IOWA FINANCE AUTHORITY

Basic Financial Statements and Supplementary Information,
Including Schedule of Expenditures of Federal Awards

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

IOWA FINANCE AUTHORITY

Table of Contents

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report

The Board of Directors
Iowa Finance Authority:

We have audited the accompanying financial statements of each major fund and the total business-type activities of the Iowa Finance Authority (the Authority), a component unit of the State of Iowa, as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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. 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 that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the total business-type activities of the Iowa Finance Authority as of June 30, 2004 and 2003, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 17, 2004 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The supplementary combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, and the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The supplementary combining financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 17, 2004

The Iowa Finance Authority's (the Authority) financial report consists of two parts – *Management's Discussion and Analysis* and the *Basic Financial Statements*. *Management's Discussion and Analysis* provides an overview of the financial activities for the fiscal years ended June 30, 2004 (FY04) and June 30, 2003 (FY03).

The Authority is a self-supporting entity and follows enterprise fund accounting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. While the various funds of the Authority are grouped together for management convenience, the combined assets are available only in accordance with the applicable bond resolutions, federal and Iowa laws, and other outstanding agreements.

Overview of the Financial Statements

The financial statements consist of Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements include Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets; Statements of Cash Flows; and a Notes to Financial Statements section. The basic financial statements describes information for the following major funds:

- Housing Agency Fund
- State Revolving Fund

The Statements of Net Assets are presented in a format that displays net assets (assets less liabilities equal net assets). The Statements of Net Assets detail the assets and liabilities of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net assets in these statements are displayed as either restricted or unrestricted. Under Statement Nos. 34, 37, and 38, assets are restricted when their use is subject to external restrictions (such as bond resolutions, legal agreements, statutes, etc.), with assets not falling under this category being characterized as unrestricted. Please note, however, that unrestricted net assets include assets that have been committed by the Authority for certain specific uses, but for which an agreement may not yet be in place.

The Statements of Revenues, Expenses, and Changes in Net Assets present the operating income (loss), which consists of operating revenues less operating expenses. In addition, the Statements of Revenues, Expenses, and Changes in Net Assets detail nonoperating revenues (assets received by the Authority from the Iowa Housing Corporation). The resulting amounts (revenues less expenses) are the change in net assets for FY04 and FY03, which amounts are then added to the ending balance of net assets from FY03 and FY02 to arrive at net assets for FY04 and FY03.

The Statements of Cash Flows report the net increase (or decrease) in cash and cash equivalents for each fiscal year. These statements include cash flows from operating activities, cash flows from noncapital financing activities (such as issuance of bonds), and cash flows from investing activities. The resulting net increase (or decrease) in cash and cash equivalents is then added to the balance of cash and cash equivalents at the beginning of the year to determine the FY04 and FY03 ending cash and cash equivalents balances.

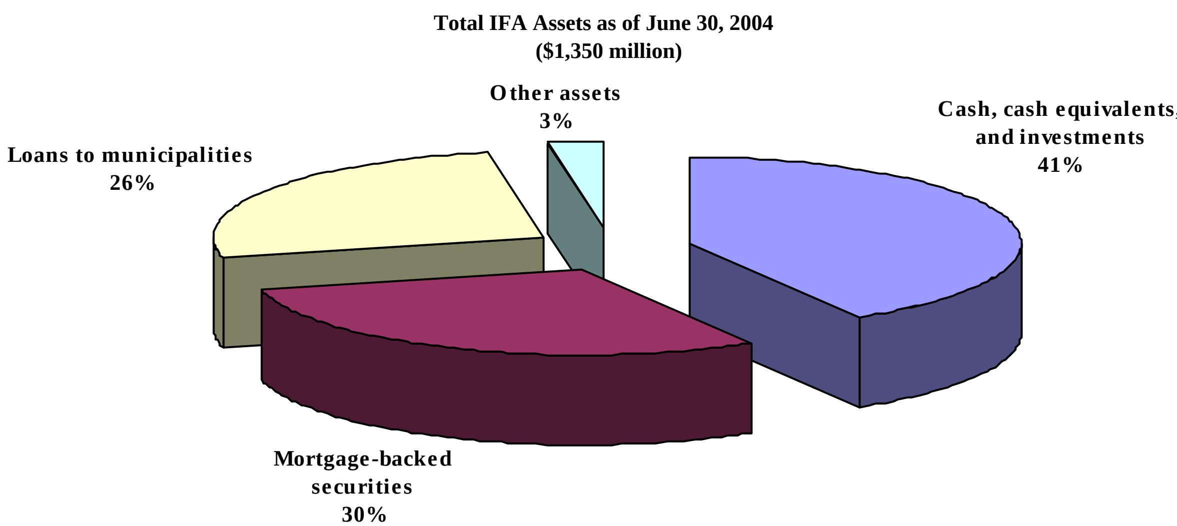
Condensed Financial Information

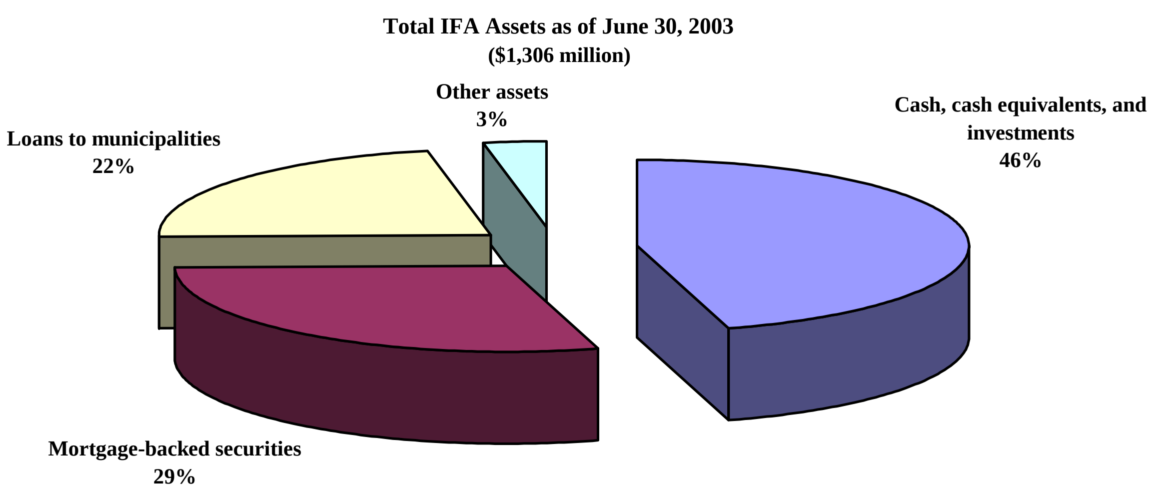
The following tables and charts present condensed financial information for FY04 and FY03. Table 1 provides information for the Authority as a whole. Table 2 presents condensed information for the Authority's Housing

(Continued)

Agency Programs, including the single-family programs, multi-family programs, housing assistance programs, and the Title Guaranty program. Table 3 provides condensed information on the State Revolving Fund, consisting of the Clean Water Program and the Drinking Water Program.

This information has been included to assist readers in comparing the Authority's financial condition and results of operations for FY04 with FY03. Reference is made to the Authority's complete audited financial statements for both FY04 and FY03 for detailed information behind the amounts set forth in these tables.





(Dollars in Millions)

Table 1 – Total Condensed Information of the Authority

Net Assets

	2004	2003	2002
Assets:			
Cash, cash equivalents, and investments	$ 557.7	596.5	492.5
Mortgage-backed securities	403.4	377.6	306.7
Loans to municipalities or water systems	350.1	291.7	259.5
Other assets	38.4	39.8	37.1
Total assets	1,349.6	1,305.6	1,095.8
Liabilities:			
Bonds payable, net	779.4	783.5	647.1
Other liabilities	38.7	38.8	38.9
Total liabilities	818.1	822.3	686.0
Net assets:			
Invested in capital assets	0.8	1.0	0.6
Restricted net assets:			
Per bond resolutions	261.6	277.7	230.5
Per legislation	19.6	15.1	14.4
Per other agreements	209.3	153.3	118.9
Total restricted net assets	491.3	447.1	364.4
Unrestricted net assets	40.2	36.2	45.4
Total net assets	$ 531.5	483.3	409.8

(Dollars in Millions)

Table 1 – Total Condensed Information of the Authority (continued)

Revenues, Expenses, and Changes in Net Assets

		2004	2003	2002
Operating revenues:				
Interest income	$	50.5	49.9	49.4
Net increase (decrease) in fair value		(17.5)	14.1	6.6
Fee and other income and provision for loan losses		13.0	9.8	9.0
Grant income		57.6	48.4	37.5
Total operating revenues		103.6	122.2	102.5
Operating expenses:				
Interest on bonds		37.6	36.1	33.3
General and administrative		11.0	9.0	8.7
Grants and aid		6.9	3.8	4.0
Total operating expenses		55.5	48.9	46.0
Operating income		48.1	73.3	56.5
Nonoperating revenues		0.1	0.2	5.0
Change in net assets	$	48.2	73.5	61.5

Financial Analysis – Combined 2004

- The Authority's assets increased 3.4% ($44.0 million) to $1,350 million in FY04 compared to $1,306 million in FY03. Even with record prepayments and a decline in fair market value, mortgage-backed securities grew 6.8% ($25.8 million) and loans to municipalities or water systems grew 20% ($58.4 million).
- Historic low interest rates and record levels of prepayments within the Authority's single-family mortgage-backed securities portfolio had a significant impact on FY04 results. As the average interest rate of the single-family portfolio declined, the fair market value also declined resulting in a $17.5 million loss in fair market value for FY04, reversing the gain of $14.1 million in FY03.
- Debt declined $4.1 million to $779.4 million in FY04 as compared to $783.5 in FY03.
- Interest income grew a modest 1.2% ($0.6 million) to $50.5 million in FY04 compared to $49.9 in FY03, but was achieved through growth in the mortgage-backed securities and loans to municipalities mentioned above.
- Grant income, fee income, and other income grew 19.2% ($11.3 million) to $70.3 million in FY04 from $59.0 million in FY03.

(Continued)

(Dollars in Millions)

Financial Analysis – Combined 2003

- The Authority's assets increased 19.1% ($210 million) to $1,306 million in FY03 compared to $1,096 million in FY02. Increases in mortgage backed securities and loans to municipalities and water systems accounted for the majority of the increase.
- The Authority's revenue increased 19.2% ($19.7 million) to $122.2 million in FY03 compared to $102.5 million in FY02.
- The Authority closed three single-family bond issues for $140 million, established a $20 million line of credit facility, and issued state revolving fund bonds for $56 million.
- The Title Guaranty Division of the Housing Agency generated revenues of $5.7 million.

Table 2 – Condensed Housing Agency Information

Net Assets

		2004	2003	2002
Assets:				
Cash, cash equivalents, and investments	$	249.7	277.4	233.2
Mortgage-backed securities		403.4	377.6	306.7
Other assets		34.6	35.1	32.2
Total assets		687.7	690.1	572.1
Liabilities:				
Bonds payable, net		521.0	511.5	414.0
Other liabilities		26.1	25.2	24.8
Total liabilities		547.1	536.7	438.8
Net assets:				
Invested in capital assets		0.8	1.0	0.6
Restricted net assets:				
Per bond resolutions		76.1	83.1	62.0
Per legislation		19.6	15.1	14.4
Per other agreements		3.9	18.0	10.7
Total restricted net assets		100.4	117.2	87.7
Unrestricted net assets		40.2	36.2	45.5
Total net assets	$	140.6	153.4	133.2

(Dollars in Millions)

Table 2 – Condensed Housing Agency Information (continued)

Revenues, Expenses, and Changes in Net Assets

		2004	2003	2002
Operating revenues:				
Interest income	$	31.2	31.1	28.8
Net increase (decrease) in fair value		(17.4)	14.1	6.6
Fee and other income and provision for loan losses		11.8	9.2	9.0
Grant income		1.7	0.8	1.0
Total operating revenues		27.3	55.2	45.4
Operating expenses:				
Interest on bonds		24.6	23.8	21.0
General and administrative		8.6	7.8	6.0
Grants and aid		7.0	3.7	4.0
Total operating expenses		40.2	35.3	31.0
Operating income		(12.9)	19.9	14.4
Nonoperating revenues		0.1	0.2	5.0
Change in net assets	$	(12.8)	20.1	19.4

Financial Analysis – Housing Agency 2004

- The Housing Agency's mortgage-backed securities increased 6.8% ($25.8 million) to $403.4 million in FY04 from $377.6 million in FY03.
- Three single-family bond issues provided $121.8 million of financing, which was used to purchase mortgage-backed securities under the FirstHome Program during FY04.

Series	Date	Amount	Bond cap utilized	Rating
2003 HIJ	12/03/03	$ 45.0	$ 35.9	AAA by Standard & Poor's Aaa by Moody's
2003 KL	12/23/03	31.9	—	AAA by Standard & Poor's Aaa by Moody's
2004 AB	06/03/04	45.0	45.0	AAA/A-1+ Standard & Poor's Aaa by Moody's

See the notes to the financial statements for further information.

- The Title Guaranty Division of the Housing Agency generated revenues of $6.7 million in FY04 compared to $5.7 million in FY03. This was the fourth consecutive year of revenue growth.

(Continued)

(Dollars in Millions)

Financial Analysis – Housing Agency 2003

- The Housing Agency's mortgage-backed securities increased 23.1% ($70.9 million) to $377.6 million from $306.7 million in FY02. A fair market value gain of $14.1 was realized in FY03.
- Three single-family bond issues and a revolving line of credit provided $160 million of financing for purchasing mortgage-backed securities.

Series	Date	Amount	Bond cap utilized	Rating
2002 FGHI	10/30/2002	$ 45.0	$ 34.9	AAA by Standard & Poors Aaa by Moody's
Line of Credit	12/17/2002	20.0	-	
2003 AB	3/19/2003	45.0	35.4	AAA by Standard & Poors Aaa by Moody's
2003 CDEFG	6/25/2003	50.0	23.7	AAA by Standard & Poors Aaa by Moody's

- The Title Guaranty Division of the Housing Agency generated revenues of $5.7 million compared to $5.2 million in 2002.

(Continued)

(Dollars in Millions)

Table 3 – Condensed State Revolving Fund Information

Net Assets

		2004	2003	2002
Assets:				
Cash, cash equivalents, and investments	$	308.0	319.1	259.3
Loans to municipalities or water systems		350.1	291.7	259.5
Other assets		3.8	4.8	4.9
Total assets		661.9	615.6	523.7
Liabilities:				
Bonds payable, net		258.3	272.0	233.1
Other liabilities		12.7	13.6	14.2
Total liabilities		271.0	285.6	247.3
Restricted net assets:				
Per bond resolutions		185.6	194.6	168.4
Per other agreements		205.4	135.3	108.1
Total restricted net assets		391.0	329.9	276.5
Unrestricted net assets		—	—	—
Total net assets	$	391.0	329.9	276.5

(Dollars in Millions)

Table 3 – Condensed State Revolving Fund Information (continued)

Revenues, Expenses, and Changes in Net Assets

		2004	2003	2002
Operating revenues:				
Interest income	$	19.3	18.8	20.8
Fee and other income		0.9	0.6	0.3
Grant income		55.9	48.4	36.5
Total operating revenues		76.1	67.8	57.6
Operating expenses:				
Interest on bonds		12.9	12.4	12.3
General and administrative		2.2	2.0	2.7
Total operating expenses		15.1	14.4	15.0
Operating income		61.0	53.4	42.6
Change in net assets	$	61.0	53.4	42.6

Financial Analysis – State Revolving Fund 2004

- The State Revolving Fund assets increased 7.5% ($46.3 million) to $661.9 million in FY04 from $615.6 million in FY03. Loans to municipalities or water systems grew 20% ($58.4 million) to $350.1 million in FY04 from $291.7 million in FY03.

Financial Analysis – State Revolving Fund 2003

- State Revolving Fund assets increased 17.5% ($91.9 million) to $615.6 million in FY03 from $523.7 million in FY02. Loans to municipalities or water systems grew 12.4% ($32.2 million) from $259.5 million in FY02.
- One state revolving fund bond provided $56.1 million of financing, which was used to fund new loans to municipalities or water systems.

Series	Date		Amount		Bond cap utilized	Rating
2003	1/23/2003	$	56.1	$	—	AAA by Standard & Poors
						Aaa by Moody's
						AAA by Fitch

Additional Information

For additional information with respect to the Management's Discussion and Analysis or for information concerning the financial statements, please contact the Authority's Chief Financial Officer at (515) 242-4990.

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2004

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Assets			
Current assets (substantially restricted):			
Cash and cash equivalents	$ 197,744	267,984	465,728
Investments:			
Other investments	10,623	39,983	50,606
Mortgage-backed securities	6,472	—	6,472
Total current investments	17,095	39,983	57,078
Loans to municipalities or water systems	—	19,475	19,475
Housing Agency loans, net	1,952	—	1,952
Accrued interest receivable	3,852	3,900	7,752
Other assets	1,089	(105)	984
Total current assets	221,732	331,237	552,969
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	41,406	—	41,406
Mortgage-backed securities	396,888	—	396,888
Total noncurrent investments	438,294	—	438,294
Loans to municipalities or water systems	—	330,662	330,662
Housing Agency loans, net	26,885	—	26,885
Capital assets, net of accumulated depreciation	776	—	776
Total noncurrent assets	465,955	330,662	796,617
Total assets	687,687	661,899	1,349,586
Liabilities			
Current liabilities:			
Bonds payable, net	43,684	15,868	59,552
Accrued interest payable	10,969	5,288	16,257
Accounts payable and other	2,724	352	3,076
Rebates owed	5,359	—	5,359
Deferred income	426	258	684
Total current liabilities	63,162	21,766	84,928
Noncurrent liabilities:			
Bonds payable, net	477,321	242,475	719,796
Reserves for Title Guaranty Division claims	4,221	—	4,221
Rebates owed	89	3,074	3,163
Deferred income	1,867	3,642	5,509
Deferred grants and aid	458	—	458
Total noncurrent liabilities	483,956	249,191	733,147
Total liabilities	547,118	270,957	818,075
Net Assets			
Invested in capital assets	776	—	776
Restricted net assets:			
Per bond resolutions	76,055	185,559	261,614
Per legislation	19,632	—	19,632
Per other agreements	3,903	205,383	209,286
Total restricted net assets	100,366	390,942	491,308
Unrestricted net assets	40,203	—	40,203
Total net assets	$ 140,569	390,942	531,511

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Net Assets

June 30, 2003

(Dollars in thousands)

		Housing Agency	State Revolving Fund	Totals
Assets				
Current assets (substantially restricted):				
Cash and cash equivalents	$	206,615	319,125	525,740
Investments:				
Other investments		11,390	—	11,390
Mortgage-backed securities		5,890	—	5,890
Total current investments		17,280	—	17,280
Loans to municipalities or water systems		—	16,975	16,975
Housing Agency loans, net		4,079	32	4,111
Accrued interest receivable		3,676	4,188	7,864
Other assets		1,446	(124)	1,322
Total current assets		233,096	340,196	573,292
Noncurrent assets (substantially restricted):				
Investments:				
Other investments		59,381	—	59,381
Mortgage-backed securities		371,736	—	371,736
Total noncurrent investments		431,117	—	431,117
Loans to municipalities or water systems		—	274,699	274,699
Housing Agency loans, net		24,928	659	25,587
Capital assets, net of accumulated depreciation		970	—	970
Total noncurrent assets		457,015	275,358	732,373
Total assets		690,111	615,554	1,305,665
Liabilities				
Current liabilities:				
Bonds payable, net		56,618	13,900	70,518
Accrued interest payable		11,159	5,620	16,779
Accounts payable and other		2,117	660	2,777
Rebates owed		1,998	1,080	3,078
Deferred income		366	233	599
Total current liabilities		72,258	21,493	93,751
Noncurrent liabilities:				
Bonds payable, net		454,933	258,134	713,067
Reserves for Title Guaranty Division claims		3,707	—	3,707
Rebates owed		2,999	2,867	5,866
Deferred income		2,105	3,111	5,216
Deferred grants and aid		721	—	721
Total noncurrent liabilities		464,465	264,112	728,577
Total liabilities		536,723	285,605	822,328
Net Assets				
Invested in capital assets		970	—	970
Restricted net assets:				
Per bond resolutions		83,122	194,606	277,728
Per legislation		15,051	—	15,051
Per other agreements		17,990	135,343	153,333
Total restricted net assets		117,133	329,949	447,082
Unrestricted net assets		36,255	—	36,255
Total net assets	$	153,388	329,949	483,337

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Operating revenues:			
Interest income	$ 31,206	19,279	50,485
Net decrease in fair value of investments and mortgage-backed securities	(17,474)	(3)	(17,477)
Fee income	10,693	885	11,578
Grant income	1,723	55,888	57,611
Provision for losses	313	—	313
Other income	1,141	—	1,141
Total operating revenues	27,602	76,049	103,651
Operating expenses:			
Interest on bonds	24,647	12,904	37,551
General and administrative	8,875	2,152	11,027
Grants and aid	6,949	—	6,949
Total operating expenses	40,471	15,056	55,527
Operating (loss) income	(12,869)	60,993	48,124
Nonoperating revenues:			
Assets received from Iowa Housing Corporation	50	—	50
Change in net assets	(12,819)	60,993	48,174
Net assets at June 30, 2003	153,388	329,949	483,337
Net assets at June 30, 2004	$ 140,569	390,942	531,511

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

(Dollars in thousands)

		Housing Agency	State Revolving Fund	Totals
Operating revenues:				
Interest income	$	31,123	18,831	49,954
Net increase in fair value of investments and mortgage-backed securities		14,090	—	14,090
Fee income		9,198	578	9,776
Grant income		824	48,359	49,183
Provision for losses		(818)	—	(818)
Other income		16	—	16
Total operating revenues		54,433	67,768	122,201
Operating expenses:				
Interest on bonds		23,803	12,341	36,144
General and administrative		6,956	2,041	8,997
Grants and aid		3,747	—	3,747
Total operating expenses		34,506	14,382	48,888
Operating income		19,927	53,386	73,313
Nonoperating revenues:				
Assets received from Iowa Housing Corporation		190	—	190
Change in net assets		20,117	53,386	73,503
Net assets at June 30, 2002		133,271	276,563	409,834
Net assets at June 30, 2003	$	153,388	329,949	483,337

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2004

(Dollars in thousands)

		Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:				
Cash receipts for fees	$	10,514	1,440	11,954
Interest received on loans and mortgage-backed securities		21,955	20,349	42,304
Principal payments on loans and mortgage-backed securities		99,444	24,493	123,937
Purchases of loans and mortgage-backed securities		(140,535)	(82,265)	(222,800)
Grants and other income		2,602	55,889	58,491
Cash payments to employees		(5,440)	(1,007)	(6,447)
Cash payments to suppliers and grantees		(8,226)	(1,472)	(9,698)
Net cash (used in) provided by operating activities		(19,686)	17,427	(2,259)
Cash flows from noncapital financing activities:				
Proceeds from issuance of bonds		121,865	—	121,865
Payment of bonds		(112,411)	(13,691)	(126,102)
Interest paid		(24,837)	(13,235)	(38,072)
Cash received from Iowa Housing Corporation		50	—	50
Net cash used in noncapital financing activities		(15,333)	(26,926)	(42,259)
Cash flows from investing activities:				
Purchases of investments		(34,016)	(39,986)	(74,002)
Interest received on investments		9,092	—	9,092
Sales/maturities of investments		50,810	—	50,810
Purchase of capital assets		(172)	—	(172)
Payment of rebate		434	(1,656)	(1,222)
Net cash provided by (used in) investing activities		26,148	(41,642)	(15,494)
Decrease in cash and cash equivalents		(8,871)	(51,141)	(60,012)
Cash and cash equivalents, beginning of year		206,615	319,125	525,740
Cash and cash equivalents, end of year	$	197,744	267,984	465,728
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	$	(12,869)	60,993	48,124
Interest income on investments and bank deposits		(8,923)	—	(8,923)
Rebate expense		17	783	800
Interest expense on bonds		24,646	12,904	37,550
Net change in fair value of investments and mortgage-backed securities		17,474	3	17,477
Depreciation of capital assets		367	—	367
Principal payments on loans and mortgage-backed securities		99,444	24,493	123,937
Purchases of loans and mortgage-backed securities		(140,535)	(82,265)	(222,800)
(Increase) decrease in interest receivable on loans and mortgage-backed securities		(345)	287	(58)
Decrease (increase) in other assets		357	(19)	338
Increase (decrease) in accounts payable and other		1,122	(308)	814
(Decrease) increase in deferred income		(441)	556	115
Net cash (used in) provided by operating activities	$	(19,686)	17,427	(2,259)

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY

Statement of Cash Flows

Year ended June 30, 2003

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	$ 10,440	1,003	11,443
Interest received on loans and mortgage-backed securities	22,307	10,838	33,145
Principal payments on loans and mortgage-backed securities	75,363	28,235	103,598
Purchases of loans and mortgage-backed securities	(135,969)	(61,054)	(197,023)
Grants and other income	1,309	48,358	49,667
Cash payments to employees	(4,716)	—	(4,716)
Cash payments to suppliers and grantees	(9,176)	(1,951)	(11,127)
Net cash (used in) provided by operating activities	(40,442)	25,429	(15,013)
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	159,727	55,803	215,530
Payment of bonds	(62,759)	(16,915)	(79,674)
Interest paid	(21,949)	(12,922)	(34,871)
Cash received from Iowa Housing Corporation	150	—	150
Net cash provided by noncapital financing activities	75,169	25,966	101,135
Cash flows from investing activities:			
Purchases of investments	(24,493)	—	(24,493)
Interest received on investments	9,098	9,271	18,369
Sales/maturities of investments	23,896	—	23,896
Purchase of capital assets	(652)	—	(652)
Payment of rebate	(424)	(828)	(1,252)
Net cash provided by investing activities	7,425	8,443	15,868
Increase in cash and cash equivalents	42,152	59,838	101,990
Cash and cash equivalents, beginning of year	164,463	259,287	423,750
Cash and cash equivalents, end of year	$ 206,615	319,125	525,740
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	$ 19,927	53,386	73,313
Interest income on investments and bank deposits	(8,932)	(8,296)	(17,228)
Rebate expense	67	337	404
Interest expense on bonds	23,803	12,341	36,144
Net change in fair value of investments and mortgage-backed securities	(14,090)	—	(14,090)
Depreciation of capital assets	304	—	304
Principal payments on loans and mortgage-backed securities	75,363	28,235	103,598
Purchases of loans and mortgage-backed securities	(135,969)	(61,054)	(197,023)
Increase in interest receivable on loans and mortgage-backed securities	(156)	(34)	(190)
Decrease (increase) in other assets	325	(26)	299
(Decrease) increase in accounts payable and other	(979)	90	(889)
(Decrease) increase in deferred income	(105)	450	345
Net cash provided by (used in) operating activities	$ (40,442)	25,429	(15,013)

See accompanying notes to financial statements.

(1) Organization and Summary of Significant Accounting Policies

Organization

The Iowa Finance Authority (the Authority) was created in 1975 under Chapter 16 of the Code of Iowa as a public instrumentality of the State of Iowa (the State) to undertake programs which assist in attainment of adequate housing for low- or moderate-income families, elderly families, and families which include one or more persons with disabilities. The Authority is authorized and has issued bonds for these purposes, the proceeds of which are used to provide affordable mortgage financing. The bonds are payable principally from repayments of such mortgage loans. These obligations do not constitute a debt of the State, and the State is not liable for any repayments.

To further accomplish these purposes, the Authority is authorized to allocate federal low-income housing tax credits for qualified multi-family housing projects in the State. In addition, federal grants and certain other funds of the Authority are utilized through its various housing assistance programs to provide low-interest loans or grants to assist the homeless and low-income Iowans in obtaining adequate housing.

The Authority has contracted with the United States Department of Housing and Urban Development (HUD) to serve as contract administrator for Section 8 Housing Assistance Payment (HAP) contracts. The Authority disburses subsidy payments monthly to the multi-family projects and monitors the individual units and projects for compliance with HUD regulations. The Authority served as the Participating Administrative Entity (PAE) in Iowa for HUD's Mark-to-Market multi-family restructuring program during fiscal year 2002 and through the first quarter of fiscal year 2003. As PAE, the Authority worked to preserve affordable rental housing for low- and moderate-income Iowans as Section 8 HAP contracts expire.

Chapter 16 authorizes the Small Business Loan Program and the Economic Development Loan Program. The Authority is authorized and has issued revenue bonds under these programs, the proceeds of which have been used to provide limited types of financing for qualified small businesses, manufacturing facilities, group homes for citizens who are mentally or physically handicapped, nonprofit entities, multi-family housing, and economic development. The bonds are payable solely from repayments of the loans, which have been assigned, without recourse, to participating financial institutions or to the trustee on behalf of bondholders. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements. Prior to July 1, 1996, the Authority issued approximately $1.0 billion of these conduit debt obligations, for which the aggregate amount outstanding as of June 30, 2004 is not determinable and cannot be reasonably estimated. The Authority issued approximately $1.7 billion in fiscal years 1997 through 2004, of which approximately $1.5 billion is outstanding at June 30, 2004.

Chapter 16 authorizes the Iowa Finance Authority Title Guaranty Division (the Division). The purposes of the Division are to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guaranties of real-property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the State. A title guaranty issued is an obligation of the Division, and claims are payable solely out of the assets and revenues of the Title Guaranty Division Program Account. The title guarantees do not constitute a debt of the State, and the State is not liable for any repayments. The Division also executes and records mortgage releases for Iowa real estate properties if more than 30 days have elapsed since payment in full was made by the respective mortgagor and certain requirements have been met in accordance with the related laws and administrative rules. The State of Iowa, and not the Authority or the Division, is liable for any claims arising as the result of releasing a mortgage in error.

State legislation which became effective July 1, 2000 authorized the Division to issue closing protection letters, which may indemnify a person to whom a proposed title guaranty is to be issued against loss of settlement funds due to certain listed acts of the Division's named participating attorney or participating abstractor.

Chapter 455B of the *Code of Iowa* authorizes the Authority, jointly and in cooperation with the Iowa Department of Natural Resources (DNR), to undertake the creation, administration, and financing of the Iowa Water Pollution Control Works Financing Program (the Clean Water Program). This program was created by the State in 1988 to implement provisions of the Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (the Clean Water Act). The Clean Water Act and subsequent annual federal legislative appropriation bills authorize the U.S. Environmental Protection Agency (EPA) to make annual capitalization grants to states, through federal fiscal year 2002, for the purpose of establishing a water pollution revolving account to be used in financing the construction of wastewater treatment facilities. The Authority is authorized and has issued revenue bonds to meet the 20% State match required to receive the grants and to provide additional funds to make loans to Iowa municipalities to finance all or part of the construction of wastewater treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. The obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments.

Chapter 455B of the *Code of Iowa* also authorizes the Authority, jointly and in cooperation with DNR, to undertake the creation, administration, and financing of the Iowa Drinking Water Facilities Financing Program (the Drinking Water Program). This program was created by the State in 1997 and amended in 1998 to implement provisions of the Safe Drinking Water Act Amendments of 1996. Section 1452 of the Safe Drinking Water Act authorizes the EPA to make capitalization grants to states for the purpose of establishing a drinking water revolving account to be used in financing the construction of drinking water facilities. The Authority is authorized and has issued revenue bonds to meet the 20% State match required to receive the grants and to provide additional funds to make loans to Iowa drinking water systems to finance all or part of the construction of drinking water facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. The obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments.

Chapter 455B of the *Code of Iowa* was amended by legislation, which became effective July 1, 2002, to change the formal name of the Clean Water Program to the Iowa Water Pollution Control Works Financing Program and to include authorization of non-point source financing under the Clean Water Program. The Authority restructured the Clean Water Program and Drinking Water Program in December 2001 to include an equity account for each program under a Master Trust Agreement from which loans may also be made in accordance with the provisions of the Clean Water Act and the Drinking Water Act. The equity accounts are not pledged to the bonds outstanding under the respective programs. As part of the restructuring of both programs, the Authority issued bonds in December 2001 which consist of a Clean Water Program portion and a Drinking Water Program portion. While the bonds were issued on a combined basis for convenience and cost savings, the Clean Water Program and Drinking Water Program are separate and distinct programs in accordance with federal regulations.

(Continued)

Chapter 455G of the *Code of Iowa* authorizes the Iowa Comprehensive Petroleum Underground Storage Tank Fund (the UST Fund). The Authority is authorized and has issued revenue bonds for the purpose of funding the UST Fund. The bonds are payable solely from specified revenues and assets of the UST Fund which are pledged therefor, including portions of the State's motor vehicle use tax and annual storage tank management fee. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. The UST Fund is administered by the UST Fund board, and its monies and accounts are held by the State Treasurer. Therefore, the UST Fund assets and bonds are not recorded in the Authority's financial statements. As of June 30, 2004, approximately $63.3 million of these conduit debt obligations are outstanding, excluding accretion on capital appreciation serial bonds.

Chapter 34A of the *Code of Iowa* authorizes the Authority to issue bonds for the purpose of funding the Enhanced 911 Emergency Telephone Communications System (the E911 System). Bond proceeds are used to make loans to counties or joint E911 service boards throughout Iowa to implement the E911 System in their respective counties. The bonds are payable solely from repayments of the loans, which have been assigned without recourse to the trustee on behalf of bondholders, and from other amounts pledged therefore under the bond indentures. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the loans and bonds are not recorded in the Authority's financial statements. None of these conduit debt obligations are outstanding at June 30, 2004.

Chapter 16 of the *Code of Iowa* authorizes the Authority to issue bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional institutions and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund, maintained by the State Treasurer, currently required by State law to be the first $9.5 million of monies remitted to the State Treasurer each fiscal year from certain fees and fines collected by the clerks of the district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefor under the bond indenture. These obligations do not constitute a debt of the State nor of the Authority, and neither is liable for any repayments. Therefore, the bonds are not recorded in the Authority's financial statements. As of June 30, 2004, approximately $68.9 million of these conduit debt obligations are outstanding.

The Authority is a component unit of the State of Iowa. The Authority's financial statements are included in the State's comprehensive annual financial report.

Basis of Presentation

The financial statements have been prepared using the economic resources measurement focus and accrual method of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with GASB pronouncements.

Fund Accounting

The Authority's accounts are organized as major funds, each of which is a separate set of self-balancing accounts for the assets, liabilities, net assets, revenues, and expenses of the Authority's programs. The Authority presents two major funds: 1) Housing Agency and 2) State Revolving Fund.

The following describes the nature of the major funds currently maintained by the Authority:

(a) Housing Agency – consists of

a. General Account – accounts for the investment of monies held within the fund, certain receipts from applicants and project sponsors, Participating Administrative Entity fees and contract administration fees received from HUD, transfers to or from various bond accounts in accordance with applicable bond resolutions, and administrative functions of the Authority. After providing for sufficient restricted and unrestricted net assets, available monies may be used to finance loans or grants directly or be transferred to the Housing Assistance Program accounts.

b. Single Family Bond Program Accounts – account for the proceeds from single-family mortgage and housing bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts, and the related whole-mortgage loans for qualifying single-family owner-occupied housing in Iowa, or Government National Mortgage Association (GNMA) and/or Federal National Mortgage Association (FNMA) mortgage-backed securities collateralized by such mortgage loans. Mortgage-backed securities are guaranteed as to timely payment of principal and interest by GNMA or FNMA. The 1988A and 1988B GNMA mortgage-backed securities bonds (the GNMA bonds) are not general obligations of the Authority, but are secured by and payable solely from revenues generated by the GNMA securities and by certain assets and revenues pledged under the bond resolution. All other single-family mortgage and housing bonds are general obligations of the Authority, but are primarily payable from the mortgage loan repayments, or revenues generated by GNMA and FNMA securities, as applicable, and by certain assets and revenues pledged under the applicable bond resolutions. In addition, the Authority has a line of credit with a financial institution that permits the Authority to borrow, and have outstanding through December 16, 2004, up to $17 million at a rate of interest indexed to the LIBOR rate, as specified in the credit agreement, for the purpose of current refunding for federal tax purposes of certain of the Authority's outstanding single-family mortgage and housing bonds maturing or being redeemed from mortgage loan prepayments or other available funds. The line of credit is not a general obligation of the Authority, but is secured by investments held by a custodial financial institution in an amount equal to or exceeding 102% of the outstanding advances as required by the credit agreement. At June 30, 2004, the Authority had approximately $5.6 million of advances outstanding. Separate accounts are maintained under the various bond series resolutions and credit agreement, and while the accounts are combined into a Single Family Bond Program Accounts in the accompanying combining financial statements, the combined assets are available only in accordance with the applicable bond resolutions or credit agreement.

c. Multi-Family Bond Program Accounts – account for the proceeds from multi-family mortgage bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts, and the related Federal Housing Administration (FHA) insured mortgage loans for multi-family housing in Iowa. The 1995A multi-family refunding bonds are not general obligations of the Authority, but are secured by and payable solely from revenues generated by the applicable mortgage loans and by certain assets and revenues pledged under the bond resolution. The 1978A multi-family bonds are general obligations of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolution. Separate accounts are maintained under each bond resolution, and while the accounts are combined into a Multi-Family Bond Program Accounts in the accompanying combining financial statements, the combined assets are available only in accordance with the applicable bond resolutions.

d. Housing Assistance Programs Account – accounts for federal grants or State appropriations received and monies transferred from the Division, all specifically restricted or committed for uses in accordance with applicable legislation or grant agreements, including loans or grants to homeless shelters or to for-profit and not-for-profit entities to improve the housing quality and availability for low-income, handicapped, and elderly Iowans; to provide down payment or closing cost assistance to low-income single family homebuyers; or to pay initial commitment costs of the Authority's single-family bond issues and the related individual mortgage loans. The Housing Assistance Programs Account also accounts for monies transferred from the Authority's General Account net assets and utilized for the same or similar programs.

e. Title Guaranty Division Program Account – accounts for the administrative costs of the Division, proceeds from title guaranty fees, and payments for claims made against the title guarantees. Monies in this account, after providing for adequate reserves and operating expenses, are transferred to the Housing Assistance Programs Account.

(b) State Revolving Fund consists of:

a. Clean Water Program Accounts – account for the proceeds of Clean Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related wastewater treatment facility loans to municipalities, and administrative costs of the program. The Authority is not obligated for the repayment of the bonds, which are secured by certain loan agreements and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. Separate accounts are maintained for the Clean Water Program under each bond resolution and for the equity account, and while the accounts are combined into a Clean Water Program Accounts in the accompanying combining financial statements, the combined assets are available only in accordance with the applicable bond resolutions and the Master Trust Agreement.

b. Drinking Water Program Accounts – account for the proceeds of Drinking Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related drinking water facility loans to Iowa drinking water systems, and administrative costs of the program. The Authority is not obligated for the repayment of the bonds, which are secured by certain loan agreements and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. Separate accounts are maintained for the Drinking Water Program under each bond resolution and for the equity account, and while the accounts are combined into a Drinking Water Program Accounts in the accompanying combining financial statements, the combined assets are available only in accordance with the applicable bond resolutions and the Master Trust Agreement.

The Authority's 2004 financial statements combine the Single Family Program Accounts, Multi-Family Bond Program Accounts, Housing Assistance Programs Account, and Title Guaranty Program Division

Account in the Housing Agency Major Fund and combine the Drinking Water Program Accounts and Clean Water Program Accounts in the State Revolving Major Fund. These individual accounts were considered as major funds in the 2003 financial statements however, management determined they were actually programs in 2004.

Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments that can be converted to cash within three months or less are considered to be cash equivalents. These investments include the monies deposited in the State's interest-bearing pooled money funds, investment agreements associated with bond issues, and various money market funds.

Investments

Under the various bond resolutions and State statutes, the Authority may invest in United States Government and agency obligations directly or through repurchase agreements secured by such obligations, certificates of deposit in qualified financial institutions, pooled money funds with the State, and investment agreements with United States Government agencies, qualified financial institutions, or qualified corporations.

Investments are recorded at fair value in the statements of net assets, with the change in the fair value of investments recorded in the statements of revenues, expenses, and changes in net assets. GNMA and FNMA mortgage-backed securities are recorded at fair value.

Loans to Municipalities or Water Systems

Loans to municipalities or water systems are recorded at their unpaid principal balance. The loans are intended to be held for their average lives of 20 years. Certain loans are pledged as collateral for particular bonds outstanding. Each municipality or water system has entered into a loan agreement with the Authority, DNR, and the trustee and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the Authority, which is held by the trustee as security for the loan.

Other Loans

Other loans are recorded at their unpaid principal balance, net of allowance for loan losses. The loans are intended to be held for their average lives of 10 to 20 years and are secured by first or second mortgages, other types of collateral, or are unsecured.

Provision for Losses and Uncollected Interest

An evaluation of the Single Family Bond Program Accounts' whole loan portfolio, any real estate owned, and any real estate in judgment is made in relation to applicable loan insurance or guaranties, and when it is determined that the investment in such assets is greater than the estimated net realizable value, a provision for losses is charged to income. No allowance for losses was netted against mortgage loans receivable in the Single Family Bond Program Accounts at June 30, 2004 and 2003. Accrued interest receivable on whole loans under the Single Family Mortgage Bonds, 1977 Series A, and Single Family Mortgage Refunding Bonds, 1992 Series F programs which become more than three months in arrears is charged to income. Subsequent interest income is not recognized on such loans until collected or until the loans are three months or less in arrears. Accrued interest receivable on loans under the Single Family Housing Bonds, 1984 Issue A, and Single Family Housing Bonds, 1985 Issue A, are insured and, therefore, up to nine months of income is recognized even though a loan may be in arrears.

An evaluation of the possible credit losses related to the Housing Assistance Programs is made and a provision for losses is charged to income. An allowance for losses of $1.5 million and $2.8 million was netted against other loans at June 30, 2004 and 2003, respectively. Accrued interest on loans under the Housing Assistance Programs which become more than three months in arrears is charged to income. Subsequent interest income is not recognized on such loans until collected or until the loans are three months or less in arrears.

Capital Assets

Furniture and equipment are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

Leasehold improvements are recorded at cost and are amortized using the straight-line method over the lesser of the estimated useful lives of the asset or the term of the lease.

Bond Issuance Costs and Discounts

Bond issuance costs and discounts, and any loss on defeasance of refunded bonds, are deferred and amortized as an adjustment to interest expense over the life of the related bond issues using the bonds outstanding method.

Reserves for Title Guaranty Division Losses

The reserve for title guaranty losses resulting from claims under guaranties of real property titles is estimated based on the Division's experience. The amount includes both case-basis evaluations and formula calculations and represents the estimated net cost of all unpaid losses, including losses incurred but not yet reported to the Division. An actuarial analysis was performed during fiscal year 2002. In the opinion of management, the reserve for title losses is adequate. The Commissioner of Insurance for the State requires the Division's reserve to be 10% of net premiums plus known case reserves established by the Title Guaranty Division, less the release of net written premiums consistent with a 5%-per-year 20-year release schedule, or a minimum of $1,000,000. In addition, a separate reserve of $1,000,000 is required by the Commissioner of Insurance as an initial reserve for closing protection letters.

Rebates Owed

The amount of investment income the Authority may earn on the proceeds of bonds issued in 1982 and after is limited by federal legislation. Earnings in excess of the allowable amount must be rebated to either the mortgagors or the United States Treasury. Such excess earnings exist at June 30, 2004 for the Single Family Housing Bonds, 1984 Issue A; Single Family Mortgage Bonds, 1997 Series A, B, and C; Single Family Mortgage Bonds, 1997 Series F, G, and H; Single Family Mortgage Bonds, 2000 Series A, B, and C; Single Family Mortgage Bonds, 2000 Series D, E, and F; Single Family Mortgage Bonds, 2000 Series G and H; Line of Credit; and Iowa State Revolving Fund Revenue Bonds, Series 2001, for both the Clean Water Program and the Drinking Water Program. Earnings in excess of the allowable amount are recorded in liabilities as rebates owed on the statements of net assets and are offset against investment income on the statements of revenues, expenses, and changes in net assets.

Deferred Income

Initiation fees are received by the Authority at the time of origination of loans to municipalities or water systems made under the Clean Water Program and Drinking Water Program. The initiation fee is amortized over the life of the loan using the straight-line method, which approximates the interest method.

(Continued)

Commitment fees, which were received by the Authority as a yield adjustment for the 1984; 1988A; 1988B; 1992A, B, and C; 1995C, D, and E; 2000D, E, and F; 2001A, B, and C; and 2002B, C, D, and E single-family bond programs, are amortized over the expected life of the related bonds using the bonds outstanding method. Fees relating to unfunded mortgages were recorded as income upon the expiration of the funding period.

Servicing acquisition fees received by the Authority for the single-family bond programs as consideration for the mortgage loan servicers' participation in the programs are amortized over the expected life of the related bonds using the bonds outstanding method.

Compliance monitoring fees are received by the Authority at the time of each Low Income Housing Tax Credit (LIHTC) project's completion. Such fees are used to defray the administrative expenses of the Authority in annually monitoring each project's continued compliance with federal regulations. These fees are amortized over the 15-year compliance period.

Net Assets

Restricted net assets represent net assets set aside, as required by the various bond resolutions, for the benefit of the respective bond owners. Assets related to such restricted net assets include required reserves, loans or mortgage-backed securities, assets held for placement into loans or mortgage-backed securities, investments, and assets held for scheduled debt service. Restricted net assets also represent net assets specifically restricted for uses in accordance with applicable legislation, including the Title Guaranty Division Program and the Housing Improvement Program and Housing Assistance Program Accounts.

Restricted net assets also represent net assets restricted for use by other agreements. The General Account has a collateral agreement in place to secure planned borrowings from Fannie Mae under a credit facility. The restricted net assets balance for the line of credit included in the Single Family Bond Program secures the outstanding advances made under the credit agreement. Net assets, which are currently being utilized for direct loans under the General Account and the General Account Housing Assistance Account, and former Iowa Housing Corporation (IHC) assets under the Housing Assistance Program Accounts are also restricted. The Multi-Family FAF Refunding Savings Account under the Housing Assistance Program accounts is also restricted pursuant to an agreement with HUD. Certain loans and Accounts held under the Clean Water Program Accounts and the Drinking Water Program Accounts are restricted pursuant to the Master Trust Agreement.

Unrestricted General Account net assets provide additional security for the Authority's general obligation bonds outstanding and coverage of the Authority's administrative costs. Unrestricted General Account net assets and unrestricted net assets under the former IHC assets under the Housing Assistance Program Accounts are available to meet commitments listed under "Commitments and Contingencies."

Operating Revenues and Expenses

The Authority records all revenues and expenses derived from loans, investments, title guaranty premiums, and federal programs as operating revenues and expenses since these are generated from the Authority's daily operations and are needed to carry out its statutory purposes and to provide debt service coverage on its various bonds. All revenues and expenses not meeting this definition are reported as nonoperating.

(Continued)

Economic Development Revenue Bond Fees

Economic development revenue bond fees include application and program participation fees received in conjunction with the Economic Development Loan Program. Such fees are used to defray legal and administrative expenses incurred in the programs. Application fees are recognized upon receipt of applications, while program participation fees are recognized upon final closing of the applicable loans.

Low Income Housing Tax Credit Fees (LIHTC)

LIHTC fees received by the Authority are application, reservation, and compliance monitoring fees received from applicants who construct or rehabilitate low-income housing rental units. The applicant, if approved, receives a tax credit. The application and reservation fees are recognized in the period received, and the compliance monitoring fees are recognized over the 15-year compliance period.

Title Guaranty Fees

The Division recognized title guaranty premiums of $6.7 million in 2004 and $5.8 million in 2003 at the time of the issuance of the guaranty certificate. The Division currently purchases reinsurance coverage (the cost of which is offset against title guaranty fees) for title guaranty loss exposure in excess of $250,000 per property. The gross amount of title guaranty coverage issued since inception at June 30, 2004 and 2003 was approximately $40.5 billion and $33.8 billion, respectively, of which approximately $2.3 billion and $2.1 billion, respectively, have been ceded to the reinsurer.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2003 financial statement amounts have been reclassified for comparison purposes.

(Continued)

(2) Cash, Cash Equivalents, and Investments

At June 30, 2004, the Authority's cash balances of $2.2 million were covered by federal depository insurance or by the State Sinking Account, in accordance with Chapter 12C of the *Code of Iowa*. Cash balances of $5.8 were held by the State in pooled money funds. Cash equivalents includes $141.3 million invested in money market funds, $9.0 held by the State in pooled money funds, and $307.4 in investment agreements associated with bond issues.

At June 30, 2003, the Authority's cash balances of $8.1 million were covered by federal depository insurance or by the State Sinking Account, in accordance with Chapter 12C of the *Code of Iowa*. Cash balances of $5.6 million were held by the State in pooled money funds. Cash equivalents includes $91.8 million invested in open-end mutual funds; $5.4 million held by the State in pooled money funds; $3.6 million in collateralized repurchase agreements; and $50.0 million in federal agency discount notes.

Investments at June 30, 2004 and 2003 are comprised as follows (dollars in thousands):

			2004				2003			
	Risk category		Housing Agency	State Revolving Fund	Fair value total	Face value total	Housing Agency	State Revolving Fund	Fair value total	Face value total
United States Government and agency obligations due	1	$	52,029	39,983	92,012	90,835	70,771	—	70,771	71,459
Mortgage-backed securities	1		403,360	—	403,360	401,111	377,626	—	377,626	360,842
Total		$	455,389	39,983	495,372	491,946	448,397	—	448,397	432,301

The Authority's investments are categorized to give an indication of the level of custodial credit risk assumed by the Authority. Category 1 includes investments that are insured or registered for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the Authority. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or by its trust department or agent, but not in the Authority's name.

(3) Housing Agency Loans

Housing agency loans at June 30, 2004 and 2003 are comprised as follows (dollars in thousands):

		2004			2003		
		Cost	Provision for losses	Net	Cost	Provision for losses	Net
Loans secured with first mortgages	$	21,144	(547)	20,597	21,894	(341)	21,553
Loans secured with second mortgages, other collateral, or unsecured		9,649	(1,409)	8,240	10,715	(2,570)	8,145
Total	$	30,793	(1,956)	28,837	32,609	(2,911)	29,698

(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2004 and 2003 are as follows (dollars in thousands):

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
Housing Agency Bonds							
General Account Line of Credit	$ 6,000		10/01/04		LIBOR + 1.00%	$ —	1,935
A - Term Bond	17,005		08/01/08		5.875%	4,945	6,165
Face value of bonds	17,005					4,945	6,165
Less:							
Unamortized bond issuance cost						(1)	(2)
Unamortized discount/premium						(2)	(2)
Single Family 1977 A	17,005					4,942	6,161
A - Serial Bonds	50,760	09/01/86	09/01/98	7.250%	10.500%	—	—
A - Term Bond	143,030	09/01/01	09/01/09	10.625%	10.750%	—	—
A - Cap Appreciation Bonds	6,210		09/01/16		11.637%	448	1,240
Face value of bonds	200,000					448	1,240
Less:							
Unamortized bond issuance cost						—	(5)
Unamortized discount/premium						—	(1)
Single Family 1984 A	200,000					448	1,234
A - Serial Bonds	4,350	05/01/90	05/01/00	5.700%	7.800%	—	—
A - Term Bonds	9,850		05/01/17	6.850%	8.225%	—	10
A - Term Bonds	10,950		11/01/17	6.850%	8.225%	—	115
A - Term Bonds	4,885		11/01/19		8.500%	—	55
Face value of bonds	30,035					—	180
Less:							
Unamortized discount/premium						—	(1)
Single Family 1988 A	30,035					—	179
B - Serial Bonds	7,285	11/01/90	11/01/00	6.200%	7.500%	—	—
B - Term Bonds	4,565		11/01/04		7.400%	—	—
B - Term Bonds	14,550		11/01/12		7.900%	—	—
B - Term Bonds	26,150		05/01/20		8.250%	—	340
Face value of bonds	52,550					—	340
Less:							
Unamortized discount/premium						—	(2)
Single Family 1988 B	52,550					—	338

IOWA FINANCE AUTHORITY

Notes to Financial Statements

June 30, 2004 and 2003

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
Face value of line of credit	$ 20,000		12/16/04		LIBOR	$ 5,558	16,635
Less:							
Unamortized issuance cost						—	(13)
Single Family Line of Credit	20,000					5,558	16,622
C - Serial Bonds	2,235	01/01/05	07/01/07	5.700%	5.875%	500	940
C - Term Bonds	3,465		07/01/14		6.350%	915	1,710
C - Term Bonds	8,035		07/01/19		6.400%	2,115	3,960
C - Term Bonds	9,905		01/01/24		6.450%	2,610	4,880
D - Serial Bonds	3,995	01/01/99	01/01/05	5.300%	5.850%	135	570
D - Term Bonds	4,305		01/01/12		6.100%	—	—
E - Term Bonds	12,960		07/01/28		6.650%	3,420	6,395
Face value of bonds	44,900					9,695	18,455
Less:							
Unamortized bond issuance cost						(16)	(32)
Unamortized discount/premium						(77)	(151)
Single Family 1995 CDE	44,900					9,602	18,272
A - Term Bonds	5,120		07/01/16		5.800%	2,330	3,440
A - Term Bonds	6,090		07/01/25		5.500%	2,255	4,020
B - Serial Bonds	4,590	01/01/01	07/01/09	4.550%	5.500%	1,340	2,315
B - Term Bonds	5,200		01/01/21		5.300%	—	—
C - Term bonds	4,000		01/01/28		6.100%	1,835	2,690
C - Term bonds	5,000		07/01/30		6.100%	2,275	3,350
Face value of bonds	30,000					10,035	15,815
Less:							
Unamortized bond issuance cost						(21)	(35)
Unamortized discount/premium						(75)	(123)
Single Family 1997 ABCDE	30,000					9,939	15,658
F - Term Bonds	8,025		01/01/16		5.550%	4,765	6,390
F - Term Bonds	12,510		01/01/27		5.700%	7,410	9,965
G - Serial Bonds	9,390	07/01/00	07/01/09	4.300%	5.300%	3,490	5,445
G - Term Bonds	9,035		01/01/21		4.950%	1,180	3,010
H - Term Bonds	2,440		01/01/28		5.850%	1,430	1,935
H - Term Bonds	7,820		07/01/30		5.850%	4,585	6,230
Face value of bonds	49,220					22,860	32,975
Less:							
Unamortized bond issuance cost						(31)	(47)
Unamortized discount/premium						(148)	(223)
Single Family 1997 FGH	49,220					22,681	32,705

(Continued)

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
A - Serial Bonds	$ 1,530	07/01/11	07/01/13	5.800%	6.000%	$ 635	1,345
A - Term Bonds	2,975		07/01/18		6.250%	1,240	2,610
B - Serial Bonds	3,125	07/01/02	07/01/10	4.800%	5.850%	1,120	2,620
B - Term Bonds	2,470		01/01/21		6.400%	1,030	2,170
C - Term bonds	6,080		07/01/26		5.700%	3,775	4,850
C - Term bonds	8,820		07/01/30		6.450%	3,680	7,750
Face value of bonds	25,000					11,480	21,345
Less:							
Unamortized bond issuance cost						(28)	(53)
Unamortized discount/premium						(87)	(166)
Single Family 2000 ABC	25,000					11,366	21,126
D - Serial Bonds	3,205	07/01/07	07/01/10	5.650%	5.800%	1,095	2,575
D - Term Bonds	6,375		07/01/16		6.100%	2,190	5,135
E - Serial Bonds	6,890	07/01/01	07/01/08	5.000%	5.900%	2,155	4,905
E - Term Bonds	20,530		01/01/21		6.000%	13,470	16,555
E - Term Bonds	2,085		07/01/22		6.350%	720	1,685
F - Term Bonds	28,030		07/01/32		6.400%	9,625	22,565
Face value of bonds	67,115					29,255	53,420
Less:							
Unamortized bond issuance cost						(50)	(94)
Unamortized discount/premium						(210)	(393)
Deferred loss on redemption						(102)	(146)
Single Family 2000 DEF	67,115					28,893	52,786
G - Serial Bonds	590	07/01/11	07/01/12	5.300%	5.400%	405	590
G - Term Bonds	3,095		07/01/18		5.800%	2,110	3,095
G - Term Bonds	18,315		01/01/33		5.900%	12,535	18,315
H - Term Bonds (taxable)	10,000		07/01/29		7.190%	6,995	9,180
Face value of bonds	32,000					22,045	31,180
Less:							
Unamortized bond issuance cost						(51)	(77)
Unamortized discount/premium						(172)	(254)
Single Family 2000 GH	32,000					21,821	30,849
A - Serial Bonds	6,905	07/01/02	01/01/11	3.100%	4.600%	3,535	5,935
A - Term Bonds	4,680		07/01/16		5.100%	2,555	4,165
B - Serial Bonds	1,495	07/01/11	07/01/12	5.000%	5.100%	825	1,340
B - Term Bonds	10,310		07/01/23		4.700%	8,790	9,700
C - Term bonds	15,445		07/01/33		5.500%	11,705	14,755
Face value of bonds	38,835					27,410	35,895
Less:							
Unamortized bond issuance cost						(48)	(67)
Unamortized discount/premium						(217)	(299)
Deferred loss on redemption						(144)	(172)
Single Family 2001 ABC	38,835					27,000	35,357

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
D - Serial Bonds	$ 3,950	07/01/04	07/01/13	3.250%	4.850%	$ 3,400	3,925
D - Term Bonds	3,700		07/01/21		5.250%	3,220	3,700
D - Term Bonds	6,250		07/01/33		4.300%	5,585	6,150
D - Term Bonds	11,100		01/01/34		5.375%	9,405	11,040
Face value of bonds	25,000					21,610	24,815
Less:							
Unamortized bond issuance cost						(54)	(65)
Unamortized discount/premium						(181)	(219)
Single Family 2001 D	25,000					21,375	24,531
A - Serial Bonds	6,500	07/01/04	07/01/14	2.900%	5.150%	5,130	6,480
A - Term Bonds	1,665		01/01/22		5.300%	1,130	1,660
A - Term Bonds	3,930		07/01/22		5.300%	2,555	3,920
A - Term Bonds	5,190		07/01/27		5.300%	5,190	5,190
A - Term Bonds	4,565		07/01/32		5.400%	2,985	4,550
A - Term Bonds	8,750		01/01/33		4.450%	8,095	8,695
A - Term Bonds	4,400		07/01/33		5.400%	2,875	4,390
Face value of bonds	35,000					27,960	34,885
Less:							
Unamortized bond issuance cost						(39)	(79)
Unamortized discount/premium						(225)	(302)
Single Family 2002 A	35,000					27,696	34,504
B - Serial Bonds	10,925	07/01/03	07/01/14	2.000%	4.850%	8,480	10,515
C - Term bonds	6,425		07/01/21		5.500%	4,750	6,305
C - Term bonds	5,240		01/01/22		5.500%	3,870	5,145
C - Term bonds	9,250		07/01/24		4.500%	8,010	8,920
D - Term Bonds	7,050		01/01/28		5.500%	7,050	7,050
D - Term Bonds	6,000		07/01/32		5.600%	4,425	5,885
D - Term Bonds	6,340		07/01/33		5.600%	4,685	6,220
E - Term Bonds (taxable)	10,000		01/01/33		5.710%	9,080	9,965
Face value of bonds	61,230					50,350	60,005
Less:							
Unamortized bond issuance cost						(85)	(108)
Unamortized discount/premium						(404)	(511)
Deferred loss on redemption						(292)	(348)
Single Family 2002 BCDE	61,230					49,568	59,038

(Continued)

Description		Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To		06/30/2004 Balance	06/30/2003 Balance
F - Serial Bonds	$	2,670	07/01/04	07/01/14	1.750%	4.000%	$	2,595	2,670
F - Term Bonds		765		01/01/16		4.250%		740	765
G - Serial Bonds		1,310	07/01/10	07/01/13	3.750%	4.100%		1,270	1,310
G - Term Bonds		4,685		01/01/23		4.900%		4,545	4,685
G - Term Bonds		635		07/01/24		4.900%		615	635
H - Term Bonds		7,855		01/01/31		5.000%		7,605	7,855
H - Term Bonds		10,000		07/01/33		3.500%		9,735	10,000
H - Term Bonds		5,830		07/01/34		5.000%		5,630	5,830
I - Term Bonds		11,250		07/01/32		Variable		11,140	11,250
Face value of bonds		45,000						43,875	45,000
Less:									
Unamortized bond issuance cost								(127)	(141)
Unamortized discount/premium								(320)	(356)
Single Family 2002 FGHI		45,000						43,428	44,502
A - Serial Bonds		5,175	01/01/06	07/01/16	2.250%	4.750%		5,115	5,175
A - Term Bonds		3,675		07/01/22		5.000%		3,615	3,675
A - Term Bonds		1,200		01/01/23		5.000%		1,195	1,200
A - Term Bonds		8,950		01/01/34		5.125%		8,840	8,950
A - Term Bonds		7,000		07/01/35		4.400%		6,785	7,000
A - Term Bonds		9,000		07/01/35		5.125%		8,895	9,000
B - Term Bonds		10,000		07/01/34		LIBOR		9,955	10,000
Face value of bonds		45,000						44,400	45,000
Less:									
Unamortized bond issuance cost								(115)	(127)
Unamortized discount/premium								(58)	(64)
Deferred interest rate cap								(265)	(328)
Single Family 2003 AB		45,000						43,963	44,482
C - Serial Bonds		3,750	07/01/09	01/01/15	2.600%	3.750%		3,750	3,750
D - Serial Bonds		2,830	01/01/05	01/01/10	1.600%	3.100%		2,830	2,830
D - Term Bonds		10,270		01/01/25		4.250%		10,260	10,270
E - Serial Bonds		820		07/01/33		4.600%		820	820
E - Term Bonds		2,330		01/01/34		4.600%		2,330	2,330
F - Term Bonds		20,000		01/01/33		Variable		20,000	20,000
G - Term Bonds (taxable)		10,000		07/01/25		Variable		9,965	10,000
Face value of bonds		50,000						49,955	50,000
Less:									
Unamortized bond issuance cost								(108)	(125)
Unamortized discount/premium								179	197
Deferred interest rate cap								(267)	(341)
Single Family 2003 CDEFG		50,000						49,759	49,731

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
H - Serial Bonds	$ 3,670	01/01/09	07/01/15	3.000%	4.300%	$ 3,670	—
I - Term Bonds	5,450		07/01/22		4.900%	5,450	—
J - Serial Bonds	4,620	07/01/05	01/01/14	1.650%	4.450%	4,620	—
J - Term Bonds	9,500		07/01/29		5.000%	9,500	—
J - Term Bonds	11,000		07/01/34		5.000%	11,000	—
J - Term Bonds	10,760		01/01/35		5.100%	10,760	—
Face value of bonds	45,000					45,000	—
Less:							
Unamortized bond issuance cost						(122)	—
Unamortized discount/premium						302	—
Single Family 2003 HIJ	45,000					45,180	—
K - Term Bonds	5,300		07/01/15		1.200%	5,300	—
K - Term Bonds	26,565		01/01/35		1.230%	26,565	—
Face value of bonds	31,865					31,865	—
Less:							
Unamortized bond issuance cost						(33)	—
Unamortized discount/premium						(32)	—
Single Family 2003 KL	31,865					31,800	—
A - Serial Bonds	6,120	07/01/05	07/01/14	1.750%	4.450%	6,120	—
A - Term Bonds	3,855		07/01/24		4.900%	3,855	—
A - Term Bonds	12,270		01/01/34		5.000%	12,270	—
A - Term Bonds	2,585		07/01/34		5.100%	2,585	—
A - Term Bonds	5,170		01/01/35		5.100%	5,170	—
B - Term Bonds	15,000		07/01/34		Variable	15,000	—
Face value of bonds	45,000					45,000	—
Less:							
Unamortized bond issuance cost						(224)	—
Unamortized discount/premium						334	—
Single Family 2004 AB	45,000					45,110	—
A - Serial Bonds	6,080	04/01/81	04/01/98	4.250%	5.500%	—	—
A - Term Bonds	22,050		04/01/21		6.000%	17,125	17,695
Face value of bonds	28,130					17,125	17,695
Less:							
Unamortized bond issuance cost						(90)	(99)
Unamortized discount/premium						(224)	(248)
Multi Family 1978 A	28,130					16,811	17,348
A - Serial Bonds	2,080	09/01/96	09/01/05	3.950%	5.200%	160	300
A - Term Bonds	2,740		09/01/15		6.200%	1,590	1,590
A - Term Bonds	4,170		03/01/24		6.300%	2,420	2,420
Face value of bonds	8,990					4,170	4,310
Less:							
Unamortized bond issuance cost						(71)	(77)
Unamortized discount/premium						(34)	(37)
Multi Family 1995 A	8,990					4,065	4,196
Total Housing Agency	**$ 1,058,475**					**521,005**	**511,551**

Description	Original amount	Due dates From	Due dates To	Interest rate From	Interest rate To	06/30/2004 Balance	06/30/2003 Balance
State Revolving Fund Bonds							
A - Serial Bonds	$ 37,340	08/01/02	08/01/11	4.000%	5.250%	$ 26,425	30,785
B - Serial Bonds	138,810		04/01/21	4.000%	5.250%	122,240	130,010
Face value of bonds	176,150					148,665	160,795
Less:							
Unamortized bond issuance cost						(245)	(296)
Unamortized discount/premium						5,816	7,015
Deferred loss on refinance						(6,216)	(7,501)
CW 2001	176,150					148,020	160,014
A - Serial Bonds	12,900	08/01/02	08/01/11	4.000%	5.250%	11,260	12,100
A - Term bonds	1,100		08/01/16		5.500%	1,100	1,100
A - Term bonds	480		08/01/18		5.500%	480	480
A - Term bonds	405		08/01/20		5.000%	405	405
A - Term bonds	120		08/01/23		5.000%	120	120
B - Serial Bonds	21,345		04/01/21	4.000%	5.250%	19,905	20,585
B - Term Bonds	4,895		08/01/16		5.500%	4,895	4,895
B - Term Bonds	5,750		08/01/18		5.500%	5,750	5,750
B - Term Bonds	6,120		08/01/20		5.000%	6,120	6,120
B - Term Bonds	3,960		08/01/23		5.000%	3,960	3,960
Face value of bonds	57,075					53,995	55,515
Less:							
Unamortized bond issuance cost						(96)	(107)
Unamortized discount/premium						1,623	1,817
Deferred loss on refinance						(908)	(1,019)
DW 2001	57,075					54,614	56,206
Face value of bonds	3,350	08/01/03	08/01/22	2.000%	4.700%	3,220	3,350
Less:							
Unamortized bond issuance cost						(11)	(12)
Unamortized discount/premium						(21)	(24)
CW 2003	3,350					3,188	3,313
A - Serial Bonds	3,240	08/01/04	08/01/17	2.000%	4.300%	3,240	3,240
B - Serial Bonds	49,510	08/01/04	08/01/24	2.000%	5.000%	49,510	49,510
Face value of bonds	52,750					52,750	52,750
Less:							
Unamortized bond issuance cost						(182)	(198)
Unamortized discount/premium						(47)	(51)
DW 2003	52,750					52,522	52,501
Total State Revolving Fund	**$ 289,325**					**258,343**	**272,034**

The following table summarizes the net bonds and notes payable activity for the Authority for the years ended June 30, 2004 and 2003 (dollars in thousands):

	June 30, 2003	Additions	Reductions	June 30, 2004	Due within one year
Housing Agency	$ 511,551	121,865	112,411	521,005	43,813
State Revolving Fund	272,034	—	13,691	258,343	15,900
Total	$ 783,585	121,865	126,102	779,348	59,713

	June 30, 2002	Additions	Reductions	June 30, 2003	Due within one year
Housing Agency	$ 414,019	160,279	62,747	511,551	56,618
State Revolving Fund	233,057	56,021	17,044	272,034	13,900
Total	$ 647,076	216,300	79,791	783,585	70,518

A summary of scheduled bond maturities and interest payments follows (dollars in thousands):

Year ending	Housing Agency			State Revolving Fund			Total		
June 30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	$ 43,813	23,214	67,027	15,900	12,386	28,286	59,713	35,600	95,313
2006	9,030	22,999	32,029	17,530	11,605	29,135	26,560	34,604	61,164
2007	9,610	22,580	32,190	18,730	10,796	29,526	28,340	33,376	61,716
2008	9,735	22,170	31,905	19,395	9,877	29,272	29,130	32,047	61,177
2009	10,745	21,738	32,483	20,060	8,900	28,960	30,805	30,638	61,443
2010 – 2014	55,036	105,429	160,465	102,755	29,204	131,959	157,791	134,633	292,424
2015 – 2019	75,698	86,697	162,395	36,235	10,845	47,080	111,933	97,542	209,475
2020 – 2024	87,925	70,413	158,338	26,240	3,242	29,482	114,165	73,655	187,820
2025 – 2029	102,055	43,661	145,716	1,785	—	1,785	103,840	43,661	147,501
2030 – 2034	111,119	16,655	127,774	—	—	—	111,119	16,655	127,774
2035 – 2039	10,275	433	10,708	—	—	—	10,275	433	10,708
Total	$ 525,041	435,989	961,030	258,630	96,855	355,485	783,671	532,844	1,316,515

Under the bond resolutions, the Authority has the option to redeem bonds at initial prices ranging from 103% to 100%, and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 10 years; however, certain special redemptions, as governed by the bond resolutions, are permitted prior to such time. Term bonds are subject to mandatory redemptions, without premium, through sinking fund installments subsequent to the scheduled completion of retirement of the serial bonds of the same issue. The schedule of bond maturities includes the sinking fund installments for the term bonds. Capital accumulator bonds and future income growth bonds are included in the schedule of bond maturities at their respective values at the time of maturity or sinking fund installment. Bond maturities and interest rates are based on those in effect immediately following the redemptions and maturities occurring on July 1, 2004.

The bonds are secured, as described in the applicable bond resolution, by the revenues, monies, investments, loans, and other assets in the programs and accounts established by the respective bond resolutions. The Fannie Mae Credit Facility used for single and multifamily construction programs was entered into October 19, 2001 and expires October 1, 2004. The Authority pays interest quarterly based on three-month LIBOR plus 100 basis points. The amount outstanding at June 30, 2004 was $0.

The Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multi-Family Bond Resolution contain covenants which require the Authority to make payments of principal and interest from amounts available in the General Account should deficiencies occur in the accounts established for such payments by the respective bond resolutions. The Single Family Mortgage Revenue Bond Resolution, the credit agreement under the Single Family Bond Program Accounts, the Multi-Family Housing Refunding Revenue Bond Resolution, and the bond resolutions for the Clean Water Program Accounts and Drinking Water Program Accounts do not contain these covenants.

Defeased Debt

On June 27, 2002, the Authority issued Single Family Mortgage Bonds, 2002 Series B, C, D, and E, in the par amount of $61,230,000, with interest rates of 2.0% to 5.71%, in part to refund and defease $15,805,000 of Single Family Mortgage Bonds, 1992 Series A, B, and C, with interest rates of 4.875% to 6.90%. Proceeds of $16,211,400 from the issuance of the 2002 Series B, C, D, and E bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for the August 1, 2002 redemption of all remaining 1992 Series A, B, and C bonds. On July 1, 2002, 1992 Series A, B, and C bonds in the amount of $165,000 matured and $1,580,000 bonds were called for redemption with loan prepayments and excess revenues in the normal course. The Authority, in effect, decreased its future aggregate debt service payments by approximately $3,757,000 and obtained a present value savings (difference between the present value of the debt service payments on the old and new debt) of approximately $2,915,000. The amount of defeased debt outstanding at June 30, 2004 was $0.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's basic financial statements. The amounts of defeased debt outstanding at June 30, 2004 is shown below:

Iowa State Revolving Fund Revenue Bonds (in thousands):		
Combined Series 1995	$	14,255
Combined Series 1996		24,975
Combined Series 1997		8,140
Combined Series 1998		18,365
Total Iowa State Revolving Fund Revenue Bonds	$	65,735
Drinking Water Program Revenue Bonds (in thousands):		
Combined Series 1999	$	5,180
Series 2000A		28,445
Total Drinking Water Program Revenue Bonds	$	33,625

(5) Disclosure for Derivatives Not Reported at Fair Value on the Statements of Net Assets

Objectives and Descriptions of Derivative Transactions

The Iowa Finance Authority (the Authority) administers a first-time homebuyer program (the FirstHome Program) in order to provide low-cost and low-interest loans to persons and families in the State of Iowa looking to purchase their first home. The interest rate the Authority sets for the loans is directly tied to the Authority's cost of funds. Because of this direct impact, the pricing of the Authority's bonds is a key consideration in the administration of the FirstHome Program.

Because of its desire to provide the lowest possible mortgage rates to participants in the FirstHome Program, the Authority has entered into (1) an agreement (the UBS Agreement) with UBS AG as counterparty, and (2) an agreement (the Goldman Agreement and, together with the UBS Agreement, the Agreements) with Goldman Sachs Capital Markets, L.P. (Goldman). Under the Agreements, the Authority may, from time to time, enter into derivative transactions in connection with particular issues of bonds. Depending on market conditions, a variable-rate bond issue and a related interest rate swap may help the Authority achieve the lowest possible full-spread rates. The Authority may also issue variable-rate taxable debt from time to time and enter into interest rate cap or corridor transactions under the Agreements. As of June 30, 2004, the Authority has entered into five transactions under the Agreements.

In September 2002, in connection with the issuance of its 2002 Series F, 2002 Series G, 2002 Series H and 2002 Series I bond issues, the Authority entered into its first swap transaction under the UBS Agreement. The 2002 Series I Bonds were issued as variable rate demand obligations (VRDOs), and an interest rate swap (the 2002 Series I Transaction) was executed under the UBS Agreement. Additional details about the 2002 Series I Transaction are set forth below.

Because of historically low conventional mortgage rates, the Authority executed an interest rate swap (the 2003 Series F Transaction) in May of 2003 in connection with the issuance of its 2003 Series C, 2003 Series D, 2003 Series E, 2003 Series F, and 2003 Series G bond issues. The 2003 Series F Bonds were also issued as VRDOs, initially set to bear interest at a weekly rate. Because the Authority did not, at that time, want to have unhedged variable-rate debt outstanding, it entered into the 2003 Series F Transaction with UBS AG. Additional details about the 2003 Series F Transaction are set forth below.

Because conventional mortgage rates returned to near historical lows in April of 2004, and given the compression between the taxable market and the municipal market, the Authority executed an interest rate swap (the 2004 Series B Transaction) in connection with the issuance of its 2004 Series A and 2004 Series B bond issue. The 2004 Series B Bonds were issued as VRDOs, initially set to bear interest for a six-month term, at which time the 2004 Series B Bonds will be converted to bear interest at a weekly rate. The Authority chose a forward swap structure to minimize negative arbitrage during the origination period for the 2004 Series B Bonds. The Authority entered into the 2004 Series B Transaction with Goldman. Additional details about the 2004 Series B Transaction are set forth below.

In addition, in connection with its 2003 Series B Bonds, the Authority entered into an interest rate corridor transaction under the UBS Agreement (the 2003 Series B Corridor). The 2003 Series B Bonds were issued in the amount of $10 million as taxable variable-rate bonds, with interest based on a spread to three-month LIBOR. To reduce its variable-rate exposure with respect to the 2003 Series B Bonds, the Authority executed the 2003 Series B Corridor, under which the Authority purchased a cap at the strike rate of 6.00% (based on three-month LIBOR) and sold a cap to UBS at a rate of 11.00% (which matched the embedded maximum rate on the related bonds). The 2003 Series B Corridor has a 10-year term, which matches the expected life of the related bonds (at 100% PSA, the 2003 Series B Bonds will be redeemed by the 10-year point). Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard or model. The Standard Prepayment Model assumes an increasingly larger percentage of the mortgage loans prepaying each month for the first 30 months of the mortgages' lives and thereafter assumes a constant prepayment rate of 6% per annum of the unpaid principal balance over the remaining life of each of the mortgage loans. Prepayment speeds are projected as percentages of the Standard Prepayment Model and are referred to as the Prepayment Speed Assumption (PSA).

The Authority also executed a corridor transaction under the UBS Agreement (the 2003 Series G Corridor) in connection with its issuance of $10,000,000 of 2003 Series G Bonds, which are taxable variable-rate bonds also based on three-month LIBOR. The Authority structured the 2003 Series G Corridor with a strike rate of 5.00% and sold a cap to UBS at a rate of 10.00% (which matched the embedded maximum rate on the related bonds). The term of the 2003 Series G Corridor is 10 years and the notional amount is also amortized. The Authority expects that approximately $1.3 million will still be outstanding when the 2003 Series G Corridor expires. Thus, the Authority will have some variable-rate risk based on the amount of 2003 Series G Bonds that are outstanding when the 2003 Series G Corridor expires.

The three swap transactions, the 2003 Series B Corridor, and the 2003 Series G Corridor are sometimes referred to collectively as the Transactions.

Terms and Fair Value of Derivative Transactions

The tables below contain information on the terms and net fair value (as of June 30, 2004) of the Authority's swap and corridor transactions. The notional amounts of the swap and corridor transactions were structured to match the principal amount of the related bonds, and the notional amounts will amortize according to a schedule that was developed to match the expected amortization of the associated debt.

Swap Table

Associated bond issue	Notional amounts (000's)	Effective date	Fixed rate paid	Variable rate received	June 30, 2004 fair value*	Termination date	Counterparty credit rating
2002 Series I	$ 11,250	10/30/02	3.653%	BMA + 0.10%	$ 73,117 to counterparty	07/01/32	AA+/A-1+ Aa2/P-1
2003 Series F	20,000	06/25/03	3.615%	BMA + 0.10% through 07/01/05, then 65% of LIBOR + 0.23%	584,851 to counterparty	07/01/05	AA+/A-1+ Aa2/P-1
2004 Series B	15,000	12/02/04	4.086%	If LIBOR <1%, IFA receives 100% of LIBOR; if LIBOR >1% and < 4.89%, IFA receives 56% of LIBOR + 44bps; if LIBOR > 4.89%, IFA receives 65% of LIBOR + seasonal adjustment in each case**	4,891 to IFA	07/01/34	A+ / Aa3

* as if terminated on June 30, 2004

** In addition, as is the case with the 2002 Series I Transaction and the 2003 Series F Transaction, the Authority will add 10 basis points to the Goldman formula to account for the expected trading differential.

Corridor Table

Associated bond issue	Notional amounts (000's)	Effective date	Cap/strike rate purchased	Cap/strike rate sold	June 30, 2004 fair value*	Termination date	Counterparty credit rating
2003 Series B	$ 10,000	03/19/03	6.00%	11.00%	$ 130,542 to IFA	07/02/12	AA+/A-1+ / Aa2/P-1
2003 Series G	10,000	06/25/03	5.00%	10.00%	284,798 to IFA	07/01/13	AA+/A-1+ / Aa2/P-1

* as if terminated on June 30, 2004

** In addition, as is the case with the 2002 Series I Transaction and the 2003 Series F Transaction, the Authority will add 10 basis points to the Goldman formula to account for the expected trading differential.

The fair value for the swap transactions set forth above include the value of options purchased by the Authority from UBS AG and Goldman. Additional details on each of the swap transactions are set forth below under the discussion of risks.

Risks Associated with Swap Transactions: Authority's Response Plan

Counterparty Risk. Counterparty risk is the risk that the counterparty to the swap transaction will default on its obligation to deliver cash resulting from the transaction. The Authority decided to enter into the UBS Agreement with UBS AG because of the strong credit rating of UBS AG (currently rated "AA+/A-1+" by Standard & Poor's and "Aa2/P-1" by Moody's). In addition, to further protect against counterparty risk, certain provisions have been included in the UBS Agreement.

After adding Goldman, Sachs & Co. as one of the Authority's lead bankers, the Authority decided to enter into the Goldman Agreement. The Goldman Agreement is fully guaranteed by Goldman Sachs Group, which is currently rated "A+" by Standard & Poor's and "Aa3" by Moody's.

With respect to counterparty risk, the Authority will also manage the Agreements and all transactions entered into with UBS AG and Goldman to ensure that the Authority's exposure to either of its counterparties does not exceed a proper amount.

Termination Risk. Termination risk is the risk that the swap could be terminated as a result of any of several events, which may include a ratings downgrade of the Authority's single-family mortgage bonds or of UBS AG or Goldman, covenant violation by a party, bankruptcy of a party, swap payment default by a party, and default events as defined in the Authority's single-family bond resolution; however, the Authority believes that the likelihood of any such termination event is remote.

Rollover Risk. Rollover risk is the risk that the term of a particular swap contract is not coterminous with the related bonds. If an issuer entered into a swap to hedge for a specified period of time and then decides at swap maturity that it wishes to maintain the same or a similar hedge position, it may incur rehedging costs at that time.

<u>2002 Series I Transaction</u>

To avoid this risk, the Authority worked with UBS AG to structure the 2002 Series I Transaction such that the maturity of the swap matches the maturity of the related bonds. In addition, the Authority only issued approximately 30% of its bonds under this issue as VRDOs with a swap.

<u>2003 Series F Transaction</u>

The Authority again worked with UBS AG to structure the 2003 Series F Transaction such that the maturity of the swap matches the maturity of the related bonds, thereby avoiding rollover risk. In addition, the Authority only issued approximately 40% of its bonds under this issue as VRDOs with a swap.

<u>2004 Series B Transaction</u>

To avoid this risk on the current transaction, the Authority and Goldman structured the 2004 Series B Transaction such that the maturity of the swap matches the maturity of the related bonds. In addition, the Authority only issued approximately 30% of its bonds under this issue as VRDOs with a swap. The Authority will likely take similar measures in future transactions to avoid rollover risk.

Basis Risk. Basis risk refers to a mismatch between the interest rate received from the swap counterparty and the interest rate actually owed on the Authority's bonds. Specifically, the Authority's basis risk is that the variable interest payments received from either UBS AG or Goldman, as applicable, will be less than the actual variable interest payments owed on the Authority's VRDOs. The mismatch between the Authority's actual bond rate and the swap rate is the Authority's basis risk.

<u>2002 Series I Transaction</u>

Under the 2002 Series I Transaction, the Authority pays a fixed rate to UBS AG and in return receives a floating variable rate based on the BMA Municipal Swap Index. To minimize this risk (and to account for the anticipated trading differential between the BMA Municipal Swap Index and the Authority's VRDOs), the Authority structured the 2002 Series I Transaction so that UBS AG pays the BMA Index plus 10 basis points.

<u>2003 Series F Transaction</u>

Under the 2003 Series F Transaction, the Authority pays a fixed rate to UBS AG and in return receives a floating variable rate based on the BMA Municipal Swap Index for the first two years (plus 10 basis points), then based on a percentage (65%) of LIBOR thereafter (plus 23 basis points). To minimize basis risk and to account for the expected trading differential between the Authority's VRDOs and BMA (or 65% of LIBOR plus 13 basis points), the 2003 Series F Transaction adds 10 basis points to BMA for the first two years and 10 basis points to the LIBOR formula thereafter (resulting in BMA plus 10 and then 65% of LIBOR plus 23).

<u>2004 Series B Transaction</u>

For the 2004 Series B Transaction, the Authority will pay a fixed rate to Goldman and in return receive a variable rate based on a formula designed to minimize basis risk. The formula used in the 2004 Series B Transaction results in payments to the Authority by Goldman at (1) 100% of LIBOR when LIBOR is less than 1.00%, (2) 56% of LIBOR plus 44 basis points when LIBOR is between 1.00% and 4.89%, and (3) 65% of LIBOR when LIBOR is greater than 4.89%, plus a seasonal adjustment in each case. In addition, as is the case with the 2002 Series I Transaction and the 2003 Series F Transaction, the Authority will add 10 basis points to the Goldman formula to account for the expected trading differential.

Tax Risk. All issuers who issue tax-exempt variable-rate debt inherently accept risk stemming from changes in marginal income tax rates. Decreases in marginal income tax rates for individuals and corporations could result in tax-exempt variable rates rising faster than taxable variable rates. This is a result of the tax code's impact on the trading value of tax-exempt bonds. This risk is also known as "tax event" risk, a form of basis risk under swap contracts.

<u>2002 Series I Transaction</u>

The Authority eliminated tax event risk under the 2002 Series I Transaction by utilizing a BMA swap instead of a percentage-of-LIBOR swap. In addition, the Agreement does not contain any tax event triggers that switch the index from BMA to a LIBOR-based index.

2003 Series F Transaction

Given the historical or near-historical lows of conventional mortgage rates at the time the 2003 Series F Transaction was structured, and due to the Authority's desire to achieve a competitive full spread lending rate for the FirstHome Program, a decision was made to assume tax risk on the 2003 Series F Transaction.

2004 Series B Transaction

Given the continuing historical or near-historical lows of conventional mortgage rates, and due to the Authority's desire to achieve a competitive full-spread lending rate for the FirstHome Program, the Authority has again decided to take tax risk. The Authority feels comfortable taking tax risk on the 2004 Series B Transaction given its continued limited exposure to basis and tax risk under the FirstHome Program, the financial strength of the Authority and the FirstHome Program, and the goal to achieve a competitive full-spread rate.

Amortization Risk. Amortization risk represents the potential cost to the Authority of servicing debt or honoring swap payments resulting from a mismatch between the amount of bonds outstanding and the notional amount of swap outstanding. Amortization risk occurs to the extent bonds and swap notional amounts become mismatched over the life of the transaction. This could occur to the extent that the Authority redeems bonds in advance of the swap notional amount schedule, causing an unhedged swap position (this is acceleration risk, likely due to high prepayment speeds, where swap payments are then owed on a notional amount in excess of the related bonds outstanding). Conversely, the Authority could be faced with some unhedged variable-rate bonds to the extent that the expected cash flow to repay bonds does not materialize in accordance with a relatively faster amortizing swap notional schedule (this is extension risk, likely due to very slow prepayment speeds, where interest payments will be owed on the variable-rate bonds with a lesser or no corresponding amount of payments coming to the Authority under the swap agreement). Amortization mismatches could potentially force the Authority to terminate a portion of the swap prior to maturity under unfavorable market conditions.

2002 Series I Transaction

The Authority worked to minimize amortization risk in connection with the 2002 Series I Transaction. To reduce acceleration risk, the Authority structured the related bonds with a planned amortization schedule, with prepayments in excess of the planned amount going to call other bonds of the related issue. In addition, the Authority may use excess prepayments to call bonds of other issues under the general resolution to ensure that this acceleration risk can be adequately managed. Finally, the Authority purchased an optional par call after 10 years as part of the 2002 Series I Transaction, which enhances the ability to manage this form of amortization risk.

With respect to the extension risk described above, the Authority structured the bonds relating to the 2002 Series I Transaction and the accompanying planned amortization schedule at a very conservative level (30% PSA). The Authority believes that by setting the planned amortization at such a low level, the likelihood of facing serious extension risk is very low. In addition, the Authority has the ability to use prepayments from other series of bonds to cross-call into this issue (subject to the particular series resolution permitting such cross-calling) to keep the bond amortization on the planned schedule.

2003 Series F Transaction

To reduce acceleration risk, the Authority structured the notional amounts of the swap based on 50% PSA. In deciding on this level of amortization for the swap notional amounts, the Authority balanced acceleration risk against extension risk, as a structure based on a higher prepayment speed than that which actually occurs will result in extension risk. If prepayments come in at a level above 50% PSA, the Authority can use these prepayments to call other bonds of this issue first to assist in the management of acceleration risk. Finally, the Authority purchased optional par calls as part of the 2003 Series F Transaction, which enhances the ability to manage this form of amortization risk.

With respect to the extension risk described above, the Authority structured the swap amortization at 50% PSA. In addition, the Authority has the ability to use prepayments from other series of bonds to cross-call into this issue (subject to the particular series resolution permitting such cross-calling) to keep the bond amortization on the planned schedule.

2004 Series B Transaction

The Authority has structured the notional amounts of the swap based on 0% PSA to most conservatively address amortization risk. In deciding on this level of amortization for the swap notional amounts, the Authority again balanced acceleration risk against extension risk, as a structure based on a higher prepayment speed than that which actually occurs will result in extension risk. If prepayments come in at a level above 0% PSA, the Authority can use these prepayments to call other bonds of this issue first to assist in the management of acceleration risk. Finally, the Authority will purchase optional par calls as part of the 2004 Series B Transaction, which enhances the ability to manage this form of amortization risk. The timing and amounts of the par termination options are based on an expected worst case scenario of prepayment speeds (300% PSA). Thus, the Authority can terminate portions of the swap notional amount up to 300% PSA. If actual prepayment speeds exceed the level at which the par termination options are structured (the 300% PSA), the Authority will be subject to acceleration risk.

With respect to the extension risk described above, the Authority structured the swap amortization at 0% PSA. The Authority believes that by setting the planned amortization at such a low level, the likelihood of facing serious extension risk is very low. In addition, the Authority has the ability to use excess revenues from other series of bonds to cross-call into this issue (subject to the particular series resolution permitting such cross-calling) to keep the bond amortization on the planned schedule.

Swap Payments and Associated Debt

Variable-rate bond interest payments and net swap payments will vary from time to time as interest rates change. Using rates in effect as of June 30, 2004, and assuming the rates on the Authority's VRDOs remained at the June 30, 2004 levels through maturity, the debt service requirements (for the 2002 Series I Bonds and the 2003 Series F Bonds) and net swap payments are as follows:

Fiscal year ending June 30		Variable-rate bonds principal	Variable-rate bonds interest	Net swap payments	Total
2005	$	345,000	329,641	786,387	1,461,028
2006		750,000	321,649	770,119	1,841,768
2007		915,000	312,137	750,182	1,977,319
2008		900,000	302,543	727,073	1,929,616
2009		870,000	293,484	705,295	1,868,779
2010–2014		3,720,000	1,344,417	3,230,059	8,294,476
2015–2019		2,930,000	1,169,703	2,809,161	6,908,864
2020–2024		6,405,000	946,954	2,273,902	9,625,856
2025–2029		7,575,000	539,992	1,296,693	9,411,685
2030–2033		6,820,000	148,686	357,043	7,325,729
Total	$	31,230,000	5,709,206	13,705,914	50,645,120

(6) Retirement System

The Authority participates in 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, P.O. Box 9117, Des Moines, Iowa 50306-9117. Details of the plan are provided on a system-wide basis. The Authority's portion is not separately determinable. The unfunded actuarial accrued liability of the plan at June 30, 2003 (latest information available) was $1,866.9 million.

Plan members are required to contribute 3.70% of their annual covered salary, and the Authority is required to contribute 5.75% of annual covered salaries. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2004 and 2003 were $255,507 and $220,070, respectively, equal to the required contribution for each year.

(7) Commitments and Contingencies

Operating Lease Commitment

The Authority was obligated under a noncancelable operating lease for office space during the fiscal year ending June 30, 2004. The lease expires in September 2006 and requires annual payments of $185,997 plus taxes and maintenance. Total rental expense was $380,275 and $378,391 for the years ended June 30, 2004 and 2003, respectively.

Housing Agency Commitments

The Authority has made commitments to grant funds for various purposes. The Authority does not record the expense or the liability for these grants until the grantee has fulfilled all contractual requirements and the funds have actually been disbursed. A summary of those outstanding commitments as of June 30, 2004 follows:

Description		**Amount**
Local housing assistance program grants – Iowa Department of Economic Development	$	1,736,198
Transitional housing grants		683,208
Project based housing grants		550,000
Local Housing Trust Fund grants		300,000
First Home Plus grants		274,976
Down-payment assistance grants		180,911
Capacity building grants		160,811
CHODO capacity building and intern grants		127,347
Technical assistance for transitional housing grants		79,016
Housing Opportunities for Persons with AIDS (HOPWA) grants		73,873
Multi-Family preservation grants		61,710
Homeless shelter weatherization program grants		17,228
Total outstanding commitments	$	4,245,278

State Revolving Fund Commitments

The Authority has signed loan agreements under the Iowa State Revolving Fund Revenue Bonds, Series 2001, Series 2003, and the Equity Account for loans to municipalities, under which $36,095,624, $6,506,438, and $1,538,589, respectively, have not been disbursed as of June 30, 2004. The Authority has signed loan agreements under the Iowa State Revolving Fund Revenue Bonds, Series 2001 and Series 2003, and the equity account for loans to water systems, under which $15,979,539, $1,470,936, and $11,846,929, respectively, have not been disbursed as of June 30, 2004.

IOWA FINANCE AUTHORITY

Combining Statement of Net Assets

June 30, 2004

(Dollars in thousands)

	Housing Agency							State Revolving Fund			Combined
	General Account	**Single Family Programs**	**Multi Family Programs**	**Housing Assistance Programs**	**Title Guaranty Division**	**Eliminations**	**Total Housing Agency**	**Clean Water Programs**	**Drinking Water Programs**	**Total**	**IFA totals**
Assets											
Current assets (substantially restricted):											
Cash and cash equivalents	$ 4,779	164,711	12,528	10,114	5,612	—	197,744	165,353	102,631	267,984	465,728
Investments:											
Other investments	8,516	997	1,110	—	—	—	10,623	39,983	—	39,983	50,606
Mortgage-backed securities	88	6,384	—	—	—	—	6,472	—	—	—	6,472
Total current investments	8,604	7,381	1,110	—	—	—	17,095	39,983	—	39,983	57,078
Loans to municipalities or water systems	—	—	—	—	—	—	—	14,220	5,255	19,475	19,475
Housing Agency loans, net	73	1,024	271	584	—	—	1,952	—	—	—	1,952
Accrued interest receivable	238	3,066	468	80	—	—	3,852	2,427	1,473	3,900	7,752
Other assets	822	7	2	301	(43)	—	1,089	(87)	(18)	(105)	984
Total current assets	14,516	176,189	14,379	11,079	5,569	—	221,732	221,896	109,341	331,237	552,969
Noncurrent assets (substantially restricted):											
Investments:											
Other investments	21,628	—	19,778	—	—	—	41,406	—	—	—	41,406
Mortgage-backed securities	4,558	392,330	—	—	—	—	396,888	—	—	—	396,888
Total noncurrent investments	26,186	392,330	19,778	—	—	—	438,294	—	—	—	438,294
Loans to municipalities or water systems	—	—	—	—	—	—	—	227,370	103,292	330,662	330,662
Housing Agency loans, net	1,770	5,384	9,328	10,403	—	—	26,885	—	—	—	26,885
Capital assets, net of accumulated depreciation	528	—	—	—	248	—	776	—	—	—	776
Total noncurrent assets	28,484	397,714	29,106	10,403	248	—	465,955	227,370	103,292	330,662	796,617
Total assets	43,000	573,903	43,485	21,482	5,817	—	687,687	449,266	212,633	661,899	1,349,586
Liabilities											
Current liabilities:											
Bonds payable, net	—	42,900	784	—	—	—	43,684	12,698	3,170	15,868	59,552
Accrued interest payable	—	10,625	344	—	—	—	10,969	3,239	2,049	5,288	16,257
Accounts payable and accrued liabilities	1,080	365	56	1,059	164	—	2,724	223	129	352	3,076
Rebates owed	—	5,359	—	—	—	—	5,359	—	—	—	5,359
Deferred income	127	299	—	—	—	—	426	184	74	258	684
Total current liabilities	1,207	59,548	1,184	1,059	164	—	63,162	16,344	5,422	21,766	84,928
Noncurrent liabilities:											
Bonds payable, net	—	457,229	20,092	—	—	—	477,321	138,509	103,966	242,475	719,796
Reserves for Title Guaranty Division claim	—	—	—	—	4,221		4,221	—	—	—	4,221
Rebates owed	—	89	—	—	—	—	89	1,025	2,049	3,074	3,163
Deferred income	1,179	688	—	—	—	—	1,867	2,373	1,269	3,642	5,509
Deferred grants and aid	—	—	—	458	—	—	458	—	—	—	458
Total noncurrent liabilities	1,179	458,006	20,092	458	4,221	—	483,956	141,907	107,284	249,191	733,147
Total liabilities	2,386	517,554	21,276	1,517	4,385	—	547,118	158,251	112,706	270,957	818,075
Net Assets											
Invested in capital assets	528	—	—	—	248	—	776			—	776
Restricted net assets:											
Per bond resolutions	—	54,558	21,497	—	—	—	76,055	133,062	52,497	185,559	261,614
Per legislation	—	—	—	18,448	1,184		19,632	—	—	—	19,632
Per other agreements	2,386	—	—	1,517	—	—	3,903	157,953	47,430	205,383	209,286
Total restricted net assets	2,914	54,558	21,497	19,965	1,432	—	100,366	291,015	99,927	390,942	491,308
Unrestricted net assets	37,700	1,791	712	—	—	—	40,203	—	—	—	40,203
Total net assets	$ 40,614	56,349	22,209	19,965	1,432	—	140,569	291,015	99,927	390,942	531,511

See accompanying independent auditors' report.

IOWA FINANCE AUTHORITY

Combining Statement of Net Assets

June 30, 2003

(Dollars in thousands)

	Housing Agency							State Revolving Funds			Combined
	General Account	Single Family Programs	Multi Family Programs	Housing Assistance Programs	Title Guaranty Division	Eliminations	Total Housing Agency	Clean Water Programs	Drinking Water Programs	Total	IFA totals
Assets											
Current assets (substantially restricted):											
Cash and cash equivalents	$ 5,628	176,770	12,376	6,504	5,337	—	206,615	197,575	121,550	319,125	525,740
Investments:											
Other investments	8,364	1,996	1,030	—	—	—	11,390	—	—	—	11,390
Mortgage-backed securities	129	5,761	—	—	—	—	5,890	—	—	—	5,890
Total current investments	8,493	7,757	1,030	—	—	—	17,280	—	—	—	17,280
Loans to municipalities or water systems	—	—	—	—	—	—	—	13,200	3,775	16,975	16,975
Housing Agency loans, net	274	1,359	53	2,393			4,079	—	32	32	4,111
Accrued interest receivable	398	2,720	463	95	—	—	3,676	2,523	1,665	4,188	7,864
Other assets	951	(123)	2	655	(39)	—	1,446	(80)	(44)	(124)	1,322
Total current assets	15,744	188,483	13,924	9,647	5,298	—	233,096	213,218	126,978	340,196	573,292
Noncurrent assets (substantially restricted):											
Investments:											
Other investments	33,018	4,108	22,255	—	—	—	59,381	—	—	—	59,381
Mortgage-backed securities	1,188	370,548	—	—	—	—	371,736	—	—	—	371,736
Total noncurrent investments	34,206	374,656	22,255	—	—	—	431,117	—	—	—	431,117
Loans to municipalities or water systems	—	—	—	—	—	—	—	211,381	63,318	274,699	274,699
Housing Agency loans, net	949	7,087	4,306	12,586	—	—	24,928	—	659	659	25,587
Capital assets, net of accumulated depreciation	576	—	—	—	394	—	970	—	—	—	970
Total noncurrent assets	35,731	381,743	26,561	12,586	394	—	457,015	211,381	63,977	275,358	732,373
Total assets	51,475	570,226	40,485	22,233	5,692	—	690,111	424,599	190,955	615,554	1,305,665
Liabilities											
Current liabilities:											
Bonds payable, net	215	54,015	668	1,720	—	—	56,618	12,331	1,569	13,900	70,518
Accrued interest payable	1	10,797	354	7	—	—	11,159	3,493	2,127	5,620	16,779
Accounts payable and accrued liabilities	1,580	255	7	156	119	—	2,117	431	229	660	2,777
Rebates owed	—	1,998	—	—	—	—	1,998	1,080	—	1,080	3,078
Deferred income	121	245	—	—	—	—	366	181	52	233	599
Total current liabilities	1,917	67,310	1,029	1,883	119	—	72,258	17,516	3,977	21,493	93,751
Noncurrent liabilities:											
Bonds payable, net	—	434,057	20,876	—	—	—	454,933	150,997	107,137	258,134	713,067
Reserves for Title Guaranty Division claim	—	—	—	—	3,707	—	3,707	—	—	—	3,707
Rebates owed	—	2,999	—	—	—	—	2,999	1,384	1,483	2,867	5,866
Deferred income	787	1,318	—	—	—	—	2,105	2,206	905	3,111	5,216
Deferred grants and aid	—	—	—	721	—	—	721	—	—	—	721
Total noncurrent liabilities	787	438,374	20,876	721	3,707	—	464,465	154,587	109,525	264,112	728,577
Total liabilities	2,704	505,684	21,905	2,604	3,826	—	536,723	172,103	113,502	285,605	822,328
Net Assets											
Invested in capital assets	576	—	—	—	394	—	970	—	—	—	970
Restricted net assets:											
Per bond resolutions	—	64,542	18,580	—	—	—	83,122	143,620	50,986	194,606	277,728
Per legislation	3,834	—	—	9,745	1,472	—	15,051	—	—	—	15,051
Per other agreements	8,896	—	—	9,094	—	—	17,990	108,876	26,467	135,343	153,333
Total restricted net assets	13,306	64,542	18,580	18,839	1,866	—	117,133	252,496	77,453	329,949	447,082
Unrestricted net assets	35,465	—	—	790	—	—	36,255	—	—	—	36,255
Total net assets	$ 48,771	64,542	18,580	19,629	1,866	—	153,388	252,496	77,453	329,949	483,337

See accompanying independent auditors' report.

IOWA FINANCE AUTHORITY

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

(Dollars in thousands)

	Housing Agency							State Revolving Funds			Combined
	General Account	**Single Family Programs**	**Multi-Family Programs**	**Housing Assistance Programs**	**Title Guaranty Division**	**Eliminations**	**Total Housing Agency**	**Clean Water Programs**	**Drinking Water Programs**	**Total**	**IFA totals**
Operating revenues:											
Interest income	$ 1,697	26,660	2,689	160	—	—	31,206	13,769	5,510	19,279	50,485
Net decrease in fair value of investments and mortgage-backed securities	(759)	(14,648)	(1,948)	(119)	—	—	(17,474)	(3)	—	(3)	(17,477)
Fee income	4,509	605	—	—	6,733	(1,154)	10,693	583	302	885	11,578
Grant income	95	—	—	1,628	—	—	1,723	33,494	22,394	55,888	57,611
Provision for losses	(59)	—	—	986	(614)	—	313	—	—	—	313
Other income	239	—	—	902	—	—	1,141	—	—	—	1,141
Total operating revenues	5,722	12,617	741	3,557	6,119	(1,154)	27,602	47,843	28,206	76,049	103,651
Operating expenses:											
Interest on bonds	7	23,272	1,357	11	—	—	24,647	8,027	4,877	12,904	37,551
Authority fees	—	1,150	4	—	—	(1,154)	—	—	—	—	—
General and administrative	6,339	299	11	573	1,653	—	8,875	1,297	855	2,152	11,027
Grants and aid	8	—	—	6,941	—	—	6,949	—	—	—	6,949
Total operating expenses	6,354	24,721	1,372	7,525	1,653	(1,154)	40,471	9,324	5,732	15,056	55,527
Operating income (loss)	(632)	(12,104)	(631)	(3,968)	4,466	—	(12,869)	38,519	22,474	60,993	48,124
Nonoperating revenues:											
Assets received from Iowa Housing Corporation	—	—	—	50	—	—	50	—	—	—	50
Income (loss) before transfers	(632)	(12,104)	(631)	(3,918)	4,466	—	(12,819)	38,519	22,474	60,993	48,174
Interfund transfers	(7,525)	3,911	4,260	4,254	(4,900)	—	—	—	—	—	—
Change in net assets	(8,157)	(8,193)	3,629	336	(434)	—	(12,819)	38,519	22,474	60,993	48,174
Net assets at June 30, 2003	48,771	64,542	18,580	19,629	1,866	—	153,388	252,496	77,453	329,949	483,337
Net assets at June 30, 2004	$ 40,614	56,349	22,209	19,965	1,432	—	140,569	291,015	99,927	390,942	531,511

See accompanying independent auditors' report.

IOWA FINANCE AUTHORITY

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2003

(Dollars in thousands)

	Housing Agency							State Revolving Funds			Combined
	General Account	**Single Family Programs**	**Multi Family Programs**	**Housing Assistance Programs**	**Title Guaranty Division**	**Eliminations**	**Total Housing Agency**	**Clean Water Programs**	**Drinking Water Programs**	**Total**	**IFA totals**
Operating revenues:											
Interest income	$ 2,265	25,801	2,832	225	—	—	31,123	14,485	4,346	18,831	49,954
Net (decrease) increase in fair value of investments and mortgage-backed securities	(560)	12,890	1,683	77	—	—	14,090	—	—	—	14,090
Fee income	3,015	466	—	—	5,717	—	9,198	409	169	578	9,776
Grant income	—	—	—	824	—	—	824	26,249	22,110	48,359	49,183
Provision for losses	(36)	—	—	(396)	(386)	—	(818)	—	—	—	(818)
Other income	8	—	—	8	—	—	16	—	—	—	16
Total operating revenues	4,692	39,157	4,515	738	5,331	—	54,433	41,143	26,625	67,768	122,201
Operating expenses:											
Interest on bonds	3	22,352	1,442	6	—	—	23,803	8,583	3,758	12,341	36,144
Authority fees	(766)	761	5	—	—	—	—	—	—	—	—
General and administrative	5,275	170	12	41	1,458	—	6,956	1,266	775	2,041	8,997
Grants and aid	—	1	—	3,746	—	—	3,747	—	—	—	3,747
Total operating expenses	4,512	23,284	1,459	3,793	1,458	—	34,506	9,849	4,533	14,382	48,888
Operating income (loss)	180	15,873	3,056	(3,055)	3,873	—	19,927	31,294	22,092	53,386	73,313
Nonoperating revenues:											
Assets received from Iowa Housing Corporation	—	—	—	190	—	—	190	—	—	—	190
Income (loss) before transfers	180	15,873	3,056	(2,865)	3,873	—	20,117	31,294	22,092	53,386	73,503
Interfund transfers	(1,406)	1,569	—	3,516	(3,679)	—	—	(16,800)	16,800	—	—
Change in net assets	(1,226)	17,442	3,056	651	194	—	20,117	14,494	38,892	53,386	73,503
Net assets at June 30, 2002	49,997	47,100	15,524	18,978	1,672	—	133,271	238,002	38,561	276,563	409,834
Net assets at June 30, 2003	$ 48,771	64,542	18,580	19,629	1,866	—	153,388	252,496	77,453	329,949	483,337

See accompanying independent auditors' report.

IOWA FINANCE AUTHORITY

Combining Statement of Cash Flows

Year ended June 30, 2004

(Dollars in thousands)

	Housing Agency							State Revolving Funds			Combined
	General Account	**Single Family Programs**	**Multi Family Programs**	**Housing Assistance Programs**	**Title Guaranty Division**	**Eliminations**	**Total Housing Agency**	**Clean Water Programs**	**Drinking Water Programs**	**Total**	**IFA Totals**
Cash flows from operating activities:											
Cash receipts for fees	$ 4,907	28	—	—	6,733	(1,154)	10,514	752	688	1,440	11,954
Interest received on loans and mortgage-backed securitie	332	21,310	285	28	—	—	21,955	14,106	6,243	20,349	42,304
Principal repayments on loans and mortgage-backed securitie	858	89,949	288	8,349	—	—	99,444	20,256	4,237	24,493	123,937
Purchases of loans and mortgage-backed securities	(5,566)	(124,964)	(5,528)	(4,477)	—	—	(140,535)	(37,265)	(45,000)	(82,265)	(222,800)
Grants and other income	1,434	—	—	2,268	—	(1,100)	2,602	33,494	22,395	55,889	58,491
Cash payments to employees	(4,357)	—	—	—	(1,083)	—	(5,440)	(827)	(180)	(1,007)	(6,447)
Cash payments to suppliers and grantees	(2,253)	(1,469)	35	(5,272)	(421)	1,154	(8,226)	(670)	(802)	(1,472)	(9,698)
Net cash (used in) provided by operating activities	(4,645)	(15,146)	(4,920)	896	5,229	(1,100)	(19,686)	29,846	(12,419)	17,427	(2,259)
Cash flows from noncapital financing activities:											
Proceeds from issuance of bonds	—	121,865	—	—	—	—	121,865	—	—	—	121,865
Payment of bonds	(215)	(109,808)	(668)	(1,720)	—	—	(112,411)	(12,121)	(1,570)	(13,691)	(126,102)
Interest paid	(8)	(23,444)	(1,368)	(17)	—	—	(24,837)	(8,280)	(4,955)	(13,235)	(38,072)
Interfund transfers	(7,525)	3,911	4,260	4,254	(4,900)	—	—	—	—	—	—
Cash received from Iowa Housing Corporation	—	—	—	50	—	—	50	—	—	—	50
Net cash (used in) provided by noncapital financing activities	(7,748)	(7,476)	2,224	2,567	(4,900)	—	(15,333)	(20,401)	(6,525)	(26,926)	(42,259)
Cash flows from investing activities:											
Purchases of investments	(30,516)	(3,500)	—	—	—	—	(34,016)	(39,986)	—	(39,986)	(74,002)
Interest received on investment	1,525	5,022	2,398	147	—	—	9,092	—	—	—	9,092
Sales/maturities of investments	41,753	8,607	450	—	—	—	50,810	—	—	—	50,810
Purchase of capital assets	(118)	—	—	—	(54)	—	(172)	—	—	—	(172)
Payment of rebate	—	434	—	—	—	—	434	(1,681)	25	(1,656)	(1,222)
Net cash provided by (used in) investing activities	12,644	10,563	2,848	147	(54)	—	26,148	(41,667)	25	(41,642)	(15,494)
(Decrease) increase in cash and cash equivalents	251	(12,059)	152	3,610	275	(1,100)	(8,871)	(32,222)	(18,919)	(51,141)	(60,012)
Cash and cash equivalents, beginning of year	5,628	176,770	12,376	6,504	5,337	—	206,615	197,575	121,550	319,125	525,740
Cash and cash equivalents, end of year	$ 5,879	164,711	12,528	10,114	5,612	(1,100)	197,744	165,353	102,631	267,984	465,728
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities											
Operating income (loss)	$ (632)	(12,104)	(631)	(3,968)	4,466	—	(12,869)	38,519	22,474	60,993	48,124
Interest income on investments and bank deposit	(1,365)	(5,022)	(2,404)	(132)	—	—	(8,923)	—	—	—	(8,923)
Rebate expense	—	17	—	—	—	—	17	242	541	783	800
Interest expense on bonds	7	23,272	1,357	10	—	—	24,646	8,027	4,877	12,904	37,550
Net change in fair value of investments and mortgage-backed securities	759	14,648	1,948	119	—	—	17,474	3	—	3	17,477
Depreciation of capital assets	166	—	—	—	201	—	367	—	—	—	367
Principal repayments on loans and mortgage-backed securities	858	89,949	288	8,349	—	—	99,444	20,256	4,237	24,493	123,937
Purchases of loans and mortgage backed securities	(5,566)	(124,964)	(5,528)	(4,477)	—	—	(140,535)	(37,265)	(45,000)	(82,265)	(222,800)
(Increase) decrease in interest receivable on loans and mortgage backed securities	—	(345)	—	—	—	—	(345)	95	192	287	(58)
Decrease (increase) in other assets	129	(130)	—	355	3	—	357	8	(27)	(19)	338
(Decrease) increase in accounts payable and other	(499)	109	50	903	559	—	1,122	(208)	(100)	(308)	814
Increase (decrease) in deferred incom	398	(576)	—	(263)	—	—	(441)	169	387	556	115
Net cash (used in) provided by operating activities	$ (5,745)	(15,146)	(4,920)	896	5,229	—	(19,686)	29,846	(12,419)	17,427	(2,259)

See accompanying independent auditors’ report.

IOWA FINANCE AUTHORITY

Combining Statement of Cash Flows

Year ended June 30, 2003

(Dollars in thousands)

	Housing Agency							State Revolving Funds			Combined
	General Account	Single Family Programs	Multi Family Programs	Housing Assistance Programs	Title Guaranty Division	Eliminations	Total Housing Agency	Clean Water Programs	Drinking Water Programs	Total	IFA totals
Cash flows from operating activities:											
Cash receipts for fees	$ 4,621	40	5	—	5,774	—	10,440	546	457	1,003	11,443
Interest received on loans and mortgage-backed securitie	169	21,445	491	202	—	—	22,307	9,150	1,688	10,838	33,145
Principal repayments on loans and mortgage-backed securitie	1,008	72,400	1,191	764	—	—	75,363	25,941	2,294	28,235	103,598
Purchases of loans and mortgage-backed securities	(1,273)	(127,118)	—	(7,578)	—	—	(135,969)	(34,704)	(26,350)	(61,054)	(197,023)
Grants and other income	—	413	—	896	—	—	1,309	26,249	22,109	48,358	49,667
Cash payments to employees	(3,765)	—	—	—	(951)	—	(4,716)	—	—	—	(4,716)
Cash payments to suppliers and grantees	(1,028)	(854)	(13)	(4,251)	(3,030)	—	(9,176)	(1,225)	(726)	(1,951)	(11,127)
Net cash (used in) provided by operating activities	(268)	(33,674)	1,674	(9,967)	1,793	—	(40,442)	25,957	(528)	25,429	(15,013)
Cash flows from noncapital financing activities:											
Proceeds from issuance of bonds	315	157,811	31	1,570	—	—	159,727	3,312	52,491	55,803	215,530
Payment of bonds	(100)	(60,819)	(1,840)	—	—	—	(62,759)	(15,355)	(1,560)	(16,915)	(79,674)
Interest paid	(2)	(20,517)	(1,430)	—	—	—	(21,949)	(9,661)	(3,261)	(12,922)	(34,871)
Interfund transfers	(1,406)	1,569	—	3,516	(3,679)	—	—	(16,800)	16,800	—	—
Cash received from the Iowa Housing Corporation	—	—	—	150	—	—	150	—	—	—	150
Net cash (used in) provided by noncapital financing activities	(1,193)	78,044	(3,239)	5,236	(3,679)	—	75,169	(38,504)	64,470	25,966	101,135
Cash flows from investing activities:											
Purchases of investments	(24,201)	(292)	—	—	—	—	(24,493)	—	—	—	(24,493)
Interest received on investment	2,297	4,637	1,885	279	—	—	9,098	6,380	2,891	9,271	18,369
Sales/maturities of investments	20,782	—	1,214	1,900	—	—	23,896	—	—	—	23,896
Purchase of capital assets	(363)	—	—	—	(289)	—	(652)	—	—	—	(652)
Payment of rebate	—	(424)	—	—	—	—	(424)	(828)	—	(828)	(1,252)
Net cash (used in) provided by investing activities	(1,485)	3,921	3,099	2,179	(289)	—	7,425	5,552	2,891	8,443	15,868
(Decrease) increase in cash and cash equivalents	(2,946)	48,291	1,534	(2,552)	(2,175)	—	42,152	(6,995)	66,833	59,838	101,990
Cash and cash equivalents, beginning of year	8,574	128,479	10,842	9,056	7,512	—	164,463	204,570	54,717	259,287	423,750
Cash and cash equivalents, end of year	$ 5,628	176,770	12,376	6,504	5,337	—	206,615	197,575	121,550	319,125	525,740
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities											
Operating income (loss)	$ 180	15,873	3,056	(3,055)	3,873	—	19,927	31,294	22,092	53,386	73,313
Interest income on investments and bank deposit	(2,090)	(4,248)	(2,390)	(204)	—	—	(8,932)	(5,435)	(2,861)	(8,296)	(17,228)
Rebate expense	—	67	—	—	—	—	67	67	270	337	404
Interest expense on bonds	3	22,352	1,441	7	—	—	23,803	8,583	3,758	12,341	36,144
Net change in fair value of investments and mortgage-backed securities	560	(12,890)	(1,683)	(77)	—	—	(14,090)	—	—	—	(14,090)
Depreciation of capital assets	108	—	—	—	196	—	304	—	—	—	304
Principal repayments on loans and mortgage backed securities	1,008	72,400	1,191	764	—	—	75,363	25,941	2,294	28,235	103,598
Purchases of loans and mortgage-backed securities	(1,273)	(127,118)	—	(7,578)	—	—	(135,969)	(34,704)	(26,350)	(61,054)	(197,023)
(Increase) decrease in interest receivable on loans and mortgage-backed securities	(8)	(175)	54	(27)	—	—	(156)	33	(67)	(34)	(190)
(Increase) decrease in other assets	(78)	418	1	(25)	9	—	325	(15)	(11)	(26)	299
Increase (decrease) in accounts payable and other	1,073	73	4	156	(2,285)	—	(979)	41	49	90	(889)
Increase (decrease) in deferred incom	249	(426)	—	72	—	—	(105)	152	298	450	345
Net cash (used in) provided by operating activities	$ (268)	(33,674)	1,674	(9,967)	1,793	—	(40,442)	25,957	(528)	25,429	(15,013)

See accompanying independent auditors' report.

IOWA FINANCE AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Grantor/program title	Federal CFDA number		Federal expenditures
United States Department of Housing and Urban Development direct programs:			
Rural Housing and Economic Development – Rural Homebuilding Initiative (R.H.B.I.) program	14.250	$	265,161
Housing Opportunities for Persons with AIDS (H.O.P.W.A.) program	14.241		493,280
Section 8 Housing Assistance Payments Program – Special Allocations	14.195		36,015,725
Total United States Department of Housing and Urban Development			36,774,166
United States Department of Agriculture direct programs:			
Rural Community Development Initiative (R.C.D.I.) Grant	10.446		48,811
Total United States Department of Agriculture			48,811
United States Department of Education direct programs:			
Alternative Financing Mechanisms Program (AFP)	84.224C		420,000
Access to Telework Fund Program	84.235T		450,000
Total United States Department of Education			870,000
Total federal awards expenditures		$	37,692,977

See accompanying note to Schedule of Expenditures of Federal Awards.

IOWA FINANCE AUTHORITY

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(1) Basis of Presentation

The purpose of the Schedule of Expenditures of Federal Awards (the Schedule) is to present a summary of those activities of the Iowa Finance Authority (the Authority) for the year ended June 30, 2004 which have been financed by the United States Government (federal awards). For purposes of the Schedule, federal awards include all awards entered into directly between the Authority and the federal government and sub-awards from non-federal organizations made under federally sponsored agreements. Because the Schedule presents only a selected portion of the activities of the Authority, it is not intended to, and does not, present the financial position, revenues, expenses, and changes in net assets of the Authority.

Deductions or expenditures for direct costs are recognized as incurred, using the accrual method of accounting and the cost accounting principles contained in the United States Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' 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*

The Board of Directors
Iowa Finance Authority:

We have audited the financial statements of the Iowa Finance Authority (the Authority) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board, management, and others within the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

September 17, 2004

KPMG LLP
2500 Ruan Center
666 Grand Avenue
Des Moines, IA 50309

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Directors
Iowa Finance Authority:

Compliance

We have audited the compliance of the Iowa Finance Authority (the Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The Authority's major federal program is identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to the federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management and other employees within the Authority and all applicable federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

September 17, 2004

IOWA FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: ***Unqualified opinion***

(b) Reportable conditions in internal control disclosed by the audit of the financial statements: ***None reported***

Material weaknesses: ***No***

(c) Noncompliance which is material to the financial statements: ***No***

(d) Reportable conditions in internal control over major programs: ***None reported***

Material weaknesses: ***No***

(e) The type of report issued on compliance for major programs: ***Unqualified opinion***

(f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: ***Yes***

(g) Major programs: ***14.195 Section 8 Housing Assistance Payments Program – Special Allocations***

(h) Dollar threshold used to distinguish between Type A and Type B programs: ***$1,130,789***

(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: ***Yes***

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.