The University of Iowa

Financial Report

July 1, 2007 to June 30, 2008

THE UNIVERSITY OF IOWA

Office of the Senior Vice President and Treasurer
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December 2, 2008

President Mason and Members of the Board of Regents:

I am pleased to submit the University of Iowa's audited Financial Report for fiscal year 2008. This report presents the financial position and results of operations of the University of Iowa for the past two fiscal years ended June 30, 2007 and June 30, 2008. The University remains financially sound and stable with net assets increasing by $150 million (6.9%) during fiscal year 2008, and the University maintained its strong credit ratings by Moody's (Aa2) and Standard & Poor's (AA).

The University of Iowa, along with many communities and citizens throughout much of Iowa, experienced a major flood disaster in June 2008 that eclipsed all modern records. Thirty major campus buildings were impacted by the flood. Faculty, staff, students and innumerable friends from around Iowa and neighboring states dedicated countless hours to relief efforts protecting the University from even greater harm. Due to these protective measures and through a good deal of creative ingenuity, the University was able to resume full operation of summer session classes just one week after the river crested. It will take years to recover fully from the flood as many major decisions must be made to determine the best strategy to restore displaced programs while mitigating potential damage from future floods. The University's primary insurance carriers, FM Global and Lloyds of London, as well FEMA and Iowa's Homeland Security Department have provided a strong presence on campus and are working diligently to facilitate the recovery process. In addition, the generosity of people from around the globe was acknowledged through the receipt of several million dollars in gifts that will be used to help faculty, staff and students directly affected by the flood.

The University continues to be recognized as a "best buy" in national publications. Total University enrollment is at a record level of 30,561 students for the Fall 2008 term while significant progress has been made in both class academic quality and diversity. The University's resident undergraduate student tuition and fees remain the lowest within the Big Ten by nearly $1,000 per year, and approximately 19% of all tuition collected is redirected to student financial aid with primary emphasis on need-based aid. In addition to record enrollments, the University of Iowa Hospitals & Clinics reports record patient volumes. Investments made in research labs and other research infrastructure have led to an all-time high of $386.2 million in external grant and contract awards in fiscal year 2008.

For the fiscal year ending June 30, 2008, Governor Culver and the General Assembly continued its strong support of the University by fully funding salary and benefit increases for faculty and staff paid from the University's general education fund. Construction of Iowa's new public health laboratory is underway on the University's Oakdale Campus and phase 2 renovations on the Chemistry Building have begun. Both of these projects are possible because of the financial support received from the state.

The world economy is experiencing a financial crisis that is unprecedented for this generation of faculty, staff and students. Working with the Board of Regents Investment Committee, the Regents' investment advisors, as well as counter-parts with the UI Foundation, the University is positioning to weather this storm. Diminishments in investment income will be managed in a prudent manner like all other aspects of the University budget.

The financial report reflects the efforts of faculty, staff, students, alumni and friends in furthering the mission of this University. We all take enormous pride in being a part of this treasured organization. The University's faculty and staff eagerly look forward to recovering parts of the campus damaged by flooding and assertively meeting the challenge of the present financial downturn, thereby creating a better environment for Iowa and the world.

Very truly yours,

Douglas K. True
Senior Vice President and Treasurer

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis of the University of Iowa's financial statements presents an overview of the University's financial activities for the years ended June 30, 2008, 2007 and 2006. 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, 2008, with assets of $3,614 million and liabilities of $1,291 million as compared to June 30, 2007 assets of $3,362 million and liabilities of $1,189 million. Net assets, the difference between total assets and total liabilities, increased by $150.4 million (6.9%) from June 30, 2007 to June 30, 2008. The increase from June 30, 2006 to June 30, 2007 was $151.0 million (7.5%).

The change in net assets reports the financial results during the fiscal year by measuring the relationship between revenues and expenses. It is important to note that public universities such as the University of Iowa generally report an operating loss, as the financial reporting model classifies state appropriations, investment income and gifts as nonoperating revenues. Operating revenues are received for providing goods and services to the various students, customers and constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. The following table summarizes the financial activity for the fiscal years ended June 30, 2008, 2007 and 2006.

Change in Net Assets (in millions)

	2008	2007	2006
Total operating revenues	$ 1,684.2	$ 1,575.5	$ 1,556.8
Total operating expenses	1,999.1	1,859.4	1,794.2
Net operating income (loss)	(314.9)	(283.9)	(237.4)
Net nonoperating revenues (expenses)	392.5	415.9	351.5
Income (loss) before other revenues, expenses	77.6	132.0	114.1
Other revenues (expenses)	17.7	19.0	5.7
Increase in net assets before extraordinary items	95.3	151.0	119.8
Net extraordinary items	55.1	-	-
Increase in net assets	150.4	151.0	119.8
Net assets, beginning of year	2,173.0	2,022.0	1,902.2
Net assets, end of year	$ 2,323.4	$ 2,173.0	$ 2,022.0

During the fiscal year ended June 30, 2008, the University increased operating revenues and expenses by 6.9% and 7.5% respectively, resulting in a larger operating loss than for the fiscal year ended June 30, 2007. However, after factoring in state appropriations, investment income, gifts and other revenues, the University increased net assets $95.3 million before extraordinary items for the year ended June 30, 2008. In June 2008, the University sustained significant damage to property and impairment to capital assets as a result of flooding. A net gain of $55.1 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, 2008, net nonoperating revenues (expenses) decreased by 5.6% primarily the result of a decrease in investment income of $51.3 million due to declines in the market.

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. All current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following table summarizes the University's assets, liabilities and net assets at June 30, 2008, 2007 and 2006.

Net Assets, End of Year (in millions)

	2008	2007	2006
Assets:			
Current assets	$ 1,635.9	$ 1,415.2	$ 1,249.0
Capital assets, net	1,848.4	1,823.3	1,706.1
Other noncurrent assets	130.0	123.2	118.4
Total Assets	3,614.3	3,361.7	3,073.5
Liabilities:			
Current liabilities	473.6	492.5	451.6
Noncurrent liabilities	817.3	696.2	599.9
Total Liabilities	1,290.9	1,188.7	1,051.5
Net Assets:			
Invested in capital assets, net of related debt	1,188.5	1,229.6	1,203.8
Restricted	402.4	321.1	326.4
Unrestricted	732.5	622.3	491.8
Total Net Assets	$ 2,323.4	$ 2,173.0	$ 2,022.0

The following table summarizes the University's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007 and 2006.

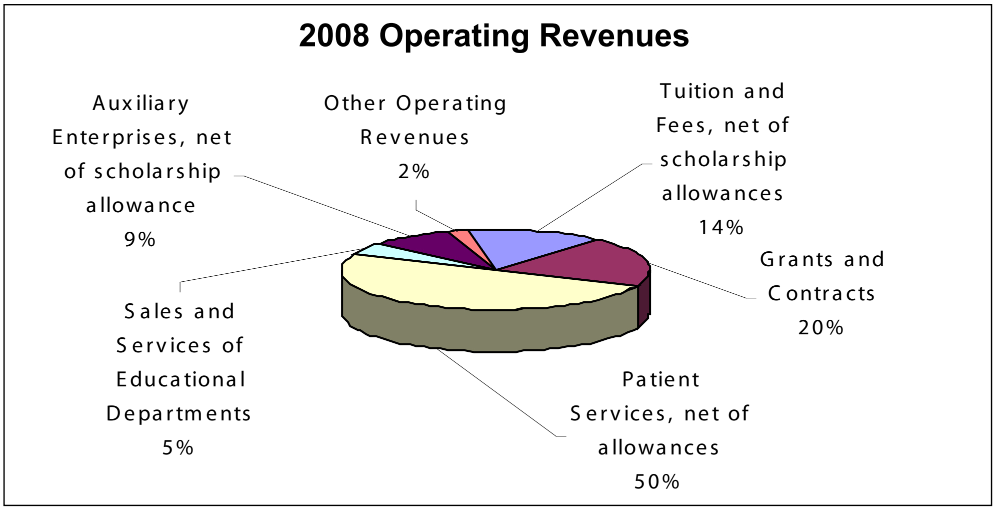
Revenues, Expenses and Changes in Net Assets (in millions)

	2008	2007	2006
Operating Revenues:			
Tuition and fees, net of scholarship allowances	$ 238.9	$ 218.7	$ 203.0
Grants and contracts	336.3	324.6	316.9
Patient services, net of allowances	848.7	792.6	761.6
Sales and services of educational departments	77.8	83.4	86.0
Auxiliary enterprises, net of scholarship allowances	149.9	136.5	121.4
Other operating revenue	32.6	19.7	67.9
Total Operating Revenues	1,684.2	1,575.5	1,556.8
Operating Expenses:			
Instruction	307.3	287.5	334.5
Research	250.8	241.4	241.0
Academic support	106.6	107.1	89.5
Patient services	798.1	729.7	667.2
Depreciation	141.3	127.2	117.2
Auxiliary enterprises	137.9	129.9	122.1
Other operating expenses	257.1	236.6	222.7
Total Operating Expenses	1,999.1	1,859.4	1,794.2
Operating Income (Loss)	(314.9)	(283.9)	(237.4)
Nonoperating Revenues (Expenses):			
State appropriations	339.8	313.3	297.3
Investment income, net of investment expenses	26.4	77.7	40.9
Gifts	62.2	53.7	57.4
Interest expense	(31.7)	(23.0)	(23.9)
Loss on disposal of capital assets	(4.2)	(5.8)	(20.2)
Net Nonoperating Revenues (Expenses)	392.5	415.9	351.5
Income Before Other Revenues	77.6	132.0	114.1
Other Revenues:			
Capital appropriations, State	5.9	9.4	3.9
Additions to endowments	4.4	-	-
Capital contributions and grants	7.4	9.6	1.8
Net Other Revenues	17.7	19.0	5.7
Increase in Net Assets Before Extraordinary Items	95.3	151.0	119.8
Extraordinary Items Due to Flood	55.1	-	-
Increase in Net Assets	150.4	151.0	119.8
Net assets, beginning of year	2,173.0	2,022.0	1,902.2
Net assets, end of year	$ 2,323.4	$ 2,173.0	$ 2,022.0

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, 2008 of $150.4 million (6.9%).

OPERATING REVENUES

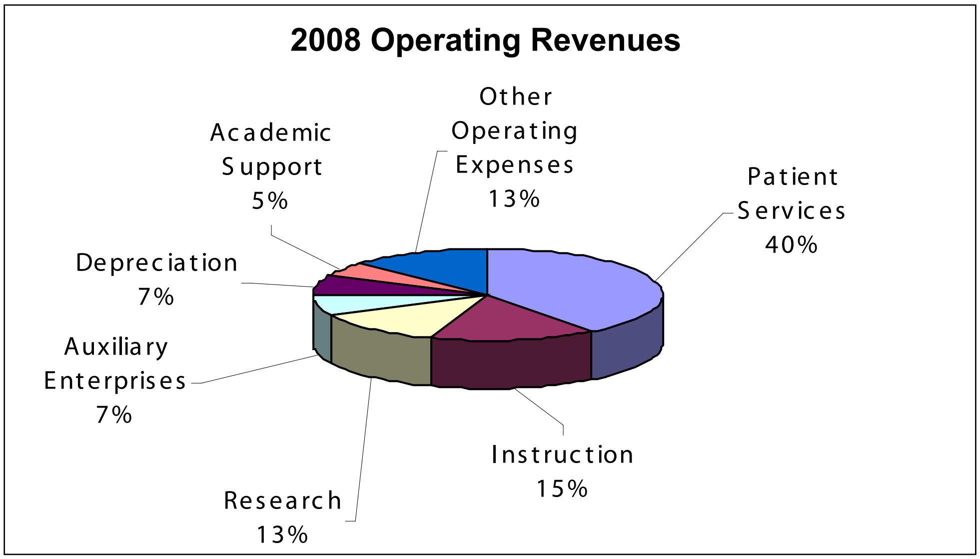
For the fiscal years ended June 30, 2008, 2007 and 2006, operating revenues totaled $1,684 million, $1,576 million and $1,557 million, respectively. Operating revenues for FY 2008 increased by $108.7 million (6.9%) over FY 2007 revenues. The following is a graphic illustration of revenues by source which are used to fund the University's operating activities for the year ended June 30, 2008.



In the National Institutes of Health (NIH) 2005 report, the University of Iowa was ranked 13th among all public universities receiving NIH funding. Grants, contracts and other sponsored agreements revenue exceeded $336 million in FY 2008, $324 million in FY 2007 and $316 million in FY 2006.

OPERATING EXPENSES

For the fiscal years ended June 30, 2008, 2007 and 2006, operating expenses totaled $1,999 million, $1,859 million and $1,794 million, respectively. Operating expenses increased by $139.7 million (7.5%) over FY 2007. The following is a graphic illustration of the University's operating expenses for the year ended June 30, 2008.



Other operating expenses include Public Service (2008, $62 million; 2007, $56 million), Student Services (2008, $23 million; 2007, $23 million), Institutional Support (2008, $69 million; 2007, $63 million), Operation and Maintenance of Plant (2008, $63 million; 2007, $59 million), and Scholarships and Fellowships (2008, $31 million; 2007, $21 million).

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues and expenses netted a positive $392.5 million for the fiscal year ended June 30, 2008 and a positive $415.9 million for the fiscal year ended June 30, 2007.

The following table summarizes the University's nonoperating revenues and expenses for the years ended June 30, 2008, 2007 and 2006.

Nonoperating Revenues and Expenses (in millions)

	2008	2007	2006
State appropriations	$ 339.8	$ 313.3	$ 297.3
Investment income, net of investment expenses	26.4	77.7	40.9
Gifts	62.2	53.7	57.4
Interest expense	(31.7)	(23.0)	(23.9)
Gain/(Loss) on disposal of capital assets	(4.2)	(5.8)	(20.2)
Net Nonoperating Revenues and Expenses	$ 392.5	$ 415.9	$ 351.5

State appropriations increased by $26.5 million (8.5%) in the fiscal year ended June 30, 2008. However, investment income decreased by $51.3 million (66.0%) due to lower returns from the fiscal year ended June 30, 2007.

OTHER REVENUES

Not included, by definition, as nonoperating revenues and expenses are state appropriations for capital projects, additions to endowments and contributions and grants for capital projects. The other revenues decreased from $19.0 million for the year ended June 30, 2007 to $17.7 million for the year ended June 30, 2008 (6.8%).

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. This includes monthly compliance determination by the Board's Internal Audit Office. Reductions seen thus far 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.

EXTRAORDINARY EVENT – 2008 FLOOD

The University of Iowa sustained significant damage to property and impairment to capital assets as a result of the June 2008 flooding of the Iowa River. The flood not only surpassed the 100-year flood plain, but also penetrated the 500-year flood plain. In 1958, the Army Corps of Engineers built the Coralville Dam to collect excess water run-off and control flooding downstream. Analysis of stream flow data from the dam shows that 2008 is the first time that stream flow levels have exceeded the 500-year flood rate since the dam was built. The last major flood occurred in 1993 and caused the University approximately $6 million in damage. After the flood waters receded, the University took steps to protect against future damage from a flood of that magnitude. The 2008 flood caused approximately $232 million in total property damages. Had the 2008 flood stayed at or below the 1993 level, no damage to buildings would have occurred. Similar to the 1993 flood, the University will invest in flood mitigation efforts providing additional protection from future floods, thereby lowering the probability of significant future flood loss.

The June 2008 flood is treated as an extraordinary event as it meets the criteria for being both unusual in nature and infrequent in occurrence. In total, a net extraordinary gain of $55.1 million was recognized in fiscal year 2008.

Extraordinary Items		
Net Building Impairment Gain After Insurance Recovery • *Buildings & Infrastructure write-down due to impairment loss of $20.3M, offset by realizable insurance proceeds of $56.0M (100 & 500-year flood plain)*	$	35.7
Flood Expenses Incurred in June 2008 • *Emergency Protective Measures, Debris Removal and Equipment Write-off*	$	(4.9)
Realizable Insurance Recoveries • *Content Damage, Emergency Protective Measures, Debris Removal, Extra Expense (associated with 100-year flood plain only)* • *Business Interruption Loss Reimbursement*	$	24.3
	$	55.1

Descriptions of the building impairment calculations are shown in Note X of the Notes to Financial Statements (as required by GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries). The future costs that will be expended to restore impaired buildings will be recorded as separate transactions as restoration occurs. The 2008 financial report also reflects other known flood expenses incurred prior to the end of the fiscal year. This includes emergency protective measures, debris removal and equipment write-off. Also, we have recorded a receivable for insurance proceeds associated with damage in the 100-year flood plain and business interruption loss reimbursement associated with UI Hospitals & Clinics. Finally, after insurance recoveries, FEMA has agreed to reimburse the University at 90% of all actual costs of approved project work orders.

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, 2008, 2007 and 2006.

Cash Flows for the Year (in millions)

	2008	2007	2006
Cash provided (used) by:			
Operating activities	$ (180.2)	$ (150.5)	$ (136.9)
Noncapital financing activities	392.8	321.7	299.2
Capital and related financing activities	(105.0)	(149.3)	(179.8)
Investing activities	58.7	26.9	69.0
Net change in cash and cash equivalents	166.3	48.8	51.5
Cash & cash equivalents, beginning of year	325.1	276.3	224.8
Cash & cash equivalents, end of year	$ 491.4	$ 325.1	$ 276.3

The University's overall liquidity increased during the year, with a net increase in cash and cash equivalents of $166.3 million. The most significant factor contributing to the increase is the UIHC cash operating margin for the fiscal year ended June 30, 2008.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the University's capital assets, net of depreciation, as of June 30, 2008, 2007 and 2006.

Capital Assets, Net of Depreciation (in millions)

	2008	2007	2006
Land, nondepreciable	$ 19.5	$ 19.0	$ 18.9
Construction in progress, nondepreciable	183.1	143.0	267.9
Art & historical collections, nondepreciable	32.1	31.7	29.8
Library materials, nondepreciable	217.6	205.8	194.1
Land improvements, net	8.1	6.9	7.7
Infrastructure, net	142.8	133.3	128.2
Buildings, net	1,001.7	1,045.6	855.8
Equipment, net	243.5	238.0	203.7
Total Capital Assets, Net	$ 1,848.4	$ 1,823.3	$ 1,706.1

Several major projects began during the fiscal year ended June 30, 2008. Construction was recently completed on a major addition to the Art Building. However, Phase II of this project, which is renovation of existing School of Art and Art History facilities, was put on temporary hold pending further investigation of damage resulting from a major flood. Phased construction continues on the renovation of the Chemistry Building that will significantly improve academic and research programs of the Chemistry department. Several of the new classrooms opened during the Spring 2008 academic term. Construction has begun on a new $69 million Campus Recreation & Wellness Center that will provide much needed recreation space for students. Construction on a 112,500 gross square-foot University Hygienic Laboratory building has also begun and is expected to be completed in late 2009.

The University of Iowa Hospitals & Clinics continues investment in its facilities. Phase 3 of a $40 million renovation of the Pomerantz Family Pavilion was completed in January 2008 and the final phase of the project will be completed in April 2009.

During the week of June 9, 2008, heavy rains resulted in the flooding of a number of University buildings. The most recent estimate for damage resulting from the flood is $232 million, not including business interruption claims or the cost of future flood mitigation.

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

Debt
As of June 30, 2008, the University had $752.0 million in outstanding bonds, notes and capital leases, an increase of $95.3 million from the prior year. Debt principal payments of $30.6 million and interest payments of $30.0 million were made during the year ended June 30, 2008. The following table summarizes outstanding debt by type as of June 30, 2008, 2007 and 2006.

Bonds, Notes and Capital Leases (in millions)

	2008	2007	2006
Revenue bonds	$ 606.7	$ 504.7	$ 422.6
Notes	0.5	1.2	1.8
Capital leases	144.8	150.8	132.9
Total Debt Outstanding	$ 752.0	$ 656.7	$ 557.3

During the year ended June 30, 2008, $126 million of new revenue bonds were issued. The revenue bond proceeds of $25 million are being used to finance academic buildings, $50 million for hospital improvements, $25 million for general utility infrastructure, and $26 million to help finance a portion of the Campus Recreation and Wellness Center. The University continues to carry an Aa2 institutional bond rating from Moody's and an AA rating from Standard & Poor's. Additional information related to the University's long-term liabilities is presented in Note V to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University 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 2008-2009 academic term dropped slightly to 4,246 from the previous year's record enrollment of 4,287. Total enrollment went from 30,409 in the Fall of 2007 to 30,561 in the Fall 2008.

Other revenue streams are also robust. During the fiscal year ended June 30, 2008, the University generated an all-time record of $386.2 million in grants and contracts to promote research, education and service. The recent completion of new research labs and related infrastructure improvements will enable the University's researchers to be more productive and better positioned to compete for external grants and contracts as new federal research and development programs 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.

The world economy is experiencing a financial crisis not seen previously by most Americans. Investment returns are sharply negative and the liquidity and overall fixed income markets have caused enormous concern within the higher education community. Endowment market values have dropped and will affect various university programs for many years to come.

As previously noted, the University of Iowa was affected by a major flood in June 2008. Many counties and municipalities throughout the state were also negatively impacted. The state is expected to reduce the University's state appropriation by $3 million, or approximately 1%, in fiscal year 2009.

CONTACTING THE UNIVERSITY OF IOWA'S FINANCIAL MANAGEMENT

This financial report is designed to provide users with a general overview of the University of Iowa's finances and to demonstrate the University's accountability for the funds received. Questions regarding this report, or requests for additional financial information, should be directed to the Controller's Office, University of Iowa, Jessup Hall, Iowa City, IA 52242.

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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, 2008 and 2007. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component unit, 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. We also did not audit the financial statements of the blended component unit, Iowa Measurement Research Foundation, discussed in Note I, which represents .73% and .14%, respectively, of the assets and revenues of the University. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented and blended component units, is based on the reports of the other auditors.

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

As discussed in Note I, the financial statements of the University of Iowa are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of the University of Iowa. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years ended June 30, 2008 and 2007 in conformity with U.S. generally accepted accounting principles.

In our opinion, based upon our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Iowa and its discretely presented component unit at June 30, 2008 and 2007, and the respective changes in their financial position and their cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

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

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 2 through 10 and page 49, 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

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 15, 2008

Statement of Net Assets

June 30, 2008 (in 000s)
(with comparative statement as of June 30, 2007)

ASSETS	2008	2007
Current Assets:		
Cash and cash equivalents	$ 373,478	$ 242,476
Restricted cash and cash equivalents	88,463	56,843
Investments	732,073	772,768
Restricted investments	1,001	-
Deposits with trustees	54,975	53,251
Accounts receivable, net	288,808	199,932
Notes receivable, current portion, net	3,378	3,970
Interest receivable	4,284	3,291
Due from government agencies	46,313	40,845
Inventories	30,344	30,042
Prepaid expenses and other current assets	12,797	11,839
Total current assets	1,635,914	1,415,257
Noncurrent Assets:		
Restricted cash and cash equivalents	29,417	25,746
Restricted investments	48,288	44,557
Notes receivable, noncurrent portion, net	26,297	27,920
Capital assets, net	1,848,432	1,823,304
Investment in wholly owned subsidiary	25,912	24,990
Total noncurrent assets	1,978,346	1,946,517
Total Assets	$ 3,614,260	$ 3,361,774

LIABILITIES AND NET ASSETS	2008	2007
Current Liabilities:		
Accounts payable	$ 72,081	$ 70,541
Salaries and wages payable	122,492	113,502
Unpaid claims	23,679	26,266
Interest payable	13,123	11,384
Long term debt, current portion	31,927	31,181
Other long term liabilities, current portion	86,174	103,660
Deposits held in custody for others	124,105	135,947
Total current liabilities	473,581	492,481
Noncurrent Liabilities:		
Long term debt, noncurrent portion	720,045	625,541
Other long term liabilities, noncurrent portion	97,237	70,702
Total noncurrent liabilities	817,282	696,243
Total Liabilities	1,290,863	1,188,724
Net Assets:		
Invested in capital assets, net of related debt	1,188,489	1,229,649
Restricted:		
Nonexpendable	74,353	79,070
Expendable	328,080	242,009
Unrestricted	732,475	622,322
Total Net Assets	2,323,397	2,173,050
Total Liabilities and Net Assets	$ 3,614,260	$ 3,361,774

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

Statement of Revenues, Expenses and Changes in Net Assets

for the year ended June 30, 2008 (in 000s)
(with comparative statement for the year ended June 30, 2007)

	2008	2007
OPERATING REVENUES		
Student tuition & fees, net of scholarship allowances of $61,466 and $62,328 for the years ended June 30, 2008 and 2007, respectively (pledged as payment on revenue bonds)	$ 238,885	$ 218,745
Federal grants and contracts	288,054	282,213
State and other governmental grants and contracts	8,692	8,619
Nongovernmental grants and contracts	39,522	33,804
Patient services, net of write-offs, contractual adjustments and indigent care of $901,102 and $822,162 for the years ended June 30, 2008 and 2007, respectively (pledged as payment on revenue bonds)	848,744	792,585
Sales and services of educational departments	77,792	83,437
Interest on student loans	1,959	1,338
Auxiliary enterprises, net of scholarship allowances of $6,243 and $6,154 for the years ended June 30, 2008 and 2007, respectively (pledged as payment on revenue bonds)	149,881	136,496
Other operating revenue	30,623	18,271
Total Operating Revenues	1,684,152	1,575,508
OPERATING EXPENSES		
Instruction	307,336	287,483
Research	250,755	241,424
Public service	62,292	55,957
Academic support	106,615	107,053
Patient services	798,114	729,670
Student services	23,407	22,931
Institutional support	69,103	62,594
Operation and maintenance of plant	63,054	59,443
Scholarships and fellowships	31,202	21,447
Depreciation	141,347	127,241
Student loan write-offs, collection and administration	5,178	814
Auxiliary enterprises	137,896	129,852
Other operating expenses	2,764	13,466
Total Operating Expenses	1,999,063	1,859,375
Operating Income (Loss)	(314,911)	(283,867)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	339,785	313,321
Investment income, net of investment expenses of $1,991 and $2,025 for the years ended June 30, 2008 and 2007, respectively	26,430	77,727
Gifts	62,261	53,687
Interest expense	(31,706)	(23,064)
Gain (loss) on disposal of capital assets	(4,211)	(5,784)
Net Nonoperating Revenues (Expenses)	392,559	415,887
Income Before Other Revenues	77,648	132,020
OTHER REVENUES		
Capital appropriations, State	5,850	9,393
Additions to endowments from gifts	4,389	51
Capital contributions and grants	7,376	9,562
Net Other Revenues	17,615	19,006
Increase in Net Assets before Extraordinary Items	95,263	151,026
EXTRAORDINARY ITEMS DUE TO FLOOD		
Net Building Impairment Gain After Insurance Recovery	35,686	-
Other Flood Expenses	(4,871)	-
Other Realizable Insurance Recoveries	24,269	-
Net Extraordinary Items	55,084	-
Increase in Net Assets	150,347	151,026
NET ASSETS		
Net assets, beginning of year	2,173,050	2,022,024
Net assets, end of year	$ 2,323,397	$ 2,173,050

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

Statement of Cash Flows

for the year ended June 30, 2008 (in 000s)
(with comparative statement for the year ended June 30, 2007)

CASH FLOWS FROM OPERATING ACTIVITIES	2008	2007
Tuition and fees	$ 239,857	$ 217,756
Patient receipts	838,806	749,799
Grants and contracts	328,625	320,515
Payments for salaries and benefits	(1,107,494)	(1,133,226)
Payments for goods and services	(571,492)	(474,115)
Scholarships	(31,202)	(167)
Loans issued to students	(5,841)	(7,831)
Collections of loans from students	8,029	6,163
Interest on loans to students	2,495	1,580
Sales of educational activities	77,417	83,942
Other receipts (payments)	31,650	72,532
Auxiliary enterprise receipts	146,825	141,025
Auxiliary enterprise payments	(137,896)	(128,451)
Net Cash (Used) by Operating Activities	(180,221)	(150,478)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	337,203	311,609
Proceeds from noncapital gifts	66,650	53,688
Funds held for others receipts	252,590	249,199
Funds held for others payments	(263,613)	(266,839)
William D. Ford Direct Lending & Plus Loans receipts	158,228	147,666
William D. Ford Direct Lending & Plus Loans made	(158,227)	(147,666)
Other noncapital receipts (payments)	-	(25,969)
Net Cash Provided by Noncapital Financing Activities	392,831	321,688
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(191,924)	(216,521)
Interest paid on capital debt and leases	(29,968)	(24,239)
Proceeds from sale of capital assets	712	756
Capital appropriations	6,106	8,683
Capital gifts and grants received	6,774	7,411
Deposits with trustee	(1,724)	-
Principal paid on capital debt and leases	(30,615)	(27,861)
Proceeds from capital debt and leases	125,665	102,475
Other capital and related financing receipts	10,000	-
Net Cash (Used) by Capital and Related Financing Activities	(104,974)	(149,296)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	23,960	59,478
Proceeds from sale and maturities of investments	119,665	104,491
Purchase of investments	(84,968)	(137,131)
Net Cash Provided by Investing Activities	58,657	26,838
Net Increase in Cash & Cash Equivalents	166,293	48,752
Cash & Cash Equivalents, beginning of year	325,065	276,313
Cash & Cash Equivalents, end of year	$ 491,358	$ 325,065

for the year ended June 30, 2008 (in 000s)

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS:	2008	2007
Cash and cash equivalents in current assets	$ 373,478	$ 242,476
Current restricted cash and cash equivalents	88,463	56,856
Noncurrent restricted cash and cash equivalents	29,417	25,733
Total Cash and Cash Equivalents	$ 491,358	$ 325,065

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:	2008	2007
Operating income (loss)	$ (314,911)	$ (283,867)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	141,347	127,241
Changes in operating assets and liabilities:		
Accounts receivable, net	(17,188)	(1,048)
Interest receivable	(536)	-
Inventories	(302)	(494)
Prepaid expenses and other current assets	(958)	(7,080)
Due from government agencies, net of receivable from State for capital appropriations	(3,142)	(3,267)
Notes receivable, net	2,215	(1,271)
Accounts payable	(2,204)	3,420
Salaries and wages payable	8,990	6,387
Unpaid claims liability	(2,587)	-
Other long term liabilities	(63)	-
Deferred revenue	3,239	6,174
Other postemployment benefits other than pension liability	4,514	-
Compensated absences	5,032	7,159
Early retirement benefits	(3,667)	(3,832)
Net Cash (Used) by Operating Activities	$ (180,221)	$ (150,478)

SIGNIFICANT NONCASH TRANSACTIONS		
Assets acquired under capital leases	$ 200	$ 1,253
Assets acquired by gift	602	2,151

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

Balance Sheet

June 30, 2008 (in 000s)
(with comparative statement as of June 30, 2007)

ASSETS	**2008**	**2007**
Cash and cash equivalents	$ 60,920	$ 54,247
Receivables:		
Pledges, at net present value, less allowance for doubtful pledges	83,293	89,946
Other receivables and prepaids	541	397
	83,834	90,343
Investments:		
Carried at fair value		
U.S. Government and governmental agency securities	13,030	11,926
Corporation stocks, primarily common stocks	2,917	3,002
Managed separate investment accounts, primarily equity securities	665,799	724,245
Assets in living trusts, testamentary trusts and gift annuities	63,353	68,289
Beneficial interest in perpetual trusts	11,186	12,082
Other		
Real estate	3,019	1,294
Cash value of life insurance	5,610	3,566
Other	936	936
	765,850	825,340
Property leasehold interest and equipment, net	21,951	21,947
TOTAL ASSETS	$ 932,555	$ 991,877
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 3,554	$ 862
Accrued vacations	947	937
Annuity and life income obligations	30,131	31,549
Note payable	-	485
Capital lease obligation	7,460	8,020
Amounts held on behalf of others	68,134	75,729
Total liabilities	110,226	117,582
Net Assets:		
Unrestricted	33,069	33,932
Temporarily restricted	374,600	457,609
Permanently restricted	414,660	382,754
Total net assets	822,329	874,295
TOTAL LIABILITIES AND NET ASSETS	$ 932,555	$ 991,877

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

The State University of Iowa Foundation and Affiliates
Statement of Activities
for the year ended June 30, 2008 (in 000s)
(with comparative statement for the year ended June 30, 2007)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Support and revenue:					
Total contributions raised	$ 594	$ 50,892	$ 36,306	$ 87,792	64,827
Change in value of split interest agreements	763	(1,142)	(2,257)	(2,636)	5,902
Less amounts raised on behalf of others	-	(3,511)	(1,093)	(4,604)	(4,171)
Total contributions and change in value of split interest agreements	1,357	46,239	32,956	80,552	66,558
Investment income:					
Interest and dividends	2,976	1,882	-	4,858	5,107
Asset based management and service fees	9,415	(9,021)	-	394	382
Net appreciation (depreciation) in fair value of investments	(2,203)	(66,282)	-	(68,485)	100,128
	10,188	(73,421)	-	(63,233)	105,617
Less amounts attributed to others	-	6,109	-	6,109	(8,934)
Total investment income (loss)	10,188	(67,312)	-	(57,124)	96,683
Other revenue:					
Fundraising service revenue and other	7,233	2,732	-	9,965	9,165
Less amounts attributed to others	-	(254)	-	(254)	(434)
Total other revenue	7,233	2,478	-	9,711	8,731
Net assets released from restrictions and changes in donor restrictions	65,464	(64,414)	(1,050)	-	-
Total support and revenue	84,242	(83,009)	31,906	33,139	171,972
Expenditures and deductions on behalf of The State University of Iowa and its affiliates:					
Programs and expense disbursements:					
Student financial aid	11,986	-	-	11,986	8,736
Faculty and staff support	3,954	-	-	3,954	4,745
Research	11,373	-	-	11,373	7,889
Capital/equipment	11,749	-	-	11,749	21,131
Fellowships	2,215	-	-	2,215	1,436
Professorships	1,907	-	-	1,907	1,889
Faculty chairs	4,971	-	-	4,971	4,474
Program support	17,132	-	-	17,132	16,653
Fundraising	4,796	-	-	4,796	3,629
Management and service fees	1,727	-	-	1,727	1,563
	71,810	-	-	71,810	72,145
Less amounts incurred on behalf of others	(6,346)	-	-	(6,346)	(6,707)
	65,464	-	-	65,464	65,438
Expenses of The State University of Iowa Foundation:					
Operating expenses	19,530	-	-	19,530	17,411
Foundation grants to The State University of Iowa	111	-	-	111	97
	19,641	-	-	19,641	17,508
Total expenses	85,105	-	-	85,105	82,946
Change in net assets	(863)	(83,009)	31,906	(51,966)	89,026
Net assets, beginning of year	33,932	457,609	382,754	874,295	785,269
Net assets, end of year	$ 33,069	$ 374,600	$ 414,660	$ 822,329	$ 874,295

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

I. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

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

Basis of Presentation

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

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

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

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

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

Financial Reporting Entity

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

The University's financial statements include schools, colleges and departments, the University of Iowa Hospitals & Clinics (UIHC), the Iowa Medical Mutual Insurance Company (IMMIC, a captive insurance company) and certain affiliated operations determined to be a part of the University's financial reporting entity. The University has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the University. In May, 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This statement, which amends GASB Statement No. 14, *The Financial Reporting Entity,* was implemented for the year ended June 30, 2004. The GASB classification of these entities for the University's financial reporting purposes does not affect their respective legal or organizational relationships to the University.

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

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. The most recently audited financial statements for the Iowa Measurement Research Foundation may be obtained from the Controller's Office at the University.

Discretely Presented Component Unit

The State University of Iowa Foundation and Affiliates (Foundation) are a legally separate, tax-exempt component unit of the University. The Foundation's financial statement includes its affiliated organization, the University of Iowa Facility Corporation and Ascend Technologies, Inc, both of which are wholly controlled by the Foundation. 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, 2008 and 2007, the Foundation distributed to the University or expended on behalf of the University $65,464,000 and $65,438,000, 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 Foundation's Balance Sheet (Amounts held on behalf of others). The Foundation does not have variance power to re-direct the assets held for others and the funds are generally payable on demand. On the Statement of Activities, the Foundation reports the gross amounts of support, revenue and expenses with the amount raised and expended on behalf of these organizations shown as a reduction in the gross amounts of support, revenue and expenses.

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

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

	Amounts Held on Behalf of Others
Iowa Law School Foundation	$ 55,094
Iowa Scholarship Fund	8,685
University of Iowa Alumni Association	4,341
Others	14
Total	$ 68,134

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

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

Basis of Accounting

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

Cash and Cash Equivalents

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

Investments (University)

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

Investments (Foundation)

Investments are carried at fair value. The fair value of the investments in bonds, corporate stocks, mutual funds and investment management funds is based upon quoted values on national securities exchanges. For limited partnerships where the quoted market prices are not available, fair values are based on information provided by the general partners, which includes quoted market prices for investments when available and estimates of the fair value of investments which are not readily ascertainable.

Pledges Receivable (Foundation)
Pledges receivable are recorded at their net present value of estimated cash flows using the currently effective interest rate, less an allowance for doubtful pledges. Conditional promises to give are not included as support until the conditions are met. The provision for losses on doubtful pledges is an adjustment to contributions at the time the pledge is made. Pledges written off totaled $1,026,000 and $1,541,000 in the years ended 2008 and 2007, respectively.

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

Capital Assets
Capital assets estimated to have a useful life greater than one year are stated at cost at the date of acquisition or estimated fair market value at date of receipt in the case of gifts. Effective July 1st, 2005, the equipment capitalization threshold was increased from $2,000 to $5,000, excluding the University of Iowa Hospitals & Clinics (UIHC). The equipment capitalization threshold for the UIHC remains at $2,000 through June 30, 2008. Routine repairs and maintenance costs are expensed as incurred. Interest cost is capitalized on all UIHC construction projects during the construction period. For all other University projects, interest costs are capitalized when the interest cost during the construction period exceeds the interest earned on the investment of debt proceeds. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives (five to fifty years) of the respective assets.

Wholly Owned Subsidiary (University)
The University owns all of the outstanding stock of Musser-Davis Land Company (acquired by gift) and reports such ownership as a wholly owned subsidiary. The Company's operations consist primarily of leasing mineral rights to others and planting seedlings to be harvested by others. The Company's fiscal year ends December 31 and its financial statements are presented on a modified cash basis of accounting. As of December 31, 2007, assets (including investments of $24,168,000) totaled $25,912,000, liabilities were $0, and net assets were $25,912,000. As of December 31, 2006, assets (including investments of $23,093,000) totaled $24,996,000, liabilities were $6,000, and net assets were $24,990,000.

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 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 ticket 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 reported on the Statement of Net Assets is based on current rates of pay.

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

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

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

Non-Vested Equipment
Capital assets at June 30, 2008 and 2007 include $3,418,000 and $4,115,000, respectively, of equipment purchased with restricted contract and grant proceeds for which title has not yet been transferred to the University.

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

II. CASH DEPOSITS, INVESTMENTS, AND DEPOSITS WITH TRUSTEES

Cash Deposits and Cash Equivalents

As of June 30, 2008 and 2007, the book balance of cash and cash equivalents totaled $491,358,000 and $325,065,000, respectively, and the bank balance of cash and cash equivalents totaled $501,686,000 and $342,736,000, respectively. Of the bank balances as of June 30, 2008, $51,324,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $450,363,000 was invested in money market funds as cash equivalents. Of the bank balances as of June 30, 2007, $243,567,000 was covered by FDIC insurance or by the State Sinking Fund in accordance with the Code of Iowa and $99,169,000 was uninsured and uncollateralized.

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, 2008 and 2007, the University included $8,896,000 and $10,303,000, 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 endowment income and to appropriate within certain limitations an amount of realized and unrealized endowment appreciation as the University determines to be prudent considering the University's long-term and short-term needs, its present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. The University's policy is to retain the realized and unrealized appreciation with the endowment pursuant to the spending rules of the University. The University's spending rule is that five percent (5%) of market value of the endowment based on a twelve quarter rolling market average will be calculated and distributed.

Net appreciation of permanent endowment funds, which totaled $726,000 and $12,306,000 at June 30, 2008 and 2007, respectively, is available to meet spending rate distributions and is recorded in restricted nonexpendable net assets.

On June 30, 2008 the University of Iowa held investments of $51.6 million in the Commonfund Intermediate Term Fund. (Commonfund is an asset manager serving college and universities). On September 29, 2008, notice was received from Commonfund that Wachovia Bank resigned as Trustee of the Commonfund Short Term Fund and concurrently put a redemption limit on participant withdrawals. Although the University of Iowa did not have any investments with the Short Term Fund, this limitation by Wachovia on withdrawals from the Short Term Fund led to a sudden increase in redemption requests from the Commonfund Intermediate Term Fund as institutions invested in the Short Term Fund sought other avenues for liquidity to meet operating cash needs. As a reaction to these increased redemption requests, Commonfund limited immediate withdrawals from the Intermediate Term Fund to 30% of units values. At that time, the University of Iowa total market value in the Intermediate Term Fund was $49.9 million. On November 3, 2008 the Commonfund notified investors that an additional 11% of shares were available for withdrawal and the University has redeemed the total amount allowed. The remaining investment in the Commonfund Intermediate Term Fund at November 11, 2008 is $29.5 million. The unit value was $9.82 at June 30, 2008 and $9.07 at October 31, 2008.

The University's investments are recorded at fair value, as determined by quoted market price. As of June 30, 2008, the University had the following investments and quality credit ratings (in thousands of dollars):

Investment Type		Total Market Value	Average Quality Rating	Effective Duration
University of Iowa Quasi 2 Endowment Pool				
Agency Bonds		1,239		**0.93**
Agency Mortgage-Backed Securities		2,037		**4.93**
Agency Pools		2,836	**AA**	**3.06**
Asset-Backed Securities		13,218	**AAA**	**3.14**
Financials		3,949	**A**	**3.15**
Industrials		2,630	**A-**	**5.88**
Other Corporate Bonds		173	**BBB+**	**6.74**
Other Global Corporate Bonds		489	**BBB+**	**4.69**
Private Placements		3,392	**A**	**5.07**
TBA's		17,593		**5.25**
US Treasury Bonds and Notes		70		**15.88**
Utilities		1,024	**BBB+**	**4.58**
Mutual Funds - Fixed Income		45,428	**Aa2**	**3.90**
Total Fixed Income - Quasi 2 Endowments	**$**	**94,078**	**AA+**	**4.10**
University of Iowa Long Term Endowment Pool				
Agency Bonds	$	837		**0.93**
Agency Mortgage-Backed Securities		1,393		**4.95**
Agency Pools		1,967		**3.04**
Asset-Backed Securities		9,111	**AAA**	**3.17**
Financials		2,746	**A-**	**3.17**
Industrials		1,847	**A-**	**5.93**
Other Corporate Bonds		144	**BBB+**	**6.75**
Other Global Corporate Bonds		340	**BBB**	**4.67**
Private Placements		2,399	**A**	**5.04**
TBA's		12,236		**5.25**
US Treasury Bonds and Notes		46		**15.88**
Utilities		705	**BBB**	**4.54**
Mutual Funds - Fixed Income		31,806	**Aa2**	**3.90**
Total Fixed Income - Long Term Endowment	**$**	**65,577**	**AA+**	**4.10**
University of Iowa Non-Endowment Operations				
Agency Bonds	$	41,148		**1.74**
Agency Mortgage-Backed Securities		12,911		**1.47**
Agency Pools		39,923		**1.96**
Asset-Backed Securities		157,659	**AAA**	**1.78**
Energy		1,696	**AAA**	**2.29**
Financials		26,769	**A+**	**2.38**
Government Agency		9,453	**AAA**	**0.85**
Health Care		846	**BBB-**	**0.20**
Industrials		14,792	**A-**	**2.33**
Municipal - Taxable		646	**AA+**	**2.76**
Municipal - Tax Exempt		999	**AA+**	**1.33**
Other Global Corp Bonds		2,545	**BBB**	**2.53**
Private Placements		3,667	**A+**	**3.94**
TBA's		12,431		**3.50**
Telecommunications		673	**A**	**3.94**
US Treasury Bonds and Notes		43,615		**3.01**
Utilities		6,265	**A-**	**2.27**
Mutual Funds - Fixed Income		51,648	**AA+**	**1.90**
Total Fixed Income - Operations	**$**	**427,686**	**AA+**	**2.04**
U.S. Equity	$	58,874		
Domestic Equity Mutual Fund		74,285		
International Equity Mutual Funds		41,294		
Principal - Real Estate		15,755		
Alternative Assets - Private Equities		3,813		
Total Long Term Endowment	**$**	**194,021**		
Total Investments	**$**	**781,362**		

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

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University reduces exposure to credit risk by following the operating and endowment portfolios benchmarks as established by the Board of Regents. As of June 30, 2008, the operating portfolio benchmark is AAA and the endowment portfolios benchmark is AAA.

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

Deposits with Trustees
Investments on deposit with trustees, paying and co-paying agents for the purpose(s) of paying current obligations of bond principal and interest, for holding Bond Reserve Funds or for holding Construction Funds as specified by bond resolutions at June 30, 2008 and 2007, totaled $54,975,000 and $53,251,000, respectively. At June 30, 2008, $7,016,000 of the $54,975,000 deposits with trustees was invested in U.S. Government Agency securities with a credit quality rating of AAA and an effective duration of .209 months.

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

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

Accounts Receivable (in thousands of dollars)

	University & Blended Component Units	UIHC & Affiliates	Total
Accounts Receivable	$ 216,335	271,390	$ 487,725
Allowance for Uncollectible Accounts,			
Indigent Patients and Contractual Adjustments	42,688	156,229	$ 198,917
Accounts Receivable, Net, June 30, 2008	$ 173,647	115,161	$ 288,808
Accounts Receivable	$ 146,245	250,416	$ 396,661
Allowance for Uncollectible Accounts,			
Indigent Patients and Contractual Adjustments	48,324	148,405	196,729
Accounts Receivable, Net, June 30, 2007	$ 97,921	102,011	$ 199,932

Pledges Receivable (Foundation)

A summary of the pledges receivable (unconditional promises to give) at June 30, 2008 and 2007 is as follows (in thousands of dollars):

	2008	2007
Gross pledges receivable	$ 97,721	$ 106,296
Less present value discount 2008 $11,868,000; 2007 $13,565,000 and allowance for doubtful pledges 2008 $2,560,000; 2007 $2,785,000	14,428	16,350
Total	$ 83,293	$ 89,946

Pledges receivable at June 30, 2008 are expected to be collected in the following periods (in thousands of dollars):

	Total
In one year or less	$ 35,994
Between one year and five years	46,185
More than five years	15,542
Total	$ 97,721

Due from Government Agencies

Due from government agencies at June 30, 2008 and 2007 are composed of $15,994,000 and $9,536,000, respectively, due from the State of Iowa and $30,319,000 and $31,309,000, respectively, due from United States government agencies.

Notes Receivable

Current notes receivable at June 30, 2008 and 2007 are $3,643,000, net of an allowance of $265,000, and $4,224,000, net of an allowance of $253,000, respectively. Noncurrent notes receivable at June 30, 2008 and 2007 are $28,364,000, net of an allowance of $2,067,000, and $29,703,000, net of an allowance of $1,783,000, respectively.

IV. CAPITAL ASSETS

A summary of capital assets activity for the year ended June 30, 2008 is as follows (in thousands of dollars):

Nondepreciable:	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	$ 19,042	684		200	$ 19,526
Construction in Progress	143,018	122,176	(80,463)	1,664	$ 183,067
Art & Historical Collections	31,700	445		44	32,101
Library Materials	205,820	13,154		1,325	217,649
Capital Assets, Nondepreciable	399,580	136,459	(80,463)	3,233	452,343
Depreciable:					
Land Improvements	19,642	-	2,380	1,620	20,402
Infrastructure	344,848	-	26,767	8,269	363,346
Buildings	1,885,768	-	39,892	28,570	1,897,090
Equipment	537,264	56,268	11,424	37,985	566,971
Capital Assets, Depreciable	2,787,522	56,268	80,463	76,444	2,847,809
Less Accum. Depreciation	(1,363,798)	(141,347)	-	(53,425)	(1,451,720)
Depreciable Assets, Net	1,423,724	(85,079)	80,463	23,019	1,396,089
Capital Assets, Net	$ 1,823,304	51,380	-	26,252	$ 1,848,432

V. LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended June 30, 2008 is as follows (in thousands of dollars):

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long Term Debt:					
Bonds Payable	$ 504,739	125,665	23,749	606,655	$ 25,872
Notes Payable	1,175	-	680	495	112
Capital Leases Payable	150,808	200	6,186	144,822	5,943
Total Long Term Debt	656,722	125,865	30,615	751,972	31,927
Other Long-Term Liabilities:					
Early Retirement Benefits Payable	4,476	-	3,667	809	608
Other Postemployment Benefits Other Than Pensions	-	4,514	-	4,514	2,618
Compensated Absences	102,005	61,135	56,103	107,037	36,392
Refundable Allowances on Student Loans	22,126	93	156	22,063	-
Deferred Revenue and Other	45,755	48,147	44,914	48,988	46,556
Total Other Long-Term Liabilities	174,362	113,889	104,840	183,411	86,174
Total Long-Term Liabilities	$ 831,084	239,754	135,455	935,383	$ 118,101

Bonds Payable

Bonds have been sold to finance certain capital projects and are outstanding at June 30, 2008, as follows (in thousands of dollars):

Bond Issues	Interest Rates Percent	Fiscal Year Maturity Date Range	Amount
Academic Buildings	3.00 - 8.38	1994 - 2031	$ 114,335
Residence Services	3.25 - 6.25	2002 - 2025	53,740
Hospital	4.125 - 9.00	2005 - 2029	72,615
Recreation Building	5.50 - 6.00	1973 - 2009	130
Recreation Facilities	4.00-4.75	2011-2035	26,000
Athletic Facilities	3.00 - 5.30	2007 - 2032	114,880
Telecommunications	2.00 - 5.40	2002 - 2016	17,910
Utility System	2.00 - 5.00	1996 - 2029	161,480
Iowa Memorial Union	2.50 - 4.30	2003 - 2026	11,410
Parking System	3.10 - 5.00	2001 - 2026	24,565
Center for University Advancement	3.75 - 4.75	2006 - 2020	8,020
Student Health Facility	3.60 - 4.75	1999 - 2013	1,570
Total			$ 606,655

As of June 30, 2008, unspent bond proceeds were as follows: $41,947,000, Academic Building Revenue Bonds; $37,685,000, Utilities System Revenue Bonds; $11,664,000, Recreation Building Revenue Bonds; $502,000, Iowa Memorial Union Revenue Bonds; $231,000, Athletic Facilities Revenue Bonds.

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

Year Ending June 30	Principal	Interest	Total
2009	$ 25,872	28,478	54,350
2010	26,697	26,321	53,018
2011	27,851	25,404	53,255
2012	29,865	22,350	52,215
2013	30,125	21,124	51,249
2014-2018	140,665	87,311	227,976
2019-2023	144,880	56,581	201,461
2024-2028	127,300	25,838	153,138
2029-2033	50,525	4,719	55,244
2034-2035	2,875	137	3,012
Total	$ 606,655	298,263	904,918

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

Note Payable

The University has a note payable with an interest rate of 6.50%. The note will mature as follows (in thousands of dollars):

Year Ending June 30	Principal	Interest	Total
2009	$ 112	29	141
2010	120	21	141
2011	127	13	140
2012	136	5	141
Total	$ 495	68	563

Capital Leases Payable

Capital leases outstanding at June 30, 2008 are as follows (in thousands of dollars):

Capital Lease	Interest Rates	Lease Period	Amount
Medical Education and Biomedical Research Facility*	3.13 - 5.38%	1999 - 2023	$ 42,390
Oakdale Research Park*	5.25	2006 - 2021	8,604
Plaza Centre One*	4.59	2002 - 2016	1,189
Roy J. and Lucille A. Carver Biomedical Research Building*	2.00 - 5.90	2002 - 2030	45,380
Pomerantz Center, Series 2003*	5.00	2004 - 2010	11,325
Copy Machines and Other Equipment	0.37 - 21.96	2004 - 2013	1,394
Old Capitol Town Center*	3.50 - 4.70	2006 - 2031	34,540
Total			$ 144,822

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

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

Year Ending June 30	Principal	Interest	Total
2009	$ 5,943	7,057	13,000
2010	17,497	6,790	24,287
2011	6,465	5,944	12,409
2012	6,619	5,645	12,264
2013	6,735	5,343	12,078
2014-2018	38,030	21,656	59,686
2019-2023	32,558	12,152	44,710
2024-2028	22,875	5,657	28,532
2029-2032	8,100	752	8,852
Total	$ 144,822	70,996	215,818

Assets acquired under these capital leases had a net book value of $158,117,000 as of June 30, 2008.

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 2009 to fiscal year 2014, and require various minimum annual rentals. Certain leases are renewable for additional periods. Some of the leases require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is an annual schedule of future minimum rental payments required under operating leases which have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2008 (in thousands of dollars).

Year Ending June 30	Amount
2009	$ 3,597
2010	3,039
2011	2,729
2012	810
2013	297
2014	5
Total	$ 10,477

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, 2008, for all operating leases, except those with terms of a month or less that were not renewed, totaled $3,483,000.

VII. RETIREMENT PROGRAMS

Teachers Insurance and Annuity Association

The University contributes to the Teachers Insurance and Annuity Association (TIAA) retirement program, which is a defined contribution plan. TIAA administers the retirement plan for the University. The defined contribution retirement plan provides individual annuities for each plan participant. The Board of Regents establishes and amends the plan's provision and contribution requirements. As required by the Board of Regents policy, all eligible University employees must participate in a retirement plan from the date they are employed. Contributions made by both employer and employee vest immediately. As specified by the contract with TIAA, each employee through the fifth year of employment contributes 3 1/3% of the first $4,800 of earnings and 5% on the balance of earnings. The University, through the fifth year of employment, is required to contribute 6 2/3% of the first $4,800 of earnings and 10% on earnings above the $4,800. Upon completion of five years of service, the participant contributes 5% and the University 10% on all earnings. During fiscal years 2008 and 2007, the University's required and actual contribution amounted to $87,211,000 and $80,303,000, respectively. During fiscal years 2008 and 2007, the employees' required and actual contribution amounted to $43,606,000 and $40,150,000, respectively.

Iowa Public Employees Retirement System

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

Plan members are required to contribute 3.9%, 3.7% and 3.7%, respectively, of their annual covered salary and the University is required to contribute 6.05%, 5.75% and 5.75%, respectively, of annual covered payroll for the years ended June 30, 2008, 2007, and 2006. Contribution requirements are established by State statute. The University's required contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were $1,170,000, $1,053,000, and $974,000, respectively, equal to required contributions for each year. The required contribution paid by employees for the years ended June 30, 2008, 2007, and 2006 were $754,000, $678,000, and $626,000, respectively.

VIII. POSTEMPLOYMENT BENEFITS

Early Retirement

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

1. <u>Life Insurance</u> - 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. <u>Health and Dental Insurance</u> - 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. <u>TIAA/CREF Contributions</u> - 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. <u>IPERS Contributions</u> - The employee may only elect a lump sum payment.

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

The University has recognized an early retirement benefit liability of $809,000 as of June 30, 2008, calculated on merit employee personnel only. The early retirement liability relating to faculty, professional and scientific employees has been rolled into the new GASB Standard 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. During fiscal year 2008, expenditures for the 123 merit participants of the early retirement incentive program totaled $1,154,000.

Regular Retirement

The University implemented GASB Standard 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-employee retiree benefit plan. For postemployment 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 2008 were $3,020,000 with 1,435 eligible participants as of June 30, 2008. Life insurance total expenditures for fiscal year 2008 were $631,000 with 2,839 eligible participants as of June 30, 2008.

Annual OPEB Cost and Net OPEB Obligation

For fiscal year 2008, the University contributed $6.1 million to the plan. Plan members receiving benefits contributed 55 percent of the premium costs. In fiscal year 2008, total member contributions were $5.7 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 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 $10.7 million is 1.4 percent of annual payroll. The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB Plan for fiscal year 2008 (in thousands):

Annual Required Contribution	$	10,666
Interest on Net OPEB Obligation		-
Adjustment to Annual Required Contribution		-
Annual OPEB Cost (Expense)	$	10,666
Contributions Made		(6,152)
Increase in Net OPEB Obligation	$	4,514
Net OPEB Obligation (Asset) - Beginning of Year		-
Net OPEB Obligation (Asset) - End of the Year	$	4,514

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2007. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2008.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 was as follows (in thousands):

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost	Net OPEB Obligation
6/30/08	$ 10,666	57.70%	$ 4,514

Funded Status and Funding Progress
As of June 30, 2008, the actuarial accrued liability (AAL) for benefits was $114.6 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $114.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $739.5 million and the ratio of the UAAL to the covered payroll was 15.5 percent. As of June 30, 2008, 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 in the following, 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, 2008 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 9 percent for the pre-65 members and 10 percent for the post-65 members initially, reduced in decrements 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 terminated employees' benefits for health, dental, vision and hearing aid insurance under the Consolidated Omnibus Budget Reconciliation Act of 1985, modified by the Tax Reform Act and the Budget Reconciliation Act of 1986.

Four hundred ninety-one (491) terminated employees continued their benefits by assuming total financial responsibility. No University costs are associated with the premiums, but claims are the responsibility of the University since the insurance plans are self-insured.

IX. OTHER COMMITMENTS, RISK MANAGEMENT AND ENCUMBRANCES

Commitments
At June 30, 2008 and 2007, the University had outstanding construction contract commitments of $171,486,000 and $55,504,000, 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, 2008 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	$531,425,000
Power Plant Building & Content	$145,362,000

Telecommunications Facilities premium is based on the following values:

Building	$24,074,000
Contents	$8,455,000
Income	$5,561,000

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 probable loss of $13,780,000 as of June 30, 2008. From May 26, 2004 to June 30, 2008, 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 $9,687,000 as of June 30, 2008.

Reconciliation of Loss Contingencies -

	(in thousands of dollars) FY 2008	FY 2007
Claims and contingent liabilities accrued at July 1	$ 26,266	$ 18,560
Claims incurred and contingent liabilities accrued for the current year	99,674	100,911
Payments on claims during the fiscal year	(102,261)	(93,205)
Claims liabilities at June 30	$ 23,679	$ 26,266

Insurance Settlements – The University's commercial property insurance was limited to $40 million for buildings in the 100 year flood zone. Due to a catastrophic flood event in June 2008 the loss to these buildings will exceed the $40 million limit. With the exception of those buildings, the settled claims have not exceeded the commercial property insurance. The University's property insurance policy was since renewed without the $40 million flood limit for the 100 year flood zone properties.

Encumbrances

According to Section 8.33 of the Code of Iowa, the University is permitted to carry encumbrances for specialized equipment and building repairs forward to the next fiscal year. Purchase orders and contracts on state appropriated funds totaling $5,425,000 were outstanding at June 30, 2008.

X. NET BUILDING IMPAIRMENT GAIN DUE TO FLOOD

A net impairment gain associated with the 30 impaired buildings has been calculated as required by GASB Statement No. 42*, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Historical Cost	$ 449,477,654
Accumulated Depreciation	$ 234,912,982
Carrying Value, June 2008	$ 214,564,672
Estimated Building Restoration Costs	$ 133,562,000
Replacement Cost	$ 1,732,035,133
Restoration Cost Ratio	7.7%
Carrying Value, June 30, 2008	$ 214,564,672
Impairment Loss	$ (20,326,568)
Realizable Insurance Recovery	$ 56,012,300
Net Impairment Gain	$ 35,685,732

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 $133.56 million. Estimated replacement cost of impaired buildings is $1.73 billion. The restoration cost ratio is calculated separately for each impaired building and ratios range from .7% to 100%, with the weighted average ratio being 7.7%. The resulting total gross impairment loss, based on each asset's net book value, is $20.33 million. GASB 42 requires that impairment loss be reported net of insurance recoveries. We have estimated realizable insurance recovery associated with building impairment to be $56.01 million, resulting in a net impairment gain of $35.68 million. Since the flood occurred in the last month of the fiscal year, as of June 30, 2008, 80% of the impaired buildings remained idle, representing approximately $99.5 million in carrying value (before impairment loss). As of this disclosure date, 40% of the original impaired buildings remain closed.

The June 2008 flood is treated as an extraordinary event as it meets the criteria for being both unusual in nature and infrequent in occurrence. The GASB 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

There were no advance refunding issues during the fiscal years ending June 30, 2008 or June 30, 2007.

The amount of defeased debt outstanding but removed from the Statement of Net Assets at June 30, 2008, is as follows (in thousands of dollars):

Bond Issues	Amount
Hancher Auditorium	355
Athletics Facilities	8,320
Total	$ 8,675

XII. OPERATING EXPENSES BY FUNCTION

A summary of operating expenses by functional classification for the year ended June 30, 2008 follows (in thousands of dollars):

	Compensation and Benefits	Supplies	Services, Repairs & Goods Purchased for Resale	Depreciation	Total
Instruction	$ 285,671	10,283	11,382	-	$ 307,336
Research	168,707	31,437	50,611	-	250,755
Public service	34,784	7,121	20,387	-	62,292
Academic support	94,959	6,121	5,535	-	106,615
Patient services	468,201	180,278	149,635	-	798,114
Student services	18,227	1,632	3,548	-	23,407
Institutional support	47,534	3,746	17,823	-	69,103
Op. & maint. of plant	795	241	62,018	-	63,054
Scholarships & fellowships	20,425	8	10,769	-	31,202
Depreciation	-	-	-	141,347	141,347
Student loan write-offs, collections & admin	-	-	5,178	-	5,178
Auxiliary enterprises	60,506	12,296	65,094	-	137,896
Other operating expenses	898	2,052	(186)	-	2,764
Total	$ 1,200,707	255,215	401,794	141,347	$ 1,999,063

XIII. RESTRICTED NET ASSETS

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

	June 30, 2008	June 30, 2007
Restricted - nonexpendable:		
Permanent endowment	$ 74,353	$ 79,070
Restricted - expendable:		
Research and gifts	$ 32,050	$ 25,846
Student loans	16,226	18,552
Term endowments	35,416	24,974
Capital projects:		
Sinking	28,479	25,408
Construction	60,985	31,434
Reserve	41,909	35,841
Renewal & replacement	20,987	16,887
Unspent proceeds (less accounts payable)	92,028	63,067
Total	$ 328,080	$ 242,009

The Foundation's temporarily restricted net assets at June 30, 2008 and 2007 were restricted for the following (in thousands of dollars):

	FY 2008	FY 2007
Program support	$ 123,908	$ 148,625
Student aid	60,063	85,916
Faculty/staff support	67,811	95,274
Capital/equipment	48,514	40,046
Research	57,039	68,198
Remainder interest in trusts	17,265	19,550
Total	$ 374,600	$ 457,609

The Foundation's net assets during the years ended June 30, 2008 and 2007 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, 2008 and 2007 were restricted for the following (in thousands of dollars):

	FY 2008	FY 2007
Unrestricted	$ 6,860	$ 5,667
Program support	65,688	56,563
Student aid	120,069	108,074
Faculty/staff support	143,981	136,967
Capital/equipment	11,259	10,624
Research	50,677	46,335
Perpetual trusts	6,417	6,832
Remainder interest in trusts	9,709	11,692
Total	$ 414,660	$ 382,754

XIV. SUBSEQUENT EVENTS

In June 2008, the University received approval from the State Board of Regents to issue Telecommunications Facilities Revenue Refunding Bonds, Series 2008 in the amount of $8,210,000 in July 2008 for the purpose of currently refunding the July 1, 2009 through July 1, 2015 maturities of the Board's Telecommunications Facilities Revenue Bonds, Series 2000 (The State University of Iowa), dated March 1, 2000 (the "Series 2000 Refunded Bonds"), paying for costs of issuance and to fund a debt service reserve fund.

In August 2008, the University received approval from the State Board of Regents to issue Recreational Facilities Revenue Bonds, Series S.U.I. 2008 in the amount of $26,000,000 in August 2008 for the purpose of financing a portion of the cost of building, furnishing, and equipping a Campus Recreation and Wellness Center ("CRWC") on the campus of the University, constructing improvements to the University's Field House, to fund a deposit to the Reserve Fund, to fund a deposit to the Capitalized Interest Fund, and to pay the costs of issuance of the Bonds.

At its October 2008 meeting, the Board authorized the Executive Director to fix the date for the sale of up to $33,850,000 Hospital Revenue Bonds Series 2009 for the costs of constructing, improving, remodeling, repairing, furnishing, and equipping inpatient and outpatient facilities and patient care facilities, and mechanical and other supporting facilities at the UIHC including, without limitation, the Ambulatory Surgery Center expansion and the Emergency.Treatment Center expansion, on the campus of the University (the "Project"), funding a deposit to the Reserve Fund, and paying the costs of issuance of the Bonds.

Capital markets have experienced unprecedented volatility and selling pressure since June 30, 2008 due to a global financial crisis that persists as of the date of this report. As a result, the University's investments reported in the accompanying financial statements have incurred significant declines in value. Because the values of individual investments fluctuate with market conditions, the amount of losses, if any, that the University will recognize in future financial statements, cannot be determined.

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 tax-exempt debt proceeds and associated investment income are subject to federal arbitrage regulations. The University's segments are described as follows:

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

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

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

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

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.

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

Recreational Facilities Revenue Bonds
The Recreational Facilities Revenue Bonds were created to defray the costs of building, furnishing, and equipping the Campus Recreations 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.

June 30, 2008 (in 000s)

	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	$ 75,209	$ 27,022	$ 1,173	$ 248,547
Capital assets	266,970	105,870	12,040	508,652
Other noncurrent assets	12,059	8,715	501	435,102
Total assets	354,238	141,607	13,714	1,192,301
Liabilities:				
Current liabilities	15,695	23,405	734	134,697
Noncurrent liabilities	108,742	113,043	7,460	77,849
Total liabilities	124,437	136,448	8,194	212,546
Net Assets:				
Invested in capital assets, net of related debt	152,510	(9,130)	4,020	435,900
Restricted - expendable	77,291	14,168	1,500	12,816
Unrestricted	-	121	-	531,039
Total net assets	$ 229,801	$ 5,159	$ 5,520	$ 979,755
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$ 214,284	$ 29,960	$ -	$ 871,173
Depreciation expense	(15,308)	(4,513)	(901)	(68,141)
Other operating expenses	(485)	(13,153)	-	(784,225)
Net operating income (loss)	198,491	12,294	(901)	18,807
Nonoperating revenues (expenses)	(3,890)	(3,442)	(306)	12,914
Transfers from/(to) University funds	(193,729)	(14,130)	859	(145)
Extraordinary Items	11,384	848	-	-
Change in net assets	12,256	(4,430)	(348)	31,576
Net assets, beginning of year	217,545	9,589	5,868	948,179
Net assets, end of year	$ 229,801	$ 5,159	$ 5,520	$ 979,755
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$ 214,940	$ 18,197	$ 4	$ 67,192
Net cash provided (used) by noncapital financing activities	(193,883)	(11,301)	859	1,796
Net cash provided (used) by capital and related financing activities	(2,735)	(6,549)	(892)	(32,114)
Net cash provided (used) by investing activities	783	2,005	332	(36,783)
Net increase (decrease) in cash	19,105	2,352	303	91
Cash & Cash Equivalents, beginning of year	35,427	22,945	869	519
Cash & Cash Equivalents, end of year	$ 54,532	$ 25,297	$ 1,172	$ 610
DEBT SERVICE COVERAGE				
Debt Service Coverage % - Required	N/A	125%	100%	130%
Debt Service Coverage % - Actual	N/A	251%	101%	2491%
PROPORTION OF REVENUE PLEDGED				
Annual Debt Service (principal & interest)	12,071	7,184	892	5,694
Net Operating Revenue (pledged)	215,835	19,687	41	112,321
Annual Debt Service / Net Operating Revenue (%)	6%	36%	2153%	5%

June 30, 2008 (in 000s)

	IMU Revenue Bonds	Parking System Revenue Bonds	Recreation Building Revenue Bonds	Recreational Facilities Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 11,482	$ 17,370	$ 346	$ 14,641
Capital assets	11,520	44,580	4,480	25,640
Other noncurrent assets	1,237	3,536	-	2,590
Total assets	24,239	65,486	4,826	42,871
Liabilities:				
Current liabilities	7,211	2,439	138	1,030
Noncurrent liabilities	10,265	23,400	-	26,049
Total liabilities	17,476	25,839	138	27,079
Net Assets:				
Invested in capital assets, net of related debt	110	20,015	4,351	(409)
Restricted - expendable	6,577	4,825	256	15,581
Unrestricted	76	14,807	81	620
Total net assets	$ 6,763	$ 39,647	$ 4,688	$ 15,792
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$ 24,780	$ 14,566	$ 44	$ -
Depreciation expense	(878)	(2,569)	(461)	(878)
Other operating expenses	(27,089)	(10,013)	(81)	(2,028)
Net operating income (loss)	(3,187)	1,984	(498)	(2,906)
Nonoperating revenues (expenses)	(192)	(528)	3	72
Transfers from/(to) University funds	3,714	(837)	166	18,626
Extraordinary Items	1,764	-	-	-
Change in net assets	2,099	619	(329)	15,792
Net assets, beginning of year	4,664	39,028	5,017	-
Net assets, end of year	$ 6,763	$ 39,647	$ 4,688	$ 15,792
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$ (1,241)	$ 3,864	$ (39)	$ (2,028)
Net cash provided (used) by noncapital financing activities	(1,043)	(864)	48	2,271
Net cash provided (used) by capital and related financing activities	2,307	(3,060)	(17)	15,581
Net cash provided (used) by investing activities	(516)	(44)	9	(2,244)
Net increase (decrease) in cash	(493)	(104)	1	13,580
Cash & Cash Equivalents, beginning of year	2,454	16,816	345	-
Cash & Cash Equivalents, end of year	$ 1,961	$ 16,712	$ 346	$ 13,580
DEBT SERVICE COVERAGE				
Debt Service Coverage % - Required	120%	120%	100%	100%
Debt Service Coverage % - Actual	121%	238%	100%	N/A_1
PROPORTION OF REVENUE PLEDGED				
Annual Debt Service (principal & interest)	1,566	2,267	114	N/A_1
Net Operating Revenue (pledged)	1,678	4,553	81	N/A_1
Annual Debt Service / Net Operating Revenue (%)	93%	50%	141%	N/A_1

N/A_1 Campus Recreation & Wellness Center a builidng within the Recreational Facilities is currently under construction. Student Fee revenue will begin when the building is completed.

June 30, 2008 (in 000s)

	Residence Services Revenue Bonds	Student Health Facility Revenue Bonds	Telecomm. Facilities Revenue Bonds	Utility System Revenue Bonds
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 23,418	$ 2,861	$ 9,005	$ 75,567
Capital assets	83,828	5,325	10,267	163,146
Other noncurrent assets	3,055	362	1,505	8,046
Total assets	110,301	8,548	20,777	246,759
Liabilities:				
Current liabilities	6,374	769	4,279	10,393
Noncurrent liabilities	51,190	1,285	15,090	155,200
Total liabilities	57,564	2,054	19,369	165,593
Net Assets:				
Invested in capital assets, net of related debt	30,088	3,755	(7,478)	910
Restricted - expendable	21,804	651	5,629	77,965
Unrestricted	845	2,088	3,257	2,291
Total net assets	$ 52,737	$ 6,494	$ 1,408	$ 81,166
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS				
Operating revenues	$ 43,906	$ 1,368	$ 19,966	$ 67,097
Depreciation expense	(5,625)	(382)	(3,136)	(7,156)
Other operating expenses	(33,497)	(5,959)	(13,682)	(45,556)
Net operating income (loss)	4,784	(4,973)	3,148	14,385
Nonoperating revenues (expenses)	(1,155)	55	(488)	(3,790)
Transfers from/(to) University funds	(242)	5,567	(3,727)	(3,806)
Extraordinary Items	1,231	-	-	20,612
Change in net assets	4,618	649	(1,067)	27,401
Net assets, beginning of year	48,119	5,845	2,475	53,765
Net assets, end of year	$ 52,737	$ 6,494	$ 1,408	$ 81,166
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by operating activities	$ 10,078	$ (4,537)	$ 5,617	$ 19,568
Net cash provided (used) by noncapital financing activities	(35)	-	(1,665)	(3,763)
Net cash provided (used) by capital and related financing activities	(11,642)	4,490	(3,529)	(14,211)
Net cash provided (used) by investing activities	1,586	774	209	2,167
Net increase (decrease) in cash	(13)	727	632	3,761
Cash & Cash Equivalents, beginning of year	19,720	1,910	6,703	47,305
Cash & Cash Equivalents, end of year	$ 19,707	$ 2,637	$ 7,335	$ 51,066
DEBT SERVICE COVERAGE				
Debt Service Coverage % - Required	135%	120%	110%	120%
Debt Service Coverage % - Actual	286%	646%	190%	204%
PROPORTION OF REVENUE PLEDGED				
Annual Debt Service (principal & interest)	5,923	350	3,376	12,377
Net Operating Revenue (pledged)	11,784	6,208	6,507	21,541
Annual Debt Service / Net Operating Revenue (%)	50%	6%	52%	57%

June 30, 2008 (in 000s)

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2008 is as follows:

Revenue Bonds Payable	**Academic Building Revenue Bonds**	**Athletic Facilities Revenue Bonds**	**Center for University Advancement Revenue Bonds**	**Hospital Revenue Bonds**
Beginning Balance	$ 95,119	$ 117,075	$ 8,555	$ 23,755
Less: Payments	5,784	2,195	535	640
Plus: New Issuances	25,000	-	-	49,500
Ending Balance	$ 114,335	$ 114,880	$ 8,020	$ 72,615

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2008, the amount shown for debt service payments due on July 1st were on hand.

Principal & Interest Maturity	**Academic Building Revenue Bonds**	**Athletic Facilities Revenue Bonds**	**Center for University Advancement Revenue Bonds**	**Hospital Revenue Bonds**
Semi-annual maturity	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Mar & Sep 1st
Due on demand	$ 42	$ -	$ -	$ -
2009	12,718	7,291	897	5,379
2010	11,571	7,321	890	5,529
2011	11,705	7,541	882	5,531
2012	10,357	7,576	878	5,549
2013	10,633	7,586	853	5,571
2014-2018	42,009	38,483	4,257	27,743
2019-2023	35,884	39,606	1,682	27,679
2024-2028	27,047	40,774	-	27,629
2029-2033	9,038	30,985	-	1,711
2034	-	-	-	-
	$ 171,004	$ 187,163	$ 10,339	$ 112,321

As of June 30, 2008, the University has entered into contract commitments for construction projects as follows:

Commitments	**Academic Building Revenue Bonds**	**Athletic Facilities Revenue Bonds**	**Center for University Advancement Revenue Bonds**	**Hospital Revenue Bonds**
Contract Commitments	$ 34,774	$ 4,581	$ -	$ 30,382

June 30, 2008 (in 000s)

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2008 is as follows:

Revenue Bonds Payable	IMU Revenue Bonds	Parking System Revenue Bonds	Recreation Building Revenue Bonds	Recreational Facilities Revenue Bonds
Beginning Balance	$ 12,510	$ 25,695	$ 235	$ -
Less: Payments	1,100	1,130	105	-
Plus: New Issuances	-	-	-	26,000
Ending Balance	$ 11,410	$ 24,565	$ 130	$ 26,000

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2008, the amount shown for debt service payments due on July 1st were on hand.

Principal & Interest Maturity	IMU Revenue Bonds	Parking System Revenue Bonds	Recreation Building Revenue Bonds	Recreational Facilities Revenue Bonds
Semi-annual maturity	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st
Due on demand	$ -	$ -	$ 10	$ -
2009	1,573	2,260	123	1,591
2010	1,213	2,251	-	1,123
2011	801	2,247	-	1,515
2012	806	2,241	-	1,695
2013	804	2,242	-	1,696
2014-2018	4,015	11,147	-	9,468
2019-2023	4,036	8,580	-	8,451
2024-2028	2,440	4,118	-	8,518
2029-2033	-	-	-	7,925
2034	-	-	-	3,012
	$ 15,688	$ 35,086	$ 133	$ 44,994

As of June 30, 2008, the University has entered into contract commitments for construction projects as follows:

Commitments	IMU Revenue Bonds	Parking System Revenue Bonds	Recreation Building Revenue Bonds	Recreational Facilities Revenue Bonds
Contract Commitments	$ 574	$ 1,083	$ 2,175	$ 47,687

June 30, 2008 (in 000s)

A summary of revenue bonds payable activity, by segment, for the year ended June 30, 2008 is as follows:

Revenue Bonds Payable	**Residence Services Revenue Bonds**	**Student Health Facility Revenue Bonds**	**Telecomm. Facilities Revenue Bonds**	**Utility System Revenue Bonds**
Beginning Balance	$ 57,170	$ 1,840	$ 20,320	$ 142,465
Less: Payments	3,430	270	2,575	5,985
Plus: New Issuances	-	-	165	25,000
Ending Balance	$ 53,740	$ 1,570	$ 17,910	$ 161,480

A summary of bond debt service for payment of principal and interest is shown below. As of June 30, 2008, the amount shown for debt service payments due on July 1st were on hand.

Principal & Interest Maturity	**Residence Services Revenue Bonds**	**Student Health Facility Revenue Bonds**	**Telecomm. Facilities Revenue Bonds**	**Utility System Revenue Bonds**
Semi-annual maturity	Jan & Jul 1st	Jan & Jul 1st	Jan & Jul 1st	May & Nov 1st
Due on demand	$ -	$ -	$ -	$ -
2009	4,913	353	3,533	13,667
2010	4,925	354	3,370	14,471
2011	4,944	349	3,368	14,372
2012	4,964	354	3,365	14,429
2013	4,976	353	2,057	14,478
2014-2018	24,946	-	5,086	60,821
2019-2023	21,225	-	-	54,320
2024-2028	3,811	-	-	38,801
2029-2033	-	-	-	5,585
2034	-	-	-	-
	$ 74,704	$ 1,763	$ 20,779	$ 230,944

As of June 30, 2008, the University has entered into contract commitments for construction projects as follows:

Commitments	**Residence Services Revenue Bonds**	**Student Health Facility Revenue Bonds**	**Telecomm. Facilities Revenue Bonds**	**Utility System Revenue Bonds**
Contract Commitments	$ 7,239	$ -	$ -	$ 5,559

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, funded status and funding progress.

Schedule of Funding Progress (in thousands of dollars)

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
July 1, 2008	-	$ 114,592	$ 114,592	0.0%	$ 739,501	15.5%

Acknowledgments

Report prepared by The Department of Accounting Services

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

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David A. Vaudt, CPA
Auditor of State

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

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

We have audited the financial statements of the State University of Iowa (University) as of and for the year ended June 30, 2008 and have issued our report thereon dated December 15, 2008 under separate cover. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the State University of Iowa Foundation and Affiliates and the Iowa Measurement Research Foundation, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency, including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control. We consider the deficiency in internal control described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above is a material weakness.

Compliance and Other Matters

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

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we expressed our conclusion on the University's response, we did not audit the University's response and, accordingly, we express no opinion on it.

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

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 24, 2009

State University of Iowa

Schedule of Findings

June 30, 2008

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

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

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

Response – In prior years, the University has communicated expectations that campus departments are required to review their monthly financial transaction reports (SA3 & TDS) in a timely and accurate manner. However, no formal written policy existed prior to fiscal year 2009. Effective July 1, 2008, the University implemented a new policy, *Monthly Review of Transactions & Accounts*. This policy requires that account owners and reviewers work together to ensure an accurate and timely review of financial transactions in their accounts. For details on the policy, please visit http://www.uiowa.edu/~fuscntrl/reviewoftransactionspolicy.pdf. In order to document individual account owners and reviewers, we are also developing a web application to collect this information (called *WhoKey Administration Application*).

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.