

INTRODUCTORY
SECTION



December 14, 2017

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, 2017. 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 Iowa Code Chapter 11 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 Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) 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 3.1 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. 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 February 1 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 the Governor.

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 2017-2018

During calendar year 2016, gross domestic product showed growth of 1.5 percent, reflecting a slowdown from calendar year 2015. According to Moody's Analytics, the projection for gross domestic product growth in calendar year 2017 is 2.2 percent and 2.9 percent in calendar year 2018.

Job growth has continued to grow over the past year. During calendar year 2016, 1.8 million jobs were gained nationally. Projections provided by Moody's Analytics for calendar year 2017 are for continued growth with 1.5 million jobs gained, and 1.6 million gained for calendar year 2018.

State and Local Economy

Iowa's economy is supported by a diverse mixture of industry, agriculture, services and government employment. In calendar year 2016, 18.3 percent of the State's gross domestic product was in manufacturing, down from 20.6 percent 10 years ago. The finance, insurance, and real estate sectors have continued to be the largest part of the State's economy at 22.7 percent during calendar year 2016. With the growth in renewable fuels processing in Iowa, and more grain and livestock production, agriculture has grown from 3.9 percent in 2006 to 4.8 percent in 2016. However, with the continued slowdown in agriculture in calendar year 2016, Iowa's real gross domestic product increased only 0.9 percent, ranking Iowa 34th in growth rate nationally. The United States average growth during the calendar year was 1.5 percent.

Personal Income. Personal income, as reported by the U.S. Department of Commerce, for the nation increased 3.8 percent during calendar year 2016. Iowa's personal income rose 2.3 percent for the calendar year 2016, ranking Iowa 42nd in growth rate nationally.

Employment. Over the past 10 years, Iowa's unemployment rate has been below the national average. As of September 2017, the State's unemployment rate stood at 3.2 percent, while the national average stood at 4.2 percent. Following the national trend, unemployment in Iowa has continued to drop during calendar year 2016 from 3.8 percent in January 2016 to 3.5 percent in December 2016. During calendar year 2016, nonfarm employment on a seasonally adjusted basis increased a net 6,400 jobs. During this time period, the financial activities sector gained 2,900 jobs, the trade and transportation sector gained 2,700 jobs, government sector gained 1,800 jobs, and construction sector gained 1,300 jobs. These gains were offset by reductions of 4,200 jobs in the manufacturing sector and 1,600 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 1990s. Growth in exports of various agriculture and manufacturing commodities have helped diversify Iowa's economy. In calendar year 2016 according to the U.S. Census Bureau, the value of Iowa exports decreased 8.4 percent, after increasing 8.6 percent in calendar year 2014 and decreasing in calendar year 2015 by 8.5 percent.

Canada remains the top country for Iowa's exports, with Mexico as Iowa's second best trading partner. In 2016, Iowa's agricultural export value was second to California nationally.

Farmland Values. The Federal Reserve Bank of Chicago, in their August 2017 public release, reported that farmland values for the Seventh Federal Reserve District (Chicago) had increased 1.0 percent from a year ago for the second quarter of 2017. This was the first year-over-year gain in three years. Farmland values in Iowa increased by 3.0 percent for the period July 1, 2016 to July 1, 2017. A majority of bankers responding to the survey sent out by the Federal Reserve Bank of Chicago believe that land values have stabilized, while some projected agricultural land values will decrease in the coming quarters.

Manufacturing. Iowa's manufacturing employment decreased from the 2015 average of 216,200 to the 2016 average of 213,300. During calendar year 2016, durable goods products accounted for about 58.4 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

Reformed collective bargaining laws: During the 2017 session, the General Assembly passed and Governor Branstad signed into law reforms to the public employee collective bargaining law.

Reformed worker's compensation laws: During the 2017 session, the General Assembly passed and Governor Branstad signed into law reforms to ensure employees are compensated fairly for being injured on the job, while ensuring abuses are curtailed.

Strengthened traffic safety laws: During the 2017 session, the General Assembly passed and Governor Branstad signed into law reforms to strengthen distracted driving and drunk driving laws.

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 CAFR for the fiscal year ended June 30, 2016. 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.

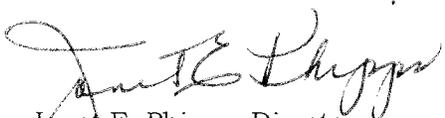
A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 Department of Administrative Services – State Accounting Enterprise, the Auditor of State's Office, and the financial and management personnel throughout State government.

This report, issued for the twenty-ninth 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

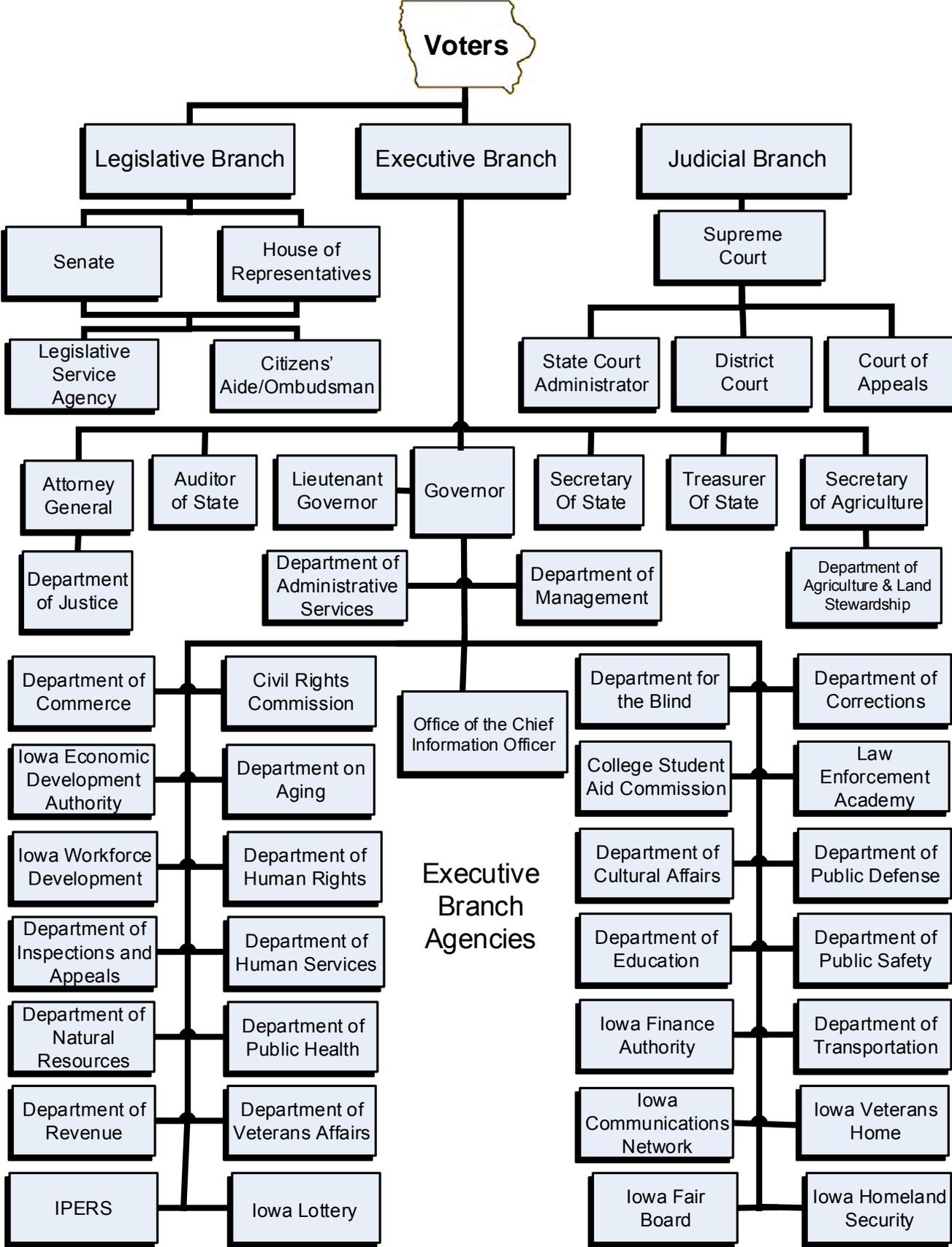
State of Iowa

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

State of Iowa Organizational Chart



Principal Officials

Elected Officials

GOVERNOR - **Kim Reynolds**
LIEUTENANT GOVERNOR - **Adam Gregg**
SECRETARY OF STATE - **Paul D. Pate**
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 - **Jack Whitver**
SPEAKER OF THE
HOUSE OF REPRESENTATIVES - **Linda L. Upmeyer**

Judicial Branch

CHIEF JUSTICE OF
THE SUPREME COURT - **Mark S. Cady**

