



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

Basic Financial Statements and
Schedule of Expenditures of Federal Awards

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)

IOWA FINANCE AUTHORITY

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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, 2006 and 2005, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each major fund and the total business-type activities of the Iowa Finance Authority as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2006 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 4 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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

Des Moines, Iowa
September 15, 2006

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2006 and 2005

Management's discussion and analysis provides an overview of the financial activities of the Iowa Finance Authority (the Authority) for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Authority's financial statements and accompanying notes.

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.

Authority Credit and General Obligation Rating

The unsecured general obligation of the Authority is rated AA- by Standard and Poor's Rating Services as of June 30, 2006. This rating takes into account the amount of unrestricted net assets maintained by the Authority, as well as certain contingent obligations to which the general obligation of the Authority is pledged. While there is no assurance that this rating will remain in effect for any period of time, management is committed to maintaining an investment grade general obligation rating for the Authority.

Overview of the Financial Statements

This annual financial report consists of *Management's Discussion and Analysis* (this section) and the *Basic Financial Statements*, including notes to the financial statements. The *Basic Financial Statements* include Authority-wide financial statements and statements for the following two major funds:

- Housing Agency Fund
- State Revolving Fund

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 Government 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 may include assets that have been committed by the Authority for specific uses.

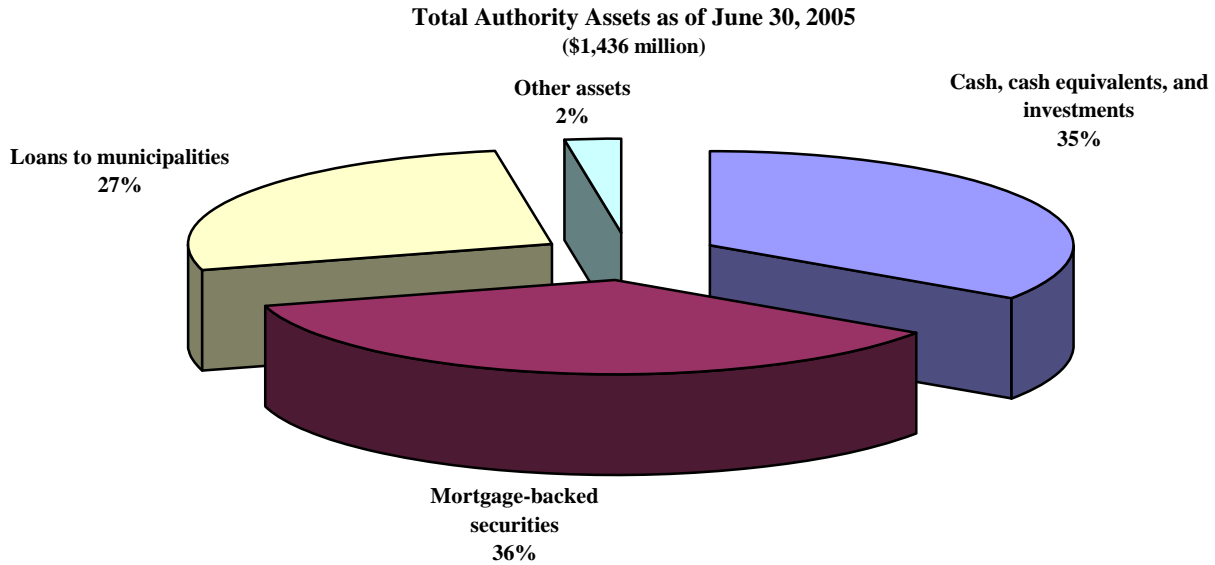
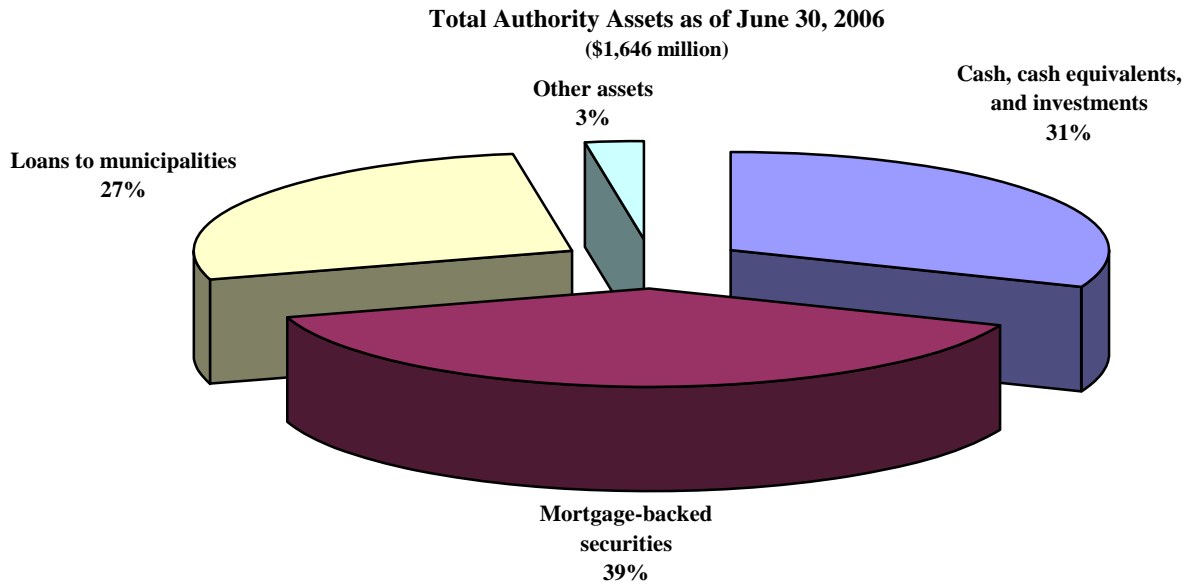
The statements of revenues, expenses, and changes in net assets present operating revenues less operating expenses and the resultant operating income or (loss), nonoperating income or (loss), and the resultant change in net assets.

The statements of cash flows report the net increase (or decrease) in cash and cash equivalents. These statements include cash flows from operating activities, cash flows from noncapital financing activities, and cash flows from investing activities.

IOWA FINANCE AUTHORITY
 (A Component Unit of the State of Iowa)
 Management's Discussion and Analysis
 June 30, 2006 and 2005

Condensed Financial Information

The following tables and charts present condensed financial information for FY06 and FY05. Table 1 provides information for the Authority as a whole. Table 2 presents condensed information for the Authority's Housing Agency Programs. Table 3 provides condensed information on the State Revolving Fund, consisting of the Clean Water Program and the Drinking Water Program.



IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2006 and 2005

Table 1—Total Condensed Information of the Authority

Net Assets			
(Dollars in millions)			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Cash, cash equivalents, and investments	\$ 513.7	496.5	557.7
Mortgage-backed securities	644.1	518.4	403.4
Loans to municipalities or water systems	447.8	387.0	350.1
Other assets	<u>40.5</u>	<u>34.4</u>	<u>40.2</u>
Total assets	<u>1,646.1</u>	<u>1,436.3</u>	<u>1,351.4</u>
Liabilities:			
Bonds payable, net	1,009.1	827.0	781.2
Other liabilities	<u>40.7</u>	<u>37.2</u>	<u>38.7</u>
Total liabilities	<u>1,049.8</u>	<u>864.2</u>	<u>819.9</u>
Net assets:			
Invested in capital assets	2.2	0.7	0.8
Restricted net assets	578.6	542.4	486.6
Unrestricted net assets	<u>15.5</u>	<u>29.0</u>	<u>44.1</u>
Total net assets	<u>\$ 596.3</u>	<u>572.1</u>	<u>531.5</u>

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:			
Interest income	\$ 67.2	56.7	50.5
Net increase (decrease) in fair value	(37.5)	5.9	(17.5)
Fee and other income and provision for loan losses	13.2	12.5	14.4
Grant income	<u>49.8</u>	<u>26.5</u>	<u>57.6</u>
Total operating revenues	<u>92.7</u>	<u>101.6</u>	<u>105.0</u>
Operating expenses:			
Interest on bonds	43.6	38.0	37.6
General and administrative	13.3	11.3	10.5
Grants and aid	10.9	10.5	8.8
Provision for losses	<u>0.7</u>	<u>1.2</u>	<u>—</u>
Total operating expenses	<u>68.5</u>	<u>61.0</u>	<u>56.9</u>
Operating income	24.2	40.6	48.1
Nonoperating revenues			
	<u>—</u>	<u>—</u>	<u>0.1</u>
Change in net assets	<u>24.2</u>	<u>40.6</u>	<u>48.2</u>
Net assets at beginning of year	<u>572.1</u>	<u>531.5</u>	<u>483.3</u>
Net assets at end of year	<u>\$ 596.3</u>	<u>572.1</u>	<u>531.5</u>

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2006 and 2005

Financial Analysis—Combined 2006

- The Authority's assets increased 15%, or \$209.8 million, to \$1,646.1 million in FY06 compared to \$1,436.3 million in FY05. Mortgage-backed securities (MBS) grew 24% or \$125.7 million as increased demand continued for the Authority's FirstHome programs. Loans to municipalities or water systems (SRF loans) grew 16%, or \$60.8 million, as part of the SRF loan origination process.
- On June 9, 2006, the Authority purchased land and buildings at 2015 Grand Avenue in Des Moines, Iowa for \$1.7 million to serve as the Authority's operating location after its current lease expires on September 30, 2006. A line of credit was established for \$2.6 million for purchase and renovation of the facility.
- Bonds payable increased 22%, or \$182.1 million, to \$1,009.1 million in FY06 compared to \$827.0 million in FY05. The Authority made bond payments of \$77.4 million.

Four single-family bond issues provided \$240.0 million of financing to purchase MBS under the FirstHome Program. In addition, the Authority arranged a \$2.6 million line of credit, of which \$1.7 million was drawn, to purchase a facility to house the Authority's operations beginning October 1, 2006. During FY06, the Authority made bond payments under the Housing Agency of \$60.1 million.

Series	Date	Amount	Rating
2005 DE	07/28/05	\$ 60.0	AAA by Standard & Poor's; Aaa by Moody's
2005 FGH	11/10/05	60.0	AAA by Standard & Poor's; Aaa by Moody's
2006 ABC	03/02/06	60.0	AAA by Standard & Poor's; Aaa by Moody's
2006 DEF	05/04/06	60.0	AAA by Standard & Poor's; Aaa by Moody's
LOC	06/08/06	1.7	Not Rated
Total		\$ 241.7	

See the notes to the financial statements for further information.

One SRF bond issue provided \$17.8 million of financing, which is used as the state match portion of SRF loans. During FY06, the Authority made SRF bond payments of \$17.3 million.

Series	Date	Amount	Rating
SRF 2005	09/28/05	\$ 17.8	AAA by Standard & Poor's; Aaa by Moody's AAA by Fitch

See the notes to the financial statements for further information.

- Interest income grew 19%, or \$10.5 million, due to the asset growth in the MBS and SRF loan portfolios and rising interest rates throughout the year.
- Rising interest rates also resulted in a \$37.5 million loss in the fair value of the investment and MBS portfolio as of June 30, 2006. The Authority generally holds investments and MBS to maturity and no actual loss is realized on investments held to maturity.
- Grant income grew 88%, or \$23.3 million, due mainly to reinstatement of federal capitalization grant draws from the Environmental Protection Agency.
- Grant expense grew 4%, or \$0.4 million, to \$10.9 million as the Authority continues to increase on-mission housing grants.
- The Title Guaranty Division of the Housing Agency generated revenues of \$4.0 million in FY06 compared to \$4.7 million in FY05. A smaller refinancing market and a loss of market share are the primary causes of this reduction.

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis
June 30, 2006 and 2005

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 grew a record 28.5%, or \$115.0 million, as demand grew for the Authority's FirstHome program. Loans to municipalities or water systems grew 10.5%, or \$36.9 million, as part of the normal SRF loan origination process.
- 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.
- Bonds payable increased 5.9%, or \$45.8 million, to \$827.0 million in FY05 from \$781.2 million in FY04. The Authority made bond payments of \$120.7 million.

Three single-family bond issues provided \$166.5 million of financing to purchase MBS under the FirstHome Program. During FY05, the Authority made bond payments through the Housing Agency of \$104.9 million.

Series	Date	Amount	Rating
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	65.5	AAA by Standard & Poor's; Aaa by Moody's
Total		\$ 166.5	

See the notes to the financial statements for further information.

- Interest income grew 12.3% (\$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.
- 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.

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, 2006

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Assets			
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 186,676	209,773	396,449
Investments:			
Other investments	25,982	55,023	81,005
Mortgage-backed securities	11,287	—	11,287
Total current investments	<u>37,269</u>	<u>55,023</u>	<u>92,292</u>
Loans to municipalities or water systems	—	25,071	25,071
Housing Agency loans, net	2,924	—	2,924
Accrued interest receivable	4,655	4,056	8,711
Other assets	1,418	82	1,500
Total current assets	<u>232,942</u>	<u>294,005</u>	<u>526,947</u>
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	28,494	7,675	36,169
Mortgage-backed securities	632,794	—	632,794
Total noncurrent investments	<u>661,288</u>	<u>7,675</u>	<u>668,963</u>
Loans to municipalities or water systems	—	422,761	422,761
Housing Agency loans, net	20,497	—	20,497
Capital assets, net of accumulated depreciation	2,247	—	2,247
Other assets	4,221	478	4,699
Total noncurrent assets	<u>688,253</u>	<u>430,914</u>	<u>1,119,167</u>
Total assets	<u>921,195</u>	<u>724,919</u>	<u>1,646,114</u>
Liabilities			
Current liabilities:			
Bonds payable, net	16,956	20,950	37,906
Accrued interest payable	14,639	4,929	19,568
Accounts payable and other	5,475	467	5,942
Rebates owed	108	2,007	2,115
Deferred income	286	323	609
Total current liabilities	<u>37,464</u>	<u>28,676</u>	<u>66,140</u>
Noncurrent liabilities:			
Bonds payable, net	748,622	222,529	971,151
Reserves for claims	5,297	—	5,297
Rebates owed	134	120	254
Deferred income	2,460	4,458	6,918
Total noncurrent liabilities	<u>756,513</u>	<u>227,107</u>	<u>983,620</u>
Total liabilities	<u>793,977</u>	<u>255,783</u>	<u>1,049,760</u>
Net Assets			
Invested in capital assets	2,247	—	2,247
Restricted net assets:			
Per bond resolutions	86,759	175,995	262,754
Per legislation	22,699	—	22,699
Per other agreements	—	293,141	293,141
Total restricted net assets	<u>109,458</u>	<u>469,136</u>	<u>578,594</u>
Unrestricted net assets	15,513	—	15,513
Total net assets	<u>\$ 127,218</u>	<u>469,136</u>	<u>596,354</u>

See accompanying notes to financial statements.

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

Statement of Net Assets

June 30, 2005

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Assets			
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	28,977	—	28,977
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)

Statements of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2006
(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Operating revenues:			
Interest income	\$ 41,995	25,167	67,162
Net increase (decrease) in fair value of investments and mortgage-backed securities	(37,504)	15	(37,489)
Fee income	11,838	1,176	13,014
Grant income	6,924	42,856	49,780
Other income	212	—	212
Total operating revenues	<u>23,465</u>	<u>69,214</u>	<u>92,679</u>
Operating expenses:			
Interest on bonds	31,773	11,812	43,585
General and administrative	9,082	4,196	13,278
Grants and aid	10,856	—	10,856
Provision for losses	727	—	727
Total operating expenses	<u>52,438</u>	<u>16,008</u>	<u>68,446</u>
Operating income (loss)/change in net assets	<u>(28,973)</u>	<u>53,206</u>	<u>24,233</u>
Net assets at June 30, 2005	156,191	415,930	572,121
Net assets at June 30, 2006	<u>\$ 127,218</u>	<u>469,136</u>	<u>596,354</u>

See accompanying notes to financial statements.

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/change in net assets	<u>15,622</u>	<u>24,988</u>	<u>40,610</u>
Net assets at June 30, 2004	140,569	390,942	531,511
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 Cash Flows
Year Ended June 30, 2006
(Dollars in Thousands)

	Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 12,113	1,628	13,741
Interest received on loans and mortgage-backed securities	31,319	22,074	53,393
Principal payments on loans and mortgage-backed securities	68,677	25,529	94,206
Purchases of loans and mortgage-backed securities	(231,125)	(86,336)	(317,461)
Grants and other income	7,136	42,856	49,992
Cash payments to employees	(6,259)	(1,303)	(7,562)
Cash payments to suppliers and grantees	(16,068)	(2,870)	(18,938)
Net cash provided by (used in) operating activities	<u>(134,207)</u>	<u>1,578</u>	<u>(132,629)</u>
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	241,725	17,775	259,500
Payment of bonds	(60,091)	(17,305)	(77,396)
Interest paid	(28,850)	(11,855)	(40,705)
Net cash provided by (used in) noncapital financing activities	<u>152,784</u>	<u>(11,385)</u>	<u>141,399</u>
Cash flows from investing activities:			
Purchases of investments	(26,031)	(165,702)	(191,733)
Interest received on investments	9,923	3,097	13,020
Sales/maturities of investments	37,102	158,509	195,611
Purchase of capital assets	(1,876)	—	(1,876)
Payment of rebate	(726)	(202)	(928)
Net cash provided by (used in) investing activities	<u>18,392</u>	<u>(4,298)</u>	<u>14,094</u>
Increase (decrease) in cash and cash equivalents	<u>36,969</u>	<u>(14,105)</u>	<u>22,864</u>
Cash and cash equivalents, beginning of year	149,707	223,878	373,585
Cash and cash equivalents, end of year	<u>\$ 186,676</u>	<u>209,773</u>	<u>396,449</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (28,973)	53,206	24,233
Interest income on investments and bank deposits	(9,899)	(3,097)	(12,996)
Rebate expense	20	51	71
Interest expense on bonds	31,773	11,812	43,585
Net change in fair value of investments and mortgage-backed securities	37,504	(15)	37,489
Depreciation of capital assets	346	—	346
Principal payments on loans and mortgage-backed securities	68,677	25,529	94,206
Purchases of loans and mortgage-backed securities	(231,125)	(86,336)	(317,461)
Increase in interest receivable on loans and mortgage-backed securities	(797)	(47)	(844)
Decrease (increase) in other assets	(2,579)	(111)	(2,690)
(Decrease) increase in accounts payable and other	570	134	704
(Decrease) increase in deferred income	276	452	728
Net cash provided by (used in) operating activities	<u>\$ (134,207)</u>	<u>1,578</u>	<u>(132,629)</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	<u>(73,302)</u>	<u>520</u>	<u>(72,782)</u>
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	<u>36,572</u>	<u>(28,365)</u>	<u>8,207</u>
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 provided by investing activities	<u>(11,307)</u>	<u>(16,261)</u>	<u>(27,568)</u>
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	<u>\$ 149,707</u>	<u>223,878</u>	<u>373,585</u>
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)
Decrease (increase) in other assets	(655)	(21)	(676)
(Decrease) increase 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	<u>\$ (73,302)</u>	<u>520</u>	<u>(72,782)</u>

See accompanying notes to financial statements.

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(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 and agency of the State of Iowa (the State) to undertake programs that assist in attainment of adequate housing for low- or moderate-income families, elderly families, and families that 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 accomplish these purposes further, the Authority is authorized to allocate federal low-income housing tax credits for qualified multifamily housing developments 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 multifamily 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, 2006 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$2.2 billion in fiscal years 1997 through 2006, of which approximately \$1.9 billion is outstanding at June 30, 2006.

Chapter 16 authorizes the Iowa Finance Authority Title Guaranty Division (the Division). The purposes of the Division are to supplement the abstract-attorney's title opinion system by providing a low-cost mechanism for guaranties of real-property titles, to facilitate mortgage lenders' participation in the secondary market, and to add to the integrity of the land-title transfer system in the State. A title guaranty issued is an obligation of the Division, and claims are payable solely out of the assets and revenues of the Title Guaranty Division Program Account. The title guarantees do not constitute a debt of the State, and consequently, the State is not liable for any repayments. The Division also executes and records mortgage releases for Iowa real estate properties if more than 30

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days have elapsed since payment in full was made by the respective mortgagor and certain requirements have been met in accordance with the related laws and administrative rules. The State of Iowa, and not the Authority or the Division, is liable for any claims arising as the result of releasing a mortgage in error.

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) and the Iowa Drinking Water Facilities Financing Program (the Drinking Water Program). These programs were created to implement provisions of federal legislation authorizing the U.S. Environmental Protection Agency (EPA) to make annual capitalization grants to states. 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 finance all or part of the construction of primarily wastewater and 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 indentures. The obligations do not constitute a debt of the State or a general obligation of the Authority.

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 that are pledged therefore, 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, 2006, approximately \$50.7 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. As of June 30, 2006, approximately \$2.4 million of these conduit debt obligations are outstanding.

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

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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 therefore 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, 2006, approximately \$60.1 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.

(b) Basis of Presentation

The financial statements have been prepared using the economic resources measurement focus and accrual basis 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.

(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 Operating Accounts—accounts for the administrative operations of the Authority. Receipts of various program fees, HUD contract administration fees, transfers to or from various bond accounts in accordance with applicable bond resolutions, and administrative expenses of the Authority.
- b. Single Family Bond Programs—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, the related loans, and mortgage-backed securities. Single family mortgage and housing bonds are general obligations of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolutions.
- c. Multifamily Bond Program—account for the proceeds from multifamily mortgage bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts, and the related loans. Multifamily bonds are a general obligation of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolutions.

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

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 resolution 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 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, State statutes, and its Investment Policy, 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 and mortgage-backed securities are recorded at fair value in the statements of net assets, with the change in the fair value recorded in the statements of revenues, expenses, and changes in net assets.

(f) Loans to Municipalities or Water Systems

Loans to municipalities or water systems are recorded at their unpaid principal balance. The loans generally 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

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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, 2006 and 2005. 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 that 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.

An evaluation of the possible credit losses related to all other loans is made and a provision for losses is charged to income. An allowance for losses of \$2.3 million and \$2.2 million was netted against other loans at June 30, 2006 and 2005, respectively. Accrued interest on other loans that 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 recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Leasehold improvements that exceed \$2,500 are recorded at cost and are amortized using the straight-line method over the lesser of the estimated useful lives of the asset or the term of the lease.

Real estate purchased is recorded at cost. Land is recorded at net tax value at the time of the purchase and is not depreciated; the remaining cost is assigned to the building and depreciation is provided using the straight-line method over 40 years.

(j) Bond Issuance Costs, Premiums, and Discounts

Bond issuance costs, 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. 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 using the bonds outstanding method.

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(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. 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 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 and retain 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 liabilities.

(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 amortized over the estimated life of loans in the portfolio using the straight-line 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 for 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 Assistance Programs.

Restricted net assets also represent net assets restricted for use by other agreements including loans and accounts held under the Clean Water Program Accounts and the Drinking Water Program Accounts, which are restricted pursuant to the Master Trust Agreement and federal laws or regulations.

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Unrestricted net assets provide additional security for the Authority's general obligations and coverage of the Authority's administrative costs. Unrestricted net assets are available to meet commitments listed under "Commitments and Contingencies."

(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) Fee Income

The Authority receives fee income from program users to cover the cost of the program administration. Fee income is recorded in the period earned. Fees collected in the current period for future services are deferred and amortized over the life of the service period. Major sources of fee income are Service Acquisition fees in connection with the Authority's single family programs; Title Guarantee fees; Section 8 administration fees; low income housing tax credit fees; and State Revolving Fund loan commitment and servicing fees.

(q) Grant Income

The Authority receives grant income from various sources to cover the cost of program administration and for further distribution to sub-grantees. Major sources of grant income are the Environmental Protection Agency's grants for the Authority's Clean Water Program and Drinking Water Program; the Department of Housing and Urban Development's grants for the Authority's Housing Opportunities for Persons with Aids and Emergency Shelter Operating Grant programs; and the Iowa legislature provided a grant for down-payment assistance to returning active duty military personnel. Grant income is recorded when all eligibility requirements have been met.

(r) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles 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.

(2) Deposits and Investments

(a) Deposits

At June 30, 2006 and 2005, the Authority's cash deposits of \$2.3 million and \$1.1 million, respectively, were covered by federal depository insurance or collateralized trust accounts. Deposits of \$131.1 million and \$102.3 million, respectively, were deposited in money market accounts covered by collateralized trust accounts.

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June 30, 2006				
Type:	Housing Agency	State Revolving Fund	Total	% of total
Cash in Bank	\$ 2,258	-	2,258	2%
Money market accounts	30,040	101,105	131,145	98%
Total	\$ 32,298	101,105	133,403	100%
June 30, 2005				
Cash in Bank	\$ 1,059	-	1,059	1%
Money market accounts	10,952	91,387	102,339	99%
Total	\$ 12,011	91,387	103,398	100%

(b) Investments

The following table displays the types of investments, amounts, and the average maturity of the investment:

June 30, 2006					
Type:	Housing Agency	State Revolving Fund	Total	% of total	Average Maturity
GNMA mortgage-backed securities	\$ 360,503	-	360,503	35%	25.3 years
FNMA mortgage-backed securities	283,579	-	283,579	28%	27.7 years
Agency notes	38,255	54,521	92,776	9%	1.3 years
Treasury bonds	5,375	-	5,375	0%	11.2 years
Treasury strips	10,845	-	10,845	1%	6.2 years
Certificates of deposit	-	8,178	8,178	1%	8.6 years
State of Iowa pooled money funds	9,606	-	9,606	1%	Less than 1 year
Guaranteed investment contracts	144,772	108,668	253,440	25%	Less than 1 year
Total	\$ 852,935	171,367	1,024,302	100%	
June 30, 2005					
GNMA mortgage-backed securities	\$ 331,526	-	331,526	36%	23.9 years
FNMA mortgage-backed securities	186,912	-	186,912	21%	26.9 years
Agency notes	49,069	54,771	103,840	11%	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	0%	7.8 years
State of Iowa pooled money funds	9,937	-	9,937	1%	Less than 1 year
Guaranteed investment contracts	127,759	132,491	260,250	29%	Less than 1 year
Total	\$ 723,522	187,982	911,504	100%	

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(c) *Investment Policy*

Investment portfolio management is the responsibility of 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 certificates of deposit with any financial institution provided that such funds are fully insured by an agency of 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, instrumentality obligations, or government-backed mortgage loan pools; obligations of any state or political subdivision of the state that at the 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 account's total asset balance at the time such investment is made.
- Qualified investments allowed under the Single Family Indenture 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, taxable government money market portfolios rated AAAM-G, and other investments with financial institutions that do not cause the ratings of the Single Family bonds to be lowered. Allowable investments under the Single Family Indenture 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 the Multifamily Indenture 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 do not cause the ratings of the Multifamily bonds to be lowered.
- Qualified investments allowed under the State Revolving Fund Indenture 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 do not cause the ratings of the State Revolving Fund bonds to be lowered.

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(d) 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.

(e) Credit Risk

Credit risk is the risk that an issuer or counterparty will not fulfill their obligation to the Authority. The Authority minimizes credit risk by limiting securities to those authorized in the investment policy; diversifying the investment portfolio to limit the impact of potential losses from any one type of security or issuer; and prequalifying the financial institutions, brokers, dealers, and advisers with which the Authority does business.

(f) 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 address credit risk and concentration risk for the Authority's cash equivalents:

		June 30, 2006 (Dollars in thousands)						
		Housing Agency		State Revolving Fund				
Provider	S&P Rating	Money Market	Guaranteed Investment Contracts	Money Market	Guaranteed Investment Contracts	Total	% of total	
AIG MFC	AA/A1+	-	7,514	-	-	7,514	2%	
Bayerische Landesbank	AAA/A1+	-	948	-	-	948	0%	
Depfa Bank	AA-/A1+	-	60,908	-	-	60,908	16%	
FSA Capital Management	AAA/none	-	3,327	-	-	3,327	1%	
Hypo Real Estate Bank	AA/A1+	-	351	-	-	351	0%	
IXIS Funding Corp.	AAA/A1+	-	-	-	25,735	25,735	7%	
Royal Bank of Canada	AA-/A1+	-	4,846	-	-	4,846	1%	
Security Life Insurance	AA/A1+	-	6,109	-	-	6,109	2%	
Societe Generale	AA-/A1+	-	37,799	-	82,933	120,732	31%	
TransAmerica	AA/A1+	-	10,844	-	-	10,844	3%	
Trinity Funding	AAA/A1+	-	12,126	-	-	12,126	3%	
Wells Fargo Bank, N.A.	AA/A1+	30,040	-	101,105	-	131,145	34%	
Total		\$ 30,040	144,772	101,105	108,668	384,585	100%	

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		June 30, 2005 (Dollars in thousands)							
		Housing Agency		State Revolving Fund					
Provider	S&P Rating	Guaranteed		Guaranteed					
		Money Market	Investment Contracts	Money Market	Investment Contracts			Total	% of total
AIG MFC	AA/A1+	\$ -	11,407	-	-			11,407	3%
Bayerische Landesbank	AAA/A1+	-	1,246	-	-			1,246	0%
CDC Funding Corp	AAA/A1+	-	-	-	34,251			34,251	10%
Federal Guaranty Inv Corp	AAA/A1+	-	1,427	-	-			1,427	0%
FSA Capital Management	AAA/none	-	128	-	-			128	0%
Hypo Real Estate Bank	AA+/A1+	-	32,603	-	-			32,603	9%
Prudential Insurance	AA-/A1+	-	602	-	-			602	0%
Royal Bank of Canada	AA-/A1+	-	5,302	-	-			5,302	2%
Security Life Insurance	AA/A1+	-	5,670	-	-			5,670	2%
Societe Generale	AA-/A1+	-	35,793	-	98,240			134,033	37%
TransAmerica	AA/A1+	-	12,090	-	-			12,090	3%
Trinity Funding	AAA/A1+	-	21,491	-	-			21,491	6%
Wells Fargo Bank, N.A.	AA/A1+	10,952	-	91,387	-			102,339	28%
Total		\$ 10,952	127,759	91,387	132,491			362,589	100%

(g) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the portfolio. It is the intent and practice of the Authority's management to hold investments to maturity, which mitigates interest rate risk.

(h) 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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June 30, 2006 and 2005

(3) Housing Agency Loans

Housing Agency loans at June 30, 2006 and 2005 are comprised as follows (dollars in thousands):

	2006		
	Cost	Provision for losses	Net
Loans secured with first mortgages	\$ 16,043	—	16,043
Loans secured with second mortgages, other collateral, or unsecured	9,639	(2,261)	7,378
Total	<u>\$ 25,682</u>	<u>(2,261)</u>	<u>23,421</u>
	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	<u>\$ 24,494</u>	<u>(2,215)</u>	<u>22,279</u>

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(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2006 and 2005 are as follows (dollars in thousands):

Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
Housing Agency Bonds & Notes							
General Fund Line of Credit	\$ 1,725		06/06/07	Variable *	5.495%	1,725	-
A - Term Bond	17,005		08/01/08		5.875%	2,675	3,770
Total Bonds Outstanding	17,005					2,675	3,770
Unamortized (disc) / prem / other						-	(1)
Single Family 1977 A	17,005					2,675	3,769
Single Family Line of Credit	20,000		12/14/06	Variable *	5.620%	5,541	5,112
C - Serial Bonds	2,235	01/01/05	07/01/07	5.700%	5.875%	-	105
C - Term Bonds	3,465		07/01/14		6.350%	-	115
C - Term Bonds	8,035		07/01/19		6.400%	-	235
C - Term Bonds	9,905		01/01/24		6.450%	-	290
D - Serial Bonds	3,995	01/01/99	01/01/05	5.300%	5.850%	-	-
D - Term Bonds	4,305		01/01/12		6.100%	-	-
E - Term Bonds	12,960		07/01/28		6.650%	-	620
Total Bonds Outstanding	44,900					-	1,365
Unamortized (disc) / prem / other						-	(10)
Single Family 1995 CDE	44,900					-	1,355
A - Term Bonds	5,120		07/01/16		5.800%	1,545	1,720
A - Term Bonds	6,090		07/01/25		5.500%	485	1,425
B - Serial Bonds	4,590	01/01/01	07/01/09	4.550%	5.500%	575	815
B - Term Bonds	5,200		01/01/21		5.300%	-	-
C - Term bonds	4,000		01/01/28		6.100%	1,215	1,355
C - Term bonds	5,000		07/01/30		6.100%	1,510	1,685
Total Bonds Outstanding	30,000					5,330	7,000
Unamortized (disc) / prem / other						(37)	(50)
Single Family 1997 ABCDE	30,000					5,293	6,950
F - Term Bonds	8,025		01/01/16		5.550%	3,075	3,780
F - Term Bonds	12,510		01/01/27		5.700%	4,765	5,860
G - Serial Bonds	9,390	07/01/00	07/01/09	4.300%	5.300%	1,480	2,310
G - Term Bonds	9,035		01/01/21		4.950%	-	-
H - Term Bonds	2,440		01/01/28		5.850%	925	1,135
H - Term Bonds	7,820		07/01/30		5.850%	2,950	3,630
Total Bonds Outstanding	49,220					13,195	16,715
Unamortized (disc) / prem / other						(79)	(104)
Single Family 1997 FGH	49,220					13,116	16,611

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
Housing Agency Bonds & Notes (continued)							
A - Serial Bonds	1,530	07/01/11	07/01/13	5.800%	6.000%	340	425
A - Term Bonds	2,975		07/01/18		6.250%	680	825
B - Serial Bonds	3,125	07/01/02	07/01/10	4.800%	5.850%	475	660
B - Term Bonds	2,470		01/01/21		6.400%	560	685
C - Term bonds	6,080		07/01/26		5.700%	2,015	2,745
C - Term bonds	8,820		07/01/30		6.450%	1,770	2,450
Total Bonds Outstanding	<u>25,000</u>					<u>5,840</u>	<u>7,790</u>
Unamortized (disc) / prem / other						<u>(40)</u>	<u>(56)</u>
Single Family 2000 ABC	<u>25,000</u>					<u>5,800</u>	<u>7,734</u>
D - Serial Bonds	3,205	07/01/07	07/01/10	5.650%	5.800%	595	680
D - Term Bonds	6,375		07/01/16		6.100%	1,160	1,340
E - Serial Bonds	6,890	07/01/01	07/01/08	5.000%	5.900%	550	1,080
E - Term Bonds	20,530		01/01/21		6.000%	7,330	10,310
E - Term Bonds	2,085		07/01/22		6.350%	385	440
F - Term Bonds	28,030		07/01/32		6.400%	5,135	5,910
Total Bonds Outstanding	<u>67,115</u>					<u>15,155</u>	<u>19,760</u>
Unamortized (disc) / prem / other						<u>(135)</u>	<u>(200)</u>
Single Family 2000 DEF	<u>67,115</u>					<u>15,020</u>	<u>19,560</u>
G - Serial Bonds	590	07/01/11	07/01/12	5.300%	5.400%	315	345
G - Term Bonds	3,095		07/01/18		5.800%	1,690	1,825
G - Term Bonds	18,315		01/01/33		5.900%	9,750	10,740
H - Term Bonds (taxable)	10,000		07/01/29		7.190%	2,825	4,865
Total Bonds Outstanding	<u>32,000</u>					<u>14,580</u>	<u>17,775</u>
Unamortized (disc) / prem / other						<u>(104)</u>	<u>(133)</u>
Single Family 2000 GH	<u>32,000</u>					<u>14,476</u>	<u>17,642</u>
A - Serial Bonds	6,905	07/01/02	01/01/11	3.100%	4.600%	1,195	2,125
A - Term Bonds	4,680		07/01/16		5.100%	1,115	1,725
B - Serial Bonds	1,495	07/01/11	07/01/12	5.000%	5.100%	360	550
B - Term Bonds	10,310		07/01/23		4.700%	6,095	7,475
C - Term bonds	15,445		07/01/33		5.500%	7,865	9,725
Total Bonds Outstanding	<u>38,835</u>					<u>16,630</u>	<u>21,600</u>
Unamortized (disc) / prem / other						<u>(217)</u>	<u>(283)</u>
Single Family 2001 ABC	<u>38,835</u>					<u>16,413</u>	<u>21,317</u>
D - Serial Bonds	3,950	07/01/04	07/01/13	3.250%	4.850%	1,970	2,610
D - Term Bonds	3,700		07/01/21		5.250%	2,355	2,675
D - Term Bonds	6,250		07/01/33		4.300%	3,430	4,570
D - Term Bonds	11,100		01/01/34		5.375%	6,695	7,650
Total Bonds Outstanding	<u>25,000</u>					<u>14,450</u>	<u>17,505</u>
Unamortized (disc) / prem / other						<u>(111)</u>	<u>(140)</u>
Single Family 2001 D	<u>25,000</u>					<u>14,339</u>	<u>17,365</u>

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		From	To	From	To	2006	2005
Housing Agency Bonds & Notes (continued)							
A - Serial Bonds	6,500	07/01/04	07/01/14	2.900%	5.150%	2,640	3,675
A - Term Bonds	1,665		01/01/22		5.300%	500	715
A - Term Bonds	3,930		07/01/22		5.300%	1,120	1,640
A - Term Bonds	5,190		07/01/27		5.300%	5,190	5,190
A - Term Bonds	4,565		07/01/32		5.400%	1,230	1,860
A - Term Bonds	8,750		01/01/33		4.450%	5,280	6,850
A - Term Bonds	4,400		07/01/33		5.400%	1,230	1,815
Total Bonds Outstanding	<u>35,000</u>					<u>17,190</u>	<u>21,745</u>
Unamortized (disc) / prem / other						<u>(127)</u>	<u>(168)</u>
Single Family 2002 A	<u>35,000</u>					<u>17,063</u>	<u>21,577</u>
B - Serial Bonds	10,925	07/01/03	07/01/14	2.000%	4.850%	4,645	6,530
C - Term bonds	6,425		07/01/21		5.500%	2,745	3,740
C - Term bonds	5,240		01/01/22		5.500%	2,210	3,040
C - Term bonds	9,250		07/01/24		4.500%	5,950	7,045
D - Term Bonds	7,050		01/01/28		5.500%	7,050	7,050
D - Term Bonds	6,000		07/01/32		5.600%	2,545	3,475
D - Term Bonds	6,340		07/01/33		5.600%	2,715	3,690
E - Term Bonds (taxable)	10,000		01/01/33		5.710%	5,745	7,715
Total Bonds Outstanding	<u>61,230</u>					<u>33,605</u>	<u>42,285</u>
Unamortized (disc) / prem / other						<u>(438)</u>	<u>(564)</u>
Single Family 2002 BCDE	<u>61,230</u>					<u>33,167</u>	<u>41,721</u>
F - Serial Bonds	2,670	07/01/04	07/01/14	1.750%	4.000%	1,760	2,265
F - Term Bonds	765		01/01/16		4.250%	620	695
G - Serial Bonds	1,310	07/01/10	07/01/13	3.750%	4.100%	1,045	1,175
G - Term Bonds	4,685		01/01/23		4.900%	3,710	4,195
G - Term Bonds	635		07/01/24		4.900%	505	570
H - Term Bonds	7,855		01/01/31		5.000%	6,220	7,040
H - Term Bonds	10,000		07/01/33		3.500%	6,925	8,615
H - Term Bonds	5,830		07/01/34		5.000%	4,605	5,205
I - Term Bonds	11,250		07/01/32	Variable*	4.030%	9,670	10,550
Total Bonds Outstanding	<u>45,000</u>					<u>35,060</u>	<u>40,310</u>
Unamortized (disc) / prem / other						<u>(233)</u>	<u>(281)</u>
Single Family 2002 FGHI	<u>45,000</u>					<u>34,827</u>	<u>40,029</u>
A - Serial Bonds	5,175	01/01/06	07/01/16	2.250%	4.750%	4,385	4,940
A - Term Bonds	3,675		07/01/22		5.000%	3,155	3,445
A - Term Bonds	1,200		01/01/23		5.000%	1,085	1,175
A - Term Bonds	8,950		01/01/34		5.125%	7,770	8,465
A - Term Bonds	7,000		07/01/35		4.400%	4,510	5,785
A - Term Bonds	9,000		07/01/35		5.125%	7,875	8,570
B - Term Bonds	10,000		07/01/34	Variable*	5.340%	8,450	9,480
Total Bonds Outstanding	<u>45,000</u>					<u>37,230</u>	<u>41,860</u>
Unamortized (disc) / prem / other						<u>(195)</u>	<u>(260)</u>
Single Family 2003 AB	<u>45,000</u>					<u>37,035</u>	<u>41,600</u>

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
Housing Agency Bonds & Notes (continued)							
C - Serial Bonds	3,750	07/01/09	01/01/15	2.600%	3.750%	2,860	3,680
D - Serial Bonds	2,830	01/01/05	01/01/10	1.600%	3.100%	1,580	2,555
D - Term Bonds	10,270		01/01/25		4.250%	8,450	9,700
E - Serial Bonds	820		07/01/33		4.600%	625	805
E - Term Bonds	2,330		01/01/34		4.600%	1,785	2,295
F - Term Bonds	20,000		01/01/33	Variable*	4.030%	19,685	19,685
G - Term Bonds (taxable)	10,000		07/01/25	Variable*	5.290%	8,595	9,400
Total Bonds Outstanding	<u>50,000</u>					<u>43,580</u>	<u>48,120</u>
Unamortized (disc) / prem / other						(1)	(44)
Single Family 2003 CDEFG	<u>50,000</u>					<u>43,579</u>	<u>48,076</u>
H - Serial Bonds	3,670	01/01/09	07/01/15	3.000%	4.300%	3,445	3,670
I - Term Bonds	5,450		07/01/22		4.900%	5,120	5,450
J - Serial Bonds	4,620	07/01/05	01/01/14	1.650%	4.450%	3,735	4,620
J - Term Bonds	9,500		07/01/29		5.000%	8,885	9,455
J - Term Bonds	11,000		07/01/34		5.000%	9,960	10,845
J - Term Bonds	10,760		01/01/35		5.100%	10,020	10,705
Total Bonds Outstanding	<u>45,000</u>					<u>41,165</u>	<u>44,745</u>
Unamortized (disc) / prem / other						231	257
Single Family 2003 HIJ	<u>45,000</u>					<u>41,396</u>	<u>45,002</u>
A - Serial Bonds	6,120	07/01/05	07/01/14	1.750%	4.450%	4,795	6,120
A - Term Bonds	3,855		07/01/24		4.900%	3,460	3,855
A - Term Bonds	12,270		01/01/34		5.000%	11,810	12,270
A - Term Bonds	2,585		07/01/34		5.100%	2,395	2,585
A - Term Bonds	5,170		01/01/35		5.100%	4,690	5,170
B - Term Bonds	15,000		07/01/34	Variable*	4.030%	15,000	15,000
Total Bonds Outstanding	<u>45,000</u>					<u>42,150</u>	<u>45,000</u>
Unamortized (disc) / prem / other						252	288
Single Family 2004 AB	<u>45,000</u>					<u>42,402</u>	<u>45,288</u>
C - Serial Bonds	3,395	01/01/06	01/01/07	2.500%	4.700%	2,965	3,395
C - Term Bonds	1,155		07/01/09		3.660%	1,095	1,155
C - Term Bonds	1,400		07/01/12		4.280%	1,345	1,400
C - Term Bonds	610		07/01/14		4.700%	585	610
C - Term Bonds	7,400		07/01/25		5.125%	7,050	7,400
C - Term Bonds	2,680		01/01/30		5.200%	2,565	2,680
C - Term Bonds	2,680		07/01/30		5.200%	2,560	2,680
C - Term Bonds	5,650		01/01/34		5.250%	5,450	5,650
C - Term Bonds	9,030		07/01/35		5.250%	8,625	9,030
D - Term Bonds	17,000		07/01/34	Variable*	4.010%	16,750	17,000
Total Bonds Outstanding	<u>51,000</u>					<u>48,990</u>	<u>51,000</u>
Unamortized (disc) / prem / other						(59)	(60)
Single Family 2004 CD	<u>51,000</u>					<u>48,931</u>	<u>50,940</u>

* Variable rates are as of June 30, 2006

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
Housing Agency Bonds & Notes (continued)							
E - Serial Bonds	10,825	01/01/06	01/01/16	1.950%	3.950%	10,190	10,825
F - Term Bonds	2,375		07/01/24		4.550%	2,370	2,375
F - Term Bonds	10,400		01/01/35		5.000%	10,145	10,400
F - Term Bonds	6,400		07/01/35		4.800%	6,275	6,400
G - Term Bonds	20,000		07/01/34	Variable*	4.030%	20,000	20,000
Total Bonds Outstanding	<u>50,000</u>					<u>48,980</u>	<u>50,000</u>
Unamortized (disc) / prem / other						<u>327</u>	<u>354</u>
Single Family 2004 EFG	<u>50,000</u>					<u>49,307</u>	<u>50,354</u>
A - Serial Bonds	5,885	07/01/07	07/01/16	2.900%	4.300%	5,790	5,885
B - Serial Bonds	2,925	01/01/07	01/01/15	3.200%	4.500%	2,875	2,925
B - Term Bonds	15,350		07/01/25		4.600%	15,120	15,350
B - Term Bonds	17,300		07/01/30		5.000%	17,140	17,300
C - Term Bonds	24,000		07/01/36	Variable*	4.030%	24,000	24,000
Total Bonds Outstanding	<u>65,460</u>					<u>64,925</u>	<u>65,460</u>
Unamortized (disc) / prem / other						<u>215</u>	<u>194</u>
Single Family 2005 ABC	<u>65,460</u>					<u>65,140</u>	<u>65,654</u>
D - Serial Bonds	5,995	01/01/07	01/01/16	3.000%	4.250%	5,995	-
D - Term Bonds	2,565		07/01/13		4.000%	2,565	-
D - Term Bonds	8,340		01/01/36		4.450%	8,340	-
D - Term Bonds	19,100		01/01/36		5.000%	19,100	-
E - Term Bonds	24,000		01/01/36	Variable*	4.030%	24,000	-
Total Bonds Outstanding	<u>60,000</u>					<u>60,000</u>	-
Unamortized (disc) / prem / other						<u>621</u>	-
Single Family 2005 DE	<u>60,000</u>					<u>60,621</u>	-
F - Serial Bonds	3,075	07/01/14	07/01/16	4.000%	4.200%	3,075	-
G - Serial Bonds	6,810	07/01/07	01/01/14	3.250%	4.300%	6,810	-
G - Term Bonds	1,510		07/01/26		4.700%	1,510	-
G - Term Bonds	240		07/01/31		4.750%	240	-
G - Term Bonds	19,800		01/01/36		5.000%	19,800	-
G - Term Bonds	4,565		01/01/37		4.875%	4,565	-
H - Term Bonds	24,000		07/01/36	Variable*	4.010%	24,000	-
Total Bonds Outstanding	<u>60,000</u>					<u>60,000</u>	-
Unamortized (disc) / prem / other						<u>568</u>	-
Single Family 2005 FGH	<u>60,000</u>					<u>60,568</u>	-
A - Serial Bonds	1,385	07/01/14	01/01/15	3.800%	3.900%	1,385	-
B - Serial Bonds	10,655	07/01/07	07/01/16	3.400%	4.300%	10,655	-
B - Term Bonds	4,535		01/01/26		4.750%	4,535	-
B - Term Bonds	14,425		01/01/36		4.900%	14,425	-
B - Term Bonds	17,000		01/01/36		5.000%	17,000	-
C - Term Bonds	12,000		01/01/36	Variable*	3.700%	12,000	-
Total Bonds Outstanding	<u>60,000</u>					<u>60,000</u>	-
Unamortized (disc) / prem / other						<u>308</u>	-
Single Family 2006 ABC	<u>60,000</u>					<u>60,308</u>	-

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
Housing Agency Bonds & Notes (continued)							
D - Serial Bonds	1,575	07/01/14	07/01/15	4.100%	4.150%	1,575	-
E - Serial Bonds	6,965	07/01/07	07/01/14	3.700%	4.500%	6,965	-
E - Term Bonds	1,270		07/01/16		4.650%	1,270	-
E - Term Bonds	3,925		07/01/26		4.850%	3,925	-
E - Term Bonds	245		07/01/31		4.950%	245	-
E - Term Bonds	25,250		01/01/36		5.500%	25,250	-
E - Term Bonds	8,770		01/01/37		5.000%	8,770	-
F - Term Bonds	12,000		07/01/36	Variable*	3.650%	12,000	-
Total Bonds Outstanding	<u>60,000</u>					<u>60,000</u>	<u>-</u>
Unamortized (disc) / prem / other						<u>1,201</u>	<u>-</u>
Single Family 2006 DEF	<u>60,000</u>					<u>61,201</u>	<u>-</u>
A - Serial Bonds	6,080	04/01/81	04/01/98	4.250%	5.500%	-	-
A - Term Bonds	22,050		04/01/21		6.000%	15,815	16,490
Total Bonds Outstanding	<u>28,130</u>					<u>15,815</u>	<u>16,490</u>
Unamortized (disc) / prem / other						<u>(180)</u>	<u>(202)</u>
Multi Family 1978 A	<u>28,130</u>					<u>15,635</u>	<u>16,288</u>
Bonds Outstanding	1,111,620					763,811	585,407
Unamortized (disc) / prem / other						<u>1,767</u>	<u>(1,463)</u>
Total Housing Agency	<u><u>1,111,620</u></u>					<u><u>765,578</u></u>	<u><u>583,944</u></u>
State Revolving Fund							
A - Serial Bonds	37,340	08/01/02	08/01/11	4.000%	5.250%	18,130	22,200
B - Serial Bonds	138,810		04/01/21	4.000%	5.250%	105,125	113,975
Total Bonds Outstanding	<u>176,150</u>					<u>123,255</u>	<u>136,175</u>
Unamortized (disc) / prem / other						<u>(261)</u>	<u>(326)</u>
CW 2001	<u>176,150</u>					<u>122,994</u>	<u>135,849</u>
A - Serial Bonds	12,900	08/01/02	08/01/11	4.000%	5.250%	9,035	10,145
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%	17,130	18,560
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	<u>57,075</u>					<u>48,995</u>	<u>51,535</u>
Unamortized (disc) / prem / other						<u>563</u>	<u>636</u>
DW 2001	<u>57,075</u>					<u>49,558</u>	<u>52,171</u>

* Variable rates are as of June 30, 2006

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Notes to Financial Statements
June 30, 2006 and 2005

Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2006	2005
State Revolving Fund (continued)							
Total Bonds Outstanding	3,350	08/01/03	08/01/22	2.000%	4.700%	2,695	2,955
Unamortized (disc) / prem / other						(14)	(16)
CW 2003	3,350					2,681	2,939
A - Serial Bonds	3,240	08/01/04	08/01/17	2.000%	4.300%	2,795	2,995
B - Serial Bonds	49,510	08/01/04	08/01/24	2.000%	5.000%	47,430	49,070
Total Bonds Outstanding	52,750					50,225	52,065
Unamortized (disc) / prem / other						(13)	(14)
DW 2003	52,750					50,212	52,051
Total Bonds Outstanding	11,090	08/01/06	08/01/12	3.250%	5.000%	11,090	-
Unamortized (disc) / prem / other						154	-
CW 2005	11,090					11,244	-
Total Bonds Outstanding	6,685	08/01/06	08/01/12	3.250%	5.000%	6,685	-
Unamortized (disc) / prem / other						105	-
DW 2005	6,685					6,790	-
Bonds Outstanding	307,100					242,945	242,730
Unamortized (disc) / prem / other						534	280
Total State Revolving Fund	307,100					243,479	243,010
Bonds Outstanding	1,418,720					1,006,756	828,137
Unamortized (disc) / prem / other						2,301	(1,183)
Total Authority	1,418,720					1,009,057	826,954

The following table summarizes the net bonds and notes payable activity for the Authority for the years ended June 30, 2006 and 2005 (dollars in thousands):

	June 30, 2005	Additions	Reductions	June 30, 2006	Due within one year
Housing Agency	\$ 583,944	241,725	60,091	765,578	16,956
State Revolving Fund	243,010	17,775	17,306	243,479	20,950
Total	\$ 826,954	259,500	77,397	1,009,057	37,906
	June 30, 2004	Additions	Reductions	June 30, 2005	Due within one year
Housing Agency	\$ 522,321	166,500	104,877	583,944	13,904
State Revolving Fund	258,877	—	15,867	243,010	17,560
Total	\$ 781,198	166,500	120,744	826,954	31,464

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Notes to Financial Statements
June 30, 2006 and 2005

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
2007	\$ 16,956	34,294	51,250	20,950	11,433	32,383	37,906	45,727	83,633
2008	13,180	35,088	48,268	21,590	10,433	32,023	34,770	45,521	80,291
2009	14,810	34,494	49,304	22,820	9,361	32,181	37,630	43,855	81,485
2010	14,040	33,938	47,978	23,255	8,278	31,533	37,295	42,216	79,511
2011	14,870	33,351	48,221	23,775	7,153	30,928	38,645	40,504	79,149
2012 – 2016	85,990	156,041	242,031	84,400	19,941	104,341	170,390	175,982	346,372
2017 – 2021	109,500	132,928	242,428	30,855	7,631	38,486	140,355	140,559	280,914
2022 – 2026	139,005	103,398	242,403	15,300	1,176	16,476	154,305	104,574	258,879
2027 – 2031	175,225	65,274	240,499	-	-	-	175,225	65,274	240,499
2032 – 2036	172,165	21,120	193,285	-	-	-	172,165	21,120	193,285
2037 – 2041	8,070	256	8,326	-	-	-	8,070	256	8,326
Total	\$ 763,811	650,182	1,413,993	242,945	75,406	318,351	1,006,756	725,588	1,732,344

Under the bond resolutions, the Authority has the option to redeem bonds at initial prices ranging from 103% to 100%, and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 10 years; however, certain special redemptions, as governed by the bond resolutions, are permitted prior to such time. Term bonds are subject to mandatory redemptions, without premium, through sinking fund installments subsequent to the scheduled completion of retirement of the serial bonds of the same issue. The schedule of bond maturities includes the sinking fund installments for the term bonds. Capital accumulator bonds and future income growth bonds are included in the schedule of bond maturities at their respective values at the time of maturity or sinking fund installment. Bond maturities and interest rates are based on those in effect as of June 30, 2006.

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 Multifamily Bond Indenture contain covenants that 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 credit agreement under the Single Family Bond Program and the bond resolutions 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 principle payments. Accordingly, the trust account assets and the liabilities for these defeased bonds are not included in the Authority's basic financial statements.

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2006 and 2005

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.

The amount of defeased debt outstanding at June 30, 2006 and 2005 is shown below (dollars in thousands):

	Balance	
	June 30, 2006	June 30, 2005
Housing Agency Defeased Bonds		
SF 1995 CDE	\$ -	5,460
State Revolving Fund Defeased Bonds		
Combined Series 1996	-	23,395
Combined Series 1997	7,185	7,675
Combined Series 1998	16,390	17,400
Combined Series 1999	25,460	26,975
Series 2000A	4,575	4,885
Total State Revolving Fund Defeased Bonds	<u>53,610</u>	<u>80,330</u>
Total Authority	<u>\$ 53,610</u>	<u>85,790</u>

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2006 and 2005

(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* involve the exchange of floating rate for fixed rate payments between two parties (without the exchange of the underlying principle 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, 2006 and 2005) of the Authority's swap transactions (dollars in thousands):

Swap Table						
Associated bond series	Effective date	Notional value at 6/30/2006	Fixed rate	Fair value		Termination date
				06/30/06	06/30/05	
2002 I	10/30/2002	\$ 9,670	3.653%	\$ 229	(177)	07/01/2032
2003 F	07/01/2005	19,685	3.615%	1,280	(295)	01/03/2033
2004 B	12/02/2004	15,000	4.086%	108	(1,092)	07/01/2034
2004 D	02/03/2005	16,750	4.007%	177	(808)	07/01/2020
2004 G	06/01/2005	20,000	3.867%	490	(740)	07/01/2034
2005 C	11/01/2005	24,000	4.140%	120	(1,898)	01/01/2036
2005 E	02/01/2006	24,000	3.817%	744	(533)	01/01/2036
2005 H	05/01/2006	24,000	3.843%	639	—	07/01/2036
2006 C	09/01/2006	12,000	3.766%	293	—	01/01/2036
2006 F	11/01/2006	12,000	4.632%	121	—	07/01/2036

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

- (b) *Corridor agreements* involve the purchase and sale of interest rate caps between two parties (without the exchange of the underlying principle 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, 2006 and 2005) of the Authority's corridor transactions (dollars in thousands):

Corridor Table							
Associated bond series	Effective date	Notional value at 6/30/2006	Cap/strike rate		Fair Value		Termination date
			Purchased	Sold	06/30/06	06/30/05	
2003 B	03/19/03	\$ 8,450	6.00%	11.00%	\$ 56	37	07/01/12
2003 G	06/25/03	8,595	5.00%	10.00%	226	105	07/01/13

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2006 and 2005

(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, LP are currently counterparties under swap agreements with the Authority. UBS AG is currently rated “AA+/A-1+” by Standard and Poor’s and “Aa2/P-1” by Moody’s, and the agreements with Goldman Sachs Capital Markets, LP are fully guaranteed by Goldman Sachs Group, which is currently rated “A+” by Standard and 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, LP 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 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 payment received from counterparty 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.

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2006 and 2005

(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, 2006, and assuming the rates on the Authority's VRDOs remained at the June 30, 2006 levels through maturity, the debt service requirements net swap payments are as follows:

Fiscal year ending June 30	Variable-rate bonds principal	Variable-rate bonds interest	Interest rate swaps, net	Total
2007	\$ 170	6,039	501	6,710
2008	180	6,180	530	6,890
2009	180	6,129	519	6,828
2010	190	6,143	513	6,846
2011	200	6,136	489	6,825
2012-2016	2,565	30,506	2,488	35,559
2017-2021	18,035	28,358	2,167	48,560
2022-2026	25,845	24,035	1,638	51,518
2027-2031	47,305	16,953	1,124	65,382
2032-2036	56,755	5,167	352	62,274
2037	1,680	5	-	1,685
Total	\$ 153,105	135,651	10,321	299,077

(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, 2005 (latest information available) was \$2.29 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, 2006 and 2005 were \$291,681 and \$271,159, respectively, equal to the required contribution for each year.

(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, 2006. The lease expires September 30, 2006 and requires three remaining monthly payments totaling \$46,500 plus taxes and maintenance. Total rental expense for the years ended June 30, 2006 and 2005 was \$409,620 and \$422,510 respectively.

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2006 and 2005

(b) *Housing Agency Commitments*

The Authority has assumed certain guarantees of the former Iowa Housing Corporation (IHC) in conjunction with the assets received from the IHC on July 1, 2003. The maximum amount of these guarantees as of June 30, 2006 and 2005 was \$2,313,955 and \$2,283,690, respectively, for which a \$463,823 reserve for claims liability is recorded at June 30, 2006.

The Authority has committed to purchase \$63.8 million in mortgage-backed securities under its FirstHome program as of June 30, 2006.

The Authority has approved loan agreements under various housing assistance programs for which \$5.3 million has not been disbursed as of June 30, 2006.

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, 2006 follows (dollars in thousands):

Description	June 30, 2006	June 30, 2005
Transitional housing grants	\$ 9	416
Project-based housing grants	381	937
Local Housing Trust Fund grants	263	508
Capacity building grants	207	111
CHODO capacity building and intern grants	9	61
Technical assistance for transitional housing grants	8	30
Total outstanding commitments	<u>\$ 877</u>	<u>2,063</u>

(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 \$51.0 million and \$19.2 million, respectively, have not been disbursed as of June 30, 2006.

(8) *Subsequent Events*

The Authority issued Single Family Mortgage Revenue Bonds, Series 2006 G and H, in the amount of \$70 million on July 13, 2006.

The Authority's Board of Directors has authorized the issuance of Single Family Mortgage Revenue Bonds, Series 2006 I and J, in the amount of \$80 million.

The Authority's Board of Directors has authorized the issuance of multifamily bonds in an amount not to exceed \$6.8 million.

The Authority's Board of Directors has authorized the issuance of a note for long-term financing of the building purchase in an amount not to exceed \$2.8 million.

IOWA FINANCE AUTHORITY

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Grantor/program title	Federal CFDA number	Federal expenditures
United States Department of Housing and Urban Development direct programs:		
Housing Counseling Assistance Program	14.169	\$ 44
Section 8 Housing Assistance Payments Program—Special Allocations	14.195	38,507
Emergency Shelter Grant Program	14.231	1,107
Housing Opportunities for Persons with AIDS (H.O.P.W.A.) program	14.241	391
Total United States Department of Housing and Urban Development		<u>40,049</u>
United States Department of Agriculture direct programs:		
Rural Community Development Initiative (R.C.D.I.) Grant	10.446	39
Total United States Department of Agriculture		<u>39</u>
United States Department of Education direct programs:		
Alternative Financing Mechanisms Program (AFP)	84.224	2
Access to Telework Fund Program	84.235	15
Total United States Department of Education		<u>17</u>
Total federal awards expenditures		<u>\$ 40,105</u>

See accompanying note to schedule of expenditures of federal awards.

IOWA FINANCE AUTHORITY

Note to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

(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, 2006, 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, 2006, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

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

KPMG LLP

Des Moines, Iowa
September 15, 2006



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

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

The Board of Directors
Iowa Finance Authority:

Compliance

We have audited the compliance of the Iowa Finance Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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, 2006.

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 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 the 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 the 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

Des Moines, Iowa
September 15, 2006

IOWA FINANCE AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(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: *\$1,203,144*
- (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.