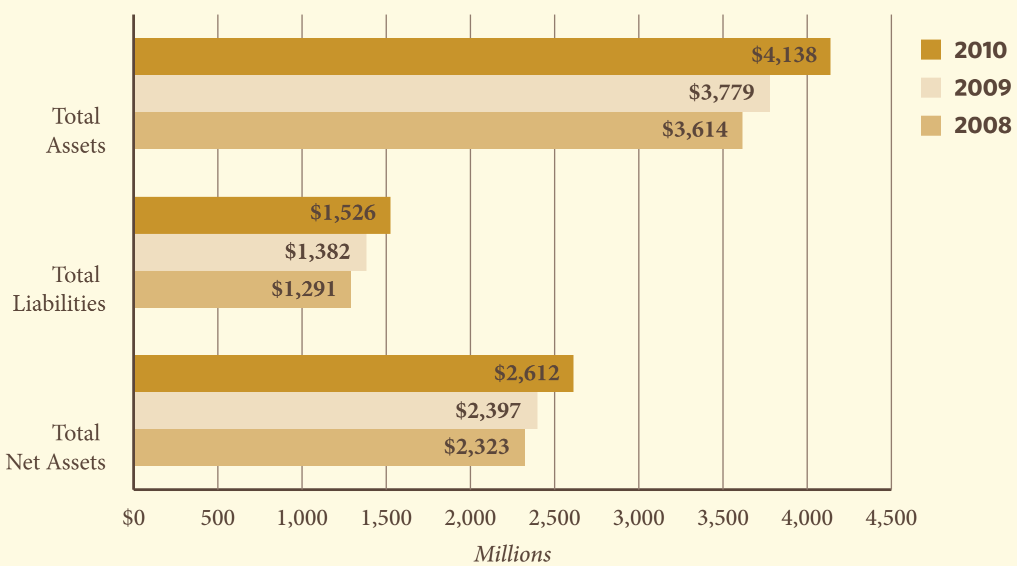
FINANCIAL HIGHLIGHTS

The University's financial position remained strong at June 30, 2010, with assets of $4,138 million and liabilities of $1,526 million as compared to June 30, 2009 assets of $3,779 million and liabilities of $1,382 million. Net assets, the difference between total assets and total liabilities, increased by $214.6 million (9.0%) from June 30, 2009 to June 30, 2010. The increase from June 30, 2008 to June 30, 2009 was $73.7 million (3.2%).

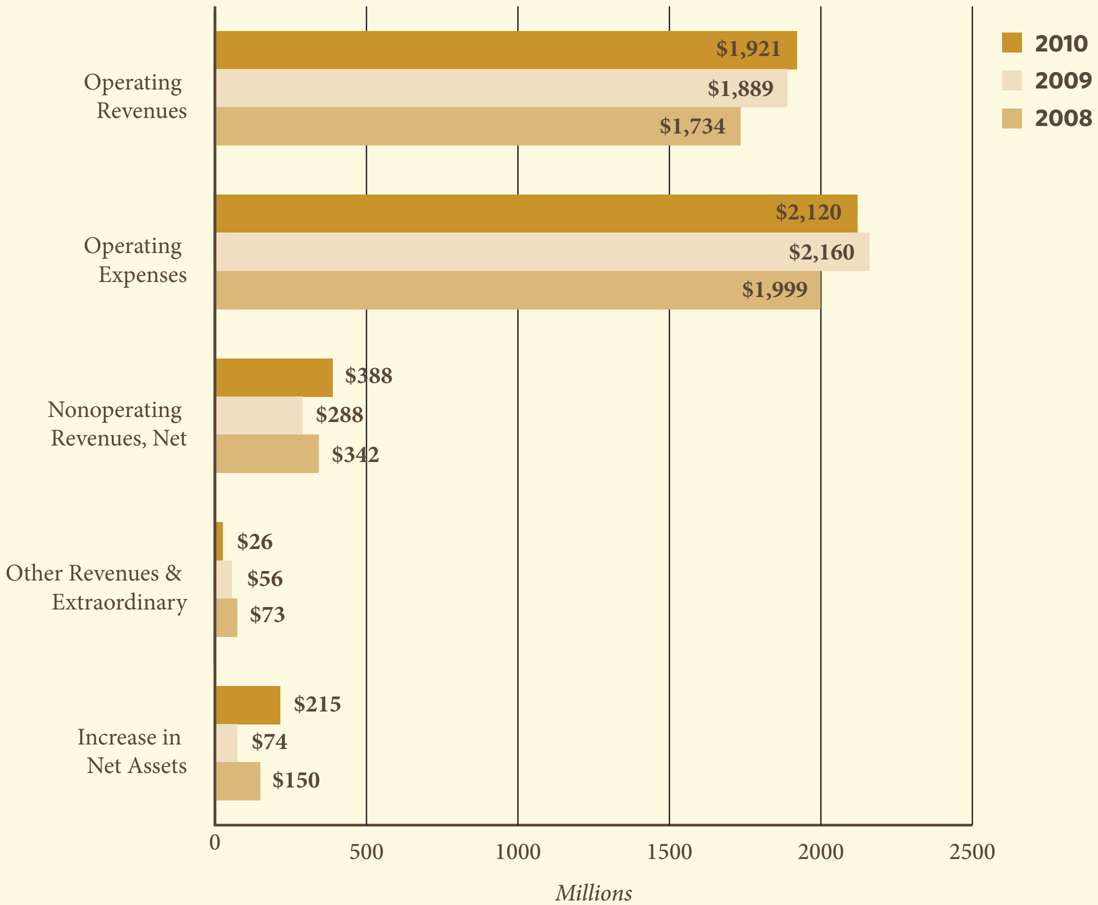
The change in net assets reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state appropriations, investment income and gifts as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided.

The following charts compare Total Assets, Total Liabilities and Total Net Assets at June 30, 2010, 2009, and 2008 and the components of changes in Net Assets at June 30, 2010, 2009, and 2008.

Statement of Net Assets



Statement of Revenues, Expenses and Changes in Net Assets



The following table summarizes the financial activity for the fiscal years ended June 30, 2010, 2009 and 2008.

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

	2010	2009	2008
Total operating revenues	$1,921.1	$1,889.3	$1,734.3
Total operating expenses	2,120.4	2,160.1	1,999.1
Net operating income (loss)	(199.3)	(270.8)	(264.8)
Net nonoperating revenues (expenses)	388.0	288.4	342.4
Income (loss) before other revenues, expenses	188.7	17.6	77.6
Net other revenues (expenses)	41.7	52.9	17.7
Increase in net asset before extraordinary items	230.4	70.5	95.3
Net extraordinary items	(15.8)	3.2	55.1
Increase in net assets	214.6	73.7	150.4
Net assets, beginning of year	2,397.1	2,323.4	2,173.0
Net assets, end of year	$2,611.7	$2,397.1	$2,323.4

UIHC Iowa Care revenue for the year end June 30, 2008 has been reclassified from nonoperating revenue to operating revenue to conform to current year presentation.

During the fiscal year ended June 30, 2010, the University increased operating revenues and decreased operating expenses by 1.7% and 1.8% respectively, resulting in an operating loss of 10.4% compared to 14.3% last year. However, after factoring in state appropriations, investment income, gifts and other revenues, the University increased net assets by $230.4 million before extraordinary items for the year ended June 30, 2010. In June 2008, the University sustained significant damage to property and impairment to capital assets as a result of flooding. In fiscal year 2010, a net loss of $15.8 million was reported as an extraordinary item. In the previous two years, a total net gain of $58.3 million was reported as an extraordinary item. Details are provided in the Extraordinary Event section of the MD&A.

During the fiscal year ended June 30, 2010, net nonoperating revenues (expenses) increased by 34.5% primarily the result of net investment income of $74.6 million due to recovery in the market value of investments.

USING THIS ANNUAL REPORT

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

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

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

These statements are reported under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or paid. The following table summarizes the University's assets, liabilities and net assets at June 30, 2010, 2009 and 2008.

Net Assets, End of Year *(in millions)*

	2010	2009	2008
Assets			
Current assets	$1,864.8	$1,583.9	$1,635.9
Capital assets, net	2,141.8	2,066.8	1,848.4
Other noncurrent assets	131.2	128.1	130.0
Total Assets	**4,137.8**	**3,778.8**	**3,614.3**
Liabilities			
Current liabilities	530.3	519.7	471.0
Noncurrent liabilities	995.8	862.0	819.9
Total Liabilities	**1,526.1**	**1,381.7**	**1,290.9**
Net Assets			
Invested in capital assets, net of related debt	1,354.2	1,356.7	1,188.5
Restricted	301.7	280.3	249.4
Unrestricted	955.8	760.1	885.5
Total Net Assets	**$2,611.7**	**$2,397.1**	**$2,323.4**

The following table summarizes the University's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008.

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

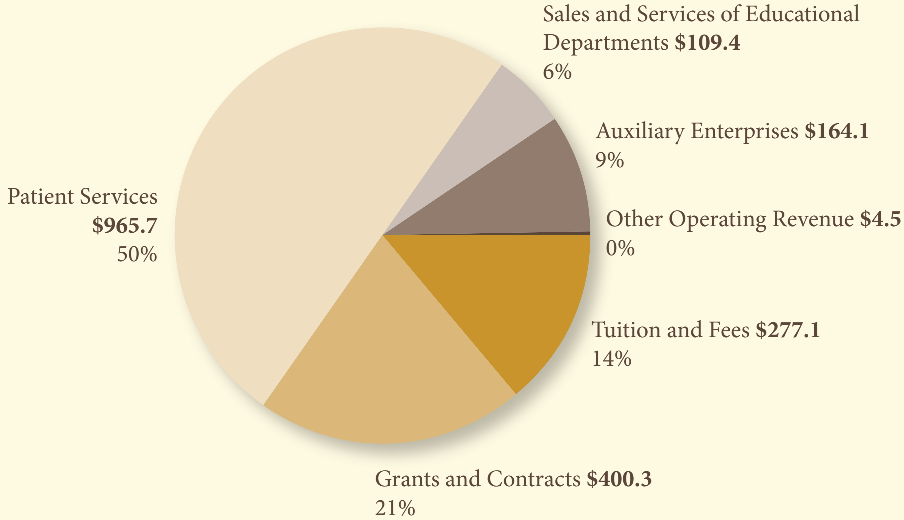
	2010	2009	2008
Operating Revenues:			
Tuition and fees, net of scholarship allowances	$277.1	$262.4	$238.9
Grants and contracts	400.3	361.5	336.3
Patient services, net of allowances	965.7	952.3	898.8
Sales and services of educational departments	109.4	107.6	77.8
Auxiliary enterprises, net of scholarship allowances	164.1	155.6	149.9
Other operating revenue	4.5	49.9	32.6
Total Operating Revenues	1,921.1	1,889.3	1,734.3
Operating Expenses:			
Instruction	308.8	322.8	307.3
Research	292.3	275.2	250.8
Academic support	124.9	125.8	106.6
Patient services	811.9	872.1	798.1
Depreciation and amortization	153.8	149.2	141.3
Auxiliary enterprises	152.1	141.4	137.9
Other Operating Expenses	276.6	273.6	257.1
Total Operating Expenses	2,120.4	2,160.1	1,999.1
Operating Income (Loss)	(199.3)	(270.8)	(264.8)
Nonoperating Revenues (Expenses)			
State appropriations	284.7	301.5	289.7
Investment income (loss), net of investment expenses	74.6	(37.7)	26.4
Gifts	63.6	61.0	62.2
Interest expense	(27.2)	(29.1)	(31.7)
Loss on disposal of capital assets	(7.7)	(7.3)	(4.2)
Net Nonoperating Revenues (Expenses)	388.0	288.4	342.4
Income Before Other Revenues	188.7	17.6	77.6
Other Revenues:			
Capital appropriations, State	22.4	20.6	5.9
Additions to endowments	-	-	4.4
Capital contributions and grants	1.7	10.6	7.4
Other nonoperating revenue and expense, net	17.6	21.7	-
Net Other Revenues	41.7	52.9	17.7
Increase in Net Assets Before Extraordinary Items	230.4	70.5	95.3
Extraordinary Items Due to Flood	(15.8)	3.2	55.1
Increase in Net Assets	214.6	73.7	150.4
Net assets, beginning of year	2,397.1	2,323.4	2,173.0
Net assets, end of year	$2,611.7	$2,397.1	$2,323.4

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in net assets for the fiscal year ended June 30, 2010 of $214.6 million (9.0%).

OPERATING REVENUES

For the fiscal years ended June 30, 2010, 2009 and 2008, operating revenues totaled $1,921 million, $1,889 million and $1,734 million, respectively. Operating revenues for FY 2010 increased by $32 million (1.7%) over FY 2009 revenues. The increase is primarily due to the category of federal grants and contracts. The following is a graphic illustration of revenues by source which are used to fund the University's operating activities for the year ended June 30, 2010.

FY2010 Operating Revenues *$1,921.1 million*

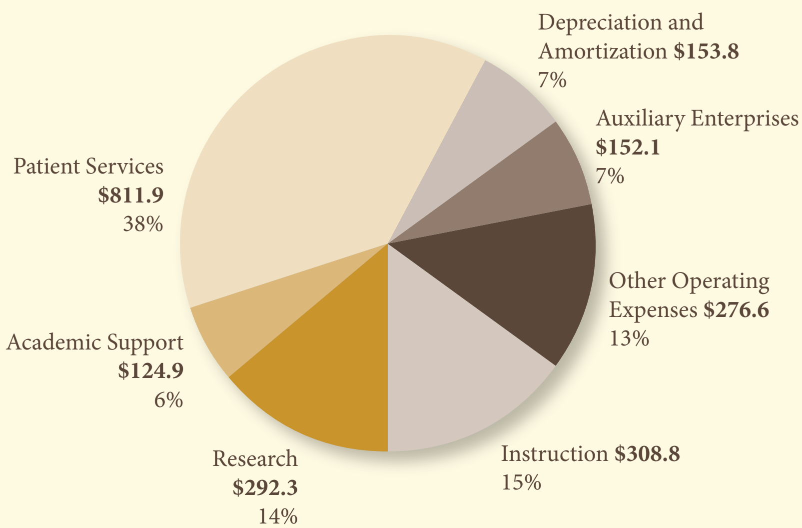


In the most current National Institutes of Health (NIH) report, from 2009, the University of Iowa was ranked 13th among all public universities receiving NIH funding. According to the most recent National Science Foundation survey in 2008, the University of Iowa ranked 20th among public universities in terms of federally financed expenditures for research and development. Grants, contracts and other sponsored agreements revenue exceeded $400 million in FY 2010, $361 million in FY 2009 and $336 million in FY 2008.

OPERATING EXPENSES

For the fiscal years ended June 30, 2010, 2009 and 2008, operating expenses totaled $2,120 million, $2,160 million and $1,999 million, respectively. Operating expenses decreased by $39.7 million (1.8%) from FY 2009. The decrease is primarily due to the categories of patient services and instruction. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2010.

FY2010 Operating Expenses *$2,120.4 million*



Other operating expenses include Public Service (2010, $66 million; 2009, $68 million), Student Services (2010, $27 million; 2009, $26 million), Institutional Support (2010, $74 million; 2009, $74 million), Operation and Maintenance of Plant (2010, $75 million; 2009, $71 million), and Scholarships and Fellowships (2010, $34 million; 2009, $33 million).

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive $388.0 million for the fiscal year ended June 30, 2010 and a positive $288.4 million for the fiscal year ended June 30, 2009.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2010, 2009 and 2008.

Nonoperating Revenues (Expenses) *(in millions)*

	2010	2009	2008
Nonoperating Revenues (Expenses)			
State appropriations	$284.7	$301.5	$289.7
Investment income (loss), net of investment expenses	74.6	(37.7)	26.4
Gifts	63.6	61.0	62.2
Interest expense	(27.2)	(29.1)	(31.7)
Loss on disposal of capital assets	(7.7)	(7.3)	(4.2)
Net Nonoperating Revenues (Expenses)	**$388.0**	**$288.4**	**$342.4**

State appropriations decreased by $16.8 million (5.6%) in the fiscal year ended June 30, 2010. However, investment income (loss) increased by $112.3 million (297.9%) in the fiscal year ended June 30, 2010 due to higher returns compared with fiscal year ended June 30, 2009.

OTHER REVENUES

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, additions to endowments from gifts and contributions and grants for capital projects. The other revenues decreased from $52.9 million for the year ended June 30, 2009 to $41.7 million for the fiscal year ended June 30, 2010 (21.2%). Capital appropriations, contributions, and grants decreased from $31.2 million for the year ended June 30, 2009 to $24.1 million for the year ended June 30, 2010, a decrease of $7.1 million or 22.8%. Additionally, for the year ended June 30, 2010, $25.4 million in FEMA revenues was recognized. This revenue is intended to fund flood-related expenses.

The University endowment is essentially a perpetuity for the benefit of the University. The endowments and similar long term assets are invested in accordance with the Board of Regents, State of Iowa (Regents) policies to maximize total return over the long term, with an appropriate level of risk. All investment managers and investment strategies are approved by the Board and reviewed by the Board at least quarterly. Any reduction in the fair value of the endowment portfolio will not have a significant, immediate impact on the portion of investment income available to support current year operating expenses since the University makes such distributions pursuant to its spending rate policy as described in Note II to the financial statements.

Other Revenues (Expenses)

After insurance recoveries, FEMA has agreed to reimburse the University at 90% of actual cost of approved project work orders. All FEMA related activity is reported in Other Revenues (Expenses). In 2010, the University received $25.4 million in FEMA reimbursements towards flood-related costs expended.

REPORTING FOR JUNE 2008 FLOOD

Extraordinary Event

In the last month of fiscal year 2008, the University of Iowa sustained significant damage to property and impairment to capital assets as a result of the flooding of the Iowa River. This event was treated as an extraordinary event as it met the criteria for being both unusual in nature and infrequent in occurrence. In fiscal year 2010, we have updated damage, restoration and recovery estimates.

This year we have recognized a $15.8 million loss as shown in the extraordinary items section. Of the total, an $11.8 million loss is attributable to building impairment loss and a decrease to insurance recovery. This is further described in Note X of the Notes to the Financial Statements. The remaining $4.0 million loss is related to non-capital flood expenses incurred.

Extraordinary Items *(in millions)*

	2010	2009	2008
Building (Capital) - Net Impairment Gain After Insurance Recovery *Increase in Buildings & Infrastructure write-down (impairment loss) of $4.8M, offset by decrease in realizable insurance recovery of $7.0M*	$(11.8)	$4.4	$35.7
Non-building (non-capital) - Flood Expenses Incurred *Content Repair/Replacement, Extra Expense/Temporary Measures, etc.*	(4.0)	(22.8)	(4.9)
Realizable Insurance Recoveries	-	21.6	24.3
Net Extraordinary Items	$(15.8)	$3.2	$55.1

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information regarding the University's cash receipts and disbursements during the fiscal year. This provides an assessment of the University's ability to generate net cash flows and meet obligations as they come due.

The following table summarizes the University's cash flow for the years ended June 30, 2010, 2009 and 2008.

Cash Flows for the Year *(in millions)*

	2010	2009	2008
Cash provided (used) by:			
Operating activities	$(76.1)	(108.0)	(130.1)
Noncapital financing activities	369.9	367.0	342.7
Capital and related financing activities	(160.3)	(238.2)	(105.0)
Investing activities	(95.9)	47.1	58.7
Net change in cash and cash equivalents	**37.6**	**67.9**	**166.3**
Cash and cash equivalents, beginning of year	559.3	491.4	325.1
Cash and cash equivalents, end of year	**$596.9**	**$559.3**	**$491.4**

The University's overall liquidity increased during the year, with a net increase in cash and cash equivalents of $37.6 million. Many factors contribute to this increase with the most significant being collections of tuition, patient services, and auxiliary enterprise receipts, reduction in payments for salaries, and increased proceeds from capital debt.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2010, 2009 and 2008.

Capital Assets, Net of Depreciation and Amortization *(in millions)*

	2010	2009	2008
Nondepreciable			
Land	$23.3	$22.4	$19.5
Construction in progress	301.7	248.9	183.1
Intangibles in development	11.7	-	-
Art & historical collections	32.8	32.7	32.1
Library materials	242.9	230.3	217.6
Depreciable			
Land improvements, net	7.1	7.2	8.1
Infrastructure, net	178.8	185.8	142.8
Buildings, net	1,086.6	1,062.8	1,001.7
Equipment, net	211.4	276.7	243.5
Intangibles, net	45.5	-	-
Total Capital Assets, Net	**$2,141.8**	**$2,066.8**	**$1,848.4**

The University was struck by a historic 500-year flood in June 2008. The University is working very closely with FEMA and the Federal Homeland Security Agency to get buildings directly impacted by the flood back in operation as quickly as possible.

Construction on a 113,500 gross square-foot University Hygienic Laboratory building was completed in October 2010. The new $69 million Campus Recreation & Wellness Center, which will provide much needed recreation space for students, opened in August 2010. Construction continues on many projects including, College of Public Health, an addition to Carver Hawkeye Arena, a new 200,000 square foot inter-disciplinary biomedical research facility and a data center which will consolidate Hospital and University IT organizations into a single joint-use facility.

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

Debt

As of June 30, 2010, the University had $892.4 million in outstanding bonds, notes and capital leases, an increase of $92.8 million over the prior year. Debt principal payments of $48.1 million and interest payments of $26.3 million were made during the year ended June 30, 2010.

The following table summarizes outstanding debt by type as of June 30, 2010, 2009 and 2008.

Bonds, Notes and Capital Leases
(in millions)

	2010	2009	2008
Revenue bonds	$747.4	$639.9	$606.7
Notes	15.3	15.4	0.5
Capital leases	129.7	144.3	144.8
Total Debt Outstanding	**$892.4**	**$799.6**	**$752.0**

During the fiscal year ended June 30, 2010, $138 million of new revenue bonds were issued. The revenue bond proceeds were $37 million for Academic, $26 million for Athletics renovation of Carver Hawkeye Arena, $25 million to help finance a portion of the Campus Recreation and Wellness Center, $25 million to finance a portion of the new Data Center, and $25 million for improvements for Utility infrastructure. The University carries an Aa1 institutional bond rating from Moody's and an AA rating from Standard & Poor's. Additional information related to the University's long-term liabilities is presented in Note V to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University of Iowa continues to have significant appeal to prospective students. This is attributable, in part, to the University's high academic standards and its national reputation as a best buy due to its relative low cost of education. The University continues to draw a high percentage of students from outside the state of Iowa, most notably from the state of Illinois. Total first year enrollment for the 2010-2011 academic term rose from 4,063 to this year's record enrollment of 4,557. Total enrollment went from 30,328 in the Fall of 2009 to 30,825 in the Fall of 2010.

Other revenue streams are also in good condition. During the fiscal year ended June 30, 2010, the University generated a new record of $466.5 million in grant and contract awards to promote research, education and service. The recent completion of new research labs and continued investment in new research buildings and infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts as new sponsored research and opportunities emerge.

The University of Iowa Hospitals & Clinics continues to be recognized as one of the nation's best teaching hospitals. Many of its programs are ranked in the top 10 and fiscal operations continue to report strong patient census data and good financial performance overall.

The world economy appears to be on a slow rebound after experiencing a financial crisis not seen previously by most Americans. Endowment investment returns are significantly improved but market values remain below 2007 levels, yet fundraising is very healthy and expanding with the engagement of the University's many generous donors.

State revenues have declined substantially resulting in the state reducing the University's general education fund appropriation by $44 million in fiscal year 2010. State revenue forecasts are projecting a surplus for the current fiscal year.

Statement of Net Assets June 30, 2010 (in thousands)

(with comparative statement as of June 30, 2009)

Assets	2010	2009
Current Assets:		
Cash and cash equivalents	$472,774	$441,901
Restricted cash and cash equivalents	99,985	97,424
Investments	813,010	641,090
Restricted investments	-	40
Deposits with trustees	41,651	32,389
Accounts receivable, net	266,620	260,454
Notes receivable, current portion, net	2,854	2,925
Interest receivable	1,340	2,602
Due from government agencies	119,397	62,174
Inventories	30,481	29,856
Prepaid expenses and other current assets	16,649	13,006
Total current assets	1,864,761	1,583,861
Noncurrent Assets:		
Restricted cash and cash equivalents	24,181	19,995
Restricted investments	58,849	57,270
Notes receivable, noncurrent portion, net	24,177	25,167
Capital assets, net	2,141,764	2,066,783
Investment in wholly owned subsidiary	24,110	25,753
Total noncurrent assets	2,273,081	2,194,968
Total Assets	$4,137,842	$3,778,829

Liabilities And Net Assets	2010	2009
Current Liabilities:		
Accounts payable	$82,437	$82,729
Salaries and wages payable	126,979	127,728
Unpaid claims	29,107	25,667
Interest payable	14,592	13,615
Long term debt, current portion	35,443	46,120
Other long term liabilities, current portion	95,147	86,184
Deposits held in custody for others	146,587	137,659
Total current liabilities	530,292	519,702
Noncurrent Liabilities:		
Long term debt, noncurrent portion	856,907	753,473
Other long term liabilities, noncurrent portion	138,935	108,556
Total noncurrent liabilities	995,842	862,029
Total Liabilities	1,526,134	1,381,731
Net Assets:		
Invested in capital assets, net of related debt	1,354,232	1,356,663
Restricted:		
Nonexpendable	64,893	65,250
Expendable	236,838	215,070
Unrestricted	955,745	760,115
Total Net Assets	2,611,708	2,397,098
Total Liabilities and Net Assets	$4,137,842	$3,778,829

The accompanying notes are an integral part of these financial statements.
Net Asset components for FY2009 have been restated to conform to current year presentation.

Statement of Revenues, Expenses and Changes in Net Assets For the year ended June 30, 2010 (in thousands)

(with comparative statement for the year ended June 30, 2009)

Operating Revenues	2010	2009
Student tuition & fees, net of scholarship allowances of $82,705 and $68,358 for the years ended June 30, 2010 and 2009, respectively (pledged as payment on revenue bonds)	$277,053	$262,435
Federal grants and contracts	345,068	308,399
State and other governmental grants and contracts	9,572	12,230
Nongovernmental grants and contracts	45,683	40,855
Patient services, net of write-offs, contractual adjustments and indigent care of $1,192,362 and $1,087,752 for the years ended June 30, 2010 and 2009, respectively (pledged as payment on revenue bonds)	965,672	952,263
Sales and services of educational departments	109,359	107,607
Interest on student loans	810	821
Auxiliary enterprises, net of scholarship allowances of $6,071 and $6,066 for the years ended June 30, 2010 and 2009, respectively (pledged as payment on revenue bonds)	164,135	155,582
Other operating revenue	3,711	49,097
Total Operating Revenues	1,921,063	1,889,289
Operating Expenses		
Instruction	308,768	322,784
Research	292,313	275,163
Public service	65,898	68,239
Academic support	124,923	125,763
Patient services	811,812	872,139
Student services	26,899	25,955
Institutional support	73,697	73,837
Operation and maintenance of plant	74,701	70,722
Scholarships and fellowships	33,838	32,894
Depreciation and amortization	153,823	149,243
Student loan write-offs, collection and administration	648	854
Auxiliary enterprises	152,145	141,424
Other operating expenses	961	1,042
Total Operating Expenses	2,120,426	2,160,059
Operating Income (Loss)	(199,363)	(270,770)
Nonoperating Revenues (Expenses)		
State appropriations	284,717	301,546
Investment income (loss), net of investment expenses of $1,072 and $1,564 for the years ended June 30, 2010 and 2009, respectively	74,677	(37,670)
Gifts	63,564	61,003
Interest expense	(27,242)	(29,170)
Loss on disposal of capital assets	(7,700)	(7,306)
Net Nonoperating Revenues (Expenses)	388,016	288,403
Income Before Other Revenues	188,653	17,633
Other Revenues		
Capital appropriations, State	22,423	20,590
Capital contributions and grants	1,653	10,647
Other nonoperating revenue - FEMA	25,390	34,270
Other nonoperating expense - FEMA	(7,724)	(12,599)
Net Other Revenues	41,742	52,908
Increase in Net Assets before Extraordinary Items	230,395	70,541
Extraordinary Items Due To Flood		
Net building impairment gain (loss) after insurance recovery	(11,782)	4,416
Flood expenses incurred - recoverable from insurance	-	(21,636)
Flood expenses incurred - UI funded	(4,003)	(1,256)
Other realizable insurance recoveries	-	21,636
Net Extraordinary Items	(15,785)	3,160
Increase in Net Assets	214,610	73,701
Net Assets		
Net assets, beginning of year	2,397,098	2,323,397
Net assets, end of year	$2,611,708	$2,397,098

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

Statement of Cash Flows For the Year ended June 30, 2010 (in thousands)

(with comparative statement for the year ended June 30, 2009)

	2010	2009
Cash Flows From Operating Activities		
Tuition and fees	$278,615	$262,307
Patient receipts	959,749	947,239
Grants and contracts	359,837	350,815
Payments for salaries and benefits	(1,138,985)	(1,196,855)
Payments for goods and services	(630,822)	(607,471)
Scholarships	(33,838)	(32,894)
Loans issued to students	(4,064)	(4,482)
Collections of loans from students	5,287	5,737
Interest on loans to students	748	806
Sales of educational activities	106,635	104,942
Other receipts (payments)	7,822	52,005
Auxiliary enterprise receipts	165,015	151,248
Auxiliary enterprise payments	(152,145)	(141,424)
Net Cash (Used) by Operating Activities	(76,146)	(108,027)
Cash Flows From Noncapital Financing Activities		
State appropriations	284,717	301,546
Proceeds from noncapital gifts	63,564	61,003
Funds held for others receipts	246,072	266,184
Funds held for others payments	(224,412)	(261,663)
William D. Ford Direct Lending & Plus Loans receipts	200,722	179,494
William D. Ford Direct Lending & Plus Loans made	(200,733)	(179,520)
Other noncapital receipts (payments)	12	26
Net Cash Provided by Noncapital Financing Activities	369,942	367,070
Cash Flows From Capital And Related Financing Activities		
Acquisition and construction of capital assets	(249,410)	(357,037)
Interest paid on capital debt and leases	(26,264)	(28,678)
Proceeds from sale of capital assets	738	1,861
Capital appropriations	23,648	18,803
Capital gifts and grants received	1,309	190
Deposits with trustee	(9,262)	22,586
Principal paid on capital debt and leases	(48,101)	(32,166)
Proceeds from capital debt and leases	138,175	74,585
Other capital and related financing receipts	74,121	100,906
Other capital and related financing payments	(65,254)	(39,265)
Net Cash (Used) by Capital and Related Financing Activities	(160,300)	(238,215)
Cash Flows From Investing Activities		
Interest and dividends on investments	32,732	36,978
Proceeds from sale and maturities of investments	264,014	404,265
Purchase of investments	(392,622)	(394,109)
Net Cash Provided (Used) by Investing Activities	(95,876)	47,134
Net Increase in Cash & Cash Equivalents	37,620	67,962
Cash & Cash Equivalents, beginning of year	559,320	491,358
Cash & Cash Equivalents, end of year	$596,940	$559,320

Statement of Cash Flows

For the year ended June 30, 2010 (in thousands)

(with comparative statement for the year ended June 30, 2009)

	2010	2009
Reconciliation Of Cash And Cash Equivalents To The Statement Of Net Assets:		
Cash and cash equivalents in current assets	$472,774	$441,901
Current restricted cash and cash equivalents	99,985	97,424
Noncurrent restricted cash and cash equivalents	24,181	19,995
Total Cash and Cash Equivalents	**$596,940**	**$559,320**
Reconciliation Of Operating Income (Loss) To Net Cash Used By Operating Activities:		
Operating income (loss)	$(199,363)	$(270,770)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation and amortization expense	153,823	149,243
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,627)	(2,338)
Interest receivable	62	14
Inventories	(625)	488
Prepaid expenses and other current assets	(3,644)	(209)
Due from government agencies, net of receivable from State for capital appropriations	(38,735)	(15,855)
Notes receivable, net	1,060	1,584
Accounts payable	(17,169)	11,286
Salaries and wages payable	(749)	5,236
Unpaid claims liability	3,440	1,988
Other long term liabilities	4,594	(93)
Deferred revenue	3,999	(1,176)
Other postemployment benefits other than pension liability	16,143	6,026
Compensated absences	1,708	7,153
Early retirement benefits	12,937	(604)
Net Cash (Used) by Operating Activities	**$(76,146)**	**$(108,027)**
Significant Noncash Transactions		
Assets acquired under capital leases	**$3,508**	**$6,122**
Assets acquired by gift	344	10,457

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

Balance Sheet June 30, 2010 (in thousands)

(with comparative statement as of June 30, 2009)

ASSETS	2010	2009
Cash and cash equivalents	**$41,881**	**$66,308**
Receivables:		
Pledges, at net present value, less allowance for doubtful pledges	115,689	113,083
Other receivables and prepaids	355	356
	116,044	**113,439**
Investments:		
Carried at fair value		
U.S. Government and governmental agency securities	14,035	13,760
Corporation stocks, primarily common stocks	3,126	2,290
Managed separate investment accounts, primarily equity securities	679,470	547,389
Assets in living trusts, testamentary trusts and gift annuities	47,682	47,020
Beneficial interest in perpetual trusts	9,592	8,860
Other		
Real estate	4,510	2,965
Cash value of life insurance	4,431	4,095
Other	936	936
	763,782	**627,315**
Property leasehold interest and equipment, net	**21,188**	**22,225**
TOTAL ASSETS	**$942,895**	**$829,287**

LIABILITIES AND NET ASSETS

	2010	2009
Liabilities:		
Accounts payable and accrued expenses	$1,240	$1,002
Accrued vacations	780	989
Annuity and life income obligations	23,700	24,435
Capital lease obligation	6,295	6,885
Amounts held on behalf of others	65,919	57,363
Total liabilities	**97,934**	**90,674**
Net Assets:		
Unrestricted	19,702	23,595
Temporarily restricted	353,546	272,430
Permanently restricted	471,713	442,588
Total net assets	**844,961**	**738,613**
Total Liabilities And Net Assets	**$942,895**	**$829,287**

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

Statement of Activites For the year ended June 30, 2010 (in thousands)

(with comparative statement for the year ended June 30, 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total	2009 Total
Support and revenue:					
Total contributions raised	$46	$62,669	$26,382	$89,097	$104,277
Change in value of split interest agreements	8	609	2,126	2,743	(12,874)
Less amounts raised on behalf of others	-	(4,368)	(1,101)	(5,469)	(5,109)
Total contributions and change in value of split interest agreements	**54**	**58,910**	**27,407**	**86,371**	**86,294**
Investment income:					
Interest and dividends	768	1,592	-	2,360	3,303
Asset based management and service fees	8,608	(8,411)	-	197	301
Net appreciation (depreciation) in fair value of investments	2,527	91,435	-	93,962	(113,479)
	11,903	84,616	-	96,519	(109,875)
Less amounts attributed to others	-	(8,734)	-	(8,734)	9,356
Total investment income (loss)	**11,903**	**75,882**	-	**87,785**	**(100,519)**
Other revenue:					
Fundraising service revenue and other	7,342	3,264	-	10,606	10,027
Less amounts attributed to others	-	(249)	-	(249)	(325)
Total other revenue	**7,342**	**3,015**	-	**10,357**	**9,702**
Net assets released from restrictions and changes in donor restrictions	54,973	(56,691)	1,718	-	-
Total support and revenue	**74,272**	**81,116**	**29,125**	**184,513**	**(4,523)**
Expenditures and deductions on behalf of The State University of Iowa and its affiliates:					
Programs and expense disbursements:					
Student financial aid	10,963	-	-	10,963	11,283
Faculty and staff support	3,380	-	-	3,380	4,023
Research	9,917	-	-	9,917	10,193
Capital/equipment	12,301	-	-	12,301	6,947
Fellowships	1,813	-	-	1,813	2,617
Professorships	2,452	-	-	2,452	2,879
Faculty chairs	3,989	-	-	3,989	4,468
Program support	13,326	-	-	13,326	14,920
Fundraising	4,404	-	-	4,404	5,052
Management and service fees	1,809	-	-	1,809	1,835
	64,354	-	-	64,354	64,217
Less amounts incurred on behalf of others	(5,895)	-	-	(5,895)	(6,849)
	58,459	-	-	**58,459**	**57,368**
Expenses of The State University of Iowa Foundation:					
Operating expenses	19,670	-	-	19,670	21,740
Foundation grants to The State University of Iowa	37	-	-	37	85
	19,707	-	-	**19,707**	**21,825**
Total expenses	**78,166**	-	-	**78,166**	**79,193**
Change in net assets	**(3,894)**	**81,116**	**29,125**	**106,347**	**(83,716)**
Net assets, beginning of year	23,596	272,430	442,588	738,614	822,329
Net assets, end of year	**$19,702**	**$353,546**	**$471,713**	**$844,961**	**$738,613**

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

Notes to Financial Statements

I. Organization And Summary Of Significant Accounting Policies

ORGANIZATION

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

The University is classified as a state instrumentality under Internal Revenue Code Section 115 and it is exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

BASIS OF PRESENTATION

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

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

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

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

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

FINANCIAL REPORTING ENTITY

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

The University's financial statements include schools, colleges and departments, the University of Iowa Hospitals & Clinics (UIHC), the Iowa Medical Mutual Insurance Company (IMMIC, a captive insurance company) and certain affiliated operations determined to be a part of the University's financial reporting entity. The University has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the University. In May, 2002, GASB issued Statement No. 39, Determining Whether Certain Organizations Are Component Units. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships to the University.

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

Blended Component Units

The Iowa Measurement Research Foundation and Miller Endowment, Incorporated are included in the reporting entity as blended component units. These legally separate entities are included in the University's financial reporting entity because of the nature of their relationship to the University.

Discretely Presented Component Unit

The State University of Iowa Foundation and Affiliates (Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation's financial statements include its affiliated organization, the University of Iowa Facilities Corporation and Ascend Technologies, Inc, both of which are wholly controlled by the Foundation. Ascend Technologies, Inc. was dissolved during the year ended June 30, 2009. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the Foundation or the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. During the years ended June 30, 2010 and 2009, the Foundation distributed to the University or expended on behalf of the University, \$58,459,000 and \$57,368,000, respectively, for both restricted and unrestricted purposes.

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

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

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

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

	Amounts Held on Behalf of Others
Iowa Law School Foundation	$53,134
Iowa Scholarship Fund	8,194
University of Iowa Alumni Association	4,130
Others	461
Total	**$65,919**

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

Complete financial statements for the Foundation can be obtained from The University of Iowa Foundation, One West Park Road, P.O. Box 4550, Iowa City, Iowa 52240, Attn: Controller.

BASIS OF ACCOUNTING

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

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, as permitted by GASB standards, cash equivalents held in Deposits with Trustees are treated as investments.

INVESTMENTS (UNIVERSITY)

Investments are reported at fair value in accordance with GASB Statements No. 31 and No. 34. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

INVESTMENTS (FOUNDATION)

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

PLEDGES RECEIVABLE (FOUNDATION)

Pledges receivable are recorded at their net present value of estimated cash flows using the currently effective interest rate, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are met. The provision for losses on doubtful pledges is an adjustment to contributions at the time the pledge is made. Pledges written off totaled $1,452,000 and $1,246,000 in the years ended 2010 and 2009, respectively.

INVENTORIES

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

CAPITAL ASSETS

Capital assets estimated to have a useful life greater than one year are stated at cost at the date of acquisition or estimated fair market value at date of receipt in the case of gifts. The equipment capitalization threshold is $5,000. The capitalization threshold for intangibles (software) is $500,000, except for UIHC which is $5,000. Routine repairs and maintenance costs are expensed as incurred. Interest cost is capitalized on all UIHC construction projects during the construction period. For all other University projects, interest costs are capitalized when the interest cost during the construction period exceeds the interest earned on the investment of debt proceeds. Depreciation and amortization of capital assets is calculated using the straight-line method over the estimated useful lives (five to fifty years) of the respective assets.

WHOLLY OWNED SUBSIDIARY (UNIVERSITY)

The University owns all of the outstanding stock of Musser-Davis Land Company (acquired by gift) and reports such ownership as a wholly owned subsidiary. The Company's operations consist primarily of leasing mineral rights to others and planting seedlings to be harvested by others. The Company's fiscal year ends December 31 and its financial statements are presented on a modified cash basis of accounting. As of December 31, 2009, assets (including investments of $22,256,000) totaled $24,110,000; liabilities were $0; and net assets were $24,110,000. As of December 31, 2008, assets (including investments of $23,989,000) totaled $25,753,000; liabilities were $0; and net assets were $25,753,000.

INVESTMENTS IN SUBSIDIARIES (FOUNDATION)

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

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

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

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

BOND ISSUANCE COSTS

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

DEFERRED REVENUE

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

COMPENSATED ABSENCES PAYABLE

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

LONG TERM DEBT AND OTHER LONG TERM LIABILITIES

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

FRINGE BENEFITS

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

DEFINITION OF OPERATING ACTIVITIES

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

NON-VESTED EQUIPMENT

Capital assets purchased with restricted contract and grant proceeds have been excluded from the Statement of Net Assets at June 30, 2010.

USE OF ESTIMATES

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

RECLASSIFICATIONS

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

II. Cash Deposits, Investments, And Deposits With Trustees

CASH DEPOSITS AND CASH EQUIVALENTS

As of June 30, 2010 and 2009, the book balance of cash and cash equivalents totaled $596,940,000 and $559,320,000, respectively, and the bank balance of cash and cash equivalents totaled $607,925,000 and $566,920,000, respectively. Of the bank balances as of June 30 2010, $228,529,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $379,396,000 was invested in money market funds as cash equivalents. Of the bank balances as of June 30, 2009, $30,912,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $536,008,000 was invested in money market funds as cash equivalents.

INVESTMENTS

In accordance with the Code of Iowa, the University's operating portfolio may be invested in obligations of the U.S. government and its agencies, certificates of deposit, prime bankers' acceptances, investment grade commercial paper, repurchase agreements, investments authorized for the Iowa Public Employees' Retirement System in Section 97B.7 of the Code of Iowa, investment grade corporate debt, mortgage pass through and asset backed securities with an A rating at time of purchase, and an open-end management investment company organized in trust form registered with the S.E.C. under the Investment Company Act of 1940. The University's endowment portfolio may invest in all of the above as well as certain international and listed domestic equities. The University of Northern Iowa's endowments are pooled with the University's endowments to achieve economies of scale. At June 30, 2010 and 2009, the University included $6,954,000 and $6,686,000, respectively, held for the University of Northern Iowa as Investments and as a Deposit Held in Custody for Others

For donor restricted endowments, Chapter 540A of the Code of Iowa permits the University to spend the net appreciation of realized and unrealized earnings as the University determines to be prudent. The University's spending rule is five percent (5%) of market value, calculated and distributed quarterly, based on a twelve quarter rolling market average.

Net appreciation of permanent endowment funds, which totaled $4,185,000 and ($4,055,000) at June 30, 2010 and 2009, respectively, is available to meet spending rate distributions and is recorded in restricted nonexpendable net assets.

The University's investments are recorded at fair value. As of June 30, 2010, the University had the following investments and quality credit ratings (in thousands):

Investment Type	Total Market Value	Average Quality Rating	Effective Duration (Years)
University of Iowa Quasi 2 Endowment Pool			
Agency Asset-Backed Securities	$148		0.27
Agency Bonds	1,864		0.39
Agency Mortgage-Backed Securities	1,378		2.43
Agency Pools	6,137	A	3.05
Asset-Backed Securities	7,167	AA+	2.22
Financials	4,372	A	6.63
Industrials	3,149	A-	7.35
Other Global Corp Bonds	725	AA	6.42
Private Placements	3,298	A	3.39
US Treasury Bonds and Notes	17,899		4.50
Utilities	365	A-	5.32
Mutual Funds - Fixed Income	27,587	A	3.80
Total Fixed Income - Quasi 2 Endowments	**$74,089**	**AA**	**3.97**
University of Iowa Long Term Endowment Pool			
Agency Asset-Backed Securities	$100		0.27
Agency Bonds	1,395		0.39
Agency Mortgage-Backed Securities	925		2.47
Agency Pools	4,740	A+	3.03
Asset-Backed Securities	4,794	AA+	2.25
Financials	3,318	A	6.60
Industrials	2,285	A-	7.35
Other Global Corp Bonds	542	AA	6.43
Private Placements	2,218	A	3.28
US Treasury Bonds and Notes	14,294		4.31
Utilities	265	BBB+	5.48
Mutual Funds - Fixed Income	38,469	A	3.80
Mutual Funds - Fixed Income	13,744	B+	3.93
Total Fixed Income - Long Term Endowment	**$87,089**	**AA+**	**3.91**
U.S. Equity	$40,221		
Domestic Equity Mutual Fund	24,790		
International Equity Mutual Funds	62,224		
Real Assets	9,186		
Alternative Assets-Private Equities	5,653		
Total Equities/Real Assets-Long Term Endowment	**$142,074**		
Total Long Term Endowment	**$229,163**		

Investment Type	Total Market Value	Average Quality Rating	Effective Duration (Years)
University of Iowa Non-Endowment Operations			
Agency Bonds	$412		3.37
Agency Mortgage-Backed Securities	3,085		-0.23
Agency Pools	5,054		0.87
Asset-Backed Securities	28,870	AA	0.83
Energy	1,109	AAA	1.00
Financials	15,583	AA	2.39
Government Agency	18,351		0.86
Industrials	5,490	A-	2.41
Other Global Corp Bonds	17,965	AA	2.72
Private Placements	4,365	AA-	2.45
US Government Mortgage Pool	46		1.75
US Treasury Bonds and Notes	59,322		1.72
Utilities	1,579	A-	1.74
Mutual Funds - Fixed Income	31,678	B	4.70
Mutual Funds - Fixed Income	60,023	AAA	3.90
Mutual Funds - Fixed Income	180,792	AA	4.37
Total Fixed Income - Operations	**$433,724**	**AA+**	**3.31**
International Equity Mutual Funds	$10,606		
REIT Mutual Funds	27,670		
Domestic Equity	291		
Domestic Equity Mutual Funds	40,678		
Certificates of deposit	55,638		
Total Equities/Real Assets-Non Endowment Operations	**$134,883**		
Total Non-Endowment Operations	**$568,607**		
Total Investments	**$871,859**		

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is measured using effective duration. The maximum duration of the University's unrestricted operating portfolio may not exceed the duration of the Merrill 1-3 year Government/Corporate Index by more than 20%. At time of purchase, the effective maturity of securities in the operating portfolio cannot exceed sixty-three months. There is no explicit limit on the average maturity of fixed income securities in the endowment portfolios. Each fixed income portfolio is managed to an appropriate benchmark.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University manages exposure to credit risk by measuring portfolios against benchmarks as established by the Board of Regents. As of June 30, 2010, the short-term operating portfolio benchmark is AAA (Merrill Lynch 1-3 Yr Government/Corporate Index) and the long-term bond portfolio benchmark is AA1 (Barclays Capital Aggregate Bond Index).

CONCENTRATION OF CREDIT RISK

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

DEPOSITS WITH TRUSTEES

Investments on deposit with trustees, paying and co-paying agents for the purpose(s) of paying current obligations of bond principal and interest, for holding Bond Reserve Funds or for holding Construction Funds as specified by bond resolutions at June 30, 2010 and 2009, totaled $41,651,000 and $32,389,000, respectively. At June 30, 2010, $12,452,000 of the $41,651,000 deposits with trustees was invested in U.S. Government Agency securities with a credit quality rating of AAA and an effective duration of 1.283 years.

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

III. Accounts Receivable, Pledges Receivable, Due From Government Agencies And Notes Receivable

ACCOUNTS RECEIVABLE (IN THOUSANDS)

	University and Blended Component Units	UIHC, Affiliates and UI Physicians	Total
Accounts Receivable	$127,258	410,033	$537,291
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	2,972	267,699	270,671
Accounts Receivable, Net, June 30, 2010	**$124,286**	**142,334**	**$266,620**
Accounts Receivable	$121,355	379,697	$501,052
Allowance for Uncollectible Accounts, Indigent Patients and Contractual Adjustments	2,245	238,353	240,598
Accounts Receivable, Net, June 30, 2009	**$119,110**	**141,344**	**$260,454**

PLEDGES RECEIVABLE (FOUNDATION)

A summary of the pledges receivable (unconditional promises to give) at June 30, 2010 and 2009 is as follows (in thousands):

	2010	2009
Gross pledges receivable	$132,487	$131,367
Less present value discount of $13,485 for 2010 and $14,871 for 2009 and allowance for doubtful pledges of $3,312 for 2010 and $3,413 for 2009.	16,798	18,284
Total	**$115,689**	**$113,083**

Pledges receivable at June 30, 2010 are expected to be collected in the following periods (in thousands):

	Total
In one year or less	$57,127
Between one year and five years	64,597
More than five years	10,763
Total	**$132,487**

DUE FROM GOVERNMENT AGENCIES

Due from government agencies at June 30, 2010 and 2009 are composed of $17,332,000 and $14,926,000, respectively, due from the State of Iowa and $102,065,000 and $47,248,000, respectively, due from United States government agencies.

NOTES RECEIVABLE

Current notes receivable at June 30, 2010 and 2009 are $3,085,000, net of an allowance of $231,000, and $3,191,000, net of an allowance of $266,000, respectively. Noncurrent notes receivable at June 30, 2010 and 2009 are $26,135,000, net of an allowance of $1,958,000, and $27,452,000, net of an allowance of $2,285,000, respectively.

IV. Capital Assets

A summary of capital assets activity for the year ended June 30, 2010 is as follows (in thousands):

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Nondepreciable					
Land	$22,397	853	-	-	$23,250
Construction in Progress	244,404	167,976	(110,610)	-	301,770
Intangibles in Development	4,469	7,256	-	-	11,725
Art & Historical Collections	32,651	129	-	-	32,780
Library Materials	230,300	15,136	-	2,573	242,863
Capital Assets, Nondepreciable	**534,221**	**191,350**	**(110,610)**	**2,573**	**612,388**
Depreciable					
Land Improvements	20,732	-	2,115	1,423	21,424
Infrastructure	421,112	-	7,994	521	428,585
Buildings	2,020,208	-	100,501	14,572	2,106,137
Equipment	562,724	50,070	-	45,766	567,028
Intangibles	82,311	2,034	-	12,990	71,355
Capital Assets, Depreciable	3,107,087	52,104	110,610	75,272	3,194,529
Less Accum. Depreciation/ Amortization	(1,574,525)	(153,823)	-	(63,195)	(1,665,153)
Depreciable Assets, Net	**1,532,562**	**(101,719)**	**110,610**	**12,077**	**1,529,376**
Capital Assets, Net	**$2,066,783**	**89,631**	**-**	**14,650**	**$2,141,764**

Governmental Accounting Standards Board Statement No. 51, Accounting and Financial Reporting for Intangible Assets was implemented during fiscal year 2010. Computer software in development totaling $4,469,000 previously classified as construction in progress was reclassified as intangibles in development and computer software totaling $82,311,000 which was previously reported as equipment was reclassified as intangibles.

V. Long-Term Liabilities

A summary of the changes in long-term liabilities for the year ended June 30, 2010 is as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$639,901	183,425	75,889	747,437	$27,702
Notes payable	15,383	-	120	15,263	127
Capital leases payable	144,309	14,533	29,192	129,650	7,614
Total long-term debt	**799,593**	**197,958**	**105,201**	**892,350**	**35,443**
Other long-term liabilities:					
Early retirement benefits payable	205	13,141	205	13,141	2,789
Other post employment benefits other than pensions	10,540	16,144	-	26,684	-
Compensated absences	114,190	42,816	41,108	115,898	40,564
Refundable allowances on student loans	21,970	-	169	21,801	-
Deferred revenue and other	47,835	53,618	44,895	56,558	51,794
Total other long-term liabilities	**194,740**	**125,719**	**86,377**	**234,082**	**95,147**
Total long-term liabilities	**$994,333**	**323,677**	**191,578**	**1,126,432**	**$130,590**

BONDS PAYABLE

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2010, as follows (in thousands):

	Interest Rates (Percent)	Fiscal Year Maturity Date Range	Amount
Bond Issues			
Academic Buildings	3.00 - 8.38	1994 - 2034	$140,197
Residence Services	2.00 - 5.75	2002 - 2025	47,300
Hospital	4.00 - 6.125	2005 - 2029	100,685
Recreational Facilities	3.00 - 4.875	2011 - 2035	77,175
Athletic Facilities	3.00 - 5.30	2007 - 2036	135,975
Telecommunications	3.00 - 4.25	2005 - 2037	36,620
Utility System	2.00 - 5.00	2004 - 2036	170,325
Iowa Memorial Union	3.50 - 4.30	2007 - 2026	9,445
Parking System	3.25 - 5.00	2007 - 2026	21,845
Center for University Advancement	3.75 - 4.75	2006 - 2020	6,885
Student Health Facility	3.60 - 4.75	1999 - 2013	985
Total			**$747,437**

As of June 30, 2010, unspent bond proceeds totaled $89,748,000. Unspent bond proceeds by segment are: $25,806,000 Academic Building Revenue Bonds; $17,383,000 Utilities System Revenue Bonds; $6,895,000 Recreation Facilities Revenue Bonds; $13,612,000 Athletic Facilities Revenue Bonds; $7,325,000 Hospital Revenue Bonds; and $18,727,000 Telecommunications Facilities Revenue Bonds.

The bonds will mature as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$27,702	32,611	$60,313
2012	32,875	29,531	62,406
2013	61,610	28,280	89,890
2014	35,545	26,158	61,703
2015	32,690	24,853	57,543
2016-2020	168,410	104,549	272,959
2021-2025	179,025	67,538	246,563
2026-2030	141,580	30,006	171,586
2031-2035	61,655	7,216	68,871
2036-2037	6,345	204	6,549
Total	**$747,437**	**350,946**	**$1,098,383**

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

NOTES PAYABLE

The University has a note payable with an interest rate of 6.50%, as well as a line of credit with an interest rate of 2.273%. The notes will mature as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2011	$127	400	$527
2012	15,136	295	15,431
Total	**$15,263**	**695**	**$15,958**

Assets acquired under notes payable (excluding line of credit) had a net book value of $800,000 as of June 30, 2010.

CAPITAL LEASES PAYABLE

Capital leases outstanding at June 30, 2010, are as follows (in thousands):

	Interest Rates	Lease Period	Amount
Capital Lease			
Medical Education and Biomedical Research Facility*	2.0%–5.38%	1999–2023	$36,380
Oakdale Research Park*	5.25%	2006–2021	7,599
Plaza Centre One*	4.59%	2002–2016	931
Roy J. and Lucille A. Carver Biomedical Research Bldg*	2.0%–5.9%	2002–2030	43,470
Copy Machines and Other Equipment	0.37%–21.96%	2004–2013	592
Old Capitol Town Center	3.50%–4.7%	2006–2031	32,185
University Athletic Club*	5.05%	2009–2016	5,385
College of Public Health*	2.0%–4.25%	2011–2030	3,108
Total			**$129,650**

**These capital leases are with The University of Iowa Facilities Corporation (UIFC), a wholly owned subsidiary of The University of Iowa Foundation. UIFC has issued revenue bonds for these facilities that have as their sole source of repayment the proceeds of these capital leases. The University of Iowa Foundation has characterized the bonds as conduit debt obligations and omitted them from the University of Iowa Foundation's financial statements. Although these bonds have characteristics of conduit debt, GASB has stated such debt is not conduit debt when the issuer (University of Iowa Foundation) and the beneficiary (University of Iowa) are within the same financial reporting entity. The University of Iowa Foundation did not include the liability for the bonds and the due from University of Iowa in its financial statements. Because there is no significant effect on the net assets of the University of Iowa Foundation or the University of Iowa as a result of the Foundation's reporting, the financial statements have been prepared to reflect the reporting method used by the Foundation in its annual financial statements for the year ended June 30, 2010.*

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

	Principal	Interest	Total
Year Ending June 30			
2011	$7,614	6,622	$14,236
2012	7,872	6,138	14,010
2013	8,089	5,839	13,928
2014	8,400	5,526	13,926
2015	7,796	4,474	12,270
2016-2020	44,036	16,672	60,708
2021-2025	24,418	8,920	33,338
2026-2030	19,850	3,316	23,166
2031	1,575	74	1,649
Total	**$129,650**	**57,581**	**$187,231**

Assets acquired under these capital leases had a net book value of $161,315,000 as of June 30, 2010.

VI. Operating Leases

The University has leased various buildings to house several departments of the University. These leases have been classified as operating leases. Accordingly, all rents are charged to expense as incurred. These leases expire from fiscal year 2011 to fiscal year 2031, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is an annual schedule of future minimum rental payments required under operating leases which have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2010 (in thousands).

	Amount
Year Ending June 30	
2011	$5,766
2012	2,712
2013	1,796
2014	1,316
2015	1,005
2016-2020	3,860
2021-2025	1,961
2026-2030	251
2031	24
Total	**$18,691**

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

Rental expense for the year ended June 30, 2010, for all operating leases, except those with terms of a month or less that were not renewed, totaled $5,274,000.

VII. Retirement Programs

TEACHERS INSURANCE AND ANNUITY ASSOCIATION

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. TIAA administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provision and contribution requirements. As required by the Board of Regents policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, each employee through the fifth year of employment contributes 3 1/3% of the first $4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first $4,800 of earnings and 10% on earnings above the $4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. The Board of Regents has approved a temporary reduction of the University required contribution from November 2009 through June 2011. During this period of time, the University, through the fifth year of employment, is required to contribute 5.33% of the first $4,800 of earnings and 8% on earnings above the $4,800. Upon completion of five years of service, the University is required to contribute 8% on all earnings. During fiscal years 2010 and 2009, the University's required and actual contribution amounted to $79,767,000 and $92,486,000, respectively. During fiscal years 2010 and 2009, the employees' required and actual contribution amounted to $45,986,000 and $46,242,000, respectively.

IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 4.3%, 4.1% and 3.9%, respectively, of their annual covered salary and the University is required to contribute 6.65%, 6.35% and 6.05%, respectively, of annual covered payroll for the years ended June 30, 2010, 2009, and 2008. Contribution requirements are established by State statute. The required contribution paid by employees for the years ended June 30, 2010, 2009, and 2008 were $1,070,000, $943,000, and $754,000, respectively. The University's required contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were $1,654,000, $1,460,000, and $1,170,000, respectively, equal to required contributions for each year.

VIII. Post-Employment Benefits

EARLY RETIREMENT

An early retirement program was approved by the Board of Regents in June 1986, and modified in July 1990, and in July 1992. New programs were approved in April 2009 and March 2010. In July 2001, the Board of Regents approved discontinuation of the 1986 program upon its expiration on June 30, 2002. The Board of Regents authorized each institutional head to exercise discretion as to whether faculty and staff who were qualified for participation in the program on June 30, 2002, may have two years after expiration of the program to request participation. This program expired June 30, 2004. Those eligible for participation were faculty, professional-scientific employees, institutional officials, staff of the Board Office and all merit system employees employed by the Board of Regents for a period of at least fifteen years and who had attained the age of 57 by June 30, 2002. The employee's department head and the appropriate administrative officers approved the employee's participation. The following benefits are applicable during participation in the Early Retirement Program:

1. **Life Insurance**—A paid-up life insurance policy of $2,000 to $4,000 equal to what the individual would have received if he/she had retired at the age of 65.
2. **Health and Dental Insurance**—The University will pay the full cost of the single employee premium for health and dental insurance or its standard share of any coverage other than single until the employee reaches eligibility for Medicare benefits. This contribution shall be equal to the amount contributed for an active employee in the same plan.

3. **TIAA/CREF Contributions**—During the first three years, the University will pay both the employer and employee retirement contributions. During the remaining years in the program, the university will pay only the employer contribution. Contributions are payable for a maximum of five years or until the employee is eligible for full Social Security benefits, whichever occurs first.
4. **IPERS Contributions**—The employee may only elect a lump sum payment.

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

The April 2009 and March 2010 early retirement program included the same health, dental and retirement incentives as the prior early retirement program. The criteria for the April 2009 program was age 57, and the criteria for the March 2010 program was age 55 with at least 10 years of service.

The University has recognized an early retirement benefit liability of $13,141,000 as of June 30, 2010, calculated on merit, faculty and P & S employee personnel. The early retirement liability for health and dental insurance has been rolled into the new GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. During fiscal year 2010, retirement expenditures for the 384 participants in the early retirement incentive program totaled $544,100.

REGULAR RETIREMENT

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

PLAN DESCRIPTION

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

FUNDING POLICY

The contribution requirements of plan members are established and may be amended by the University. Benefits are financed centrally by the University on a pay-as-you-go basis. Health insurance total expenditures for fiscal year 2010 were $4,016,000 with 1,618 eligible participants as of June 30, 2010. Life insurance total expenditures for fiscal year 2010 were $54,000 with 2,868 eligible participants as of June 30, 2010.

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

For fiscal year 2010, the University contributed $6.5 million to the plan. Plan members receiving benefits contributed 53.9 percent of the premium costs. In fiscal year 2010, total member contributions were $7.6 million.

The University currently plans to continue to finance retiree healthcare benefits on a pay-as-you-go basis from internal University monies. However, the University plans to earmark internal assets in the amount of 65 percent of the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The University will amortize the initial unfunded accrued liability (UAL) over an open thirty year period. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess). The current ARC of $14.1 million is 1.7 percent of annual payroll.

The following table presents the OPEB obligation for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2010 (in thousands):

Annual Required Contribution	$14,073
Interest on Net OPEB Obligation	732
Adjustment to Annual Required Contribution	(581)
Annual OPEB Cost (Expense)	**$14,224**
Contributions Made	(6,543)
Increase in Net OPEB Obligation	**$7,681**
Net OPEB Obligation (Asset) - Beginning of Year	10,540
Net OPEB Obligation (Asset) - End of the Year	**$18,221**

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

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

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost	Net OPEB Obligation
6/30/2008	$10,666	57.7%	$4,514
6/30/2009	$11,289	46.6%	$10,540
6/30/2010	$14,224	46.0%	$18,221

FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2010, the actuarial accrued liability (AAL) for benefits was $136.9 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $136.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $828.5 million and the ratio of the UAAL to the covered payroll was 16.5 percent. As of June 30, 2010, there were no trust fund assets.

ACTUARIAL METHODS AND ASSUMPTIONS

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

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

In the June 30, 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 6.95 percent discount rate based on the University's funding policy (earmarking 65% of the ARC internally) and the expected long-term returns on the University's internal capital. The projected annual healthcare trend rate is 8 percent initially, reduced in increments to an ultimate rate of 5 percent after five years. The expected long-term payroll growth rate was assumed to be 3.5 percent per year. The UAAL is being amortized as a level percent of pay on an open basis over thirty years.

TERMINATION

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

Four hundred one (401) terminated employees continued their benefits by assuming total financial responsibility. No University costs are associated with the premiums, but claims are the responsibility of the University since the insurance plans are self-insured.

OTHER POSTEMPLOYMENT BENEFITS

The University's merit employees are participants in the State of Iowa postretirement medical plan (OPEB Plan). The State of Iowa recognized the implicit rate subsidy for the OPEB Plan as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB Plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial liability, which is approximately $293.0 million for the State of Iowa at June 30, 2010, 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, 2010. 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 $8.5 million for other postemployment benefits, which represents the University's portion of the State's net OPEB liability. The University's portion of the net OPEB liability was calculated using the ratio of full time equivalent University merit employees compared to all full time equivalent employees of the State of Iowa.

The University recognized a net OPEB liability of $18.2 million for its retiree benefit plan and a liability of $8.5 for its allocated portion of the State's net OPEB liability, for a total net OPEB liability of $26.7 million.

IX. Other Commitments and Risk Management

COMMITMENTS

At June 30, 2010 and 2009, the University had outstanding construction contract commitments of $128,924,000 and $150,557,000, respectively.

RISK MANAGEMENT

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

Property Loss—The University purchases catastrophic property insurance for academic/general funded facilities with a single incident deductible of $2 million, which in the event of a claim, the State provides payment for pursuant to Chapter 29C.20 of the Code of Iowa. A contingent fund exists under Chapter 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property. Claims over $5,000 may be submitted to the State Executive Council for consideration. The University also purchases commercial property insurance for auxiliary enterprise facilities including Athletics, Utilities, Parking, Residence Halls and Family Housing, Laundry, Printing, Telecommunications, the Iowa Memorial Union, Virgil M. Hancher Auditorium and the University of Iowa Hospitals & Clinics. The University's annual limit is $1 billion, the maximum available on the September 1, 2009 renewal.

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

Utility system specific coverage is as follows:	
Utility System Operations Building & Content	$660,993,000
Power Plant Building & Content	$164,251,000

Telecommunications Facilities premium is based on the following values:	
Building	$29,148,000
Contents	$8,635,000
Income	$5,758,000

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

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

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

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

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

College of Medicine Faculty Malpractice Claims—Based on actuarial analysis, the College of Medicine has incurred a cumulative probable loss of $16,908,000 as of June 30, 2010. Since May 26, 2004, the College of Medicine Faculty malpractice insurance coverage was provided by IMMIC, a wholly-owned captive insurance company. The College of Medicine University of Iowa Physicians (UIP) maintains a self-insured retention (SIR) of $3 million per event and each IMMIC policy covers an additional $2 million per event above the SIR. The State of Iowa provides malpractice insurance coverage for claims in excess of $5 million per occurrence and $9 million in the aggregate per fiscal year.

Employee Medical and Dental Claims—The University purchases life, health, dental and disability insurance for eligible permanent employees. Based on actuarial analysis of employee medical and dental claims, the University has incurred but not reported claims of $10,710,000 as of June 30, 2010.

Reconciliation of Loss Contingencies (in thousands)—

	FY 2010	FY 2009
Claims and contingent liabilities accrued at July 1	$25,667	$23,679
Claims incurred and contingent liabilities accrued for the current year	127,672	110,788
Payments on claims during the fiscal year	(124,232)	(108,800)
Claims liabilities at June 30	**$29,107**	**$25,667**

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

X. NET BUILDING IMPAIRMENT GAIN (LOSS) DUE TO FLOOD

The calculation of a net impairment gain (loss) associated with the impaired buildings has been updated to reflect 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 gross impairment loss is calculated using the restoration cost approach using a ratio of the estimated restoration costs to replacement costs, 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 damage. The expected cost to restore the impaired buildings (excluding building content) is $162.5 million. Estimated replacement cost of impaired buildings is $1.73 billion. The restoration cost ratio is calculated separately for each impaired building resulting in a weighted average ratio of 9.4%, compared to the previous year's weighted average estimate of 9.3%. The resulting total gross impairment loss, based on each asset's net book value, is $26.4 million. GASB Statement No. 42 requires that impairment loss be reported net of insurance recoveries. We have estimated realizable insurance recovery associated with building impairment to be $54.7 million, resulting in a net impairment gain of $28.3 million. The FY2008 & FY2009 net impairment gain reported was $40.1 million; therefore, an incremental change in net impairment loss of $11.8 million is recorded in the financial statements for the year ended June 30, 2010.

The June 2008 flood was treated as an extraordinary event as it meets the criteria for being both unusual in nature and infrequent in occurrence. The increase in GASB Statement No. 42 net impairment gain is recorded as an extraordinary item in the financial statements. The future costs which will be expended to restore impaired buildings will be recorded as separate transactions as restoration occurs.

XI. Debt Defeasance

In July of 2009, the University issued $6,255,000 of Parking System Revenue Refunding Bonds, Series S.U.I. 2009, with an average interest rate of 4.015% and accrued interest of $6,000 to refund $6,610,000 of outstanding Parking System Revenue Bonds, Series S.U.I. 1999B with interest rates ranging between 4.05 and 4.60%.

Net bond proceeds of $6,481,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Parking System Revenue Bonds, Series S.U.I. 1999B were called on September 1, 2009.

The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $388,000; and reduced the aggregate debt service payments by $427,000 over the next ten years.

In September of 2009, the University issued $19,010,000 of Utility System Revenue Refunding Bonds, Series S.U.I. 2009, with an average interest rate of 3.220% and accrued interest of $3,000 to refund $19,990,000 of outstanding Utility System Revenue Bonds, Series S.U.I. 1998, 1999A and 1999B with interest rates ranging between 4.05 and 5.00%.

Net bond proceeds of $19,758,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Utility System Revenue Bonds, Series S.U.I. 1998, 1999A and 1999B were called on November 1, 2009.

The refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $5,406,000; and reduced the aggregate debt service payments by $5,542,000 over the next ten years.

In March of 2010, the University issued $20,015,000 of Dormitory Revenue Refunding Bonds, Series S.U.I. 2010, with an average interest rate of 3.086% and accrued interest of $5,000 to advance refund $19,905,000 of outstanding Dormitory Revenue Bonds, Series S.U.I. 2000 and 2001 with interest rates ranging between 3.90 and 5.375%.

Net bond proceeds of $20,429,000 were placed in an irrevocable escrow account with the University as trustee. The escrow account is sufficient to fully service all remaining principal and interest due on the bonds. The Dormitory Revenue Bonds, Series S.U.I. 2000 and 2001 will be called on July 1, 2011.

The advance refunding permitted the University to realize an economic gain (difference between present values of the old and new debt service payments) of $3,322,000; and reduced the aggregate debt service payments by $3,528,000 over the next eleven years.

The amount of defeased debt outstanding but removed from the Statement of Net Assets at June 30, 2010, is as follows:

	Amount (in thousands)
Bond Issues	
Athletics Facilities	$7,470
Residence Service	21,235
Hancher Auditorium	5
Total	**$28,710**

XII. Operating Expenses By Function

A summary of operating expenses by functional classification for the year ended June 30, 2010 follows (in thousands):

	Compensation & Benefits	Supplies	Other	Depreciation & Amortization	Total
Instruction	$291,306	9,706	7,756	-	$308,768
Research	187,610	38,760	65,943	-	292,313
Public service	39,285	5,967	20,646	-	65,898
Academic support	105,639	6,670	12,614	-	124,923
Patient services	471,583	191,353	148,876	-	811,812
Student services	19,925	2,142	4,832	-	26,899
Institutional support	54,313	5,860	13,524	-	73,697
Operations and maintenance of plant	2,703	608	71,390	-	74,701
Scholarships and fellowships	22,241	(2)	11,599	-	33,838
Depreciation and amortization	-	-	-	153,823	153,823
Student loan write-offs, collection and administration	-	1	647	-	648
Auxiliary enterprises	66,036	12,250	73,859	-	152,145
Other operating expenses	100	2,884	(2,023)	-	961
Total	**$1,260,741**	**276,199**	**429,663**	**153,823**	**$2,120,426**

XIII. Restricted Net Assets

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

	June 30, 2010	June 30, 2009
Restricted - nonexpendable:		
Permanent endowment	**$64,893**	**$65,250**
Restricted - expendable:		
Research and gifts	$56,347	$39,101
Student loans	20,479	19,792
Term endowments	42,736	45,411
Capital projects:		
Sinking	31,241	31,267
Reserve	63,423	58,808
Renewal & replacement	22,612	20,691
Total	**$236,838**	**$215,070**

The Foundation's temporarily restricted net assets at June 30, 2010 and 2009 were restricted for the following (in thousands):

	FY 2010	FY 2009
Program support	$123,470	$106,577
Student aid	44,746	28,110
Faculty/staff support	52,350	30,043
Capital/equipment	69,762	56,701
Research	49,431	39,166
Remainder interest in trusts	13,787	11,833
Total	**$353,546**	**$272,430**

The Foundation's net assets during the years ended June 30, 2010 and 2009 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence or passage of time.

The Foundation's permanently restricted net assets at June 30, 2010 and 2009 were restricted for the following (in thousands):

	FY 2010	FY 2009
Undesignated	$6,833	$6,800
Program support	75,566	69,752
Student aid	141,975	129,460
Faculty/staff support	167,028	158,877
Capital/equipment	8,292	10,059
Research	59,530	57,668
Perpetual trusts	5,597	5,195
Remainder interest in trusts	6,892	4,777
Total	$471,713	$442,588

XIV. Subsequent Events

In September 2010, the University received approval from the State Board of Regents to issue Athletic Facilities Revenue Bonds, Series 2010 in the amount of $19,775,000 in October 2010 for the purpose of financing a portion of the costs of improving, remodeling, repairing, furnishing, equipping, and building additions to Carver-Hawkeye Arena located on the campus of the University, to fund the Reserve Fund and to pay the costs of issuing the bonds.

In October 2010, the University received approval from the State Board of Regents to issue Hospital Revenue Bonds, Series 2010 in the amount of $30,000,000 in October 2010 for the purpose of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient care facilities, including construction of a new medical office building and related space, including finish materials, fixtures, furnishings, equipment, and appliances to fund the Reserve Fund and to pay the costs of issuing the bonds.

XV. 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 & fees revenues generated by the University for repayment. Investors in bonds of all other bond enterprises rely solely on the revenue generated by the individual activities for repayment. The University's segments are described as follows:

ACADEMIC BUILDING REVENUE BONDS

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

ATHLETIC FACILITIES REVENUE BONDS

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

CENTER FOR UNIVERSITY ADVANCEMENT REVENUE BONDS

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

HOSPITAL REVENUE BONDS

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

IOWA MEMORIAL UNION (IMU) REVENUE BONDS

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

PARKING SYSTEM REVENUE BONDS

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

RECREATIONAL FACILITIES REVENUE BONDS

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

RESIDENCE SERVICES REVENUE BONDS

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

STUDENT HEALTH FACILITY REVENUE BONDS

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

TELECOMMUNICATIONS FACILITIES REVENUE BONDS

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

UTILITY SYSTEM REVENUE BONDS

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

FUND ACCOUNTING

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

TRANSFERS IN (OUT)

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

Segment Reporting (in thousands)

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$63,747	$38,024	$785	$275,824
Capital assets	363,309	114,621	10,237	506,928
Other noncurrent assets	12,169	11,366	964	497,047
Total assets	**439,225**	**164,011**	**11,986**	**1,279,799**
Liabilities:				
Current liabilities	17,096	21,784	742	109,289
Noncurrent liabilities	135,514	133,541	6,295	149,414
Total liabilities	**152,610**	**155,325**	**7,037**	**258,703**
Net Assets:				
Invested in capital assets, net of related debt	249,087	(7,742)	3,352	398,505
Restricted - expendable	37,528	14,817	1,597	16,130
Unrestricted	-	1,611	-	606,461
Total net assets	**$286,615**	**$8,686**	**$4,949**	**$1,021,096**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$249,194	$34,241	$ -	$943,458
Depreciation expense	(15,293)	(4,650)	(901)	(74,812)
Other operating expenses	(951)	(15,676)	-	(842,556)
Net operating income (loss)	232,950	13,915	(901)	26,090
Nonoperating revenues (expenses)	(1,861)	(4,036)	(251)	29,105
Transfers from/(to) University funds	(203,775)	(6,996)	863	(2,683)
Extraordinary Items	(4,421)	-	-	-
Change in net assets	22,893	2,883	(289)	52,512
Net assets, beginning of year	263,722	5,803	5,238	968,584
Net assets, end of year	**$286,615**	**$8,686**	**$4,949**	**$1,021,096**
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$246,215	$19,816	$ -	$94,894
Net cash provided (used) by noncapital financing activities	(238,762)	(10,924)	862	2,987
Net cash provided (used) by capital and related financing activities	(11,090)	8,652	(890)	(49,511)
Net cash provided (used) by investing activities	1,482	51	30	(48,134)
Net increase (decrease) in cash	(2,155)	17,595	2	236
Cash & Cash Equivalents, beginning of year	38,738	19,288	777	738
Cash & Cash Equivalents, end of year	**$36,583**	**$36,883**	**$779**	**$974**
DEBT SERVICE COVERAGE				
Debt Service Coverage % - Required	N/A	125%	100%	130%
Debt Service Coverage % - Actual	N/A	241%	100%	1252%
PROPORTION OF REVENUE PLEDGED				
Annual Debt Service (principal & interest)	12,271	8,290	893	10,347
Net Operating Revenue (pledged)	249,635	19,966	915	129,509
Annual Debt Service / Net Operating Revenue (%)	5%	42%	98%	8%

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
$9,130	$7,937	$11,519	$20,740	$1,903	$30,655	$56,852
25,675	42,999	84,231	91,751	4,621	11,775	214,409
805	13,468	7,525	4,607	3,023	4,654	1,487
35,610	**64,404**	**103,275**	**117,098**	**9,547**	**47,084**	**272,748**
4,288	2,726	2,367	5,295	752	7,253	10,287
9,015	20,867	76,835	46,353	675	33,843	163,468
13,303	**23,593**	**79,202**	**51,648**	**1,427**	**41,096**	**173,755**
16,230	21,154	13,952	44,450	3,636	(6,118)	61,467
1,321	3,923	9,756	18,999	696	6,709	34,994
4,756	15,734	365	2,001	3,788	5,397	2,532
$22,307	**$40,811**	**$24,073**	**$65,450**	**$8,120**	**$5,988**	**$98,993**
$27,675	$15,166	$2,103	$48,575	$1,459	$20,962	$72,594
(1,134)	(2,505)	(1,227)	(5,527)	(352)	(2,248)	(10,261)
(30,461)	(11,168)	(2,550)	(36,385)	(5,942)	(15,317)	(49,177)
(3,920)	1,493	(1,674)	6,663	(4,835)	3,397	13,156
(114)	(694)	(915)	(1,042)	108	(477)	(3,979)
4,770	(1,216)	(1,702)	(1,444)	5,262	210	(6,273)
-	-	-	-	-	-	(7,200)
736	(417)	(4,291)	4,177	535	3,130	(4,296)
21,571	41,228	28,364	61,273	7,585	2,858	103,289
$22,307	**$40,811**	**$24,073**	**$65,450**	**$8,120**	**$5,988**	**$98,993**
$(2,495)	$3,987	$(330)	$11,544	$(4,423)	$5,586	$19,823
(290)	(1,247)	1,941	(718)	(3)	(1,546)	(11,493)
2,321	(4,027)	(7,529)	(11,368)	4,908	16,734	(4,927)
(424)	(242)	(1,579)	1,620	(434)	(316)	1,183
(888)	(1,529)	(7,497)	1,078	48	20,458	4,586
1,593	8,776	18,975	15,479	1,428	6,481	33,855
$705	**$7,247**	**$11,478**	**$16,557**	**$1,476**	**$26,939**	**$38,441**
120%	120%	125%	135%	120%	110%	120%
160%	205%	NA	293%	1129%	147%	167%
809	2,210	3,903	5,003	357	3,836	15,207
748	3,998	NA	13,103	942	5,796	23,418
108%	55%	NA	38%	38%	66%	65%

NA: Campus Recreation & Wellness Center, the primary building within the Recreational Facilities, was not finished on June 30th. The building opened to customers on 8/21/10. Student fee and other customer revenue will begin in FY2011.

Additionally, the beginning balances for net assets and cash & cash equivalents includes balances reported under the Recreation Building in previous years. The Recreation Building, previously a distinct segment, is now part of the Recreation Facilities segment.

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2010 is as follows:

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Revenue Bonds Payable				
Beginning Balance	$108,631	$112,490	$7,460	$104,300
Less: Payments	5,404	2,515	575	3,615
Plus: New Issuances	36,970	26,000	-	-
Ending Balance	$140,197	$135,975	$6,885	$100,685

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2010, the amount shown for debt service payments due on July 1st were on hand.

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Principal & Interest Maturity				
Semi-annual maturity	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Mar & Sep 1st
Due on demand	$26	$ -	$ -	$ -
2011	12,862	8,755	882	8,459
2012	11,539	9,009	878	8,467
2013	38,840	9,324	853	8,475
2014	10,170	9,301	862	8,470
2015	9,082	9,449	859	8,462
2016-2020	41,886	47,124	4,218	41,964
2021-2025	38,393	48,580	-	41,557
2026-2030	24,014	49,205	-	29,028
2031-2035	5,416	23,042	-	-
2036-2037	-	1,711	-	-
Total Principal and Interest	$192,228	$215,500	$8,552	$154,882

As of June 30, 2010, the University has entered into contract commitments for construction projects as follows:

	Academic Building Revenue Bonds	Athletic Facilities Revenue Bonds	Center for University Advancement Revenue Bonds	Hospital Revenue Bonds
Commitments				
Contract Commitments	$35,554	$20,914	$ -	$19,017

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
$10,265	$23,400	$52,000	$51,190	$1,285	$14,445	$154,435
820	7,810	-	23,905	300	2,825	28,120
-	6,255	25,175	20,015	-	25,000	44,010
$9,445	**$21,845**	**$77,175**	**$47,300**	**$985**	**$36,620**	**$170,325**

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	May & Nov 1st
$ -	$ -	$ -	$ -	$ -	$ -	$ -
801	2,186	3,893	3,072	350	4,263	14,765
806	2,185	4,733	4,570	354	4,186	15,678
804	2,178	5,079	4,770	353	3,525	15,688
802	2,173	5,923	4,797	-	3,511	15,693
803	2,179	5,995	4,812	-	2,959	12,945
4,015	10,782	25,345	24,153	-	8,442	65,031
4,054	6,892	27,407	14,599	-	7,761	57,320
817	1,368	25,602	-	-	7,901	33,651
-	-	24,631	-	-	8,087	7,696
-	-	-	-	-	3,296	1,541
$12,902	**$29,943**	**$128,608**	**$60,773**	**$1,057**	**$53,931**	**$240,008**

IMU Revenue Bonds	Parking System Revenue Bonds	Recreational Facilities Revenue Bonds	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
$3,684	**$112**	**$3,992**	**$2,358**	**$ -**	**$18,070**	**$12,164**

Required Supplementary Information June 30, 2010

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

Schedule of Funding Progress by valuation date
(in thousands)

Fiscal Year Ended	*Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a percentage of Covered Payroll
June 30, 2008	July 1, 2007	-	$114,592	$114,592	0.0%	$739,501	15.5%
June 30, 2009	July 1, 2008	-	$123,448	$123,448	0.0%	$815,393	15.1%
June 30, 2010	July 1, 2009	-	$136,939	$136,939	0.0%	$828,488	16.5%

THE UNIVERSITY OF IOWA

OFFICE OF THE CONTROLLER
ACCOUNTING SERVICES

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Associate Vice President and University Controller

Selina J. Martin
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Assistant Director, Financial Reporting

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This financial report is designed to provide users with a general overview of the University of Iowa's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report, or requests for additional financial information, should be directed to the Controller's Office, University of Iowa, B5 Jessup Hall, Iowa City, IA 52242 or phone 319-335-0062. An electronic version can be found at http://www.uiowa.edu/~fusas/annualreports.

THE UNIVERSITY
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David A. Vaudt, CPA
Auditor of State

<u>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</u>

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

We have audited the financial statements of the State University of Iowa (University) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 15, 2010 under separate cover. Our report was modified to include a reference to another auditor. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States. The financial statements of the State University of Iowa Foundation and Affiliates were audited by another auditor, as described in our report on the University's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported on separately by the other auditor.

<u>Internal Control Over Financial Reporting</u>

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>

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

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

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

DAVID A. VAUDT, CPA	WARREN G. JENKINS, CPA
Auditor of State	Chief Deputy Auditor of State

February 8, 2011