

INTRODUCTORY
SECTION



December 12, 2014

TO THE CITIZENS, GOVERNOR AND MEMBERS OF THE IOWA GENERAL ASSEMBLY

In accordance with Iowa Code Section 8A.502(8), we are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the State of Iowa for the fiscal year ended June 30, 2014. As required by State statute, this report has been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB).

The Department of Administrative Services and the Department of Management are responsible for both the accuracy of the presented data and the completeness and fairness of the presentation. We believe the information presented is accurate in all material respects and the necessary disclosures have been made in order to enable the reader to understand the State's financial activity.

The State's system of internal controls over assets recorded in the accounting system have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded against unauthorized use or disposition and financial records from all appropriate sources are reliable for preparing financial statements and maintaining accountability. The concept of reasonable assurance recognizes the cost of internal controls should not exceed the benefits likely to be derived from their use. To monitor the adequacy of internal controls, the Auditor of State reviews internal control procedures as an integral part of departmental audits.

The Auditor of State is required by Chapter 11 of the Code of Iowa to audit annually all departments of the State. The accompanying basic financial statements of the State of Iowa have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The Auditor of State's report appears elsewhere herein. In addition, the Auditor of State conducts a single audit under the requirements set forth in the Single Audit Act of 1984, the Single Audit Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations which is issued separately.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

The State of Iowa was admitted into the Union as the 29th state in 1846. Iowa is a midsize state with a mid-continent location. It covers 56,276 square miles, making it the 26th largest state in the United States. The Mississippi River carves out Iowa's eastern border, while the flow of the Missouri and Big Sioux Rivers form the western border. Iowa has a population of 3.0 million.

In Iowa, government power is distributed among three branches. The Legislative branch creates laws that establish policies and programs; the Executive branch carries out the policies and programs created in the laws and the Judicial branch resolves any conflicts arising from interpretation or application of the laws. The Executive branch agencies are the Governor, Lieutenant Governor, Secretary of State, Treasurer of State, Secretary of Agriculture, Attorney General, and Auditor of State, as well as 31 agencies lead by appointed State officials. The Legislative branch is comprised of two houses, a 50 member Senate and a 100 member House of Representatives. The Judicial branch is presided over by the Iowa Supreme Court, which is led by the Chief Justice of the Iowa Supreme Court.

The State provides a range of services such as education, health and human services, highway maintenance and construction, natural resources and agriculture management, law enforcement, public safety, and economic development programs.

This report includes all of the fund types, departments and agencies of the State, as well as the boards, commissions, authorities and universities for which the State is financially accountable. Component units also included in the report are the Iowa Finance Authority, Iowa Economic Development Authority, Iowa State Fair Authority, Iowa Lottery Authority, University Foundations, University of Iowa Research Foundation, and University of Iowa Health System and Subsidiaries. The reader is directed to Note 1.B in the Notes to the Financial Statements for a more complete description of the factors used to define the reporting entity.

State Budget and Budgetary Controls. The annual budgetary process serves as the foundation for the State's financial planning and control. Each year state departments submit budget requests to the Governor's Office by October 1. The State's budget is prepared by the Governor on an annual basis and is required to be submitted, along with proposed appropriation bills, to the General Assembly by the first of February prior to the new fiscal year. The General Assembly approves appropriation bills which establish spending authority for the upcoming fiscal year. The Governor has the ability to approve, veto or item veto appropriation bills as they are presented to him.

Departments may request revisions to allotments, appropriation transfers, or supplemental appropriations. The Department of Management approves revised allotments within an appropriation, subject to the Governor's review. The Governor and the Department of Management approve all appropriation transfers. The General Assembly and the Governor act on supplemental appropriation bills in a manner similar to original appropriations. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the State treasury, unless otherwise provided.

All claims presented for payment must be approved by the appropriate department. The expenditure must be for a purpose intended by law and a sufficient existing and unexpended appropriation

balance must be available. Budgetary controls are incorporated into State accounting systems. The annual budget of the State is established through separate appropriations to individual departments for specific purposes, special outlays and/or operating expenditures. Budgetary control is essentially maintained at the departmental level except for certain grant and aid programs where control is maintained at the program level.

ECONOMIC CONDITION AND OUTLOOK

National Economic Outlook 2014-2015

During fiscal year 2014, gross domestic product showed growth of 2.6 percent, reflecting the continued overall rebound the national economy is experiencing. According to Moody's Analytics, the projection for gross domestic product growth in fiscal year 2015 is 3.4 percent.

Job growth has improved over the past 12 months. During fiscal year 2014, 1.9 million jobs were gained nationally. Projections provided by Moody's Analytics for fiscal year 2015 are for continued growth with 2.3 million jobs gained.

State and Local Economy

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. In calendar year 2013, 17.1 percent of the state's gross domestic product was in manufacturing, down from 20.7 percent 10 years ago. Finance, insurance, and real estate sector has continued to be the largest part of the State's economy at 20.5 percent during calendar year 2013. With the growth in renewable fuels processing in Iowa, and higher grain and livestock prices, agriculture has grown from 3.8 percent in 2003 to 9.7 percent in 2013. In calendar year 2013, Iowa's real gross domestic product increased 2.9 percent ranking Iowa 12th highest in growth rate nationally. The United States average growth during the calendar year was 1.8 percent.

Personal Income. Personal income, as reported by the U.S. Department of Commerce, for the nation increased 2.6 percent during calendar year 2013. Iowa's personal income rose 3.2 percent for the calendar year 2013 ranking Iowa 22nd highest in growth rate nationally. For the second quarter, calendar year 2014, Iowa's personal income increased 2.4 percent, ranking Iowa 4th highest in growth rate nationally.

Employment. Over the past 10 years, Iowa's unemployment rate has been between one and three percentage points below the national average. As of June 2014, the state unemployment rate stood at 4.4 percent, while the national average stood at 6.1 percent. Following the national trend, unemployment at the state level has continued to drop during fiscal year 2014, from 4.8 percent in June 2013 to 4.4 percent in June 2014. During fiscal year 2014, nonfarm employment on a seasonally adjusted basis increased a net 32,200 jobs, with 26,000 more people in the workforce. During this time period, the manufacturing sector gained 3,900 jobs, 4,300 jobs were gained in the leisure and hospitality sector, 3,400 jobs gained in the construction sector, and 7,200 jobs in the government sector. These gains were offset by reductions of 700 jobs in the information sector. The rest of the economic sectors had smaller job changes.

Exports. Exporting industries have been an important factor in Iowa's economic growth since the 1990's. Growth in exports of various agriculture and manufacturing commodities have helped diversify Iowa's economy. Calendar year 2013 is the first time in years that Iowa exports dropped from the previous year. According to the U.S. Census Bureau, Iowa's exports decreased 5.0 percent, after increasing 9.8 percent in calendar year 2012.

Canada continues to remain the top country for Iowa's exports, with Mexico being Iowa's second best trading partner.

Farmland Values. The Federal Reserve Bank of Chicago, in their August 2014 public release, reported that, farmland values for the Seventh Federal Reserve District (Chicago) had, for the second quarter 2014, continued to increase in value year over year at 3 percent. Farmland values in Iowa decreased by 1 percent for the period July 1, 2013 to July 1, 2014. Bankers responding to the survey sent out by the Federal Reserve Bank of Chicago believe that land values have plateaued and expect a weakness in agricultural land values in the coming quarters.

Manufacturing. Iowa's manufacturing employment increased to an average of 214,500 for 2013, up from the 2012 level of 210,600. During calendar year 2013, durable goods products accounted for about 60.0 percent of manufacturing employment.

Financial Policies

The Governor and General Assembly have statutory responsibility to balance the budget.

- Spending is limited to 99.0 percent of adjusted revenues, 95.0 percent of any new revenue implemented in a fiscal year, and any carry-over from the previous year.
- The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference, or the spring estimate if it is lower, as a basis to determine the General Fund budget for the following fiscal year.
- Two reserve funds have been created: the Cash Reserve Fund and the Economic Emergency Fund. Expenditures from these funds are limited by statute for nonrecurring, emergency expenditures.

MAJOR INITIATIVES AND ISSUES

Home Base Iowa. During the 2014 session, Governor Branstad proposed and the General Assembly adopted the Home Base Iowa Act which is one part of the overall Home Base Iowa initiative. This initiative is a first-of-its-kind program to recruit veterans and active duty service members, for private-sector job opportunities in Iowa. The Act fully exempts military pensions from state income tax, directs Iowa's licensing boards to adopt rules allowing credit for military training and experience in the licensing process, allows private sector companies to follow the public sector's lead by allowing a preference in hiring and promoting veterans, eliminates the special license plate issuance fees charged for plates associated with military service, and expands eligibility for the Military Homeownership Assistance Program, which provides \$5,000 in down payment and closing cost assistance.

AWARDS AND ACKNOWLEDGMENTS

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Iowa for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

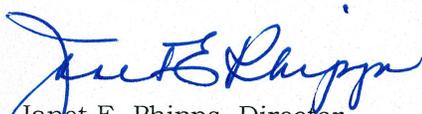
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgment. The preparation of this report on a timely basis requires the collective efforts of numerous finance personnel throughout the State and is made possible only with the cooperation and support of the Executive, Legislative and Judicial branch agencies, universities and component units of the State.

This report was accomplished through the professionalism and dedication of the staff in the Department of Management, the State Accounting Enterprise within the Department of Administrative Services, the Auditor of State's Office, and the financial and management personnel throughout State government.

This report, issued for the twenty-sixth consecutive year, continues our commitment to the citizens of the State of Iowa, the Governor, the Legislature and the financial community, to maintain our financial statements in conformance with the highest standards of financial accountability.

Respectfully submitted,



Janet E. Phipps, Director
Department of Administrative Services



David Roederer, Director
Department of Management



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

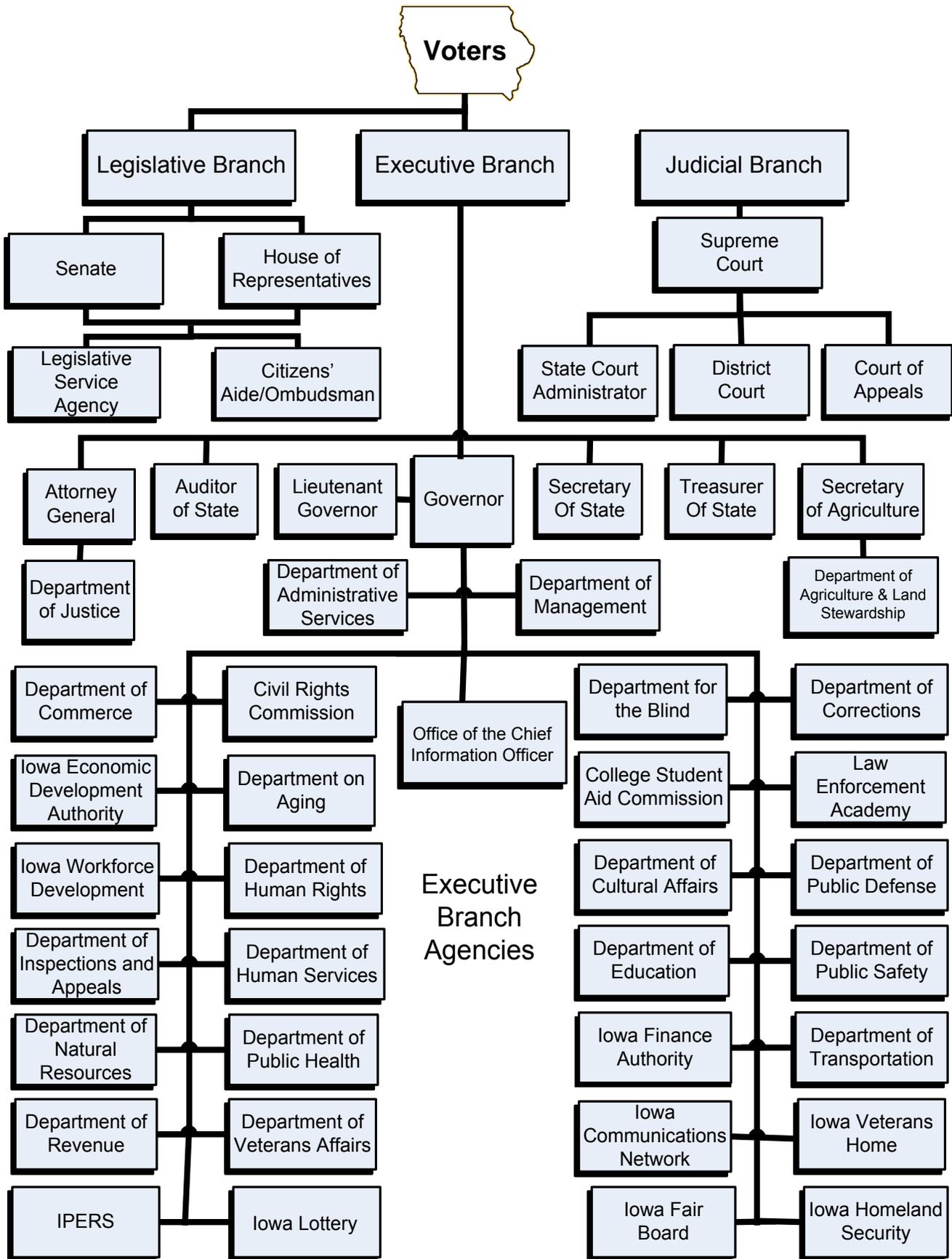
State of Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

State of Iowa Organizational Chart



Principal Officials

Elected Officials

GOVERNOR	-	Terry E. Branstad
LIEUTENANT GOVERNOR	-	Kimberly K. Reynolds
SECRETARY OF STATE	-	Matt Schultz
AUDITOR OF STATE	-	Mary Mosiman
TREASURER OF STATE	-	Michael L. Fitzgerald
SECRETARY OF AGRICULTURE	-	William H. Northey
ATTORNEY GENERAL	-	Thomas J. Miller

Legislative Branch

PRESIDENT OF THE SENATE	-	Pam Jochum
SPEAKER OF THE HOUSE OF REPRESENTATIVES	-	Kraig Paulsen

Judicial Branch

CHIEF JUSTICE OF THE SUPREME COURT	-	Mark S. Cady
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