



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

Basic Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 8
Financial Statements:	
Statements of Net Assets	9 – 12
Statements of Revenues, Expenses, and Changes in Net Assets	13 – 14
Statements of Cash Flows	15 – 18
Notes to Financial Statements	19 – 42



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

Independent Auditor's 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, 2012 and 2011, which collectively comprise the Authority's basic financial statements as listed in the 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 audit provides 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, 2012 and 2011, and the respective changes in financial position and cash flows 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 25, 2012 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.

U.S. generally accepted accounting principles require that Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries,



the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Des Moines, Iowa
October 25, 2012

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2012 and 2011

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, 2012 and 2011. 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 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, 2012 and 2011. 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.

Authority Bond Ratings

In August 2011, Standard and Poor's lowered its long-term credit rating on the United States of America from AAA to AA+ and downgraded all mortgage revenue bonds where the underlying security (the mortgages) is guaranteed by the federal government. This affects the Authority's single-family bonds totaling \$659 million on June 30, 2012, which are now rated AA+ by Standard and Poor's.

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 (SRF)

The statements of net assets detail the assets and liabilities of the Authority based on their liquidity, utilizing current, and noncurrent categories. The resulting net assets in these statements are displayed as either restricted or unrestricted. Under Governmental Accounting Standards Board (GASB) Statement Nos. 34, 37, and 38, assets are restricted when their use is subject to external restrictions (such as bond resolutions, legal agreements, statutes, etc.), with assets not falling under this category being characterized as unrestricted. 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.

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

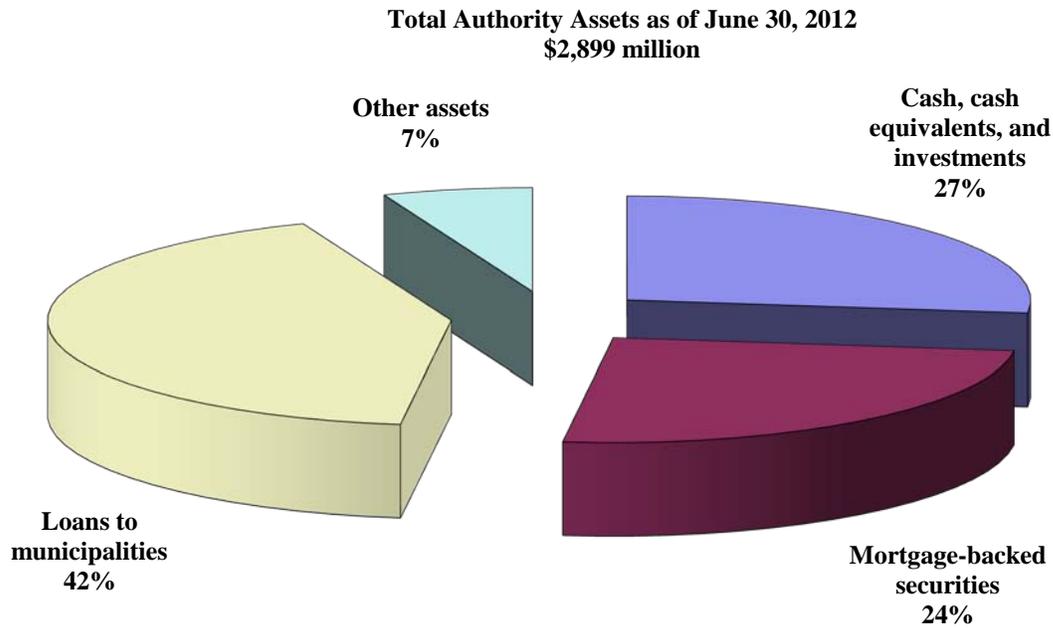
Management's Discussion and Analysis

June 30, 2012 and 2011

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.

Condensed Financial Information

The following charts and tables present condensed financial information for fiscal year 2012 and fiscal year 2011.



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

Management's Discussion and Analysis

June 30, 2012 and 2011

Total Authority Assets as of June 30, 2011
\$2,950 million

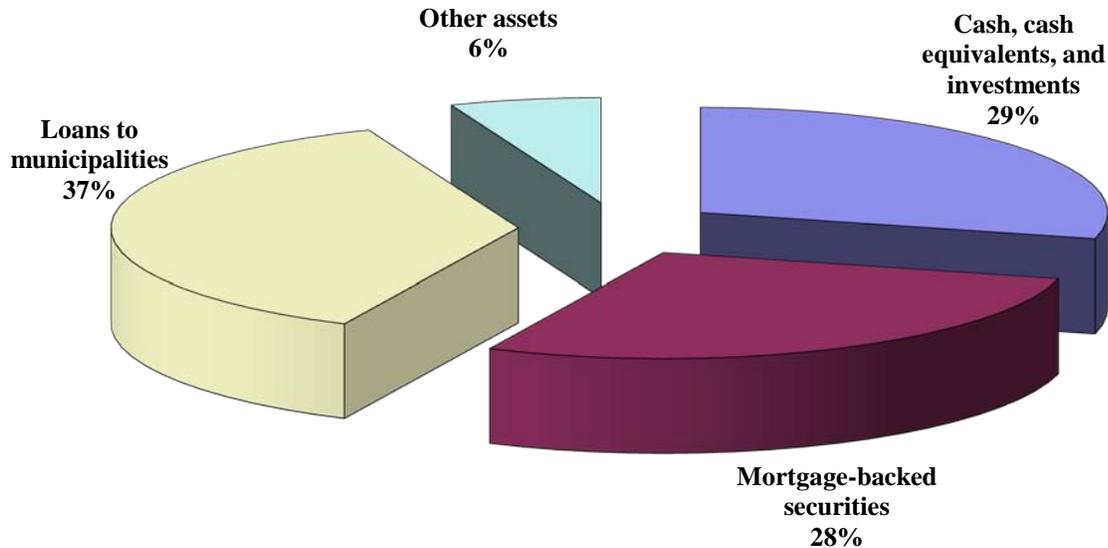


Table 1 – Total Condensed Information of the Authority

	Net Assets		
	(Dollars in millions)		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Cash, cash equivalents, and investments	\$ 778.6	856.9	965.5
Mortgage-backed securities	707.9	840.4	951.2
Loans to municipalities or water systems	1,214.7	1,079.1	859.4
Other assets	197.7	173.9	138.1
Total assets	<u>2,898.9</u>	<u>2,950.3</u>	<u>2,914.2</u>
Liabilities:			
Bonds payable, net	1,665.2	1,757.7	1,849.7
Other liabilities	165.4	200.2	179.4
Total liabilities	<u>1,830.6</u>	<u>1,957.9</u>	<u>2,029.1</u>
Net assets:			
Invested in capital assets, net of related debt	3.0	0.8	1.0
Restricted net assets	1,051.3	979.0	875.6
Unrestricted net assets	14.0	12.6	8.5
Total net assets	<u>\$ 1,068.3</u>	<u>992.4</u>	<u>885.1</u>

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

Management's Discussion and Analysis

June 30, 2012 and 2011

Revenues, Expenses, and Changes in Net Assets

(Dollars in millions)

	2012	2011	2010
Operating revenues:			
Interest income	\$ 88.8	86.3	87.4
Net increase (decrease) in fair value	(4.1)	(3.2)	33.2
Fee and other income	17.5	19.4	17.1
Grant income	140.3	234.7	136.9
	242.5	337.2	274.6
Total operating revenues			
Operating expenses:			
Interest on bonds	66.6	68.6	71.8
General and administrative	22.8	22.3	21.1
Grants and aid	77.3	138.8	117.3
Provision (recoveries) for losses	(0.1)	0.2	0.9
	166.6	229.9	211.1
Total operating expenses			
Change in net assets	75.9	107.3	63.5
Net assets at beginning of year	992.4	885.1	821.6
Net assets at end of year	\$ 1,068.3	992.4	885.1

Financial Analysis – Combined 2012

- The Authority's assets declined \$51.4 million to \$2,898.9 million in FY12 compared to \$2,950.3 million in FY11. Cash, cash equivalents, and investments declined 9%, or \$78.3 million. Mortgage-backed securities (MBS) declined 16%, or \$132.5 million. Loans to municipalities or water systems (SRF loans) grew 13%, or \$135.6 million.
- The Authority's liabilities declined \$127.3 million to \$1,830.6 in FY12 compared to \$1,957.9 million in FY11. Bonds payable declined 5%, or \$92.5 million. Other liabilities declined 17% or \$34.8 million.
- The Authority's net assets increased \$75.9 million to \$1,068.3 in FY12 compared to \$992.4 million in FY11.

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

Management's Discussion and Analysis

June 30, 2012 and 2011

The Authority issued two new single-family bond series totaling \$44.0 million and converted \$66.0 million of new issue bond program escrow bonds to program bonds to purchase MBS under the FirstHome Program. One multifamily bond series was issued totaling \$11.5 million. One SRF bond series was issued with a face value of \$220.4 million, which sold at a premium for total proceeds of \$255.7 million. The Authority made bond payments of \$470.8 million.

Series	Date	(In millions)	Rating
SF 2011 1 & 3B	07/28/11	\$ 60.0	Aaa by Moody's
SF 2011 2 & 3C	11/14/11	50.0	Aaa by Moody's
MF 2011 B	10/28/11	11.5	Aa3 by Moody's
SRF 2011	12/20/11	255.7	AAA by Standard & Poor's; Aaa by Moody's; AAA by Fitch Ratings
Participation	12/02/11	1.0	Not rated
Total		<u>\$ 378.2</u>	

- Interest income increased 3% to \$88.8 million due to gains on the sale of mortgage-backed securities in connection with the retirement of several bond series.
- The fair value of investments and MBS declined \$0.9 million as a result of the reduction of the MBS portfolio.
- Grant income declined \$94.4 million to \$140.3 million due to the end of many onetime state and federal programs.
- General and administrative expenses grew 3%, or \$.6 million, to \$22.8 million.
- Grant and aid expense declined \$61.5 million to \$77.3 million, a direct result of the decreased funding mentioned above.

Financial Analysis – Combined 2011

- The Authority's assets increased \$36.1 million, to \$2,950.3 million in FY11 compared to \$2,914.2 million in FY10. Cash, cash equivalents, and investments declined 11%, or \$108.6 million. Mortgage-backed securities (MBS) declined 12%, or \$110.8 million. Loans to municipalities or water systems (SRF loans) grew 26%, or \$219.7 million.
- Bonds payable declined 5%, or \$92.0 million, to \$1,757.7 million in FY11 compared to \$1,849.7 million in FY10.

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

Management's Discussion and Analysis

June 30, 2012 and 2011

The Authority issued one new single-family bond series totaling \$20.8 million and converted \$31.2 million of new issue bond program escrow bonds to program bonds to purchase MBS under the FirstHome Program and issued one SRF bond series totaling \$292.9 million to originate SRF loans. The Authority also arranged short-term financing of \$23.1 million to fund multifamily construction projects. The Authority made bond payments of \$428.8 million.

<u>Series</u>	<u>Date</u>	<u>Amount (In millions)</u>	<u>Rating</u>
SF 2010 1	11/02/10	\$ 20.8	Aaa by Moody's
SRF 2010	12/01/10	292.9	AAA by Standard & Poor's; Aaa by Moody's; AAA by Fitch Ratings
MF LOC	Various	23.1	Not rated
Total		<u>\$ 336.8</u>	

- Interest income declined 1% to \$86.3 million as a result of market interest rates and the reduction of the MBS portfolio for the year.
- The fair value of investments and MBS declined \$3.2 million as a result of the reduction of the MBS portfolio.
- Grant income increased \$97.8 million to \$234.7 million due to state funding for disaster relief, water quality, and infrastructure projects; and federal funding relating to EPA capitalization grants, HUD's Home program, and the American Recovery and Reinvestment Act (ARRA).
- General and administrative expenses grew 6%, or \$1.2 million, to \$22.3 million as expected due to increasing grant administration costs.
- Grant and aid expense increased \$21.5 million to \$138.8 million, a direct result of the increased funding mentioned above.

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, 2012

(Dollars in thousands)

Assets	Housing agency fund	State revolving fund	Total
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 188,768	352,031	540,799
Investments:			
Other investments	62,734	147,018	209,752
Mortgage-backed securities	12,994	—	12,994
Total current investments	75,728	147,018	222,746
Loans to municipalities or water systems	—	61,579	61,579
Housing Agency loans, net	3,807	—	3,807
Accrued interest receivable	3,912	3,948	7,860
Other assets	2,302	1,830	4,132
Total current assets	274,517	566,406	840,923
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	20,767	7,277	28,044
Mortgage-backed securities	694,932	—	694,932
Total noncurrent investments	715,699	7,277	722,976
Loans to municipalities or water systems	—	1,153,102	1,153,102
Housing Agency loans, net	128,634	—	128,634
Capital assets, net of accumulated depreciation	3,053	—	3,053
Other assets	48,702	1,502	50,204
Total noncurrent assets	896,088	1,161,881	2,057,969
Total assets	1,170,605	1,728,287	2,898,892

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

Statement of Net Assets

June 30, 2012

(Dollars in thousands)

Liabilities	Housing agency fund	State revolving fund	Total
Current liabilities:			
Bonds payable, net	\$ 10,782	39,055	49,837
Accrued interest payable	12,389	18,653	31,042
Accounts payable and other liabilities	71,093	2,299	73,392
Total current liabilities	94,264	60,007	154,271
Noncurrent liabilities:			
Bonds payable, net	702,038	913,318	1,615,356
Reserves for claims	4,341	—	4,341
Other liabilities	43,801	12,783	56,584
Total noncurrent liabilities	750,180	926,101	1,676,281
Total liabilities	844,444	986,108	1,830,552
Net Assets			
Invested in capital assets, net of related debt	3,053	—	3,053
Restricted net assets:			
Per bond resolutions	240,269	602,862	843,131
Per legislation	68,886	—	68,886
Per other agreements	—	139,317	139,317
Total restricted net assets	309,155	742,179	1,051,334
Unrestricted net assets	13,953	—	13,953
Total net assets	\$ 326,161	742,179	1,068,340

See accompanying notes to financial statements.

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

Statement of Net Assets

June 30, 2011

(Dollars in thousands)

Assets	Housing agency fund	State revolving fund	Total
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 431,431	209,625	641,056
Investments:			
Other investments	39,842	150,437	190,279
Mortgage-backed securities	15,044	—	15,044
Total current investments	54,886	150,437	205,323
Loans to municipalities or water systems	—	64,885	64,885
Housing Agency loans, net	11,425	—	11,425
Accrued interest receivable	4,497	3,886	8,383
Other assets	2,514	2,488	5,002
Total current assets	504,753	431,321	936,074
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	19,974	5,580	25,554
Mortgage-backed securities	825,357	—	825,357
Total noncurrent investments	845,331	5,580	850,911
Loans to municipalities or water systems	—	1,014,180	1,014,180
Housing Agency loans, net	113,951	—	113,951
Capital assets, net of accumulated depreciation	2,991	—	2,991
Other assets	30,912	1,248	32,160
Total noncurrent assets	993,185	1,021,008	2,014,193
Total assets	1,497,938	1,452,329	2,950,267

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

Statement of Net Assets

June 30, 2011

(Dollars in thousands)

Liabilities	Housing agency fund	State revolving fund	Total
Current liabilities:			
Bonds payable, net	\$ 211,819	33,970	245,789
Accrued interest payable	15,817	15,759	31,576
Accounts payable and other liabilities	120,788	3,997	124,785
Total current liabilities	348,424	53,726	402,150
Noncurrent liabilities:			
Bonds payable, net	810,972	700,974	1,511,946
Reserves for claims	4,839	—	4,839
Other liabilities	26,951	11,983	38,934
Total noncurrent liabilities	842,762	712,957	1,555,719
Total liabilities	1,191,186	766,683	1,957,869
Net Assets			
Invested in capital assets, net of related debt	848	—	848
Restricted net assets:			
Per bond resolutions	233,397	558,121	791,518
Per legislation	59,938	—	59,938
Per other agreements	—	127,525	127,525
Total restricted net assets	293,335	685,646	978,981
Unrestricted net assets	12,569	—	12,569
Total net assets	\$ 306,752	685,646	992,398

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2012

(Dollars in thousands)

	Housing agency fund	State revolving fund	Total
Operating revenues:			
Interest income	\$ 52,488	36,272	88,760
Net increase (decrease) in fair value of investments and mortgage-backed securities	(4,078)	(7)	(4,085)
Fee income	12,564	4,110	16,674
Grant income	82,479	57,865	140,344
Other income	851	—	851
Total operating revenues	<u>144,304</u>	<u>98,240</u>	<u>242,544</u>
Operating expenses:			
Interest on bonds	35,633	30,942	66,575
General and administrative	14,098	8,690	22,788
Grants and aid	75,624	1,679	77,303
Provision (recoveries) of losses	(460)	396	(64)
Total operating expenses	<u>124,895</u>	<u>41,707</u>	<u>166,602</u>
Operating income/change in net assets	19,409	56,533	75,942
Net assets at June 30, 2011	<u>306,752</u>	<u>685,646</u>	<u>992,398</u>
Net assets at June 30, 2012	<u>\$ 326,161</u>	<u>742,179</u>	<u>1,068,340</u>

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

(Dollars in thousands)

	Housing agency fund	State revolving fund	Total
Operating revenues:			
Interest income	\$ 54,841	31,488	86,329
Net increase (decrease) in fair value of investments and mortgage-backed securities	(3,225)	26	(3,199)
Fee income	14,989	3,705	18,694
Grant income	162,874	71,785	234,659
Other income	632	—	632
Total operating revenues	<u>230,111</u>	<u>107,004</u>	<u>337,115</u>
Operating expenses:			
Interest on bonds	43,083	25,467	68,550
General and administrative	13,892	8,365	22,257
Grants and aid	127,320	11,477	138,797
Provision (recoveries) of losses	(156)	397	241
Total operating expenses	<u>184,139</u>	<u>45,706</u>	<u>229,845</u>
Operating income/change in net assets	45,972	61,298	107,270
Net assets at June 30, 2010	<u>260,780</u>	<u>624,348</u>	<u>885,128</u>
Net assets at June 30, 2011	<u>\$ 306,752</u>	<u>685,646</u>	<u>992,398</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, 2012

(Dollars in thousands)

	Housing agency fund	State revolving fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 12,378	5,136	17,514
Interest received on loans and mortgage-backed securities	42,222	34,886	77,108
Principal payments on loans and mortgage-backed securities	269,585	139,486	409,071
Purchases of loans and mortgage-backed securities	(148,545)	(275,101)	(423,646)
Grants and other income	28,846	57,865	86,711
Cash payments to employees	(8,235)	(683)	(8,918)
Cash payments to suppliers and grantees	(77,052)	(9,940)	(86,992)
Net cash provided by (used in) operating activities	<u>119,199</u>	<u>(48,351)</u>	<u>70,848</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of bonds	122,500	255,743	378,243
Payment of bonds	(432,471)	(38,314)	(470,785)
Interest paid	(39,061)	(30,009)	(69,070)
Net cash provided by (used in) capital and related financing activities	<u>(349,032)</u>	<u>187,420</u>	<u>(161,612)</u>
Cash flows from investing activities:			
Purchases of investments	(199,659)	(402,402)	(602,061)
Interest received on investments	10,851	1,622	12,473
Sales/maturities of investments	176,264	404,117	580,381
Purchase of capital assets	(286)	—	(286)
Net cash provided by (used in) investing activities	<u>(12,830)</u>	<u>3,337</u>	<u>(9,493)</u>
Increase (decrease) in cash and cash equivalents	(242,663)	142,406	(100,257)
Cash and cash equivalents, beginning of year	<u>431,431</u>	<u>209,625</u>	<u>641,056</u>
Cash and cash equivalents, end of year	<u>\$ 188,768</u>	<u>352,031</u>	<u>540,799</u>

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

Statement of Cash Flows

Year ended June 30, 2012

(Dollars in thousands)

	Housing agency fund	State revolving fund	Totals
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 19,409	56,533	75,942
Interest income on investments and bank deposits	(10,879)	(1,623)	(12,502)
Rebate expense	—	299	299
Interest expense on bonds	35,633	30,942	66,575
Net increase in fair value of investments and mortgage-backed securities	4,078	7	4,085
Depreciation of capital assets	224	—	224
Principal payments on loans and mortgage-backed securities	269,585	139,486	409,071
Purchases of loans and mortgage-backed securities	(148,545)	(275,101)	(423,646)
(Increase) decrease in interest receivable on loans and mortgage-backed securities	613	(62)	551
(Increase) decrease in other assets	(17,577)	403	(17,174)
(Increase) decrease in accounts payable and other liabilities	20,935	(261)	20,674
(Increase) decrease in deferred income	(54,277)	1,026	(53,251)
	\$ 119,199	(48,351)	70,848

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, 2011

(Dollars in thousands)

	Housing agency fund	State revolving fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 14,606	6,127	20,733
Interest received on loans and mortgage-backed securities	48,636	28,411	77,047
Principal payments on loans and mortgage-backed securities	226,996	81,463	308,459
Purchases of loans and mortgage-backed securities	(123,374)	(301,091)	(424,465)
Grants and other income	144,048	71,786	215,834
Cash payments to employees	(7,894)	(808)	(8,702)
Cash payments to suppliers and grantees	(124,788)	(21,355)	(146,143)
Net cash provided by (used in) operating activities	<u>178,230</u>	<u>(135,467)</u>	<u>42,763</u>
Cash flows from capital and related financing activities:			
Proceeds from issuance of bonds	43,944	292,890	336,834
Payment of bonds	(345,423)	(83,422)	(428,845)
Interest paid	(47,650)	(21,038)	(68,688)
Net cash provided by (used in) capital and related financing activities	<u>(349,129)</u>	<u>188,430</u>	<u>(160,699)</u>
Cash flows from investing activities:			
Purchases of investments	(259,862)	(528,163)	(788,025)
Interest received on investments	6,702	2,979	9,681
Sales/maturities of investments	278,418	469,713	748,131
Purchase of capital assets	(16)	—	(16)
Net cash provided by (used in) investing activities	<u>25,242</u>	<u>(55,471)</u>	<u>(30,229)</u>
Decrease in cash and cash equivalents	(145,657)	(2,508)	(148,165)
Cash and cash equivalents, beginning of year	<u>577,088</u>	<u>212,133</u>	<u>789,221</u>
Cash and cash equivalents, end of year	<u>\$ 431,431</u>	<u>209,625</u>	<u>641,056</u>

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

Statement of Cash Flows

Year ended June 30, 2011

(Dollars in thousands)

	Housing agency fund	State revolving fund	Totals
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 45,972	61,298	107,270
Interest income on investments and bank deposits	(6,713)	(2,979)	(9,692)
Rebate expense	—	373	373
Interest expense on bonds	43,083	25,467	68,550
Net increase (decrease) in fair value of investments and mortgage-backed securities	3,225	(26)	3,199
Depreciation of capital assets	286	—	286
Principal payments on loans and mortgage-backed securities	226,998	81,463	308,461
Purchases of loans and mortgage-backed securities	(161,358)	(301,091)	(462,449)
(Increase) decrease in interest receivable on loans and mortgage-backed securities	507	(471)	36
(Increase) decrease in other assets	8,266	(2,038)	6,228
Increase in accounts payable and other liabilities	3,746	114	3,860
Increase in deferred income	14,220	2,423	16,643
	\$ 178,232	(135,467)	42,765
Supplemental disclosure of noncash financial information:			
Loans transferred from the State of Iowa	\$ 34,059,910	—	34,059,910

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$5.0 billion in fiscal years 1997 through 2012, of which approximately \$2.3 billion is outstanding at June 30, 2012.

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 guarantees 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 certificate 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

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

Notes to Financial Statements

June 30, 2012 and 2011

any repayments. The Division also executes and records mortgage releases for Iowa real estate properties if more than 30 days have elapsed since payment in full was made by the respective mortgagor and certain requirements have been met in accordance with the related laws and administrative rules. The State, 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 16 of the Code of Iowa authorizes the Authority to issue bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional institutions and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund, maintained by the State Treasurer, currently required by State law to be the first \$9.5 million of monies remitted to the State Treasurer each fiscal year from certain fees and fines collected by the clerks of the district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged 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, 2012 and 2011, approximately \$23.3 million and \$30.1 million, respectively, of these conduit debt obligations are outstanding.

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

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

Notes to Financial Statements

June 30, 2012 and 2011

(b) Basis of Presentation

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

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

(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 Fund and (2) State Revolving Fund.

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

Housing Agency Fund – Consists of

- a. General Operating Accounts – account 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 – accounts for the proceeds from multifamily mortgage bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts, and the related loans. Multifamily bonds are a general obligation of the Authority, but are primarily payable from certain assets and revenues pledged under the bond resolutions.
- d. Miscellaneous Restricted Funds – 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.

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

Notes to Financial Statements

June 30, 2012 and 2011

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 indentures for the State Revolving Fund.
- 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 indentures for the State Revolving Fund.

(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 the Authority's Investment Policy, the Authority may invest in U.S. government and agency, and municipal 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 U.S. 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. Guaranteed investment contracts are nonparticipating and, therefore, recorded at carrying value.

(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 to 30 years and are intended to be held to maturity. Certain loans are pledged as collateral for particular bonds outstanding. Each municipality or water system has entered into a loan agreement with the Authority, DNR, and the trustee and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the Authority, which is held by the trustee as security for the loan.

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

Notes to Financial Statements

June 30, 2012 and 2011

(g) *Housing Loans Made with Federal Funds*

The Authority receives federal funds to make housing loans in connection with various federal programs for the State. These funds must be repaid to the federal government in the event of failure of the project. Loan repayments must remain within the program and be immediately loaned or granted to program recipients based upon the rules of the program. Grant income is recorded when federal funds are received; grant expense is charged at the time these loans are disbursed.

(h) *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.

(i) *Provision for Housing Agency Loan Losses*

An evaluation of possible credit losses relating to Housing Agency loans is made and a provision for losses is charged to expense. An allowance for losses of \$2.1 million was netted against other loans at June 30, 2012 and 2011. The accrued interest on loans that become more than three months delinquent 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.

(j) *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.

(k) *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.

(l) *Reserves for Title Guaranty Division Losses*

The reserve for title guaranty claims 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

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

Notes to Financial Statements

June 30, 2012 and 2011

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.

(m) *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 U.S. Treasury. Such excess earnings are recorded as liabilities.

(n) *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.

(o) *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 Miscellaneous Restricted Funds.

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.

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."

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

Notes to Financial Statements

June 30, 2012 and 2011

(p) 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.

(q) 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 Housing Assistance Payments Program administration fees; low-income housing tax credit fees; and State Revolving Fund loan commitment and servicing fees.

(r) 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 Environmental Protection Agency's grants for the Authority's Clean Water Program and Drinking Water Program; the Department of Housing and Urban Development's grants for the Authority's Home Investment Partnerships Program, Housing Opportunities for Persons with Aids, and Emergency Solutions Grant programs; and the Iowa legislature for down-payment assistance to returning active duty military personnel, homeless shelter operating grants, and disaster recovery programs. Grant income is recorded when all eligibility requirements have been met.

(s) Derivatives

The Authority uses derivative financial instruments to manage and reduce exposure to adverse fluctuations in interest rates and to lower the overall cost of financing. The Authority's derivatives consist of swap, cap, and corridor agreements entered into in connection with its issuance of variable rate mortgage revenue bonds.

The Authority reports hedging derivative instruments as either deferred inflows or outflows and investing derivative instruments as investments. The change in the fair value of the investing derivative instruments is reported in the statements of revenues, expenses, and changes in net assets.

(t) 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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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

Notes to Financial Statements

June 30, 2012 and 2011

(2) Deposits and Investments

(a) Deposits

At June 30, 2012 and 2011, the Authority had no uninsured or uncollateralized deposits (dollars in thousands):

June 30, 2012				
	Housing Agency Fund	State Revolving Fund	Total	Percentage of total
Type:				
Cash in bank	\$ 4,405	61,643	66,048	17%
Cash in trust accounts	644	—	644	—
Certificates of deposit	889	—	889	—
Money market trust accounts	75,163	246,372	321,535	83
Total	\$ 81,101	308,015	389,116	100%
June 30, 2011				
	Housing Agency Fund	State Revolving Fund	Total	Percentage of total
Type:				
Cash in bank	\$ 4,890	53,574	58,464	14%
Cash in trust accounts	17	—	17	—
Certificates of deposit	50,000	—	50,000	12
Money market trust accounts	197,949	103,847	301,796	74
Total	\$ 252,856	157,421	410,277	100%

(b) Investments

The investment of funds is restricted by the Authority's board of directors, the Authority's various bond indentures, and the State. Permitted investments include direct obligations of, or obligations guaranteed by, the federal government of the United States of America; obligations issued by certain agencies of the federal government; repurchase agreements fully collateralized and secured by the U.S. Treasury; Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities; corporate bonds issued or guaranteed by a domestic U.S. corporation meeting certain credit rating standards; State pooled money funds; and guaranteed investment contracts with financial institutions meeting certain credit rating standards.

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

Notes to Financial Statements

June 30, 2012 and 2011

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

June 30, 2012					
	Housing Agency Fund	State Revolving Fund	Total	Percentage of total	Average maturity (years)
Type:					
GNMA mortgage-backed securities	\$ 411,350	—	411,350	37%	25.1
FNMA mortgage-backed securities	285,434	—	285,434	26	24.8
FHLMC mortgage-backed securities	11,142	—	11,142	1	25.3
U.S. government agency securities	61,908	141,954	203,862	19	1.0
U.S. Treasury securities	13,909	—	13,909	1	4.2
Corporate bonds	3,536	3,773	7,309	1	0.6
Municipal securities	3,259	8,568	11,827	1	1.7
State of Iowa pooled money funds	61,578	—	61,578	6	Less than 1
Guaranteed investment contracts	46,978	44,016	90,994	8	Less than 1
Total	<u>\$ 899,094</u>	<u>198,311</u>	<u>1,097,405</u>	<u>100%</u>	
June 30, 2011					
	Housing Agency Fund	State Revolving Fund	Total	Percentage of total	Average maturity (years)
Type:					
GNMA mortgage-backed securities	\$ 462,854	—	462,854	36%	25.0
FNMA mortgage-backed securities	362,491	—	362,491	28	25.2
FHLMC mortgage-backed securities	15,056	—	15,056	2	26.3
U.S. government agency securities	42,258	155,767	198,025	15	2.1
U.S. Treasury securities	13,565	—	13,565	1	5.2
Corporate bonds	2,001	—	2,001	—	1.1
Municipal securities	1,992	250	2,242	—	1.8
State of Iowa pooled money funds	109,634	—	109,634	9	Less than 1
Guaranteed investment contracts	68,941	52,204	121,145	9	Less than 1
Total	<u>\$ 1,078,792</u>	<u>208,221</u>	<u>1,287,013</u>	<u>100%</u>	

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

Notes to Financial Statements

June 30, 2012 and 2011

As of June 30, 2012 and 2011, the Authority had derivative investments with the following maturities (dollars in thousands):

Investment type	Fair value	June 30, 2012			
		Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Investment derivative instruments	\$ (717)	—	—	10	(727)
Investment derivative instrument – Forward mortgage-backed securities sales	11,845	11,845	—	—	—

Investment type	Fair value	June 30, 2011			
		Investment maturities (in years)			
		Less than 1	1 – 5	6 – 10	More than 10
Investment derivative instruments	\$ (392)	—	(1)	(93)	(298)

(c) 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.

(d) 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.

(e) 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.

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

Notes to Financial Statements

June 30, 2012 and 2011

The tables below address credit risk and concentration risk (dollars in thousands):

June 30, 2012						
Type/Provider	Credit ratings		Housing Agency Fund	State Revolving Fund	Total	Percentage of total
	Standard & Poor's	Moody's				
Money market funds:						
Wells Fargo Bank, N.A.	AA-/A1+	Aa3/P1	\$ 67,626	165,731	233,357	53.9%
Goldman Sachs Group, Inc.	A-/A-2	A3/P-2	7,537	80,641	88,178	20.4
Certificate of deposit:						
4 providers	A1/P-1	A/A-1	889	—	889	0.2
Guaranteed investment contracts:						
Societe Generale	A/A-1	A2/P-1	23,847	40,264	64,111	14.8
TransAmerica Life Ins Co	AA-/A1+	A1/P1	7,070	—	7,070	1.6
Credit Agricole	A/A-1	A2/P-1	6,130	—	6,130	1.4
FSA International, Ltd	AA-	Aa3	3,891	—	3,891	0.9
Natixtis Funding Corp	A+/A-1+	Aa3/P1	—	3,751	3,751	0.9
Bayerische Landesbank	Not rated	Baa1/P-2	3,335	—	3,335	0.8
Royal Bank of Canada	AA-/A1+	Aa3/P-1	2,705	—	2,705	0.6
Corporate and municipal bonds:						
General Electric Capital Co.	AA+	Aaa	2,285	3,773	6,058	1.4
New Jersey Educational Facility Authority	Not rated	A2	—	3,001	3,001	0.7
32 other providers	A+ to AAA	A3 to Aaa	4,510	5,568	10,078	2.4
Total			\$ 129,825	302,729	432,554	100.0%

June 30, 2011						
Type/Provider	Credit ratings		Housing Agency Fund	State Revolving Fund	Total	Percentage of total
	Standard & Poor's	Moody's				
Money market funds:						
Wells Fargo Bank, N.A.	AA-/A1+	A1/P1	\$ 55,739	103,847	159,586	33.5%
US Bank, N.A.	AA-/A1+	Aa2/P1	137,900	—	137,900	28.9
Goldman Sachs Group, Inc.	A+/A1	Aa3/P1	4,310	—	4,310	0.9
Certificate of deposit:						
Federal Home Loan Bank	AAA/A1+	Aaa/P1	50,000	—	50,000	10.5
Guaranteed investment contracts:						
Societe Generale	A+/A1	Aa2/P1	22,050	43,920	65,970	13.8
TransAmerica Life Ins Co	AA-/A1+	A1/P1	18,825	—	18,825	3.9
Natixtis Funding Corp	A+/A1	Aa3/P1	—	8,284	8,284	1.7
Credit Agricole	A+/A1	Aa1/P1	8,072	—	8,072	1.7
Bayerische Landesbank	Not rated	A1/P1	6,269	—	6,269	1.3
FSA International, Ltd	AA+	Aa3	6,236	—	6,236	1.3
Trinity Funding	AA+/A1+	Aa2/P1	4,283	—	4,283	0.9
Royal Bank of Canada	AA-/A1+	Aa1/P1	2,073	—	2,073	0.5
AIG Inc.	A-/A2	Baa1/P2	1,133	—	1,133	0.2
Corporate and municipal bonds:						
General Electric Co.	AA+/A1+	Aa2/P1	1,326	—	1,326	0.3
15 other providers	A+ to AAA	Aa2 to Aaa	2,667	250	2,917	0.6
Total			\$ 320,883	156,301	477,184	100.0%

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

Notes to Financial Statements

June 30, 2012 and 2011

(f) **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, 2012 and 2011 are as follows (dollars in thousands):

	2012		
	Cost	Allowance for losses	Net
Loans secured with first mortgages	\$ 83,081	(650)	82,431
Loans secured with second mortgages, other collateral, or unsecured	6,944	(1,445)	5,499
State program loans	4,283	—	4,283
Federal program loans	60,817	(20,589)	40,228
Total	<u>\$ 155,125</u>	<u>(22,684)</u>	<u>132,441</u>
	2011		
	Cost	Allowance for losses	Net
Loans secured with first mortgages	\$ 80,291	(480)	79,811
Loans secured with second mortgages, other collateral, or unsecured	9,056	(1,577)	7,479
Federal program loans*	53,413	(15,327)	38,086
Total	<u>\$ 142,760</u>	<u>(17,384)</u>	<u>125,376</u>

* The State Department of Economic Development (DED) transferred responsibility to monitor the federal HOME Investment Partnership Program to the Authority as of July 1, 2010. The fair value of the loans transferred to the Authority was \$34,059,910 and was reported as grant income.

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

Notes to Financial Statements

June 30, 2012 and 2011

(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2012 and 2011 are as follows (dollars in thousands):

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2012	2011
Housing Agency Bonds and Notes:							
Single Family Mortgage Bonds:							
SF 2002 A – Serial Bonds	\$ 6,500	07/01/04	07/01/14	2.900	5.150	\$ —	435
SF 2002 A – Term Bonds	1,665		01/01/22		5.300	—	120
SF 2002 A – Term Bonds	3,930		07/01/22		5.300	—	285
SF 2002 A – Term Bonds	5,190		07/01/27		5.300	—	4,685
SF 2002 A – Term Bonds	4,565		07/01/32		5.400	—	220
SF 2002 A – Term Bonds	4,400		07/01/33		5.400	—	290
SF 2002 B – Serial Bonds	10,925	07/01/03	07/01/14	2.000	4.850	—	1,095
SF 2002 C – Term bonds	6,425		07/01/21		5.500	—	1,540
SF 2002 C – Term bonds	5,240		01/01/22		5.500	—	1,300
SF 2002 D – Term Bonds	7,050		01/01/28		5.500	—	7,050
SF 2002 D – Term Bonds	6,000		07/01/32		5.600	—	1,490
SF 2002 D – Term Bonds	6,340		07/01/33		5.600	—	1,510
SF 2002 F – Serial Bonds	2,670	07/01/04	07/01/14	1.750	4.000	—	360
SF 2002 F – Term Bonds	765		01/01/16		4.250	—	425
SF 2002 G – Serial Bonds	1,310	07/01/10	07/01/13	3.750	4.100	—	595
SF 2002 G – Term Bonds	4,685		01/01/23		4.900	—	2,455
SF 2002 G – Term Bonds	635		01/01/24		4.900	—	340
SF 2002 H – Term Bonds	7,855		01/01/31		5.000	—	4,080
SF 2002 H – Term Bonds	5,830		01/01/34		5.000	—	3,020
SF 2002 I – Term Bonds	11,250		07/01/32	Variable*	N/A	—	5,545
SF 2003 A – Serial Bonds	5,175	01/01/06	07/01/16	2.250	4.750	—	1,890
SF 2003 A – Term Bonds	3,675		07/01/22		5.000	—	2,330
SF 2003 A – Term Bonds	1,200		01/01/23		5.000	—	875
SF 2003 A – Term Bonds	8,950		01/01/34		5.125	—	5,720
SF 2003 A – Term Bonds	9,000		07/01/35		5.125	—	5,765
SF 2003 B – Term Bonds	10,000		07/01/34	Variable*	N/A	—	1,855
SF 2003 D – Term Bonds	10,270		01/01/25		4.250	—	1,170
SF 2003 F – Term Bonds	20,000		01/01/33	Variable*	N/A	—	14,540
SF 2003 G – Term Bonds	10,000		07/01/25	Variable*	N/A	—	3,275
SF 2003 H – Serial Bonds	3,670	01/01/09	07/01/15	3.000	4.300	—	1,050
SF 2003 I – Term Bonds	5,450		07/01/22		4.900	—	3,220
SF 2003 J – Serial Bonds	4,620	07/01/05	01/01/14	1.650	4.450	—	1,335
SF 2003 J – Term Bonds	9,500		07/01/29		5.000	—	5,440
SF 2003 J – Term Bonds	11,000		07/01/34		5.000	—	855
SF 2003 J – Term Bonds	10,760		01/01/35		5.100	—	5,995
SF 2004 A – Serial Bonds	6,120	07/01/05	07/01/14	1.750	4.450	755	1,040
SF 2004 A – Term Bonds	3,855		07/01/24		4.900	1,140	1,140
SF 2004 A – Term Bonds	12,270		01/01/34		5.000	340	1,460
SF 2004 A – Term Bonds	2,585		07/01/34		5.100	605	605
SF 2004 A – Term Bonds	5,170		01/01/35		5.100	1,545	1,545
SF 2004 B – Term Bonds	15,000		07/01/34	Variable*	0.230	14,115	14,115
SF 2004 C – Serial Bonds	3,395	01/01/06	01/01/14	2.500	4.700	355	470
SF 2004 C – Term Bonds	1,400		07/01/12		4.280	135	405
SF 2004 C – Term Bonds	610		07/01/14		4.700	190	230
SF 2004 C – Term Bonds	7,400		07/01/25		5.125	2,310	2,845
SF 2004 C – Term Bonds	2,680		01/01/30		5.200	855	1,045
SF 2004 C – Term Bonds	2,680		07/01/30		5.200	820	1,030
SF 2004 C – Term Bonds	5,650		01/01/34		5.250	130	905
SF 2004 C – Term Bonds	9,030		07/01/35		5.250	2,650	3,355
SF 2004 D – Term Bonds	17,000		07/01/34	Variable*	0.180	10,605	11,520

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

Notes to Financial Statements

June 30, 2012 and 2011

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2012	2011
SF 2004 E – Serial Bonds	\$ 10,825	01/01/06	01/01/16	1.950	3.950	\$ 1,425	2,355
SF 2004 F – Term Bonds	2,375		07/01/24		4.550	735	1,070
SF 2004 F – Term Bonds	10,400		01/01/35		5.000	985	2,265
SF 2004 F – Term Bonds	6,400		07/01/35		4.800	2,035	2,775
SF 2004 G – Term Bonds	20,000		07/01/34	Variable*	0.230	12,635	15,605
SF 2005 A – Serial Bonds	5,885	07/01/07	07/01/16	2.900	4.300	830	1,010
SF 2005 B – Serial Bonds	2,925	01/01/07	01/01/15	3.200	4.500	245	765
SF 2005 B – Term Bonds	15,350		07/01/25		4.600	3,575	4,440
SF 2005 B – Term Bonds	17,300		07/01/30		5.000	3,135	5,275
SF 2005 C – Term Bonds	24,000		01/01/36	Variable*	0.180	15,645	21,465
SF 2005 D – Serial Bonds	5,995	01/01/07	01/01/16	3.000	4.250	65	280
SF 2005 D – Term Bonds	2,565		07/01/13		4.000	390	770
SF 2005 D – Term Bonds	8,340		01/01/36		4.450	1,610	2,530
SF 2005 D – Term Bonds	19,100		01/01/36		5.000	4,190	6,245
SF 2005 E – Term Bonds	24,000		01/01/36	Variable*	0.230	14,965	17,400
SF 2005 F – Serial Bonds	3,075	07/01/14	07/01/16	4.000	4.200	575	865
SF 2005 G – Serial Bonds	6,810	07/01/07	01/01/14	3.250	4.300	415	910
SF 2005 G – Term Bonds	1,510		07/01/26		4.700	300	480
SF 2005 G – Term Bonds	240		07/01/31		4.750	60	100
SF 2005 G – Term Bonds	19,800		01/01/36		5.000	4,505	7,070
SF 2005 G – Term Bonds	4,565		01/01/37		4.875	755	1,210
SF 2005 H – Term Bonds	24,000		07/01/36	Variable*	0.230	16,580	19,565
SF 2006 A – Serial Bonds	1,385	07/01/14	01/01/15	3.800	3.900	270	475
SF 2006 B – Serial Bonds	10,655	07/01/07	07/01/16	3.400	4.300	925	2,105
SF 2006 B – Term Bonds	4,535		01/01/26		4.750	890	1,630
SF 2006 B – Term Bonds	14,425		01/01/36		4.900	2,680	5,075
SF 2006 B – Term Bonds	17,000		01/01/36		5.000	4,395	6,570
SF 2006 C – Term Bonds	12,000		01/01/36	Variable*	0.180	12,000	12,000
SF 2006 D – Serial Bonds	1,575	07/01/14	07/01/15	4.100	4.150	—	15
SF 2006 E – Serial Bonds	6,965	07/01/07	07/01/14	3.700	4.500	—	40
SF 2006 E – Term Bonds	1,270		07/01/16		4.650	—	10
SF 2006 E – Term Bonds	3,925		07/01/26		4.850	—	40
SF 2006 E – Term Bonds	25,250		07/01/36		5.500	10,715	13,425
SF 2006 E – Term Bonds	8,770		01/01/37		5.000	—	80
SF 2006 F – Term Bonds	12,000		07/01/36	Variable*	0.180	10,130	12,000
SF 2006 G – Serial Bonds	2,720	07/01/07	07/01/16	3.750	4.500	560	845
SF 2006 G – Term Bonds	12,975		01/01/26		4.875	3,970	6,005
SF 2006 G – Term Bonds	8,265		07/01/30		5.000	2,505	3,805
SF 2006 G – Term Bonds	14,620		07/01/36		5.000	4,405	6,720
SF 2006 G – Term Bonds	8,420		07/01/36		5.750	3,345	4,360
SF 2006 H – Term Bonds	23,000		07/01/36		5.868	8,980	11,715
SF 2006 I – Term Bonds	5,405		07/01/21		4.700	2,760	3,400
SF 2006 I – Term Bonds	7,385		07/01/26		4.800	3,750	4,635
SF 2006 I – Term Bonds	10,085		07/01/31		4.900	5,110	6,300
SF 2006 I – Term Bonds	17,125		07/01/37		4.950	8,615	10,685
SF 2006 J – Term Bonds	40,000		07/01/37		5.745	15,655	20,635
SF 2007 A – Serial Bonds	3,855	01/01/08	07/01/17	3.500	3.950	1,270	1,650
SF 2007 B – Term Bonds	4,935		07/01/22		4.600	1,875	2,300
SF 2007 B – Term Bonds	5,175		07/01/26		4.700	1,860	2,340
SF 2007 B – Term Bonds	10,560		07/01/32		4.750	3,815	4,820
SF 2007 B – Term Bonds	10,475		01/01/37		4.800	2,295	3,605
SF 2007 C – Term Bonds	35,000		07/01/37	Variable*	0.190	21,575	25,070
SF 2007 D – Serial Bonds	1,215	07/01/11	01/01/17	3.950	4.400	535	705
SF 2007 E – Term Bonds	5,770		07/01/22		5.050	2,145	3,295
SF 2007 E – Term Bonds	7,215		07/01/27		5.100	2,685	4,110
SF 2007 E – Term Bonds	9,675		07/01/32		5.150	3,595	5,505
SF 2007 E – Term Bonds	5,000		07/01/37		5.750	2,400	3,075

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

Notes to Financial Statements

June 30, 2012 and 2011

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2012	2011
SF 2007 E – Term Bonds	\$ 14,750		01/01/38		5.200	\$ 5,475	8,405
SF 2007 F – Serial Bonds	7,000	07/01/08	07/01/14	5.341	5.752	805	1,915
SF 2007 G – Term Bonds	33,000		01/01/38	Variable*	0.180	19,360	23,290
SF 2007 H – Serial Bonds	7,875	07/01/08	07/01/17	3.650	4.500	2,245	3,250
SF 2007 I – Term Bonds	2,805		07/01/22		5.200	1,140	1,480
SF 2007 I – Term Bonds	16,295		07/01/32		5.350	6,625	8,520
SF 2007 I – Term Bonds	22,725		07/01/37		5.400	8,605	11,655
SF 2007 I – Term Bonds	10,065		07/01/37		5.500	5,480	6,410
SF 2007 J – Term Bonds	30,000		07/01/30		5.770	13,265	17,435
SF 2007 M – Term Bonds	25,450		01/01/39	Variable*	0.180	16,760	19,855
SF 2007 N – Term Bonds	14,550		01/01/39	Variable*	0.180	13,265	14,550
SF 2008 B – Term Bonds	28,070		01/01/39	Variable*	0.230	17,310	21,565
SF 2008 C – Term Bonds	29,465		01/01/39	Variable*	0.190	19,520	23,415
SF 2008 D – Serial Bonds	4,670	01/01/10	01/01/13	2.450	3.450	410	1,455
SF 2008 E – Serial Bonds	8,605	07/01/13	07/01/18	3.450	4.350	2,555	4,545
SF 2008 E – Term Bonds	7,140		07/01/23		5.000	2,120	3,765
SF 2008 E – Term Bonds	7,050		07/01/28		5.250	2,100	3,730
SF 2008 E – Term Bonds	7,705		07/01/32		5.400	2,250	4,005
SF 2008 F – Term Bonds	17,330		01/01/39	Variable*	0.230	17,330	17,330
SF 2008 G – Term Bonds	22,500		01/01/39	Variable*	0.190	15,510	19,050
SF 2009 A – Serial Bonds	13,510	07/01/10	07/01/20	1.000	4.200	9,625	11,500
SF 2009 A – Term Bonds	5,660		07/01/24		4.800	4,540	4,900
SF 2009 A – Term Bonds	5,970		07/01/28		5.000	4,725	5,130
SF 2009 A – Term Bonds	6,835		01/01/33		5.300	5,300	5,845
SF 2009 A – Term Bonds	8,025		01/01/38		5.000	6,200	7,335
SF 2009 1 – Serial Bonds	7,370	01/01/11	07/01/21	0.700	4.100	5,280	6,775
SF 2009 1 – Term Bonds	4,230		01/01/26		4.550	3,355	4,000
SF 2009 1 – Term Bonds	4,400		07/01/28		5.000	3,645	4,155
SF 2009 2 – Term Bonds	24,000		07/01/40		4.050	19,700	22,870
SF 2009 3 – Term Bonds	169,100		12/30/10		—	—	137,900
SF 2010 1 – Serial Bonds	10,410	01/01/12	01/01/22	0.750	3.550	9,560	10,410
SF 2010 1 – Term Bonds	4,150		07/01/27		4.000	3,890	4,150
SF 2010 1 – Term Bonds	6,240		01/01/28		4.375	5,385	6,240
SF 2009 3A – Term Bonds	31,200		07/01/41		3.010	28,670	31,200
SF 2011 1 Serial Bonds	14,315	07/01/12	07/01/23	0.500	4.000	13,990	—
SF 2011 1 Term Bonds	3,920		07/01/26		4.375	3,820	—
SF 2011 1 Term Bonds	5,765		01/01/29		4.500	5,595	—
SF 2011 3B Term Bonds	36,000		01/01/41	0.500	4.000	35,110	—
SF 2011 2 Serial Bonds	9,650	01/01/13	07/01/22	0.700	3.600	9,650	—
SF 2011 2 Term Bonds	4,185		07/01/26		4.000	4,185	—
SF 2011 2 Term Bonds	1,800		01/01/28		4.150	1,800	—
SF 2011 2 Term Bonds	4,365		07/01/28		4.500	4,365	—
SF 2011 3C Term Bonds	30,000		07/01/41		0.610	30,000	—
Multi Family Housing Bonds:							
MF 1978 A – Term Bonds	22,050		04/01/21		6.000	10,830	11,790
MF 2006 A – Term Bonds	6,475		07/01/41		4.600	5,575	5,755
MF 2007 A – Term Bonds	12,700		08/01/37	Variable*	0.180	12,385	12,700
MF 2007 B – Term Bonds	9,300		08/01/37	Variable*	0.180	9,070	9,300
MF 2008 A – Term Bond	3,750		06/01/24	Variable*	0.230	3,650	3,750
MF FHLB B1 – Term Bonds	11,500		02/01/26	Variable*	—	11,385	—
G.O. Notes and Credit Facilities:							
Chase Equipment Leasing Note	2,801		10/02/21		4.111	—	2,144
FHLB Credit Facility FY10	122,297		12/31/10	Variable*	N/a	—	50,000

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

Notes to Financial Statements

June 30, 2012 and 2011

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2012	2011
Wells Fargo MF Credit Facility	\$ 14,301		10/31/12	Variable*	N/A	\$ —	11,205
MacArthur Foundation note	500		07/01/19		2.000	—	500
Iowa State University note	1,000		12/01/21		—	950	—
Total Housing Agency	1,860,259					712,280	1,022,539
State Revolving Fund Revenue Bonds:							
2001 – Serial Bonds	210,395	08/01/02	08/01/14	4.000	5.500	32,990	51,205
2001 – Term Bonds	5,995		08/01/16		5.500	2,650	2,650
2001 – Term Bonds	6,230		08/01/18		5.500	2,650	2,650
2001 – Term Bonds	6,525		08/01/20		5.000	2,765	2,765
2001 – Term Bonds	4,080		08/01/23		5.000	1,715	1,715
2003 – Serial Bonds	56,100	08/01/03	08/01/24	2.000	5.250	5,580	8,325
2005 – Serial Bonds	17,775	08/01/06	08/01/12	3.250	5.000	2,625	5,215
2007 – Serial Bonds	64,160	08/01/08	08/01/24	4.000	5.000	58,585	60,245
2008 – Serial Bonds	148,435	08/01/09	08/01/28	3.500	6.000	139,910	143,635
2009 – Serial Bonds	143,895	08/01/10	08/01/29	2.000	5.000	141,165	142,445
2010 – Serial Bonds	215,725	08/01/11	08/01/25	2.000	5.000	211,970	215,725
2010 – Term Bonds	77,165		08/01/30		5.272	77,165	77,165
2011 – Serial Bonds	220,435	08/01/12	08/01/31	2.000	5.000	220,435	—
Total State Revolving Fund	1,176,915					900,205	713,740
Total bonds and notes	\$ 3,037,174					1,612,485	1,736,279
Premium/discount, net						52,708	21,456
Total authority						\$ 1,665,193	1,757,735

* Variable rates are as of June 30, 2012

The following tables summarize the bonds and notes payable (net of premium and discount) activity for the Authority for the years ended June 30, 2012 and 2011 (dollars in thousands):

	June 30, 2011	Additions	Reductions	June 30, 2012	Due within one year
Housing Agency	\$ 1,022,791	122,500	432,471	712,820	10,782
State Revolving Fund	734,944	255,743	38,314	952,373	39,055
Total	\$ 1,757,735	378,243	470,785	1,665,193	49,837
	June 30, 2010	Additions	Reductions	June 30, 2011	Due within one year
Housing Agency	\$ 1,324,270	43,944	345,423	1,022,791	211,819
State Revolving Fund	525,476	292,890	83,422	734,944	33,970
Total	\$ 1,849,746	336,834	428,845	1,757,735	245,789

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

Notes to Financial Statements

June 30, 2012 and 2011

A summary of scheduled bond maturities (excluding premium and discount) and interest payments is as follows (dollars in thousands):

Year ending June 30	Housing Agency			State Revolving Fund			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 10,782	19,147	29,929	39,055	42,289	81,344	49,837	61,436	111,273
2014	12,522	18,705	31,227	42,035	39,347	81,382	54,557	58,052	112,609
2015	13,677	18,303	31,980	45,600	37,457	83,057	59,277	55,760	115,037
2016	14,672	17,879	32,551	44,625	35,515	80,140	59,297	53,394	112,691
2017	16,339	17,427	33,766	46,360	33,581	79,941	62,699	51,008	113,707
2018 – 2022	94,354	78,832	173,186	247,195	137,454	384,649	341,549	216,286	557,835
2023 – 2027	124,409	62,746	187,155	257,015	77,016	334,031	381,424	139,762	521,186
2028 – 2032	149,930	43,013	192,943	178,320	19,897	198,217	328,250	62,910	391,160
2033 – 2037	182,955	21,173	204,128	—	—	—	182,955	21,173	204,128
2038 – 2042	92,640	3,610	96,250	—	—	—	92,640	3,610	96,250
Total	\$ 712,280	300,835	1,013,115	900,205	422,556	1,322,761	1,612,485	723,391	2,335,876

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, 2012.

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 Draw Down Bond Indenture 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
(A Component Unit of the State of Iowa)

Notes to Financial Statements

June 30, 2012 and 2011

The amount of defeased debt outstanding at June 30, 2012 and 2011 is shown below (dollars in thousands):

	Balance	
	June 30, 2012	June 30, 2011
Housing Agency defeased bonds:		
SF 2002 A	\$ 4,685	—
SF 2003 AB	13,890	—
SF 2003 G	1,805	—
SF 2003 HIJ	14,295	—
Total Housing Agency defeased bonds	34,675	—
State Revolving Fund defeased bonds:		
Series 2001	23,995	23,995
Series 2003	32,035	32,035
Total State Revolving Fund defeased bonds	56,030	56,030
Total Authority	\$ 90,705	56,030

Derivative Instrument Payments and Variable-Rate Debt

As of June 30, 2012, aggregate debt service requirements of the Authority's variable-rate debt and net receipts/payments on associated derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on hedging derivative instruments will vary. Refer to note 5 for information on derivative instruments (dollars in thousands).

Fiscal year ending June 30	Variable-rate bonds principal	Variable-rate bonds interest	Interest rate swaps, net	Total
2013	\$ 1,105	507	9,924	11,536
2014	1,275	499	9,196	10,970
2015	2,220	496	8,514	11,230
2016	3,205	493	7,838	11,536
2017	4,600	483	7,170	12,253
2018 – 2022	29,460	2,251	29,619	61,330
2023 – 2027	43,965	1,866	21,696	67,527
2028 – 2032	60,895	1,355	15,084	77,334
2033 – 2037	82,245	586	7,612	90,443
2038 – 2042	21,985	32	1,235	23,252
Total	\$ 250,955	8,568	117,888	377,411

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

Notes to Financial Statements

June 30, 2012 and 2011

(5) Derivative Instruments

The Authority uses derivative financial instruments to manage and reduce exposure to adverse fluctuations in interest rates and to lower the overall cost of financing. The Authority's derivatives consist of swap, cap, and corridor agreements entered into in connection with its issuance of variable rate mortgage revenue bonds.

The Authority reports hedging derivative instruments as either deferred inflows or outflows and investing derivative instruments as investments. The change in the fair value of the investing derivative instruments is reported in the statements of revenues, expenses, and changes in net assets.

Swap agreements allow the Authority to raise funds at variable rates and swap them into fixed rates that are lower than those available to the Authority if fixed-rate borrowings were made directly. These contracts involve the exchange of variable-rate for fixed-rate payments between the parties, without the exchange of the underlying debt, based on a common notional amount and maturity date. The following table displays the terms of the Authority's swap hedging derivative instruments outstanding at June 30, 2012 and 2011 (dollars in thousands):

Bond Series	2012 Notional amount	2011 Notional amount	Effective date	Termination date	Terms		Counter party Rating *
					Pay	Receive	
SF 2002 I	\$ 4,790	5,545	10/30/02	07/01/32	3.653%	SIFMA + 0.10%	A2
SF 2004 B	14,115	14,115	12/02/04	07/01/34	4.028	Enhanced LIBOR	A2
SF 2004 D	10,605	11,520	02/03/05	07/01/20	4.007	SIFMA + 0.10% or Various LIBOR + Spread	A2
SF 2004 G	12,635	15,605	06/01/05	07/01/34	3.867	Enhanced LIBOR	A2
SF 2005 C	15,645	21,465	11/01/05	01/01/36	4.140	SIFMA + 0.10% or Various LIBOR + Spread	A2
SF 2005 E	14,965	17,400	01/01/11	01/01/36	3.817	Enhanced LIBOR	A2
SF 2005 H	16,580	19,565	01/01/11	07/01/36	3.843	SIFMA + 0.10% or Various LIBOR + Spread	A2
SF 2006 C	12,000	12,000	09/01/06	01/01/36	3.760	Enhanced LIBOR	A2
SF 2006 F	12,000	12,000	11/01/06	07/01/36	4.632	SIFMA + 0.10%	A2
SF 2007 C	21,575	25,070	03/08/07	07/01/25	5.289	LIBOR	A2
SF 2007 G	19,360	23,290	07/12/07	01/01/19	5.493	LIBOR	A2
SF 2007 M	16,760	19,855	12/12/07	07/01/21	4.373	LIBOR	A2
SF 2007 N	14,140	14,550	12/12/07	01/01/39	4.364	SIFMA + 0.06%	A2
MF 2008 A	3,650	3,750	04/17/08	06/01/24	3.971	SIFMA + 0.08%	A2
SF 2008 B	17,310	21,565	01/01/11	01/01/39	4.470	SIFMA + 0.06%	A2
SF 2008 C	19,520	23,415	04/16/08	01/01/26	3.880	LIBOR	A2
SF 2008 F	17,330	17,330	10/01/08	01/01/39	4.529	SIFMA + 0.08%	A2
SF 2008G	15,510	19,050	10/01/08	07/01/18	4.173	LIBOR	A2

* Moody's rating

SIFMA = Securities Industry and Financial Markets Association Swap Index

LIBOR = London Interbank Offer Rate

Interest rate caps derivatives in where the Authority receives payments at the end of each period, based on a notional amount, when the interest rate exceeds the agreed-upon strike rate. A corridor agreement is an interest rate cap with an upper limit, or ceiling, where the cap ceases to pay above the ceiling rate. The

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

Notes to Financial Statements

June 30, 2012 and 2011

following table displays the terms of the Authority's cap and corridor derivative instruments outstanding at June 30, 2012 and 2011 (dollars in thousands):

Bond Series	2012 Notional amount	2011 Notional amount	Effective date	Maturity date	Strike rate	Ceiling rate
SF 2003 B	\$ 150	1,855	03/19/2003	07/02/2012	6% 3 mo LIBOR	11% 3 mo LIBOR
SF 2003 G	2,285	3,275	06/25/2003	07/01/2013	5% 3 mo LIBOR	10% 3 mo LIBOR
MF 2007 A	12,700	12,700	06/14/2007	07/01/2012	4.5% SIFMA	
MF 2007 B	9,300	9,300	06/14/2007	01/01/2024	4.5% SIFMA until 07/14/2014	
					5.0% SIFMA until 07/01/2019	N/a
MF 2007 A	12,285	—	07/01/2012	07/01/2015	5.5% SIFMA thereafter	N/a
MF B-1	11,374	—	07/01/2012	07/01/2015	3% SIFMA 6% LIBOR	N/a

The fair value balances of derivative instruments outstanding at June 30, 2012 and 2011, classified by type, and changes in the fair value of such derivative instruments for the years then ended as reported in the 2012 and 2011 financial statements are as follows (dollars in thousands):

Bond series	Type	Fair value		Change in fair value
		2012	2011	
Hedging derivatives:				
SF 2002 I	Swap	\$ (6)	(212)	206
SF 2004 B	Swap	(332)	(523)	191
SF 2004 D	Swap	(528)	(783)	255
SF 2004 G	Swap	(591)	(571)	(20)
SF 2005 C	Swap	(2,188)	(2,283)	95
SF 2005 E	Swap	(839)	(512)	(327)
SF 2005 H	Swap	(1,737)	(1,724)	(13)
SF 2006 C	Swap	(1,563)	(897)	(666)
SF 2006 F	Swap	(2,415)	(1,543)	(872)
MF 2007 B	Cap	212	787	(575)
SF 2007 C	Swap	(3,767)	(3,064)	(703)
SF 2007 G	Swap	(2,558)	(2,728)	170
SF 2007 M	Swap	(1,832)	(1,644)	(188)
SF 2007 N	Swap	(1,417)	(912)	(505)
MF 2008 A	Swap	(839)	(388)	(451)
SF 2008 C	Swap	(1,746)	(1,373)	(373)
SF 2008 F	Swap	(2,039)	(985)	(1,054)
SF 2008G	Swap	(1,308)	(1,352)	44
SF 2008 B	Swap	(1,015)	(849)	(166)
MF 2011 B1	Cap	2	—	2
MF 2007 A	Cap	4	—	4

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

Notes to Financial Statements

June 30, 2012 and 2011

Bond series	Type	Fair value		Change in fair value
		June 30		
		2012	2011	
Investment derivatives:				
SF 2003 G	Corr	\$ —	(1)	1
SF 2003 F	Swap	(598)	(471)	(127)
SF 2007 C	Swap	(129)	(298)	169
SF 2007 G	Swap	10	(93)	103
Forward MBS sales		(11,845)	—	(11,845)
Total		\$ (39,064)	(22,419)	(16,645)

The fair values of the interest rate swaps (including the corridor agreements) and forward MBS sales were estimated based on an independent pricing service. The valuations provided were derived from proprietary models based upon well-recognized principles and estimates about relevant future market conditions. The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement payment on the interest rate swaps. Fair values of options are based on option pricing models such as the Black-Scholes-Merton model, or any of the short-rate models of interest rate, or other market standard models consistent with accepted practices in the market for interest rate products. The models would consider probabilities, volatilities, time, settlement prices, and other variables pertinent to the transactions.

The fair values of the interest rate cap and the forward contract were estimated based on the present value of their estimated future cash flows.

Risks Associated with Derivative Transactions

Credit risk. The Authority is exposed to credit risk on hedging derivatives instruments that are in asset positions. The aggregate fair value of hedging derivative instruments in asset positions at June 30, 2012 and 2011 was \$228 and \$787, respectively. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

UBS AG and Goldman Sachs Bank USA are currently counterparties under the derivatives agreements with the Authority. UBS AG and Goldman Sachs Bank USA are currently rated 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 Bank USA to ensure that the Authority's exposure to either of its counterparties does not exceed a proper amount.

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

Notes to Financial Statements

June 30, 2012 and 2011

Interest rate risk. The Authority is exposed to interest rate risk on its derivatives. On its pay-fixed, receive-variable derivatives, as the LIBOR or SIFMA swap index decreases, the Authority's net payment on the derivatives increases.

Basis risk. Basis risk refers to a mismatch between the interest rate received from the derivative 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 derivative rate is the Authority's basis risk. As of June 30, 2012 and 2011, the weighted average interest rate of the Authority's hedged variable-rate debt is 4.38% and 4.38%, while the SIFMA swap index rate is 0.18% and 0.09%, respectively. LIBOR is 0.23% and 0.19% at June 30, 2012 and 2011, respectively.

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 Sachs Capital Markets, LP, 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. The Authority minimizes this risk by matching the term of the swaps with the maturity of the related bonds.

(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 systemwide basis. The Authority's portion is not separately determinable. The unfunded actuarial accrued liability of the plan at June 30, 2011 (latest information available) was \$5.7 billion.

Plan members are required to contribute 5.38% of their annual covered salary, and the Authority is required to contribute 8.07% of annual covered salaries. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2012 and 2011 were \$533,973 and \$450,629, respectively, equal to the required contribution for each year.

(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

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

Notes to Financial Statements

June 30, 2012 and 2011

guarantees as of June 30, 2012 was \$1.4 million for which a \$0.5 million reserve for claims liability is recorded.

The Authority has committed to purchase \$39.1 million in mortgage-backed securities under its FirstHome program as of June 30, 2012.

The Authority has committed to loan agreements under various housing assistance programs for which \$7.9 million has not been disbursed as of June 30, 2012.

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, 2012 and 2011 is as follows (dollars in thousands):

Description	June 30	
	2012	2011
Project-based housing grants	\$ 583	846
Local housing trust fund grants	4,045	1,731
Capacity building grants	—	7
Wastewater treatment financial assistance grants	—	140
Jumpstart housing assistance	2,172	2,180
Iowans helping Iowans	1,081	4,064
Shelter assistance grants	380	—
IJOBS – housing assistance	347	1,427
IJOBS – affordable housing assistance	2,186	5,520
IJOBS – public service shelter grant	—	3,671
IJOBS – water quality financial assistance	15,880	33,346
IJOBS – local disaster prevention competitive	16,821	28,286
IJOBS – targeted disaster relief	8,865	25,674
ARRA – Section 1602	—	153
ARRA – homeless prevention and rapid rehousing program	263	4,129
Total outstanding commitments	\$ 52,623	111,174

(b) State Revolving Fund Commitments

The Authority has signed loan agreements under the State Revolving Fund for which \$226.7 million have not been disbursed as of June 30, 2012.

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

Notes to Financial Statements

June 30, 2012 and 2011

(8) Related-Party Transactions

On July 1, 2010, administration of the Home Investment Partnerships Program Catalog of Federal Domestic Assistance (CFDA) number 14.239 (HOME) was transferred from the Iowa Department of Economic Development to the Iowa Finance Authority along with associated loans valued at \$34,059,910.

(9) Subsequent Events

The Authority has reviewed subsequent events through the date of this report and concluded there were no events or transactions during the period that would require recognition or disclosure in the financial statements other than those already reflected.