

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

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

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

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KPMG LLP
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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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 the 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 business-type activities of the Iowa Finance Authority as of June 30, 2005 and 2004, and the respective changes in their financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005 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 12 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 financial statements that collectively comprise the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 16, 2005, except for
note 8, which is as of
September 28, 2005

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2005 and 2004

The Iowa Finance Authority's (the Authority) (a component unit of the State of Iowa) 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, 2005 (FY05) and June 30, 2004 (FY04).

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 the Notes to Financial Statements. The *Basic Financial Statements* describe 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 Governmental Accounting Standards Board (GASB) 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 FY05 and FY04, which amounts are then added to the ending balance of net assets from FY04 and FY03 to arrive at net assets for FY05 and FY04.

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 FY05 and FY04 ending cash and cash equivalents balances.

In FY05, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk and concentration of credit risk.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

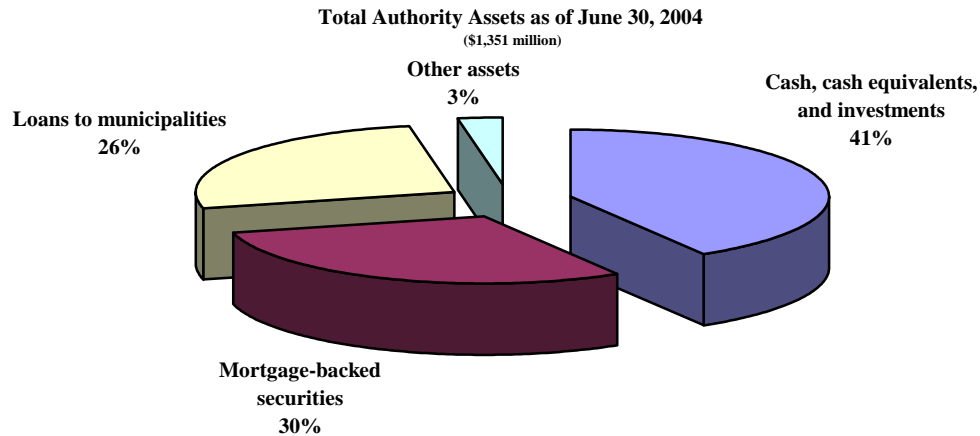
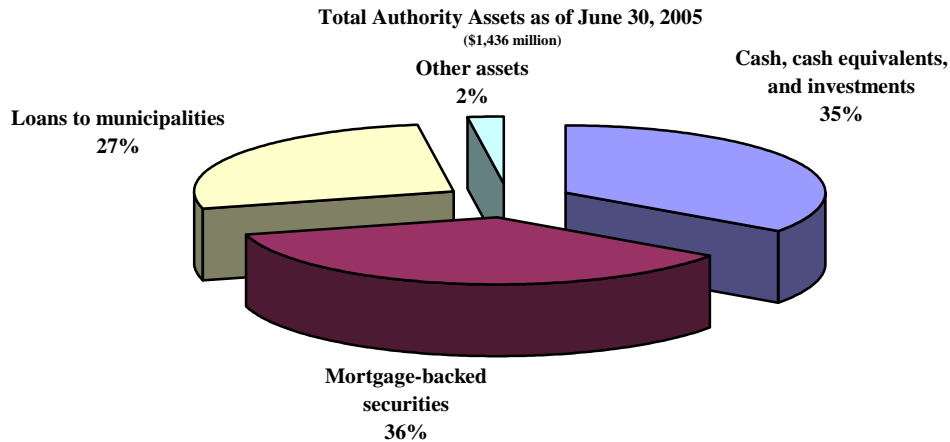
June 30, 2005 and 2004

This pronouncement requires additional disclosures to be presented in the notes but has no impact on the net assets of the Authority.

Condensed Financial Information

The following tables and charts present condensed financial information for FY05 and FY04. Table 1 provides information for the Authority as a whole. Table 2 presents condensed information for the Authority's Housing Agency Fund, 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 FY05 with FY04. Reference is made to the Authority's complete audited financial statements for both FY05 and FY04 for detailed information behind the amounts set forth in these tables.



IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2005 and 2004

Table 1 – Total Condensed Information of the Authority

Net Assets			
	2005	2004	2003
Assets:			
Cash, cash equivalents, and investments	\$ 496.5	557.7	596.5
Mortgage-backed securities	518.4	403.4	377.6
Loans to municipalities or water systems	387.0	350.1	291.7
Other assets	34.4	40.2	41.5
Total assets	1,436.3	1,351.4	1,307.3
Liabilities:			
Bonds payable, net	827.0	781.2	785.3
Other liabilities	37.2	38.7	38.7
Total liabilities	864.2	819.9	824.0
Net assets:			
Invested in capital assets	0.7	0.8	1.0
Restricted net assets:			
Per bond resolutions	296.2	261.6	277.7
Per legislation	22.3	19.6	15.1
Per other agreements	223.9	205.4	153.3
Total restricted net assets	542.4	486.6	446.1
Unrestricted net assets:			
Designated	2.1	3.9	4.2
Unrestricted	26.9	40.2	32.0
Total unrestricted net assets	29.0	44.1	36.2
Total net assets	\$ 572.1	531.5	483.3

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2005 and 2004

Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Interest income	\$ 56.7	50.5	49.9
Net increase (decrease) in fair value	5.9	(17.5)	14.1
Fee and other income and provision for loan losses	12.5	14.4	12.6
Grant income	26.5	57.6	48.4
Total operating revenues	<u>101.6</u>	<u>105.0</u>	<u>125.0</u>
Operating expenses:			
Interest on bonds	38.0	37.6	36.1
General and administrative	11.3	10.5	9.0
Grants and aid	10.5	8.8	5.8
Provision for losses	1.2	—	0.8
Total operating expenses	<u>61.0</u>	<u>56.9</u>	<u>51.7</u>
Operating income	40.6	48.1	73.3
Nonoperating revenues	—	0.1	0.2
Change in net assets	<u>40.6</u>	<u>48.2</u>	<u>73.5</u>
Net assets at beginning of year	<u>531.5</u>	<u>483.3</u>	<u>409.8</u>
Net assets at end of year	<u>\$ 572.1</u>	<u>531.5</u>	<u>483.3</u>

Financial Analysis – Combined 2005

- The Authority's assets increased 6.3%, or \$84.9 million, to \$1,436.3 million in FY05 compared to \$1,351.4 million in FY04. Mortgage-backed securities (MBS) grew a record 28.5%, or \$115.0 million, as demand grew for the Authority's FirstHome program. Loans to municipalities or water systems (SRF loans) grew 10.5% or \$36.9 million as a part of the normal loan origination process under the SRF program.
- Interest rates remained low for most of the year but increased slightly by year-end, and as a result, there was a 1%, or \$5.9 million, increase in the fair value of the MBS portfolio.
- Single family bonds totaling \$166.5 million were issued during FY05. These funds are used to purchase mortgage-backed securities under the Authority's FirstHome program. As a result of debt service and prepayments, the Authority made bond payments of \$120.7 million, resulting in an increase in net bonds payable of 5.9%, or \$45.8 million, to \$827.0 million in FY05 as compared to \$781.2 million in FY04.
- Interest income grew 12.3%, or \$6.2 million, due to the asset growth in the MBS and SRF loan portfolios.
- Grant income declined in FY05 because adequate funding was available to meet SRF loan requirements without drawing down federal capitalization grants from the Environmental Protection Agency (EPA). The EPA capitalization grants are expected to be received in a future period.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2005 and 2004

- Grant expense increased to \$10.5 million in FY05 as compared to \$8.8 million in FY04. Various housing assistance grants combined for this increase.

Financial Analysis – Combined 2004

- The Authority's assets increased 3.4%, or \$44.1 million, to \$1,351.4 million in FY04 compared to \$1,307.3 million in FY03. Even with record prepayments and a decline in fair market value, mortgage-backed securities grew 6.8%, or \$25.8 million, and loans to municipalities or water systems grew 20%, or \$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.
- The Authority issued single family bonds totaling \$121.9 million during FY04. As a result of debt service and prepayments, the Authority made bond payments of \$126.1 million, resulting in a decrease in net bonds payable of about \$4.1 million.
- Interest income grew a modest 1.2%, or \$0.6 million, to \$50.5 million in FY04 compared to \$49.9 million in FY03, but was achieved through growth in the mortgage-backed securities and loans to municipalities mentioned above.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2005 and 2004

Table 2 – Condensed Housing Agency Information

		Net Assets		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:				
Cash, cash equivalents, and investments	\$	217.1	249.7	277.4
Mortgage-backed securities		518.4	403.4	377.6
Other assets		30.0	35.9	36.2
Total assets		<u>765.5</u>	<u>689.0</u>	<u>691.2</u>
Liabilities:				
Bonds payable, net		584.0	522.3	512.7
Other liabilities		25.3	26.1	25.1
Total liabilities		<u>609.3</u>	<u>548.4</u>	<u>537.8</u>
Net assets:				
Invested in capital assets		0.7	0.8	1.0
Restricted net assets:				
Per bond resolutions		104.2	76.1	83.1
Per legislation		22.3	19.6	15.1
Per other agreements		—	—	18.0
Total restricted net assets		<u>126.5</u>	<u>95.7</u>	<u>116.2</u>
Unrestricted net assets:				
Designated		2.1	3.9	4.2
Unrestricted		26.9	40.2	32.0
Total unrestricted net assets		<u>29.0</u>	<u>44.1</u>	<u>36.2</u>
Total net assets	\$	<u><u>156.2</u></u>	<u><u>140.6</u></u>	<u><u>153.4</u></u>

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis

June 30, 2005 and 2004

Revenues, Expenses, and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:			
Interest income	\$ 34.5	31.2	31.1
Net increase (decrease) in fair value	5.9	(17.4)	14.1
Fee and other income and provision for loan losses	11.5	13.5	12.0
Grant income	9.9	1.7	0.8
Total operating revenues	<u>61.8</u>	<u>29.0</u>	<u>58.0</u>
Operating expenses:			
Interest on bonds	25.8	24.6	23.8
General and administrative	8.6	8.4	9.8
Grants and aid	10.5	8.9	3.7
Provision for losses	1.3	—	0.8
Total operating expenses	<u>46.2</u>	<u>41.9</u>	<u>38.1</u>
Operating income (loss)	15.6	(12.9)	19.9
Nonoperating revenues	—	0.1	0.2
Change in net assets	<u>15.6</u>	<u>(12.8)</u>	<u>20.1</u>
Net assets at beginning of year	<u>140.6</u>	<u>153.4</u>	<u>133.3</u>
Net assets at end of year	<u>\$ 156.2</u>	<u>140.6</u>	<u>153.4</u>

Financial Analysis – Housing Agency 2005

- The Housing Agency's mortgage-backed securities increased 28.5%, or \$115.0 million, to \$518.4 million in FY05 from \$403.4 million in FY04 as the FirstHome program continued to grow.
- Three single-family bond issues provided \$166.5 million of financing, which is used to purchase mortgage-backed securities under the FirstHome program during FY05. The bond issues were necessary to meet demand for loans under the FirstHome program. During FY05, the Authority made bond payments under the Housing Agency of \$104.9 million.

<u>Series</u>	<u>Date</u>	<u>Amount</u>	<u>Rating</u>
2004 CD	8/5/2004	\$ 51.0	AAA by Standard & Poor's; Aaa by Moody's
2004 EFG	12/2/2004	50.0	AAA by Standard & Poor's; Aaa by Moody's
2005 ABC	5/19/2005	<u>65.5</u>	AAA by Standard & Poor's; Aaa by Moody's
Total		<u>\$ 166.5</u>	

See the notes to the financial statements for further information.

- Grant income increased \$8.2 million to \$9.9 million in FY05 as the state legislature appropriated \$7.0 million to the Authority to be used for permanent revolving loan programs.

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis

June 30, 2005 and 2004

- General and administrative expenses increased \$0.2 million to \$8.6 million in FY05 from \$8.4 million in FY04.
- Grant expense increased to \$10.5 million in FY05 as compared to \$8.9 million in FY04. Various housing assistance grants combined for this increase.

Financial Analysis – Housing Agency 2004

- The Housing Agency's mortgage-backed securities increased 6.8%, or \$25.8 million, to \$403.4 million in FY04 from \$377.6 million in FY03.
- Three single-family bond issues provided \$121.9 million of financing, which is used to purchase mortgage-backed securities under the FirstHome program during FY04. During FY04, the Authority made bond payments under the Housing Agency of \$112.4 million.

Series	Date	Amount	Rating
2003 HIJ	12/03/03	\$ 45.0	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	AAA by Standard & Poor's; Aaa by Moody's
Total		<u>\$ 121.9</u>	

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.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2005 and 2004

Table 3 – Condensed State Revolving Fund Information

		Net Assets		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:				
Cash, cash equivalents, and investments	\$	279.4	308.0	319.1
Loans to municipalities or water systems		387.0	350.1	291.7
Other assets		4.4	4.3	5.3
Total assets		<u>670.8</u>	<u>662.4</u>	<u>616.1</u>
Liabilities:				
Bonds payable, net		243.0	258.9	272.6
Other liabilities		11.9	12.6	13.6
Total liabilities		<u>254.9</u>	<u>271.5</u>	<u>286.2</u>
Restricted net assets:				
Per bond resolutions		192.0	185.5	194.6
Per other agreements		223.9	205.4	135.3
Total restricted net assets		<u>415.9</u>	<u>390.9</u>	<u>329.9</u>
Unrestricted net assets				
Total net assets	\$	<u><u>415.9</u></u>	<u><u>390.9</u></u>	<u><u>329.9</u></u>

Revenues, Expenses, and Changes in Net Assets

		<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:				
Interest income	\$	22.2	19.3	18.8
Fee and other income		1.1	0.9	0.6
Grant income		16.6	55.9	48.4
Total operating revenues		<u>39.9</u>	<u>76.1</u>	<u>67.8</u>
Operating expenses:				
Interest on bonds		12.2	12.9	12.4
General and administrative		2.7	2.2	2.0
Total operating expenses		<u>14.9</u>	<u>15.1</u>	<u>14.4</u>
Operating income		<u>25.0</u>	<u>61.0</u>	<u>53.4</u>
Change in net assets		<u>25.0</u>	<u>61.0</u>	<u>53.4</u>
Net assets at beginning of year		<u>390.9</u>	<u>329.9</u>	<u>276.5</u>
Net assets at end of year	\$	<u><u>415.9</u></u>	<u><u>390.9</u></u>	<u><u>329.9</u></u>

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2005 and 2004

Financial Analysis – State Revolving Fund 2005

- The State Revolving Fund assets increased 1.3%, or \$8.4 million, to \$670.8 million in FY05 from \$662.4 million in FY04. Loans to municipalities or water systems grew 10.5%, or \$36.9 million, to \$387.0 million in FY05 from \$350.1 million in FY04 as available cash was used to make loans as part of the normal operations of the SRF program.
- Grant income declined in FY05 because adequate funding was available to meet SRF loan requirements without drawing down federal capitalization grants from the Environmental Protection Agency. The EPA grants are expected to be received in a future period.
- State Revolving Fund bond payments of \$15.9 million were made in FY05 as part of the expected debt service on outstanding SRF bonds.

Financial Analysis – State Revolving Fund 2004

- The State Revolving Fund assets increased 7.5%, or \$46.3 million, to \$662.4 million in FY04 from \$616.1 million in FY03. Loans to municipalities or water systems grew 20%, or \$58.4 million, to \$350.1 million in FY04 from \$291.7 million in FY03 as part of the normal operations of the SRF program.
- State Revolving Fund bond payments of \$13.7 million were made in FY04 as part of the expected SRF debt service activity.

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
(A Component Unit of the State of Iowa)

Statement of Net Assets

June 30, 2005

(Dollars in thousands)

Assets	Housing Agency	State Revolving Fund	Totals
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 149,707	223,878	373,585
Investments:			
Other investments	21,488	55,030	76,518
Mortgage-backed securities	7,983	—	7,983
Total current investments	<u>29,471</u>	<u>55,030</u>	<u>84,501</u>
Loans to municipalities or water systems	—	23,503	23,503
Housing Agency loans, net	2,333	—	2,333
Accrued interest receivable	3,881	4,009	7,890
Other assets	1,453	20	1,473
Total current assets	<u>186,845</u>	<u>306,440</u>	<u>493,285</u>
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	45,900	461	46,361
Mortgage-backed securities	510,455	—	510,455
Total noncurrent investments	<u>556,355</u>	<u>461</u>	<u>556,816</u>
Loans to municipalities or water systems	—	363,522	363,522
Housing Agency loans, net	19,946	—	19,946
Capital assets, net of accumulated depreciation	717	—	717
Other assets	1,608	429	2,037
Total noncurrent assets	<u>578,626</u>	<u>364,412</u>	<u>943,038</u>
Total assets	<u>765,471</u>	<u>670,852</u>	<u>1,436,323</u>
Liabilities			
Current liabilities:			
Bonds payable, net	13,904	17,560	31,464
Accrued interest payable	11,716	4,972	16,688
Accounts payable and other	5,107	333	5,440
Rebates owed	853	—	853
Deferred income	372	291	663
Total current liabilities	<u>31,952</u>	<u>23,156</u>	<u>55,108</u>
Noncurrent liabilities:			
Bonds payable, net	570,040	225,450	795,490
Reserves for claims	5,094	—	5,094
Rebates owed	94	2,278	2,372
Deferred income	2,100	4,038	6,138
Total noncurrent liabilities	<u>577,328</u>	<u>231,766</u>	<u>809,094</u>
Total liabilities	<u>609,280</u>	<u>254,922</u>	<u>864,202</u>
Net Assets			
Invested in capital assets	717	—	717
Restricted net assets:			
Per bond resolutions	104,246	192,003	296,249
Per legislation	22,251	—	22,251
Per other agreements	—	223,927	223,927
Total restricted net assets	<u>126,497</u>	<u>415,930</u>	<u>542,427</u>
Unrestricted net assets:			
Designated	2,063	—	2,063
Unrestricted	26,914	—	26,914
Total unrestricted net assets	<u>28,977</u>	<u>—</u>	<u>28,977</u>
Total net assets	<u>\$ 156,191</u>	<u>415,930</u>	<u>572,121</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Statement of Net Assets

June 30, 2004

(Dollars in thousands)

Assets	Housing Agency	State Revolving Fund	Totals
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	<u>17,095</u>	<u>39,983</u>	<u>57,078</u>
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	<u>221,732</u>	<u>331,237</u>	<u>552,969</u>
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	41,406	—	41,406
Mortgage-backed securities	396,888	—	396,888
Total noncurrent investments	<u>438,294</u>	<u>—</u>	<u>438,294</u>
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
Other assets	1,316	534	1,850
Total noncurrent assets	<u>467,271</u>	<u>331,196</u>	<u>798,467</u>
Total assets	<u>689,003</u>	<u>662,433</u>	<u>1,351,436</u>
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	<u>63,162</u>	<u>21,766</u>	<u>84,928</u>
Noncurrent liabilities:			
Bonds payable, net	478,637	243,009	721,646
Reserves for 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	<u>485,272</u>	<u>249,725</u>	<u>734,997</u>
Total liabilities	<u>548,434</u>	<u>271,491</u>	<u>819,925</u>
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	—	205,383	205,383
Total restricted net assets	<u>95,687</u>	<u>390,942</u>	<u>486,629</u>
Unrestricted net assets:			
Designated	3,903	—	3,903
Unrestricted	40,203	—	40,203
Total unrestricted net assets	<u>44,106</u>	<u>—</u>	<u>44,106</u>
Total net assets	<u>\$ 140,569</u>	<u>390,942</u>	<u>531,511</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2005

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Operating revenues:			
Interest income	\$ 34,472	22,223	56,695
Net increase (decrease) in fair value of investments and mortgage-backed securities	5,914	(25)	5,889
Fee income	11,218	1,080	12,298
Grant income	9,936	16,613	26,549
Other income	200	—	200
Total operating revenues	<u>61,740</u>	<u>39,891</u>	<u>101,631</u>
Operating expenses:			
Interest on bonds	25,798	12,182	37,980
General and administrative	8,610	2,721	11,331
Grants and aid	10,481	—	10,481
Provision for losses	1,229	—	1,229
Total operating expenses	<u>46,118</u>	<u>14,903</u>	<u>61,021</u>
Operating income	15,622	24,988	40,610
Nonoperating revenue	—	—	—
Change in net assets	15,622	24,988	40,610
Net assets at June 30, 2004	<u>140,569</u>	<u>390,942</u>	<u>531,511</u>
Net assets at June 30, 2005	<u>\$ 156,191</u>	<u>415,930</u>	<u>572,121</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
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	12,071	885	12,956
Grant income	1,723	55,888	57,611
Provision for losses	313	—	313
Other income	1,141	—	1,141
Total operating revenues	<u>28,980</u>	<u>76,049</u>	<u>105,029</u>
Operating expenses:			
Interest on bonds	24,647	12,904	37,551
General and administrative	8,340	2,152	10,492
Grants and aid	8,862	—	8,862
Total operating expenses	<u>41,849</u>	<u>15,056</u>	<u>56,905</u>
Operating income (loss)	(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	<u>\$ 140,569</u>	<u>390,942</u>	<u>531,511</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Statement of Cash Flows

Year ended June 30, 2005

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 10,938	1,508	12,446
Interest received on loans and mortgage-backed securities	26,074	22,046	48,120
Principal payments on loans and mortgage-backed securities	67,411	31,984	99,395
Purchases of loans and mortgage-backed securities	(170,437)	(68,871)	(239,308)
Grants and other income	10,125	16,613	26,738
Cash payments to employees	(5,527)	(1,170)	(6,697)
Cash payments to suppliers and grantees	(11,886)	(1,590)	(13,476)
Net cash provided by (used in) operating activities	(73,302)	520	(72,782)
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	166,500	—	166,500
Payment of bonds	(104,876)	(15,867)	(120,743)
Interest paid	(25,052)	(12,498)	(37,550)
Net cash provided by (used in) noncapital financing activities	36,572	(28,365)	8,207
Cash flows from investing activities:			
Purchases of investments	(53,800)	(139,320)	(193,120)
Interest received on investments	8,413	—	8,413
Sales/maturities of investments	38,861	123,787	162,648
Purchase of capital assets	(236)	—	(236)
Payment of rebate	(4,545)	(728)	(5,273)
Net cash used in investing activities	(11,307)	(16,261)	(27,568)
Decrease in cash and cash equivalents	(48,037)	(44,106)	(92,143)
Cash and cash equivalents, beginning of year	197,744	267,984	465,728
Cash and cash equivalents, end of year	\$ 149,707	223,878	373,585
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 15,622	24,988	40,610
Interest income on investments and bank deposits	(8,408)	—	(8,408)
Rebate expense	45	(68)	(23)
Interest expense on bonds	25,798	12,182	37,980
Net change in fair value of investments and mortgage-backed securities	(5,914)	25	(5,889)
Depreciation of capital assets	294	—	294
Principal payments on loans and mortgage-backed securities	67,411	31,984	99,395
Purchases of loans and mortgage-backed securities	(170,437)	(68,871)	(239,308)
Increase in interest receivable on loans and mortgage-backed securities	(35)	(109)	(144)
Increase in other assets	(655)	(21)	(676)
Increase (decrease) in accounts payable and other	3,256	(18)	3,238
(Decrease) increase in deferred income	(279)	428	149
Net cash provided by (used in) operating activities	\$ (73,302)	520	(72,782)

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

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 provided by (used in) operating activities	<u>(19,686)</u>	<u>17,427</u>	<u>(2,259)</u>
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	<u>(15,333)</u>	<u>(26,926)</u>	<u>(42,259)</u>
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	<u>26,148</u>	<u>(41,642)</u>	<u>(15,494)</u>
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	<u>\$ 197,744</u>	<u>267,984</u>	<u>465,728</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (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 provided by (used in) operating activities	<u>\$ (19,686)</u>	<u>17,427</u>	<u>(2,259)</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2005 and 2004

(1) Organization and Summary of Significant Accounting Policies

(a) 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, consequently, 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.

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 are limited obligations of the Authority payable solely from certain revenues. Neither the Authority nor the State is obligated to pay debt service on such bonds, except from the specifically pledged revenues. 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, 2005 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$2.0 billion in fiscal years 1997 through 2005, of which approximately \$1.5 billion is outstanding at June 30, 2005.

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 guaranties do not constitute a debt of the State, and, consequently, the State is not liable for any repayments. The

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Notes to Financial Statements

June 30, 2005 and 2004

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, and not the Authority or the Division, is liable for any claims arising as the result of releasing a mortgage in error.

Section 16.93 of the Code of Iowa authorizes 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 2006, 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 limited obligations of the Authority payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond indenture for the Clean Water Program. The obligations do not constitute a debt of the State or a general obligation of the Authority.

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 limited obligations of the Authority payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond indenture for the Drinking Water Program. The obligations do not constitute a debt of the State or a general obligation of the Authority.

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

IOWA FINANCE AUTHORITY
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June 30, 2005 and 2004

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.

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 or a general obligation of the Authority. 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, 2005, approximately \$57.6 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 or a general obligation of the Authority. 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, 2005.

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 or a general obligation of the Authority. Therefore, the bonds are not recorded in the Authority's financial statements. As of June 30, 2005, approximately \$64.3 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.

IOWA FINANCE AUTHORITY
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June 30, 2005 and 2004

(b) 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.

In fiscal year 2005, the Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, custodial credit risk, foreign currency risk, and concentration of credit risk. This pronouncement requires additional disclosures to be presented in the notes but has no impact on the net assets of the Authority.

(c) 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:

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 Fannie Mae (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

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June 30, 2005 and 2004

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 14, 2006, \$7 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, 2005, the interest rate was 3.47% and the Authority had approximately \$5.1 million of advances outstanding.

- 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 1978A multi-family bonds are general obligations of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolution.
- 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 guaranties. Monies in this account, after providing for adequate reserves and operating expenses, are transferred to the Housing Assistance Programs Account.

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 bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indenture for the Clean Water Program.
- 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

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of the program. The bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indenture for the Drinking Water Program.

(d) 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.

(e) 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.

(f) Loans to Municipalities or Water Systems

Loans to municipalities or water systems are recorded at their unpaid principal balance. The loans have terms of 20 years and are intended to be held to maturity. 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.

(g) Other Loans

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

(h) Provision for Housing Agency Loan Losses

An evaluation of the Single Family Bond Program Accounts' whole-loan portfolio, any real estate owned, and any real estate in foreclosure 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, 2005 and 2004. 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.

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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 \$2.2 million and \$2.0 million was netted against other loans at June 30, 2005 and 2004, 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.

(i) Capital Assets

Furniture and equipment that exceed \$2,500 are capitalized 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 that exceed \$2,500 are capitalized 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.

(j) Bond Premiums and Discounts, Gains and Losses on Defeasance of Bonds, and Issuance Costs

Bond premiums and discounts are deferred and amortized as an adjustment to interest expense over the life of the related bond issues using the bonds outstanding method. Gains and losses on defeasance of refunded bonds are deferred and amortized as an adjustment to interest expense over the shorter of the life of the defeased bonds or the new bonds. Costs resulting from the issuance of bonds are deferred and amortized over the repayment period of the bonds using the straight-line method, which is not materially different from the interest method.

(k) Reserves for Title Guaranty Division Losses

The reserve for title guaranty 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 2004. 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.

(l) 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 are recorded as

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liabilities as of June 30, 2005 in the Housing Agency in the amount of \$0.9 million and in the State Revolving Fund in the amount of \$2.3 million.

(m) *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 netted with associated costs and amortized over the life of the loan using the straight-line method, which approximates the interest method.

Commitment fees 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.

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.

(n) *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 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."

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(o) ***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.

(p) ***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.

(q) ***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.

(r) ***Title Guaranty Fees***

The Division recognized title guaranty premiums of \$4.7 million in 2005 and \$6.7 million in 2004 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, 2005 and 2004 was approximately \$45.2 billion and \$40.5 billion, respectively, of which approximately \$2.5 billion and \$2.3 billion, respectively, have been ceded to the reinsurer.

(s) ***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.

(t) ***Reclassification***

Certain 2004 balances have been reclassified for comparative purposes to conform to the 2005 presentation.

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(2) Deposits and Investments

At June 30, 2005, the Authority's investments include \$331.5 million in GNMA mortgaged-backed securities, \$186.9 million in FNMA mortgage-backed securities, \$103.8 million in federal government agency notes, \$7.2 million in treasury bonds, \$11.1 million in treasury strips, and \$.7 million in certificates of deposit at Iowa banks. The following table displays the types of investments, amounts, and the average duration of the investment:

Type	Housing Agency	State Revolving Fund	Total	% of total	Average duration
Money market accounts	\$ 10,952	91,387	102,339	10%	n/a
Guaranteed investment contracts	127,759	132,491	260,250	26	23.5 years
GNMA mortgage-backed securities	331,526	—	331,526	33	23.9 years
FNMA mortgage-backed securities	186,912	—	186,912	19	26.9 years
Agency notes	49,069	54,771	103,840	10	1.6 years
Treasury bonds	7,185	—	7,185	1	9.7 years
Treasury strips	11,134	—	11,134	1	7.2 years
Certificates of deposit	—	720	720	—	7.8 years
Total	\$ <u>724,537</u>	<u>279,369</u>	<u>1,003,906</u>	<u>100%</u>	

At June 30, 2004, the Authority's investment include \$269.4 million in GNMA mortgage-backed securities, \$134.0 million in FNMA mortgage-backed securities, \$31.1 million in federal government agency notes, \$10.3 million in treasury bonds, and \$10.6 million in treasury strips. The following table displays the types of investments, amounts, and the average duration of the investment.

Type	Housing Agency	State Revolving Fund	Total	% of total	Average duration
Money market accounts	\$ 30,211	119,999	150,210	16%	n/a
Guaranteed investment contracts	158,342	149,145	307,487	32	24.1 years
GNMA mortgage-backed securities	269,410	—	269,410	28	23.2 years
FNMA mortgage-backed securities	133,950	—	133,950	15	26.1 years
Agency notes	31,142	39,983	71,125	7	2.4 years
Treasury bonds	10,326	—	10,326	1	7.7 years
Treasury strips	10,561	—	10,561	1	8.2 years
Total	\$ <u>643,942</u>	<u>309,127</u>	<u>953,069</u>	<u>100%</u>	

Investment Policy

Investment portfolio management is the responsibility of the Authority's management and staff. The Authority's board of directors has established a general investment policy and specific bond indentures direct investment policy for assets restricted under those bond indentures.

- Qualified investments under the general investment policy include investments in U.S. Treasury, agency and instrumentality obligations; interest bearing time and demand deposits and certifications of deposits with any financial institution provided that such funds are fully insured by an agency of

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the federal government or to the extent such deposits exceed federal deposit insurance are fully collateralized by U.S. Treasury, agency or instrumentality obligations; repurchase agreements fully collateralized and secured by U.S. Treasury, agency and instrumentality obligations, or government-backed mortgage loan pools; obligations of any state or political subdivision of the state which at time of purchase are rated in either of the two highest rating categories of at least two nationally recognized rating agencies; public housing bond or notes fully secured by a contract with the United States; and program-type investments that further the purposes and goals of the Authority, provided that such investments are only permitted to the extent that the aggregate amount invested therein does not exceed five percent (5.00%) of the General Fund's total asset balance at the time such investment is made.

- Qualified investments allowed under Single Family Indentures include United States Treasury and federal agency obligations, the highest rated general obligations of any state within the United States, GNMA and FNMA mortgage-backed securities, FHLMC participation certificates, FHA debentures, investment agreements with financial institutions (maturities less than 1 year) rated at least A-1+ and P1, investments agreements with financial institutions (maturities 1-3 years) rated at least AA-/A-1+ and Aa2/P1, investment agreements with financial institutions (maturities greater than 3 years) rated AAA and Aaa, and taxable government money market portfolios rated AAAM-G. Allowable investments under Single Family Indentures also include federal funds, certificates of deposit, time deposits, and banker's acceptances of banks whose obligations are appropriately rated by Standard and Poor's Corporation and Moody's Investor Service.
- Qualified investments allowed under Multifamily Indentures include general obligations of the United States Treasury and federal agencies, obligations of any state within the United States, federally collateralized repurchase agreements, time deposits fully insured by the FDIC, commercial paper, money market mutual funds, and other investments with financial institutions that does not cause rating of the Multifamily bonds to be lowered.
- Qualified investments allowed under State Revolving Fund Indentures include direct general obligations of the United States Treasury and agencies, general obligations of any state within the United States or political subdivision of Iowa rated AA or higher, repurchase agreements, certificates of deposit fully insured by the FDIC, money market funds, guaranteed investment contracts issued by rated corporations and financial institutions, obligations of insurance companies rated in the highest category, and other permitted investments that does not cause the rating of the State Revolving Fund bonds to be lowered.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the Authority's deposits may not be returned.

At June 30, 2005 and 2004, the Authority's cash balances of \$1.1 million and \$2.2 million, respectively, were covered by federal depository insurance, or collateralized trust accounts. Cash balances of \$9.9 million and \$5.8 million for June 30, 2005 and 2004, respectively, were held by the State in pooled money funds covered by the State Sinking Account in accordance with Chapter 12C of the *Code of Iowa*. Investments within the State's pooled money fund consist primarily of commercial paper, U.S. Treasury and government obligations, bank certificates of deposit, and money market funds.

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Authority. The Authority's investments are unregistered and unrated.

Cash equivalents at June 30, 2005 total \$362.6 million and include \$102.3 million invested in money market funds in collateralized trust accounts and \$260.3 million in investment agreements associated with bond indentures.

Cash equivalents at June 30, 2004 total \$457.7 million and include \$141.3 million invested in money market funds in collateralized trust accounts, \$307.5 million in investment agreements associated with bond indentures, and \$8.9 million held by the State in pooled money funds covered by the State Sinking Account in accordance with Chapter 12C of the *Code of Iowa*.

Concentration Risk

Concentration of risk is the risk of loss that may be attributed to the magnitude of an investment in a single type of security. The tables below list the money market accounts and guaranteed investment contracts by provider for June 30, 2005 and 2004.

Provider	2005						
	Housing Agency		State Revolving Fund		Total	% of total	
	Money market	Investment contract	Money market	Investment contract			
AIG MFC	\$ —	11,407	—	—	11,407	3%	
Bayerische Landesbank	—	1,246	—	—	1,246	—	
CDC Funding Corp	—	—	—	34,251	34,251	9	
Federal Guaranty Inv Corp	—	1,427	—	—	1,427	1	
FSA Capital Management	—	128	—	—	128	—	
Hypo Real Estate Bank	—	32,603	—	—	32,603	9	
Prudential Insurance	—	602	—	—	602	—	
Royal Bank of Canada	—	5,302	—	—	5,302	2	
Security Life Insurance	—	5,670	—	—	5,670	2	
Societe Generale	—	35,794	—	98,241	134,035	37	
TransAmerica	—	12,090	—	—	12,090	3	
Trinity Funding	—	21,491	—	—	21,491	6	
Wells Fargo Trust	—	—	91,387	—	91,387	25	
		10,952	—	—	10,952	3	
Total	\$	10,952	127,760	91,387	132,492	362,591	100%

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Provider	2004					
	Housing Agency		State Revolving Fund		Total	% of total
	Money market	Investment contract	Money market	Investment contract		
AIG MFC	\$ —	21,369	—	—	21,369	5%
Bayerische Landesbank	—	2,202	—	—	2,202	—
CDC Funding Corp	—	580	—	43,533	44,113	10
Federal Guaranty Inv Corp	—	2,114	—	—	2,114	—
Fannie Mae	—	6,400	—	—	6,400	1
MBIA Investment Mgmt	—	31,865	—	—	31,865	7
Royal Bank of Canada	—	31,953	—	—	31,953	7
Societe Generale	—	32,796	—	105,612	138,408	30
State of Iowa	8,899	—	—	—	8,899	2
TransAmerica	—	4,259	—	—	4,259	1
Trinity Funding	—	24,804	—	—	24,804	6
Wells Fargo Trust	21,312	—	119,999	—	141,311	31
Total	\$ 30,211	158,342	119,999	149,145	457,697	100%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the portfolio. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to changing interest rates. It is the intent and practice of the Authority to hold investments to maturity which mitigates interest rate risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Authority has no positions in foreign currency or any foreign currency denominated investments.

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(3) Housing Agency Loans

Housing agency loans at June 30, 2005 and 2004 are comprised as follows (dollars in thousands):

		2005		
		Cost	Provision for losses	Net
Loans secured with first mortgages	\$	15,293	—	15,293
Loans secured with second mortgages, other collateral, or unsecured		9,201	(2,215)	6,986
Total	\$	24,494	(2,215)	22,279
		2004		
		Cost	Provision for losses	Net
Loans secured with first mortgages	\$	21,144	(547)	20,597
Loans secured with second mortgages, other collateral, or unsecured		9,649	(1,409)	8,240
Total	\$	30,793	(1,956)	28,837

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(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2005 and 2004 are as follows (dollars in thousands)

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
Housing Agency Bonds and Notes							
A - Term bond	\$ 17,005	08/01/79	08/01/08		5.875%	\$ 3,770	4,945
Total bonds outstanding	17,005					3,770	4,945
Less: Unamortized disc / prem / other						(1)	(2)
Single Family 1977 A	17,005					3,769	4,943
A - Cap appreciation bonds	6,210		09/01/16		11.637%	—	448
Total bonds outstanding	6,210					—	448
Single Family 1984 A	6,210					—	448
Line of credit	20,000		12/14/06		LIBOR (1)	5,112	5,558
Single Family Line of Credit	20,000					5,112	5,558
C - Serial bonds	2,235	01/01/05	07/01/07	5.700%	5.875%	105	500
C - Term bonds	3,465		07/01/14		6.350%	115	915
C - Term bonds	8,035		07/01/19		6.400%	235	2,115
C - Term bonds	9,905		01/01/24		6.450%	290	2,610
D - Serial bonds	3,995	01/01/99	01/01/05	5.300%	5.850%	—	135
E - Term bonds	12,960		07/01/28		6.650%	620	3,420
Total bonds outstanding	40,595					1,365	9,695
Less: Unamortized disc / prem / other						(10)	(77)
Single Family 1995 CDE	40,595					1,355	9,618
A - Term bonds	5,120		07/01/16		5.800%	1,720	2,330
A - Term bonds	6,090		07/01/25		5.500%	1,425	2,255
B - Serial bonds	4,590	01/01/01	07/01/09	4.550%	5.500%	815	1,340
C - Term bonds	4,000		01/01/28		6.100%	1,355	1,835
C - Term bonds	5,000		07/01/30		6.100%	1,685	2,275
Total bonds outstanding	24,800					7,000	10,035
Less: Unamortized disc / prem / other						(50)	(74)
Single Family 1997 ABCDE	24,800					6,950	9,961
F - Term bonds	8,025		01/01/16		5.550%	3,780	4,765
F - Term bonds	12,510		01/01/27		5.700%	5,860	7,410
G - Serial bonds	9,390	07/01/00	07/01/09	4.300%	5.300%	2,310	3,490
G - Term bonds	9,035		01/01/21		4.950%	—	1,180
H - Term bonds	2,440		01/01/28		5.850%	1,135	1,430
H - Term bonds	7,820		07/01/30		5.850%	3,630	4,585
Total bonds outstanding	49,220					16,715	22,860
Less: Unamortized disc / prem / other						(104)	(148)
Single Family 1997 FGH	49,220					16,611	22,712

1 - The interest rate as of June 30, 2005 was 3.470%.

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
A - Serial bonds	\$ 1,530	07/01/11	07/01/13	5.800%	6.000%	\$ 425	635
A - Term bonds	2,975		07/01/18		6.250%	825	1,240
B - Serial bonds	3,125	07/01/02	07/01/10	4.800%	5.850%	660	1,120
B - Term bonds	2,470		01/01/21		6.400%	685	1,030
C - Term bonds	6,080		07/01/26		5.700%	2,745	3,775
C - Term bonds	8,820		07/01/30		6.450%	2,450	3,680
Total bonds outstanding	25,000					7,790	11,480
Less: Unamortized disc / prem / other						(56)	(87)
Single Family 2000 ABC	25,000					7,734	11,393
D - Serial bonds	3,205	07/01/07	07/01/10	5.650%	5.800%	680	1,095
D - Term bonds	6,375		07/01/16		6.100%	1,340	2,190
E - Serial bonds	6,890	07/01/01	07/01/08	5.000%	5.900%	1,080	2,155
E - Term bonds	20,530		01/01/21		6.000%	10,310	13,470
E - Term bonds	2,085		07/01/22		6.350%	440	720
F - Term bonds	28,030		07/01/32		6.400%	5,910	9,625
Total bonds outstanding	67,115					19,760	29,255
Less: Unamortized disc / prem / other						(200)	(312)
Single Family 2000 DEF	67,115					19,560	28,943
G - Serial bonds	590	07/01/11	07/01/12	5.300%	5.400%	345	405
G - Term bonds	3,095		07/01/18		5.800%	1,825	2,110
G - Term bonds	18,315		01/01/33		5.900%	10,740	12,535
H - Term bonds (taxable)	10,000		07/01/29		7.190%	4,865	6,995
Total bonds outstanding	32,000					17,775	22,045
Less: Unamortized disc / prem / other						(133)	(172)
Single Family 2000 GH	32,000					17,642	21,873
A - Serial bonds	6,905	07/01/02	01/01/11	3.100%	4.600%	2,125	3,535
A - Term bonds	4,680		07/01/16		5.100%	1,725	2,555
B - Serial bonds	1,495	07/01/11	07/01/12	5.000%	5.100%	550	825
B - Term bonds	10,310		07/01/23		4.700%	7,475	8,790
C - Term bonds	15,445		07/01/33		5.500%	9,725	11,705
Total bonds outstanding	38,835					21,600	27,410
Less: Unamortized disc / prem / other						(283)	(362)
Single Family 2001 ABC	38,835					21,317	27,048
D - Serial bonds	3,950	07/01/04	07/01/13	3.250%	4.850%	2,610	3,400
D - Term bonds	3,700		07/01/21		5.250%	2,675	3,220
D - Term bonds	6,250		07/01/33		4.300%	4,570	5,585
D - Term bonds	11,100		01/01/34		5.375%	7,650	9,405
Total bonds outstanding	25,000					17,505	21,610
Less: Unamortized disc / prem / other						(140)	(181)
Single Family 2001 D	25,000					17,365	21,429

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
A - Serial bonds	\$ 6,500	07/01/04	07/01/14	2.900%	5.150%	\$ 3,675	5,130
A - Term bonds	1,665		01/01/22		5.300%	715	1,130
A - Term bonds	3,930		07/01/22		5.300%	1,640	2,555
A - Term bonds	5,190		07/01/27		5.300%	5,190	5,190
A - Term bonds	4,565		07/01/32		5.400%	1,860	2,985
A - Term bonds	8,750		01/01/33		4.450%	6,850	8,095
A - Term bonds	4,400		07/01/33		5.400%	1,815	2,875
Total bonds outstanding	35,000					21,745	27,960
Less: Unamortized disc / prem / other						(168)	(225)
Single Family 2002 A	35,000					21,577	27,735
B - Serial bonds	10,925	07/01/03	07/01/14	2.000%	4.850%	6,530	8,480
C - Term bonds	6,425		07/01/21		5.500%	3,740	4,750
C - Term bonds	5,240		01/01/22		5.500%	3,040	3,870
C - Term bonds	9,250		07/01/24		4.500%	7,045	8,010
D - Term bonds	7,050		01/01/28		5.500%	7,050	7,050
D - Term bonds	6,000		07/01/32		5.600%	3,475	4,425
D - Term bonds	6,340		07/01/33		5.600%	3,690	4,685
E - Term bonds (taxable)	10,000		01/01/33		5.710%	7,715	9,080
Total bonds outstanding	61,230					42,285	50,350
Less: Unamortized disc / prem / other						(564)	(696)
Single Family 2002 BCDE	61,230					41,721	49,654
F - Serial bonds	2,670	07/01/04	07/01/14	1.750%	4.000%	2,265	2,595
F - Term bonds	765		01/01/16		4.250%	695	740
G - Serial bonds	1,310	07/01/10	07/01/13	3.750%	4.100%	1,175	1,270
G - Term bonds	4,685		01/01/23		4.900%	4,195	4,545
G - Term bonds	635		07/01/24		4.900%	570	615
H - Term bonds	7,855		01/01/31		5.000%	7,040	7,605
H - Term bonds	10,000		07/01/33		3.500%	8,615	9,735
H - Term bonds	5,830		07/01/34		5.000%	5,205	5,630
I - Term bonds	11,250		07/01/32		Variable (2)	10,550	11,140
Total bonds outstanding	45,000					40,310	43,875
Less: Unamortized disc / prem / other						(281)	(320)
Single Family 2002 FGHI	45,000					40,029	43,555
A - Serial bonds	5,175	01/01/06	07/01/16	2.250%	4.750%	4,940	5,115
A - Term bonds	3,675		07/01/22		5.000%	3,445	3,615
A - Term bonds	1,200		01/01/23		5.000%	1,175	1,195
A - Term bonds	8,950		01/01/34		5.125%	8,465	8,840
A - Term bonds	7,000		07/01/35		4.400%	5,785	6,785
A - Term bonds	9,000		07/01/35		5.125%	8,570	8,895
B - Term bonds	10,000		07/01/34		LIBOR (3)	9,480	9,955
Total bonds outstanding	45,000					41,860	44,400
Less: Unamortized disc / prem / other						(260)	(322)
Single Family 2003 AB	45,000					41,600	44,078

2 - The interest rate as of June 30, 2005 was 2.300%.

3 - The interest rate as of June 30, 2005 was 3.450%.

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
C - Serial bonds	\$ 3,750	07/01/09	01/01/15	2.600%	3.750%	\$ 3,680	3,750
D - Serial bonds	2,830	01/01/05	01/01/10	1.600%	3.100%	2,555	2,830
D - Term bonds	10,270		01/01/25		4.250%	9,700	10,260
E - Serial bonds	820		07/01/33		4.600%	805	820
E - Term bonds	2,330		01/01/34		4.600%	2,295	2,330
F - Term bonds	20,000		01/01/33		Variable	(4) 19,685	20,000
G - Term bonds (taxable)	10,000		07/01/25		Variable	(5) 9,400	9,965
Total bonds outstanding	50,000					48,120	49,955
Less: Unamortized disc / prem / other						(44)	(88)
Single Family 2003 CDEFG	50,000					48,076	49,867
H - Serial bonds	3,670	01/01/09	07/01/15	3.000%	4.300%	3,670	3,670
I - Term bonds	5,450		07/01/22		4.900%	5,450	5,450
J - Serial bonds	4,620	07/01/05	01/01/14	1.650%	4.450%	4,620	4,620
J - Term bonds	9,500		07/01/29		5.000%	9,455	9,500
J - Term bonds	11,000		07/01/34		5.000%	10,845	11,000
J - Term bonds	10,760		01/01/35		5.100%	10,705	10,760
Total bonds outstanding	45,000					44,745	45,000
Less: Unamortized disc / prem / other						257	302
Single Family 2003 HIJ	45,000					45,002	45,302
K - Term bonds	5,300		07/01/15		1.200%	—	5,300
K - Term bonds	26,565		01/01/35		1.230%	—	26,565
Total bonds outstanding	31,865					—	31,865
Less: Unamortized disc / prem / other						—	(32)
Single Family 2003 KL	31,865					—	31,833
A - Serial bonds	6,120	07/01/05	07/01/14	1.750%	4.450%	6,120	6,120
A - Term bonds	3,855		07/01/24		4.900%	3,855	3,855
A - Term bonds	12,270		01/01/34		5.000%	12,270	12,270
A - Term bonds	2,585		07/01/34		5.100%	2,585	2,585
A - Term bonds	5,170		01/01/35		5.100%	5,170	5,170
B - Term bonds	15,000		07/01/34		Variable	(6) 15,000	15,000
Total bonds outstanding	45,000					45,000	45,000
Less: Unamortized disc / prem / other						288	334
Single Family 2004 AB	45,000					45,288	45,334
C - Serial bonds	3,395	01/01/06	01/01/07	2.500%	4.700%	3,395	—
C - Term bonds	1,155		07/01/09		3.660%	1,155	—
C - Term bonds	1,400		07/01/12		4.280%	1,400	—
C - Term bonds	610		07/01/14		4.700%	610	—
C - Term bonds	7,400		07/01/25		5.125%	7,400	—
C - Term bonds	2,680		01/01/30		5.200%	2,680	—
C - Term bonds	2,680		07/01/30		5.200%	2,680	—
C - Term bonds	5,650		01/01/34		5.250%	5,650	—
C - Term bonds	9,030		07/01/35		5.250%	9,030	—
D - Term bonds	17,000		07/01/34		Variable	(7) 17,000	—
Total bonds outstanding	51,000					51,000	—
Less: Unamortized disc / prem / other						(60)	—
Single Family 2004 CD	51,000					50,940	—

4 - The interest rate as of June 30, 2005 was 2.300%.
5 - The interest rate as of June 30, 2005 was 3.400%.

6 - The interest rate as of June 30, 2005 was 2.280%.
7 - The interest rate as of June 30, 2005 was 2.280%.

IOWA FINANCE AUTHORITY
Notes to Financial Statements
June 30, 2005 and 2004

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
E - Serial bonds	\$ 10,825	01/01/06	01/01/16	1.950%	3.950%	\$ 10,825	—
F - Term bonds	2,375		07/01/24		4.550%	2,375	—
F - Term bonds	10,400		01/01/35		5.000%	10,400	—
F - Term bonds	6,400		07/01/35		4.800%	6,400	—
G - Term bonds	20,000		07/01/34		Variable (8)	20,000	—
Total bonds outstanding	50,000					50,000	—
Less: Unamortized disc / prem / other						354	—
Single Family 2004 EFG	50,000					50,354	—
A - Serial bonds	5,885	07/01/07	07/01/16	2.900%	4.300%	5,885	—
B - Serial bonds	2,925	01/01/07	01/01/15	3.200%	4.500%	2,925	—
B - Term bonds	15,350		07/01/25		4.600%	15,350	—
B - Term bonds	17,300		07/01/30		5.000%	17,300	—
C - Term bonds	24,000		07/01/36		Variable (9)	24,000	—
Total bonds outstanding	65,460					65,460	—
Less: Unamortized disc / prem / other						194	—
Single Family 2005 AB	65,460					65,654	—
A - Term bonds	22,050		04/01/21		6.000%	16,490	17,125
Total bonds outstanding	22,050					16,490	17,125
Less: Unamortized disc / prem / other						(202)	(224)
Multi Family 1978 A	22,050					16,288	16,901
A - Serial bonds	2,080	09/01/96	09/01/05	3.950%	5.200%	—	160
A - Term bonds	2,740		09/01/15		6.200%	—	1,590
A - Term bonds	4,170		03/01/24		6.300%	—	2,420
Total bonds outstanding	8,990					—	4,170
Less: Unamortized disc / prem / other						—	(34)
Multi Family 1995 A	8,990					—	4,136
Bonds outstanding						585,407	525,041
Disc/Prem						(1,463)	(2,720)
Total Housing Agency	\$ 901,375					\$ 583,944	522,321
State Revolving Fund							
A - Serial bonds	\$ 37,340	08/01/02	08/01/11	4.000%	5.250%	\$ 22,200	26,425
B - Serial bonds	138,810		04/01/21	4.000%	5.250%	113,975	122,240
Total bonds outstanding	176,150					136,175	148,665
Less: Unamortized disc / prem / other						(326)	(401)
CW 2001	176,150					135,849	148,264

8 - The interest rate as of June 30, 2005 was 2.280%.

9 - The interest rate as of June 30, 2005 was 2.950%.

IOWA FINANCE AUTHORITY
Notes to Financial Statements
June 30, 2005 and 2004

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	6/30/2005	6/30/2004
A - Serial bonds	\$ 12,900	08/01/02	08/01/11	4.000%	5.250%	\$ 10,145	11,260
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%	18,560	19,905
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
Total bonds outstanding	57,075					51,535	53,995
Less: Unamortized disc / prem / other						636	715
DW 2001	57,075					52,171	54,710
Total bonds outstanding	3,350	08/01/03	08/01/22	2.000%	4.700%	2,955	3,220
Less: Unamortized disc / prem / other						(16)	(21)
CW 2003	3,350					2,939	3,199
A - Serial bonds	3,240	08/01/04	08/01/17	2.000%	4.300%	2,995	3,240
B - Serial bonds	49,510	08/01/04	08/01/24	2.000%	5.000%	49,070	49,510
Total bonds outstanding	52,750					52,065	52,750
Less: Unamortized disc / prem / other						(14)	(46)
DW 2003	52,750					52,051	52,704
Bonds butstanding						242,730	258,630
Disc / prem						280	247
Total State Revolving Fund	\$ 289,325					\$ 243,010	258,877
Bonds outstanding						828,137	783,671
Less: Unamortized disc / prem						(1,183)	(2,473)
Total Authority	\$ 1,190,700					\$ 826,954	781,198

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2005 and 2004

(4) Bonds and Notes Payable

The following table summarizes the net bonds and notes payable activity for the Authority for the years ended June 30, 2005 and 2004 (dollars in thousands):

	<u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Due within one year</u>
Housing Agency	\$ 522,321	166,500	104,877	583,944	13,904
State Revolving Fund	258,877	—	15,867	243,010	17,560
Total	<u>\$ 781,198</u>	<u>166,500</u>	<u>120,744</u>	<u>826,954</u>	<u>31,464</u>
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Due within one year</u>
Housing Agency	\$ 512,660	121,865	112,204	522,321	43,684
State Revolving Fund	272,566	—	13,689	258,877	15,868
Total	<u>\$ 785,226</u>	<u>121,865</u>	<u>125,893</u>	<u>781,198</u>	<u>59,552</u>

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

Year ending June 30	Housing Agency			State Revolving Fund			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 13,687	25,205	38,892	17,560	11,605	29,165	31,247	36,810	68,057
2007	10,285	25,455	35,740	18,730	10,796	29,526	29,015	36,251	65,266
2008	10,985	25,049	36,034	19,395	9,877	29,272	30,380	34,926	65,306
2009	11,475	24,577	36,052	20,060	8,900	28,960	31,535	33,476	65,011
2010	11,185	24,115	35,300	20,530	7,921	28,451	31,715	32,035	63,750
2011–2015	66,495	112,494	178,989	94,425	24,170	118,595	160,920	136,664	297,584
2016–2020	83,690	95,297	178,987	30,330	9,171	39,501	114,020	104,468	218,488
2021–2025	104,225	73,672	177,897	21,700	2,072	23,772	125,925	75,744	201,669
2026–2030	130,315	46,766	177,081	—	—	—	130,315	46,766	177,081
2031–2035	134,090	16,097	150,187	—	—	—	134,090	16,097	150,187
2036–2040	8,975	159	9,134	—	—	—	8,975	159	9,134
Total	<u>\$ 585,407</u>	<u>468,884</u>	<u>1,054,291</u>	<u>242,730</u>	<u>84,512</u>	<u>327,242</u>	<u>828,137</u>	<u>553,396</u>	<u>1,381,533</u>

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

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2005 and 2004

the time of maturity or sinking fund installment. Bond maturities and interest rates are based on those in effect as of June 30, 2005.

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 Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multi-Family Bond Indenture 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, and the bond indentures for the State Revolving Fund accounts do not contain these covenants.

Defeased Debt

The Authority has defeased certain bonds by depositing funds or securities into an irrevocable trust account with an escrow agent to provide for future interest and principal payments. Accordingly, the trust account assets and the liabilities for these defeased bonds are not included in the Authority's basic financial statements.

On May 19, 2005, the Authority issued Single Family Mortgage Bonds, 2005 Series A, B, and C, in the par amount of \$65,460,000, with interest rates of 2.9% to 5.00%, in part to refund and defease \$5,460,000 of Single Family Mortgage Bonds, 1995 Series C, D, and E, with interest rates of 5.7% to 6.65%. Proceeds of \$5,460,000 were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2005 redemption of all remaining 1995 CDE bonds. The Authority decreased its future debt service payments by \$3.5 million and received a present value savings of \$1.2 million.

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2005 and 2004

The amount of defeased debt outstanding at June 30, 2005 and 2004 is shown below (dollars in thousands):

	Balance	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Housing Agency Defeased Bonds:		
SF 1995 CDE	\$ 5,460	—
State Revolving Fund Defeased Bonds:		
Combined Series 1995	—	14,255
Combined Series 1996	23,395	24,975
Combined Series 1997	7,675	8,140
Combined Series 1998	17,400	18,365
Combined Series 1999	4,885	5,180
Series 2000A	<u>26,975</u>	<u>28,445</u>
Total State Revolving Fund Defeased Bonds	<u>80,330</u>	<u>99,360</u>
Total Authority	<u><u>\$ 85,790</u></u>	<u><u>99,360</u></u>

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2005 and 2004

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

The Authority uses derivative instruments to manage and reduce exposure to adverse fluctuations in interest rates and to lower the overall cost of financing.

(a) Interest Rate Swap Agreements

Interest rate swap agreements involve the exchange of floating rate for fixed-rate payments between two parties (without the exchange of the underlying principal amount) based on a common notional amount and maturity date. The table below contains information on the terms and net fair value (as of June 30, 2005 and 2004) of the Authority's swap transactions (dollars in thousands):

Swap table						
Associated bond series	Effective date	Notional amount	Fixed rate	Fair value		Termination date
				06/30/05	06/30/04	
2002 I	10/30/2002	\$ 11,250	3.653%	\$ (177)	(73)	01/03/2033
2003 F	06/25/2003	20,000	3.615%	—	(585)	07/01/2005
2003 F	07/01/2005	20,000	3.615%	(295)	—	01/03/2033
2004 B	12/02/2004	15,000	4.086%	(1,092)	5	07/01/2034
2004 D	02/03/2005	17,000	4.007%	(808)	—	07/01/2020
2004 G	06/01/2005	20,000	3.867%	(740)	—	07/01/2034
2005 C*	11/01/2005	24,000	4.007%	(1,898)	—	01/01/2036
2005 E*	02/01/2006	24,000	3.817%	(533)	—	01/01/2036

* These swap agreements were entered into before June 30, 2005 but do not have an effective date until fiscal year 2006.

(b) Corridor Agreements

Corridor agreements involve the purchase and sale of interest rate caps between two parties (without the exchange of the underlying principal amount) based on a common notional amount and maturity date. The table below contains information on the terms and net fair value (as of June 30, 2005 and 2004) of the Authority's corridor transactions (dollars in thousands):

Corridor table							
Associated bond series	Effective date	Notional amounts	Cap/strike rate		Fair value		Termination date
			Purchased	Sold	06/30/05	06/30/04	
2003 B	03/19/03	\$ 10,000	6.00%	11.00%	\$ 37	131	07/02/12
2003 G	06/25/03	10,000	5.00%	10.00%	105	285	07/01/13

The fair value for the swap transactions set forth above includes the value of options purchased by the Authority from the swap counterparties.

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Notes to Financial Statements

June 30, 2005 and 2004

(c) ***Risks Associated with Swap Transactions***

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. UBS AG and Goldman Sachs Capital Markets, L.P. are currently counterparties under swap agreements with the Authority. The Authority entered into the 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 agreement with UBS AG.

After adding Goldman, Sachs & Co. as one of the Authority’s lead bankers, the Authority entered into the agreement with Goldman Sachs Capital Markets, L.P. The 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 Sachs Capital Markets, L.P. 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.

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 variable rate bonds. The mismatch between the Authority’s actual bond rate and the swap rate is the Authority’s basis risk.

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Notes to Financial Statements

June 30, 2005 and 2004

(d) 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, 2005, and assuming the rates on the Authority's VRDOs remained at the June 30, 2005 levels through maturity, the debt service requirements (for the 2002 Series I Bonds, the 2003 Series F Bonds, the Series 2004 B Bonds, the Series 2004 D Bonds, and the Series 2004 G Bonds) and net swap payments are as follows (dollars in thousands):

<u>Fiscal year ending June 30</u>	<u>Variable-rate bond principal</u>	<u>Variable-rate bond interest</u>	<u>Net swap payments</u>	<u>Total</u>
2006	\$ 505	2,065	1,127	3,697
2007	180	2,061	1,107	3,348
2008	190	2,062	1,074	3,326
2009	190	2,051	1,050	3,291
2010	200	2,046	1,022	3,268
2011–2015	1,600	10,145	4,721	16,466
2016–2020	9,870	9,415	3,763	23,048
2021–2025	13,615	7,887	2,895	24,397
2026–2030	28,790	5,174	1,905	35,869
2031–2035	27,095	1,213	462	28,770
Total	\$ <u>82,235</u>	<u>44,119</u>	<u>19,126</u>	<u>145,480</u>

(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, 2004 (latest information available) was \$2.18 billion.

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, 2005 and 2004 were \$271,159 and \$255,507, respectively, equal to the required contribution for each year.

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2005 and 2004

(7) Commitments and Contingencies

(a) Operating Lease Commitment

The Authority was obligated under a noncancelable operating lease for office space during the fiscal year ending June 30, 2005. The lease expires in September 2006 and requires annual payments of \$185,997 plus taxes and maintenance. Total rental expense was \$422,510 and \$380,275 for the years ended June 30, 2005 and 2004, respectively.

(b) Housing Agency Commitments

The Authority has assumed certain guaranties of the former Iowa Housing Corporation in conjunction with the assets received from the IHC on July 1, 2003. The maximum amount of these guaranties was \$2,283,690 as of June 30, 2005, for which a \$463,823 reserve for claims liability exists.

The Authority has committed to purchase \$39.0 million in mortgage-backed securities under its FirstHome program as of June 30, 2005.

The Authority has approved loan agreements under various housing assistance programs for which \$3,404,147 has not been disbursed as of June 30, 2005.

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, 2005 is as follows (dollars in thousands):

Description	Amount
Transitional housing grants	\$ 416
Project-based housing grants	837
Local Housing Trust Fund grants	608
Capacity building grants	111
CHODO capacity building and intern grants	61
Technical assistance for transitional housing grants	30
Total outstanding commitments	\$ 2,063

(c) State Revolving Fund Commitments

The Authority has signed loan agreements under the Iowa State Revolving Fund Clean Water Program and Drinking Water Program for which \$40,370,379 and \$38,382,504, respectively, have not been disbursed as of June 30, 2005.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2005 and 2004

(8) Subsequent Events

The Authority issued Single Family Mortgage Revenue Bonds, Series 2005 D and E, in the amount of \$60 million on July 28, 2005.

On September 7, 2005, the Authority's board of directors authorized (i) the issuance of Single Family Mortgage Revenue Bonds, Series F, G, and H, in an amount up to \$70 million and (ii) \$22.5 million of Iowa State Revolving Fund Revenue Bonds, Series 2005. The Authority issued the Iowa State Revolving Fund Revenue Bonds, Series 2005, in a principal amount of \$17,775,000 on September 28, 2005.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2005
(Dollars in thousands)

Grantor/program title	Federal CFDA number	Federal expenditures
United States Department of Housing and Urban Development direct programs:		
Housing Opportunities for Persons with AIDS (H.O.P.W.A.) program	14.241	\$ 511
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	37,538
Total United States Department of Housing and Urban Development		<u>38,049</u>
United States Department of Agriculture direct programs:		
Rural Community Development Initiative (R.C.D.I.) Grant	10.446	60
Total United States Department of Agriculture		<u>60</u>
United States Department of Education direct programs:		
Alternative Financing Mechanisms Program (AFP)	84.224C	64
Access to Telework Fund Program	84.235T	417
Total United States Department of Education		<u>481</u>
Total federal awards expenditures		<u>\$ 38,590</u>

See accompanying note to Schedule of Expenditures of Federal Awards.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Note to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(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, 2005, 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.



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**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, 2005, and have issued our report thereon dated September 16, 2005, which refers to the adoption of a new accounting standard. 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 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 the 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 of directors, 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 16, 2005



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 its major federal program for the year ended June 30, 2005. 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, 2005.

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 16, 2005

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

(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: *No*
- (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: *\$1,157,700*
- (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.