



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

Basic Financial Statements and
Schedule of Expenditures of Federal Awards

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

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

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Iowa Finance Authority:

We have audited the accompanying financial statements of each major fund and the total business-type activities of the Iowa Finance Authority (the Authority), a component unit of the State of Iowa, as of and for the years ended June 30, 2007 and 2006, 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 respective financial position of each major fund and the total business-type activities of the Iowa Finance Authority as of June 30, 2007 and 2006, 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 October 24, 2007 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
October 24, 2007

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2007 and 2006

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, 2007 and 2006. 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 and Aa3 by Moody's Investors Services as of June 30, 2007. These ratings take 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 these ratings 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 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.

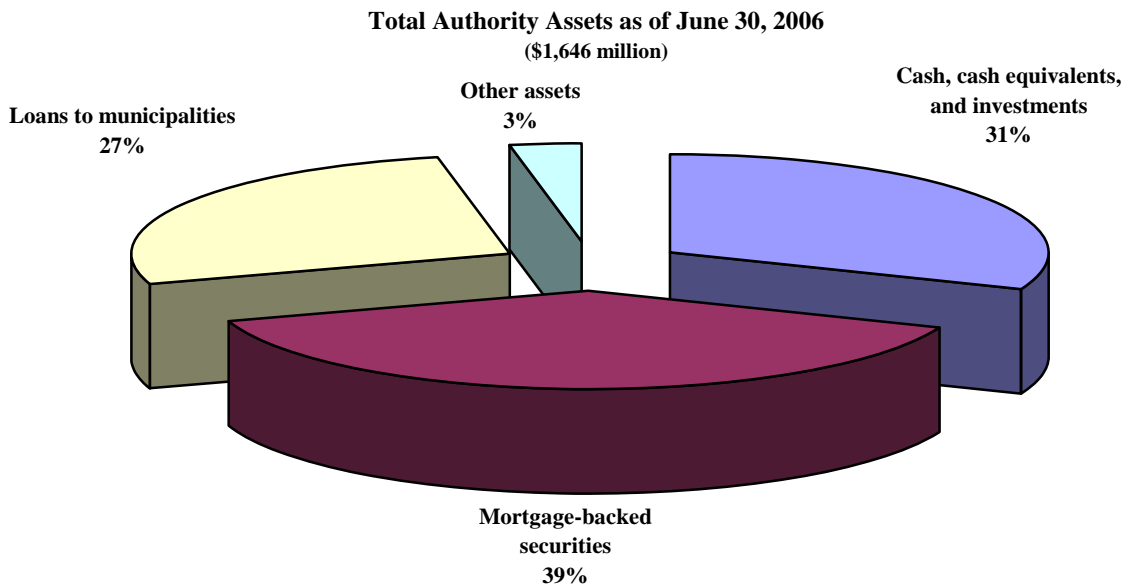
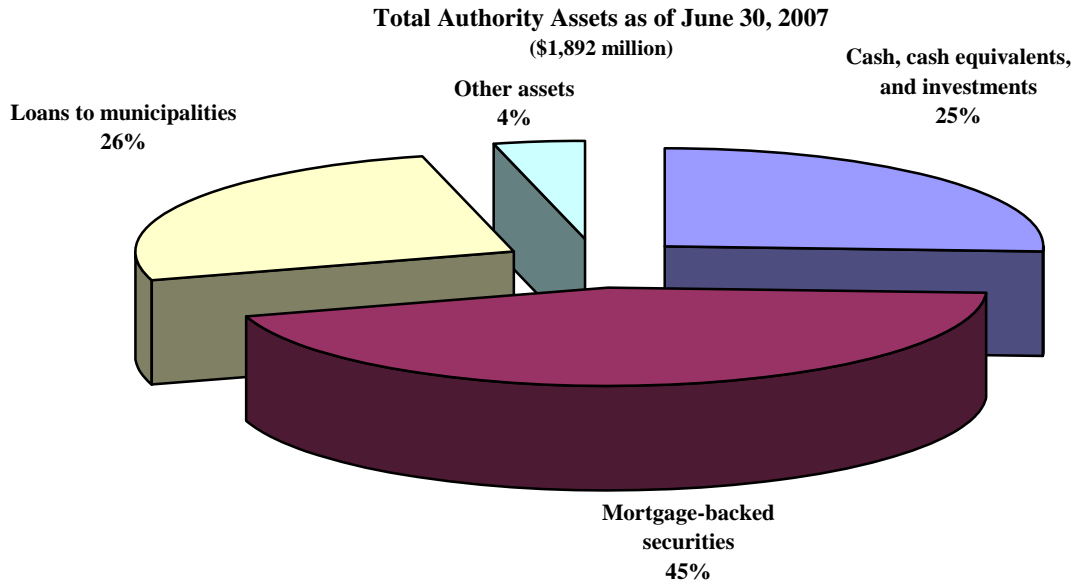
The statements of revenues, expenses, and changes in net assets present operating revenues less operating expenses and the resultant operating income or loss, nonoperating income or loss, and the resultant change in net assets.

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, 2007 and 2006

Condensed Financial Information

The following charts and tables present condensed financial information for FY07 and FY06. Table 1 provides information for the Authority as a whole.



IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2007 and 2006

Table 1—Total Condensed Information of the Authority

Net Assets			
(Dollars in millions)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Cash, cash equivalents, and investments	\$ 473.3	513.7	496.5
Mortgage-backed securities	844.8	644.1	518.4
Loans to municipalities or water systems	496.2	447.8	387.0
Other assets	<u>78.2</u>	<u>40.5</u>	<u>34.4</u>
Total assets	<u>1,892.5</u>	<u>1,646.1</u>	<u>1,436.3</u>
Liabilities:			
Bonds payable, net	1,176.4	1,009.1	827.0
Other liabilities	<u>59.5</u>	<u>40.7</u>	<u>37.2</u>
Total liabilities	<u>1,235.9</u>	<u>1,049.8</u>	<u>864.2</u>
Net assets:			
Invested in capital assets, net of related debt	0.9	0.5	0.7
Restricted net assets	637.9	578.6	542.4
Unrestricted net assets	<u>17.8</u>	<u>17.2</u>	<u>29.0</u>
Total net assets	<u>\$ 656.6</u>	<u>596.3</u>	<u>572.1</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Interest income	\$ 82.9	67.2	56.7
Net increase (decrease) in fair value	(0.6)	(37.5)	5.9
Fee and other income and provision for loan losses	14.3	13.2	12.5
Grant income	<u>45.0</u>	<u>49.8</u>	<u>26.5</u>
Total operating revenues	<u>141.6</u>	<u>92.7</u>	<u>101.6</u>
Operating expenses:			
Interest on bonds	54.1	43.6	38.0
General and administrative	13.3	13.3	11.3
Grants and aid	13.0	10.9	10.5
Provision for losses	<u>0.9</u>	<u>0.7</u>	<u>1.2</u>
Total operating expenses	<u>81.3</u>	<u>68.5</u>	<u>61.0</u>
Change in net assets	<u>60.3</u>	<u>24.2</u>	<u>40.6</u>
Net assets at beginning of year	<u>596.3</u>	<u>572.1</u>	<u>531.5</u>
Net assets at end of year	<u>\$ 656.6</u>	<u>596.3</u>	<u>572.1</u>

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2007 and 2006

Financial Analysis—Combined 2007

- The Authority's assets increased 15%, or \$246.4 million, to \$1,892.5 million in FY07 compared to \$1,646.1 million in FY06. Mortgage-backed securities (MBS) grew 31% or \$200.7 million as increased demand continued for the Authority's FirstHome programs. Loans to municipalities or water systems (SRF loans) grew 11%, or \$48.4 million, as part of the SRF loan origination process.
- Bonds payable increased 17%, or \$167.3 million, to \$1,176.4 million in FY07 compared to \$1,009.1 million in FY06.

The Authority arranged a \$2.8 million loan to finance the purchase and remodeling of their facility at 2015 Grand Avenue in Des Moines, Iowa. Three single-family bond issues provided \$220.0 million of financing to purchase MBS under the FirstHome Program. Two multi family bond issues provided \$28.5 million of financing to originate first mortgage loans. The Authority made bond payments of \$84.0 million.

Series	Date	Amount	Rating
GF note	10/01/06	\$ 2.8	Not rated
SF 2006 GH	07/13/06	70.0	AAA by Standard & Poor's; Aaa by Moody's
SF 2006 IJ	09/27/06	80.0	AAA by Standard & Poor's; Aaa by Moody's
SF 2007 ABC	03/08/07	70.0	AAA by Standard & Poor's; Aaa by Moody's
		<u>\$ 220.0</u>	
MF 2006 A	10/12/06	6.5	AA- by Standard & Poor's; Aa3 by Moody's
MF 2007 AB	06/14/07	22.0	AA-/A-1+ by Standard & Pools Aa3 / VMIG 1 by Moody's
		<u>\$ 28.5</u>	
Total		<u><u>\$ 251.3</u></u>	

See the notes to the financial statements for further information.

- Interest income grew 23%, or \$15.7 million, due to the asset growth in the MBS and SRF loan portfolios and stable interest rates throughout the year.
- Grant income declined 10%, or \$4.8 million, due to lower federal capitalization grant draws from the Environmental Protection Agency.
- Grant expense grew 19%, or \$2.1 million, to \$13.0 million as the Authority continues to increase on-mission housing grants.

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 expired on September 30, 2006. A line of credit was established for \$2.6 million for purchase and renovation of the facility.

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Management's Discussion and Analysis
June 30, 2007 and 2006

- 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		<u>\$ 241.7</u>	

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.

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) 725-4900.

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

Statement of Net Assets

June 30, 2007

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Assets			
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 169,057	184,583	353,640
Investments:			
Other investments	21,378	61,876	83,254
Mortgage-backed securities	14,411	—	14,411
Total current investments	35,789	61,876	97,665
Loans to municipalities or water systems	—	30,058	30,058
Housing Agency loans, net	2,174	—	2,174
Accrued interest receivable	6,013	3,926	9,939
Other assets	649	90	739
Total current assets	213,682	280,533	494,215
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	29,658	6,737	36,395
Mortgage-backed securities	830,413	—	830,413
Total noncurrent investments	860,071	6,737	866,808
Loans to municipalities or water systems		466,129	466,129
Housing Agency loans, net	54,748	—	54,748
Capital assets, net of accumulated depreciation	3,596	—	3,596
Other assets	6,654	373	7,027
Total noncurrent assets	925,069	473,239	1,398,308
Total assets	1,138,751	753,772	1,892,523
Liabilities			
Current liabilities:			
Bonds payable, net	26,362	21,590	47,952
Accrued interest payable	19,755	4,531	24,286
Accounts payable and other	20,023	770	20,793
Rebates owed	108	59	167
Deferred income	395	353	748
Total current liabilities	66,643	27,303	93,946
Noncurrent liabilities:			
Bonds payable, net	927,609	200,864	1,128,473
Reserves for claims	5,422	—	5,422
Rebates owed	19	264	283
Deferred income	3,041	4,718	7,759
Total noncurrent liabilities	936,091	205,846	1,141,937
Total liabilities	1,002,734	233,149	1,235,883
Net Assets			
Invested in capital assets, net of related debt	863	—	863
Restricted net assets:			
Per bond resolutions	94,452	335,522	429,974
Per legislation	22,910	—	22,910
Per other agreements	—	185,101	185,101
Total restricted net assets	117,362	520,623	637,985
Unrestricted net assets	17,792	—	17,792
Total net assets	\$ 136,017	520,623	656,640

See accompanying notes to financial statements.

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, net of related debt	522	—	522
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	17,238	—	17,238
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)

Statements of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2007
(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Operating revenues:			
Interest income	\$ 55,725	27,143	82,868
Net increase (decrease) in fair value of investments and mortgage-backed securities	(651)	16	(635)
Fee income	12,720	1,359	14,079
Grant income	7,719	37,298	45,017
Other income	219	—	219
Total operating revenues	<u>75,732</u>	<u>65,816</u>	<u>141,548</u>
Operating expenses:			
Interest on bonds	43,102	11,042	54,144
General and administrative	9,965	3,287	13,252
Grants and aid	13,004	—	13,004
Provision for losses	862	—	862
Total operating expenses	<u>66,933</u>	<u>14,329</u>	<u>81,262</u>
Operating income/change in net assets	<u>8,799</u>	<u>51,487</u>	<u>60,286</u>
Net assets at June 30, 2006	<u>127,218</u>	<u>469,136</u>	<u>596,354</u>
Net assets at June 30, 2007	<u>\$ 136,017</u>	<u>520,623</u>	<u>656,640</u>

See accompanying notes to financial statements.

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	<u>156,191</u>	<u>415,930</u>	<u>572,121</u>
Net assets at June 30, 2006	<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 Cash Flows
Year Ended June 30, 2007
(Dollars in Thousands)

	Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 13,409	1,649	15,058
Interest received on loans and mortgage-backed securities	42,031	18,088	60,119
Principal payments on loans and mortgage-backed securities	76,369	31,884	108,253
Purchases of loans and mortgage-backed securities	(296,783)	(80,239)	(377,022)
Grants and other income	7,939	37,298	45,237
Cash payments to employees	(6,534)	(296)	(6,830)
Cash payments to suppliers and grantees	(18,540)	(2,592)	(21,132)
Net cash provided by (used in) operating activities	<u>(182,109)</u>	<u>5,792</u>	<u>(176,317)</u>
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	251,300	—	251,300
Payment of bonds	(62,907)	(21,025)	(83,932)
Interest paid	(37,986)	(11,440)	(49,426)
Net cash provided by (used in) noncapital financing activities	<u>150,407</u>	<u>(32,465)</u>	<u>117,942</u>
Cash flows from investing activities:			
Purchases of investments	(39,155)	(173,579)	(212,734)
Interest received on investments	12,232	9,164	21,396
Sales/maturities of investments	42,924	167,680	210,604
Purchase of capital assets	(1,906)	—	(1,906)
Payment of rebate	(12)	(1,782)	(1,794)
Net cash provided by investing activities	<u>14,083</u>	<u>1,483</u>	<u>15,566</u>
Decrease in cash and cash equivalents	<u>(17,619)</u>	<u>(25,190)</u>	<u>(42,809)</u>
Cash and cash equivalents, beginning of year	186,676	209,773	396,449
Cash and cash equivalents, end of year	<u>\$ 169,057</u>	<u>184,583</u>	<u>353,640</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 8,799	51,487	60,286
Interest income on investments and bank deposits	(12,527)	(9,164)	(21,691)
Rebate expense	(103)	(22)	(125)
Interest expense on bonds	43,102	11,042	54,144
Net change in fair value of investments and mortgage- backed securities	651	(16)	635
Depreciation of capital assets	557	—	557
Principal payments on loans and mortgage-backed securities	76,369	31,884	108,253
Purchases of loans and mortgage-backed securities	(296,783)	(80,239)	(377,022)
Decrease (increase) in interest receivable on loans and mortgage-backed securities	(1,065)	130	(935)
Decrease (increase) in other assets	(1,664)	97	(1,567)
(Decrease) increase in accounts payable and other	(135)	303	168
Increase in deferred income	690	290	980
Net cash provided by (used in) operating activities	<u>\$ (182,109)</u>	<u>5,792</u>	<u>(176,317)</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)
Increase in other assets	(2,579)	(111)	(2,690)
Increase in accounts payable and other	570	134	704
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.

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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 of the Code of Iowa 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, multifamily 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, 2007 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$2.6 billion in fiscal years 1997 through 2007, of which approximately \$1.8 billion is outstanding at June 30, 2007.

Chapter 16 of the Code of Iowa 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

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if more than 30 days have elapsed since payment in full was made by the respective mortgagor and certain requirements have been met in accordance with the related laws and administrative rules. The State, and not the Authority or the Division, is liable for any claims arising as the result of releasing a mortgage in error.

Section 16.93 of the Code of Iowa authorizes the Division to issue closing protection letters, which may indemnify a person to whom a proposed title guaranty is to be issued against loss of settlement funds due to certain listed acts of the Division's named participating attorney or participating abstractor.

Chapter 455B of the Code of Iowa authorizes the Authority, jointly and in cooperation with the Iowa Department of Natural Resources (DNR), to undertake the creation, administration, and financing of the Iowa Water Pollution Control Works Financing Program (the Clean Water Program) 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 general obligation of the Authority or the State but are a pledge of future revenue of the State. 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, 2007 and 2006, approximately \$39.8 million and \$46.7 million, respectively, 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, 2007, approximately \$2.2 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 general obligation of the Authority or the State but are a pledge of future revenues of the State. Therefore, the bonds are not recorded in the Authority's financial statements. As of June 30, 2007 and 2006, approximately \$54.2 million and \$59.4 million respectively, 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 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

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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.

- 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 guaranties. 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

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collateral for particular bonds outstanding. Each municipality or water system has entered into a loan agreement with the Authority, DNR, and the trustee and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the Authority, which is held by the trustee as security for the loan.

(g) Other Loans

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

(h) Provision for Housing Agency Loan Losses

An evaluation of the Single Family Bond Program Accounts' whole loan portfolio, any real estate owned, and any real estate in foreclosure is made in relation to applicable loan insurance or guaranties, and when it is determined that the investment in such assets is greater than the estimated net realizable value, a provision for losses is charged to income. No allowance for losses was netted against mortgage loans receivable in the Single Family Bond Program Accounts at June 30, 2007 and 2006. 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 expense. 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 expense. An allowance for losses of \$2.6 million and \$2.3 million was netted against other loans at June 30, 2007 and 2006, 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 subgrantees. Major sources of grant income are the EPA'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) *Recent Accounting Pronouncements*

IN September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. This Statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The Authority has not completed its assessment of the impact of the adoption of this statement, which is required in 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so,

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enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The Authority has not completed its assessment of the impact of the adoption of this statement, which is required in 2008.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The Authority has not completed its assessment of the impact of the adoption of this statement, which is required in 2010.

(s) ***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.

(t) ***Reclassifications***

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

(2) **Deposits and Investments**

(a) ***Deposits***

At June 30, 2007 and 2006, the Authority has uninsured bank balances of \$.5 million and \$0 million, respectively. Deposits of \$136.8 million and \$131.1 million, respectively, were deposited in money market accounts covered by collateralized trust accounts (dollars in thousands).

	June 30, 2007			
	Housing Agency	State Revoving Fund	Total	% of total
Type:				
Cash in bank	\$ 165	2,513	2,678	1.9%
Money market accounts	55,238	81,555	136,793	98.1
Total	<u>\$ 55,403</u>	<u>84,068</u>	<u>139,471</u>	<u>100.0%</u>

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June 30, 2006				
	Housing Agency	State Revolving Fund	Total	% of total
Type:				
Cash in bank	\$ 2,258	—	2,258	1.7%
Money market accounts	30,040	101,105	131,145	98.3
Total	<u>\$ 32,298</u>	<u>101,105</u>	<u>133,403</u>	<u>100.0%</u>

(b) Investments

The following table displays the types of investments, amounts, and the average maturity of the investment (dollars in thousands):

June 30, 2007					
Type:	Housing Agency	State Revolving Fund	Total	% of total	Average Maturity
GNMA mortgage-backed securities	\$ 392,865	—	392,865	33%	25.6 years
FNMA mortgage-backed securities	451,742	—	451,742	38%	27.7 years
FHLMC mortgage-backed securities	217	—	217	1%	22.5 years
Agency notes	35,459	51,400	86,859	7%	1.4 years
Treasury bonds	5,338	—	5,338	0%	10.2 years
Treasury strips	10,239	—	10,239	1%	5.7 years
Certificates of deposit	—	17,213	17,213	2%	8.4 years
State of Iowa pooled money funds	9,325	—	9,325	1%	Less than 1 year
Guaranteed investment contracts	104,329	100,515	204,844	17%	Less than 1 year
Total	<u>\$ 1,009,514</u>	<u>169,128</u>	<u>1,178,642</u>	<u>100%</u>	

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	<u>\$ 852,935</u>	<u>171,367</u>	<u>1,024,302</u>	<u>100%</u>	

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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. The Authority's bond indentures directly specify each 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 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, investment 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 Rating Services 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) Credit Risk

Credit risk is the risk that an issuer or counterparty will not fulfill their obligation to the Authority. Custodial credit risk is the risk that in the event of a depository institution failure, the Authority's deposits may not be returned.

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 individual issuer; and prequalifying the financial institutions, brokers, dealers, and advisers with which the Authority does business.

(e) 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 or single issuer. The Authority diversifies its investment portfolios to minimize the impact of potential losses from one type of security or issuer. Portfolio maturities are staggered to avoid undue concentration of assets within a specific maturity period which provides for stability of income and reasonable liquidity.

The tables below address credit risk and concentration risk for the Authority's cash equivalents (dollars in thousands):

Provider	Credit Ratings		June 30, 2007						Total	% of total
			Housing Agency		State Revolving Fund					
	Standard & Poors Rating	Moody's	Money Market	Guaranteed Investment Contracts	Money Market	Guaranteed Investment Contracts				
AIG MFC	AA/A1+	Aa2/P1	\$ —	4,628	—	—	—	4,628	1%	
Bayerische Landesbank	A/A1	Aa2/P1	—	517	—	—	—	517	—%	
Depfa Bank	AA-/A1+	Aa3/P1	—	12,814	—	—	—	12,814	4%	
FSA Capital Management	AAA/none	Aaa/none	—	4,191	—	—	—	4,191	1%	
IXIS Funding Corp.	AA/A1+	Aaa/P1	—	—	—	24,836	—	24,836	7%	
Pallas Capital	none/none	Aaa/P1	—	11,545	—	—	—	11,545	3%	
Prudential Insurance Co.	AA/A1+	Aa3/none	—	24	—	—	—	24	—%	
Royal Bank of Canada	AA-/A1+	Aaa/P1	—	5,360	—	—	—	5,360	2%	
Societe Generale	AA/A1+	Aa1/P1	—	40,047	—	75,679	—	115,726	34%	
TransAmerica	AA/A1+	Aa3/P1	—	16,215	—	—	—	16,215	5%	
Trinity Funding	AAA/A1+	Aaa/P1	—	8,988	—	—	—	8,988	3%	
Wells Fargo Bank, N.A.	AAA/A1+	Aaa/P1	—	—	—	—	—	—	—	
			55,238	—	81,555	—	—	136,793	40%	
Total			\$ 55,238	104,329	81,555	100,515	—	341,637	100%	

IOWA FINANCE AUTHORITY

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Provider	Standard & Poors Rating	Moody's	June 30, 2006						Total	% of total
			Housing Agency			State Revolving Fund				
			Money Market	Guaranteed Investment Contracts	Guaranteed Investment Contracts	Money Market	Guaranteed Investment Contracts	Guaranteed Investment Contracts		
AIG MFC	AA/A1+	Aa2/P1	\$ —	7,514	—	—	—	7,514	2%	
Bayerische Landesbank	A/A1	Aa2/P1	—	948	—	—	—	948	—%	
Depfa Bank	AA-/A1+	Aa3/P1	—	60,908	—	—	—	60,908	16%	
FSA Capital Management	AAA/none	Aaa/none	—	3,327	—	—	—	3,327	1%	
Hypo Real Estate Bank	AA+/A1+	Aaa/P1	—	351	—	—	—	351	—%	
IXIS Funding Corp.	AAA/A1+	Aaa/P1	—	—	—	25,735	—	25,735	7%	
Royal Bank of Canada	AA-/A1+	Aa2/P1	—	4,846	—	—	—	4,846	1%	
Security Life Insurance	AA/A1+	Aa3/none	—	6,109	—	—	—	6,109	2%	
Societe Generale	AA-/A1+	Aa2/P1	—	37,799	—	82,933	—	120,732	31%	
TransAmerica	AA/A1+	Aa3/P1	—	10,844	—	—	—	10,844	3%	
Trinity Funding	AAA/A1+	Aaa/P1	—	12,126	—	—	—	12,126	3%	
Wells Fargo Bank, N.A.	AAA/A1+	Aaa/P1	30,040	—	101,105	—	—	131,145	34%	
Total			\$ 30,040	144,772	101,105	108,668	—	384,585	100%	

(f) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of the Authority's investments. The Authority minimizes interest rate risk by structuring investment portfolios so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

(g) 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.

(3) Housing Agency Loans

Housing Agency loans at June 30, 2007 and 2006 are as follows (dollars in thousands):

	2007		
	Cost	Provision for losses	Net
Loans secured with first mortgages	\$ 51,065	—	51,065
Loans secured with second mortgages, other collateral, or unsecured	8,471	(2,614)	5,857
Total	\$ 59,536	(2,614)	56,922
	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	\$ 25,682	(2,261)	23,421

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(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2007 and 2006 are as follows (dollars in thousands):

Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes							
General Fund Line of Credit	\$ 1,725		06/06/07	Variable *	n/a	—	1,725
General Fund Note Payable	2,800		10/02/21		4.111%	2,733	
A - Term Bond	17,005		08/01/08		5.875%	1,685	2,675
Total Bonds Outstanding	17,005					1,685	2,675
Unamortized (disc) / prem / other							—
Single Family 1977 A	17,005					1,685	2,675
Single Family Line of Credit	20,000		12/14/06	Variable *	n/a	—	5,541
A - Bonds	22,684			Variable *	4.460%	11,539	—
B - Bonds	3,856			Variable *	4.410%	—	—
Total Bonds Outstanding	26,540					11,539	—
Unamortized (disc) / prem / other							—
Single Family Drawdown 2006 AB	26,540					11,539	—
A - Term Bonds	5,120		07/01/16		5.800%	1,285	1,545
A - Term Bonds	6,090		07/01/25		5.500%	—	485
B - Serial Bonds	4,590	01/01/01	07/01/09	4.550%	5.500%	350	575
B - Term Bonds	5,200		01/01/21		5.300%	—	—
C - Term bonds	4,000		01/01/28		6.100%	1,010	1,215
C - Term bonds	5,000		07/01/30		6.100%	1,265	1,510
Total Bonds Outstanding	30,000					3,910	5,330
Unamortized (disc) / prem / other						(26)	(37)
Single Family 1997 ABCDE	30,000					3,884	5,293
F - Term Bonds	8,025		01/01/16		5.550%	2,515	3,075
F - Term Bonds	12,510		01/01/27		5.700%	3,900	4,765
G - Serial Bonds	9,390	07/01/00	07/01/09	4.300%	5.300%	875	1,480
G - Term Bonds	9,035		01/01/21		4.950%	—	—
H - Term Bonds	2,440		01/01/28		5.850%	755	925
H - Term Bonds	7,820		07/01/30		5.850%	2,410	2,950
Total Bonds Outstanding	49,220					10,455	13,195
Unamortized (disc) / prem / other						(60)	(79)
Single Family 1997 FGH	49,220					10,395	13,116

* Variable rates are as of June 30, 2007

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
A - Serial Bonds	1,530	07/01/11	07/01/13	5.800%	6.000%	300	340
A - Term Bonds	2,975		07/01/18		6.250%	600	680
B - Serial Bonds	3,125	07/01/02	07/01/10	4.800%	5.850%	350	475
B - Term Bonds	2,470		01/01/21		6.400%	495	560
C - Term bonds	6,080		07/01/26		5.700%	1,780	2,015
C - Term bonds	8,820		07/01/30		6.450%	860	1,770
Total Bonds Outstanding	<u>25,000</u>					<u>4,385</u>	<u>5,840</u>
Unamortized (disc) / prem / other						(29)	(40)
Single Family 2000 ABC	<u>25,000</u>					<u>4,356</u>	<u>5,800</u>
D - Serial Bonds	3,205	07/01/07	07/01/10	5.650%	5.800%	570	595
D - Term Bonds	6,375		07/01/16		6.100%	1,120	1,160
E - Serial Bonds	6,890	07/01/01	07/01/08	5.000%	5.900%	240	550
E - Term Bonds	20,530		01/01/21		6.000%	5,100	7,330
E - Term Bonds	2,085		07/01/22		6.350%	370	385
F - Term Bonds	28,030		07/01/32		6.400%	4,955	5,135
Total Bonds Outstanding	<u>67,115</u>					<u>12,355</u>	<u>15,155</u>
Unamortized (disc) / prem / other						(84)	(135)
Single Family 2000 DEF	<u>67,115</u>					<u>12,271</u>	<u>15,020</u>
G - Serial Bonds	590	07/01/11	07/01/12	5.300%	5.400%	300	315
G - Term Bonds	3,095		07/01/18		5.800%	1,580	1,690
G - Term Bonds	18,315		01/01/33		5.900%	8,965	9,750
H - Term Bonds (taxable)	10,000		07/01/29		7.190%	875	2,825
Total Bonds Outstanding	<u>32,000</u>					<u>11,720</u>	<u>14,580</u>
Unamortized (disc) / prem / other						(80)	(104)
Single Family 2000 GH	<u>32,000</u>					<u>11,640</u>	<u>14,476</u>
A - Serial Bonds	6,905	07/01/02	01/01/11	3.100%	4.600%	890	1,195
A - Term Bonds	4,680		07/01/16		5.100%	1,020	1,115
B - Serial Bonds	1,495	07/01/11	07/01/12	5.000%	5.100%	325	360
B - Term Bonds	10,310		07/01/23		4.700%	4,895	6,095
C - Term bonds	15,445		07/01/33		5.500%	7,685	7,865
Total Bonds Outstanding	<u>38,835</u>					<u>14,815</u>	<u>16,630</u>
Unamortized (disc) / prem / other						(180)	(217)
Single Family 2001 ABC	<u>38,835</u>					<u>14,635</u>	<u>16,413</u>
D - Serial Bonds	3,950	07/01/04	07/01/13	3.250%	4.850%	1,400	1,970
D - Term Bonds	3,700		07/01/21		5.250%	2,050	2,355
D - Term Bonds	6,250		07/01/33		4.300%	2,355	3,430
D - Term Bonds	11,100		01/01/34		5.375%	5,665	6,695
Total Bonds Outstanding	<u>25,000</u>					<u>11,470</u>	<u>14,450</u>
Unamortized (disc) / prem / other						(84)	(111)
Single Family 2001 D	<u>25,000</u>					<u>11,386</u>	<u>14,339</u>

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
A - Serial Bonds	6,500	07/01/04	07/01/14	2.900%	5.150%	1,925	2,640
A - Term Bonds	1,665		01/01/22		5.300%	360	500
A - Term Bonds	3,930		07/01/22		5.300%	885	1,120
A - Term Bonds	5,190		07/01/27		5.300%	5,190	5,190
A - Term Bonds	4,565		07/01/32		5.400%	895	1,230
A - Term Bonds	8,750		01/01/33		4.450%	3,790	5,280
A - Term Bonds	4,400		07/01/33		5.400%	960	1,230
Total Bonds Outstanding	<u>35,000</u>					<u>14,005</u>	<u>17,190</u>
Unamortized (disc) / prem / other						<u>(99)</u>	<u>(127)</u>
Single Family 2002 A	<u>35,000</u>					<u>13,906</u>	<u>17,063</u>
B - Serial Bonds	10,925	07/01/03	07/01/14	2.000%	4.850%	3,530	4,645
C - Term bonds	6,425		07/01/21		5.500%	2,250	2,745
C - Term bonds	5,240		01/01/22		5.500%	1,845	2,210
C - Term bonds	9,250		07/01/24		4.500%	4,950	5,950
D - Term Bonds	7,050		01/01/28		5.500%	7,050	7,050
D - Term Bonds	6,000		07/01/32		5.600%	2,100	2,545
D - Term Bonds	6,340		07/01/33		5.600%	2,215	2,715
E - Term Bonds (taxable)	10,000		01/01/33		5.710%	3,835	5,745
Total Bonds Outstanding	<u>61,230</u>					<u>27,775</u>	<u>33,605</u>
Unamortized (disc) / prem / other						<u>(346)</u>	<u>(438)</u>
Single Family 2002 BCDE	<u>61,230</u>					<u>27,429</u>	<u>33,167</u>
F - Serial Bonds	2,670	07/01/04	07/01/14	1.750%	4.000%	1,335	1,760
F - Term Bonds	765		01/01/16		4.250%	545	620
G - Serial Bonds	1,310	07/01/10	07/01/13	3.750%	4.100%	915	1,045
G - Term Bonds	4,685		01/01/23		4.900%	3,265	3,710
G - Term Bonds	635		07/01/24		4.900%	450	505
H - Term Bonds	7,855		01/01/31		5.000%	5,470	6,220
H - Term Bonds	10,000		07/01/33		3.500%	5,225	6,925
H - Term Bonds	5,830		07/01/34		5.000%	4,055	4,605
I - Term Bonds	11,250		07/01/32	Variable*	3.800%	8,680	9,670
Total Bonds Outstanding	<u>45,000</u>					<u>29,940</u>	<u>35,060</u>
Unamortized (disc) / prem / other						<u>(190)</u>	<u>(233)</u>
Single Family 2002 FGHI	<u>45,000</u>					<u>29,750</u>	<u>34,827</u>
A - Serial Bonds	5,175	01/01/06	07/01/16	2.250%	4.750%	3,640	4,385
A - Term Bonds	3,675		07/01/22		5.000%	2,840	3,155
A - Term Bonds	1,200		01/01/23		5.000%	990	1,085
A - Term Bonds	8,950		01/01/34		5.125%	7,035	7,770
A - Term Bonds	7,000		07/01/35		4.400%	3,565	4,510
A - Term Bonds	9,000		07/01/35		5.125%	7,100	7,875
B - Term Bonds	10,000		07/01/34	Variable*	5.699%	7,160	8,450
Total Bonds Outstanding	<u>45,000</u>					<u>32,330</u>	<u>37,230</u>
Unamortized (disc) / prem / other						<u>(142)</u>	<u>(195)</u>
Single Family 2003 AB	<u>45,000</u>					<u>32,188</u>	<u>37,035</u>

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
C - Serial Bonds	3,750	07/01/09	01/01/15	2.600%	3.750%	2,230	2,860
D - Serial Bonds	2,830	01/01/05	01/01/10	1.600%	3.100%	905	1,580
D - Term Bonds	10,270		01/01/25		4.250%	6,660	8,450
E - Serial Bonds	820		07/01/33		4.600%	485	625
E - Term Bonds	2,330		01/01/34		4.600%	1,390	1,785
F - Term Bonds	20,000		01/01/33	Variable*	3.800%	19,685	19,685
G - Term Bonds (taxable)	10,000		07/01/25	Variable*	5.649%	7,515	8,595
Total Bonds Outstanding	<u>50,000</u>					<u>38,870</u>	<u>43,580</u>
Unamortized (disc) / prem / other						<u>29</u>	<u>(1)</u>
Single Family 2003 CDEFG	<u>50,000</u>					<u>38,899</u>	<u>43,579</u>
H - Serial Bonds	3,670	01/01/09	07/01/15	3.000%	4.300%	3,195	3,445
I - Term Bonds	5,450		07/01/22		4.900%	4,765	5,120
J - Serial Bonds	4,620	07/01/05	01/01/14	1.650%	4.450%	2,890	3,735
J - Term Bonds	9,500		07/01/29		5.000%	8,180	8,885
J - Term Bonds	11,000		07/01/34		5.000%	8,335	9,960
J - Term Bonds	10,760		01/01/35		5.100%	9,205	10,020
Total Bonds Outstanding	<u>45,000</u>					<u>36,570</u>	<u>41,165</u>
Unamortized (disc) / prem / other						<u>197</u>	<u>231</u>
Single Family 2003 HLJ	<u>45,000</u>					<u>36,767</u>	<u>41,396</u>
A - Serial Bonds	6,120	07/01/05	07/01/14	1.750%	4.450%	3,945	4,795
A - Term Bonds	3,855		07/01/24		4.900%	3,080	3,460
A - Term Bonds	12,270		01/01/34		5.000%	10,245	11,810
A - Term Bonds	2,585		07/01/34		5.100%	2,130	2,395
A - Term Bonds	5,170		01/01/35		5.100%	4,175	4,690
B - Term Bonds	15,000		07/01/34	Variable*	3.750%	15,000	15,000
Total Bonds Outstanding	<u>45,000</u>					<u>38,575</u>	<u>42,150</u>
Unamortized (disc) / prem / other						<u>221</u>	<u>252</u>
Single Family 2004 AB	<u>45,000</u>					<u>38,796</u>	<u>42,402</u>
C - Serial Bonds	3,395	01/01/06	01/01/07	2.500%	4.700%	2,090	2,965
C - Term Bonds	1,155		07/01/09		3.660%	960	1,095
C - Term Bonds	1,400		07/01/12		4.280%	1,185	1,345
C - Term Bonds	610		07/01/14		4.700%	515	585
C - Term Bonds	7,400		07/01/25		5.125%	6,210	7,050
C - Term Bonds	2,680		01/01/30		5.200%	2,260	2,565
C - Term Bonds	2,680		07/01/30		5.200%	2,255	2,560
C - Term Bonds	5,650		01/01/34		5.250%	4,850	5,450
C - Term Bonds	9,030		07/01/35		5.250%	7,530	8,625
D - Term Bonds	17,000		07/01/34	Variable*	3.830%	15,985	16,750
Total Bonds Outstanding	<u>51,000</u>					<u>43,840</u>	<u>48,990</u>
Unamortized (disc) / prem / other						<u>(51)</u>	<u>(59)</u>
Single Family 2004 CD	<u>51,000</u>					<u>43,789</u>	<u>48,931</u>

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
E - Serial Bonds	10,825	01/01/06	01/01/16	1.950%	3.950%	8,090	10,190
F - Term Bonds	2,375		07/01/24		4.550%	2,070	2,370
F - Term Bonds	10,400		01/01/35		5.000%	9,455	10,145
F - Term Bonds	6,400		07/01/35		4.800%	5,500	6,275
G - Term Bonds	20,000		07/01/34	Variable*	3.750%	20,000	20,000
Total Bonds Outstanding	<u>50,000</u>					<u>45,115</u>	<u>48,980</u>
Unamortized (disc) / prem / other						<u>285</u>	<u>327</u>
Single Family 2004 EFG	<u>50,000</u>					<u>45,400</u>	<u>49,307</u>
A - Serial Bonds	5,885	07/01/07	07/01/16	2.900%	4.300%	5,255	5,790
B - Serial Bonds	2,925	01/01/07	01/01/15	3.200%	4.500%	2,220	2,875
B - Term Bonds	15,350		07/01/25		4.600%	13,750	15,120
B - Term Bonds	17,300		07/01/30		5.000%	16,035	17,140
C - Term Bonds	24,000		07/01/36	Variable*	3.800%	24,000	24,000
Total Bonds Outstanding	<u>65,460</u>					<u>61,260</u>	<u>64,925</u>
Unamortized (disc) / prem / other						<u>220</u>	<u>215</u>
Single Family 2005 ABC	<u>65,460</u>					<u>61,480</u>	<u>65,140</u>
D - Serial Bonds	5,995	01/01/07	01/01/16	3.000%	4.250%	5,195	5,995
D - Term Bonds	2,565		07/01/13		4.000%	2,440	2,565
D - Term Bonds	8,340		01/01/36		4.450%	7,935	8,340
D - Term Bonds	19,100		01/01/36		5.000%	17,650	19,100
E - Term Bonds	24,000		01/01/36	Variable*	3.750%	24,000	24,000
Total Bonds Outstanding	<u>60,000</u>					<u>57,220</u>	<u>60,000</u>
Unamortized (disc) / prem / other						<u>564</u>	<u>621</u>
Single Family 2005 DE	<u>60,000</u>					<u>57,784</u>	<u>60,621</u>
F - Serial Bonds	3,075	07/01/14	07/01/16	4.000%	4.200%	2,995	3,075
G - Serial Bonds	6,810	07/01/07	01/01/14	3.250%	4.300%	6,625	6,810
G - Term Bonds	1,510		07/01/26		4.700%	1,490	1,510
G - Term Bonds	240		07/01/31		4.750%	240	240
G - Term Bonds	19,800		01/01/36		5.000%	19,325	19,800
G - Term Bonds	4,565		01/01/37		4.875%	4,435	4,565
H - Term Bonds	24,000		07/01/36	Variable*	3.800%	24,000	24,000
Total Bonds Outstanding	<u>60,000</u>					<u>59,110</u>	<u>60,000</u>
Unamortized (disc) / prem / other						<u>531</u>	<u>568</u>
Single Family 2005 FGH	<u>60,000</u>					<u>59,641</u>	<u>60,568</u>
A - Serial Bonds	1,385	07/01/14	01/01/15	3.800%	3.900%	1,385	1,385
B - Serial Bonds	10,655	07/01/07	07/01/16	3.400%	4.300%	10,655	10,655
B - Term Bonds	4,535		01/01/26		4.750%	4,535	4,535
B - Term Bonds	14,425		01/01/36		4.900%	14,425	14,425
B - Term Bonds	17,000		01/01/36		5.000%	16,765	17,000
C - Term Bonds	12,000		01/01/36	Variable*	3.750%	12,000	12,000
Total Bonds Outstanding	<u>60,000</u>					<u>59,765</u>	<u>60,000</u>
Unamortized (disc) / prem / other						<u>291</u>	<u>308</u>
Single Family 2006 ABC	<u>60,000</u>					<u>60,056</u>	<u>60,308</u>

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Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
D - Serial Bonds	1,575	07/01/14	07/01/15	4.100%	4.150%	1,565	1,575
E - Serial Bonds	6,965	07/01/07	07/01/14	3.700%	4.500%	6,935	6,965
E - Term Bonds	1,270		07/01/16		4.650%	1,260	1,270
E - Term Bonds	3,925		07/01/26		4.850%	3,925	3,925
E - Term Bonds	245		07/01/31		4.950%	245	245
E - Term Bonds	25,250		01/01/36		5.500%	25,125	25,250
E - Term Bonds	8,770		01/01/37		5.000%	8,765	8,770
F - Term Bonds	12,000		07/01/36	Variable*	3.800%	12,000	12,000
Total Bonds Outstanding	<u>60,000</u>					<u>59,820</u>	<u>60,000</u>
Unamortized (disc) / prem / other						<u>1,140</u>	<u>1,201</u>
Single Family 2006 DEF	<u>60,000</u>					<u>60,960</u>	<u>61,201</u>
G - Serial Bonds	2,720	07/01/07	07/01/16	3.750%	4.500%	2,720	—
G - Term Bonds	12,975		01/01/26		4.875%	12,975	—
G - Term Bonds	8,265		07/01/30		5.000%	8,265	—
G - Term Bonds	14,620		07/01/36		5.000%	14,620	—
G - Term Bonds	8,420		07/01/36		5.750%	8,420	—
H - Term Bonds (Taxable)	23,000		07/01/36		5.868%	23,000	—
Total Bonds Outstanding	<u>70,000</u>					<u>70,000</u>	<u>—</u>
Unamortized (disc) / prem / other						<u>162</u>	<u>—</u>
Single Family 2006 GH	<u>70,000</u>					<u>70,162</u>	<u>—</u>
I - Term Bonds	5,405		07/01/21		4.700%	5,405	—
I - Term Bonds	7,385		07/01/26		4.800%	7,385	—
I - Term Bonds	10,085		07/01/31		4.900%	10,085	—
I - Term Bonds	17,125		07/01/37		4.950%	17,125	—
J - Term Bonds (Taxable)	40,000		07/01/37		5.745%	40,000	—
Total Bonds Outstanding	<u>80,000</u>					<u>80,000</u>	<u>—</u>
Unamortized (disc) / prem / other						<u>(585)</u>	<u>—</u>
Single Family 2006 IJ	<u>80,000</u>					<u>79,415</u>	<u>—</u>
A - Serial Bonds	3,855	01/01/08	07/01/17	3.500%	3.950%	2,720	—
B - Term Bonds	4,935		07/01/22		4.600%	12,975	—
B - Term Bonds	5,175		07/01/26		4.700%	8,265	—
B - Term Bonds	10,560		07/01/32		4.750%	14,620	—
B - Term Bonds	10,475		07/01/37		4.800%	8,420	—
C - Term Bonds (Taxable)	35,000		07/01/37	Variable (1)	5.320%	23,000	—
Total Bonds Outstanding	<u>70,000</u>					<u>70,000</u>	<u>—</u>
Unamortized (disc) / prem / other						<u>(392)</u>	<u>—</u>
Single Family 2007 ABC	<u>70,000</u>					<u>69,608</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%	15,100	15,815
Total Bonds Outstanding	<u>28,130</u>					<u>15,100</u>	<u>15,815</u>
Unamortized (disc) / prem / other						<u>(158)</u>	<u>(180)</u>
Multi Family 1978 A	<u>28,130</u>					<u>14,942</u>	<u>15,635</u>

* Variable rates are as of June 30, 2007

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Notes to Financial Statements
June 30, 2007 and 2006

Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
Housing Agency Bonds & Notes (continued)							
A - Term Bonds	6,475		07/01/41		4.600%	6,475	—
Total Bonds Outstanding	6,475					6,475	—
Unamortized (disc) / prem / other						—	—
MultiFamily 2006 A	6,475					6,475	—
A - Term Bonds	12,700		08/01/37	Variable (1)	3.800%	12,700	—
B - Term Bonds	9,300		08/01/37	Variable (1)	3.800%	9,300	—
Total Bonds Outstanding	22,000					22,000	—
Unamortized (disc) / prem / other						—	—
MultiFamily 2007 AB	22,000					22,000	—
Bonds Outstanding	1,345,000					952,837	763,811
Unamortized (disc) / prem / other						1,134	1,767
Total Housing Agency	1,345,000					953,971	765,578
State Revolving Fund							
A - Serial Bonds	37,340	08/01/02	08/01/11	4.000%	5.250%	14,265	18,130
B - Serial Bonds	138,810		04/01/21	4.000%	5.250%	95,165	105,125
Total Bonds Outstanding	176,150					109,430	123,255
Unamortized (disc) / prem / other						(200)	(261)
CW 2001	176,150					109,230	122,994
A - Serial Bonds	12,900	08/01/02	08/01/11	4.000%	5.250%	7,915	9,035
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%	15,630	17,130
B - Term Bonds	4,895		08/01/16		5.500%	4,895	4,895
B - Term Bonds	5,750		08/01/18		5.500%	5,750	5,750
B - Term Bonds	6,120		08/01/20		5.000%	6,120	6,120
B - Term Bonds	3,960		08/01/23		5.000%	3,960	3,960
Total Bonds Outstanding	57,075					46,375	48,995
Unamortized (disc) / prem / other						496	563
DW 2001	57,075					46,871	49,558

* Variable rates are as of June 30, 2007

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Notes to Financial Statements
June 30, 2007 and 2006

Description	Original Amount	Due Dates		Interest Rate		Balance	
		From	To	From	To	2007	2006
State Revolving Fund (continued)							
Total Bonds Outstanding	3,350	08/01/03	08/01/22	2.000%	4.700%	2,445	2,695
Unamortized (disc) / prem / other						(12)	(14)
CW 2003	<u>3,350</u>					<u>2,433</u>	<u>2,681</u>
A - Serial Bonds	3,240	08/01/04	08/01/17	2.000%	4.300%	2,535	2,795
B - Serial Bonds	49,510	08/01/04	08/01/24	2.000%	5.000%	45,655	47,430
Total Bonds Outstanding	52,750					48,190	50,225
Unamortized (disc) / prem / other						(12)	(13)
DW 2003	<u>52,750</u>					<u>48,178</u>	<u>50,212</u>
Total Bonds Outstanding	11,090	08/01/06	08/01/12	3.250%	5.000%	9,515	11,090
Unamortized (disc) / prem / other						110	154
CW 2005	<u>11,090</u>					<u>9,625</u>	<u>11,244</u>
Total Bonds Outstanding	6,685	08/01/06	08/01/12	3.250%	5.000%	6,040	6,685
Unamortized (disc) / prem / other						77	105
DW 2005	<u>6,685</u>					<u>6,117</u>	<u>6,790</u>
Bonds Outstanding	307,100					221,995	242,945
Unamortized (disc) / prem / other						459	534
Total State Revolving Fund	<u>307,100</u>					<u>222,454</u>	<u>243,479</u>
Bonds Outstanding	1,847,290					1,174,832	1,006,756
Unamortized (disc) / prem / other						1,593	2,301
Total Authority	<u>1,847,290</u>					<u>1,176,425</u>	<u>1,009,057</u>

The following table summarizes the net bonds and notes payable activity for the Authority for the years ended June 30, 2007 and 2006 (dollars in thousands):

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>	<u>Due within one year</u>
Housing Agency	\$ 765,578	251,300	62,907	953,971	26,362
State Revolving Fund	243,479	—	21,025	222,454	21,590
Total	<u>\$ 1,009,057</u>	<u>251,300</u>	<u>83,932</u>	<u>1,176,425</u>	<u>47,952</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Due within one year</u>
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	<u>\$ 826,954</u>	<u>259,500</u>	<u>77,397</u>	<u>1,009,057</u>	<u>37,906</u>

IOWA FINANCE AUTHORITY

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Notes to Financial Statements

June 30, 2007 and 2006

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
2008	\$ 26,362	44,380	70,742	21,590	10,433	32,023	47,952	54,813	102,765
2009	16,334	43,985	60,319	22,820	9,361	32,181	39,154	53,346	92,500
2010	16,231	43,329	59,560	23,255	8,278	31,533	39,486	51,607	91,093
2011	17,197	42,585	59,782	23,775	7,153	30,928	40,972	49,738	90,710
2012	17,859	41,825	59,684	23,550	5,989	29,539	41,409	47,814	89,223
2013 – 2017	105,414	195,145	300,559	66,775	16,099	82,874	172,189	211,244	383,433
2018 – 2022	134,060	166,278	300,338	30,450	6,086	36,536	164,510	172,364	336,874
2023 – 2027	173,980	129,822	303,802	9,780	574	10,354	183,760	130,396	314,156
2028 – 2032	219,195	82,120	301,315	—	—	—	219,195	82,120	301,315
2033 – 2037	198,095	27,669	225,764	—	—	—	198,095	27,669	225,764
2038 – 2042	28,110	346	28,456	—	—	—	28,110	346	28,456
Total	\$ 952,837	817,484	1,770,321	221,995	63,973	285,968	1,174,832	881,457	2,056,289

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, 2007.

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 principal 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

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Notes to Financial Statements

June 30, 2007 and 2006

The amount of defeased debt outstanding at June 30, 2007 and 2006 is shown below (dollars in thousands):

	Balance	
	June 30, 2007	June 30, 2006
State Revolving Fund Defeased Bonds		
Combined Series 1997	\$ —	7,185
Combined Series 1998	15,340	16,390
Combined Series 1999	23,895	25,460
Series 2000A	4,250	4,575
Total State Revolving Fund Defeased Bonds	43,485	53,610
Total Authority	\$ 43,485	53,610

(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 principal amount) based on a common notional amount and maturity date. The table below contains information on the terms and net fair value (as of June 30, 2007 and 2006) of the Authority's swap transactions (dollars in thousands):

Associated bond series	Effective date	Notional value at 6/30/2007	Fixed rate	Fair value		Termination date
				06/30/07	06/30/06	
SF 2002 I	10/30/2002	\$ 8,680	3.653%	\$ 143	229	07/01/2032
SF 2003 F	06/25/2003	19,685	3.615%	1,203	1,280	01/03/2033
SF 2004 B	12/02/2004	15,000	4.086%	(103)	108	07/01/2034
SF 2004 D	02/03/2005	15,985	4.007%	117	177	07/01/2020
SF 2004 G	06/01/2005	20,000	3.867%	230	490	07/01/2034
SF 2005 C	11/01/2005	24,000	4.140%	59	120	01/01/2036
SF 2005 E	02/01/2006	24,000	3.817%	437	744	01/01/2036
SF 2005 H	05/01/2006	24,000	3.843%	531	639	07/01/2036
SF 2006 C	09/01/2006	12,000	3.766%	174	293	01/01/2036
SF 2006 F	11/01/2006	12,000	4.632%	(259)	121	07/01/2036
SF 2007 C	03/08/2007	35,000	5.034%	98	n/a	07/01/2025

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

IOWA FINANCE AUTHORITY

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Notes to Financial Statements

June 30, 2007 and 2006

- (b) **Corridor agreements** involve the purchase and sale of interest rate caps between two parties (without the exchange of the underlying principal amount) based on a common notional amount and maturity date. The table below contains information on the terms and net fair value (as of June 30, 2007 and 2006) of the Authority's corridor transactions (dollars in thousands):

Corridor Table							
Associated bond series	Effective date	Notional value at 6/30/2007	Cap/strike rate		Fair Value		Termination date
			Purchased	Sold	06/30/07	06/30/06	
SF 2003 B	03/19/03	\$ 7,160	6.00%	11.00%	\$ 25	56	07/01/12
SF 2003 G	06/25/03	7,515	5.00%	10.00%	142	226	07/01/13

- (c) **Interest Rate Caps** involve payment of a premium by the buyer, who in exchange receives money at the end of each period in which an interest rate exceeds the agreed upon strike price. The table below contains information on the terms and fair values (as of June 30, 2007 and 2006) of the Authority's interest rate cap transactions (dollars in thousands):

Interest Rate Cap Table						
Associated bond series	Effective date	Notional value at 6/30/2007	Cap/Strike Rate	Fair Value		Termination date
				06/30/07	06/30/06	
MF 2007 A	06/14/07	\$ 12,700	4.50%	\$ 58	n/a	7/1/2012
MF 2007 B*	06/14/07	9,300	4.50%	433	n/a	1/1/2024

* On 07/01/2014 the cap/strike rate will change to 5.00% and will change once more to 5.50% on 07/01/2019.

- (d) **Swap Payments and Associated Debt payments** will vary over time as interest rates vary. Using rates as of June 30, 2007, the debt service requirements of the Authority's outstanding variable rate debt and the net swap payments, are as follows (dollars in thousands):

Fiscal year ending June 30	Variable-rate bonds principal	Variable-rate bonds interest	Interest rate swaps, net	Total
2008	\$ 1,480	8,471	566	10,518
2009	1,175	8,349	537	10,061
2010	1,245	8,316	537	10,099
2011	1,285	8,248	495	10,028
2012	1,340	8,194	495	10,028
2013–2017	9,560	39,899	2,581	52,039
2018–2022	27,335	35,846	2,145	65,327
2023–2027	39,055	29,477	1,542	70,074
2028–2032	65,755	19,372	902	86,028
2033–2037	59,930	5,122	178	65,230
2038	2,190	10	—	2,200
Total	\$ 210,350	171,303	9,979	391,632

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007 and 2006

(e) *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.

(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, 2006 (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, 2007 and 2006 were \$302,227 and \$291,681, respectively, equal to the required contribution for each year.

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2007 and 2006

(7) Commitments and Contingencies

(a) *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, 2007 and 2006 was \$1.5 million and \$2.3 million, respectively, for which a \$.5 million reserve for claims liability is recorded at June 30, 2007 and 2006.

The Authority has committed to purchase \$104.6 million in mortgage-backed securities under its FirstHome program as of June 30, 2007.

The Authority has approved loan agreements under various housing assistance programs for which \$6.0 million has not been disbursed as of June 30, 2007.

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, 2007 follows (dollars in thousands):

Description	June 30, 2007	June 30, 2006
Transitional housing grants	\$ —	9
Project-based housing grants	345	381
Local Housing Trust Fund grants	517	263
Capacity building grants	88	207
CHODO capacity building and intern grants	—	9
Technical assistance for transitional housing grants	—	8
Total outstanding commitments	\$ 950	877

(b) *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 \$52.5 million and \$20.4 million, respectively, have not been disbursed as of June 30, 2007.

(8) Subsequent Events

The Authority issued Single Family Mortgage Revenue Bonds, Series 2007 DEFG, in the amount of \$83.6 million on July 12, 2007.

The Authority issued Single Family Mortgage Revenue Bonds, Series 2007 HIJ, in the amount of \$89.8 million on September 14, 2007.

The Authority issued State Revolving Fund Bonds, Series 2007, in the amount of \$64.2 million on October 11, 2007.

IOWA FINANCE AUTHORITY
 (A Component Unit of the State of Iowa)
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2007
 (Dollars in Thousands)

<u>Grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
United States Department of Housing and Urban Development direct programs:		
Housing Counseling Assistance Program	14.169	\$ 101
Section 8 Housing Assistance Payments Program—Special Allocations	14.195	42,714
Emergency Shelter Grants Program	14.231	1,685
Shelter Care Plus	14.238	16
Housing Opportunities for Persons with AIDS (H.O.P.W.A.) program	14.241	426
Total United States Department of Housing and Urban Development		<u>44,942</u>
United States Department of Agriculture direct programs:		
Rural Community Development Initiative (R.C.D.I.) Grant	10.446	156
Total United States Department of Agriculture		<u>156</u>
Total federal awards expenditures		<u>\$ 45,098</u>

See accompanying notes to schedule of expenditures of federal awards.

IOWA FINANCE AUTHORITY

(A Component Unit of the State of Iowa)

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

(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, 2007, 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 subawards from nonfederal 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.

(2) Subrecipients

Of the federal expenditure presented in the Schedule, the Authority provided federal awards to subrecipients as follows:

<u>Program title</u>	<u>Federal CFDA number</u>	<u>Amount provided to subrecipients</u>
Housing Counseling Assistance Program	14.169	\$ 66
Emergency Shelter Grants Program	14.231	1,676
H.O.P.W.A Program	14.241	405



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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 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 year ended June 30, 2007, and have issued our report thereon dated October 24, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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
October 24, 2007



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, 2007. The Authority's major federal programs are 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 programs 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 each of its major federal programs for the year ended June 30, 2007.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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
October 24, 2007

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Findings and Questioned Costs
Year ended June 30, 2007

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: *Unqualified opinion*
- (b) Significant deficiencies in internal control over financial reporting were reported: *None reported*
Material weaknesses: *No*
- (c) Noncompliance which is material to the financial statements: *No*
- (d) Significant deficiencies in internal control over compliance were disclosed: *None reported*
Material weaknesses: *No*
- (e) The type of report issued on compliance for major programs: *Unqualified opinion*
- (f) Any audit findings that 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 and 14.231 Emergency Shelter Grants Program*
- (h) Dollar threshold used to distinguish between Type A and Type B programs: *\$1,352,947*
- (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.