



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

Basic Financial Statements and
Schedule of Expenditures of Federal Awards

June 30, 2013 and 2012

(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:

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013 and 2012, and the respective changes in financial position, and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3 through 9 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority’s basic financial statements. The accompanying schedule of expenditures of federal awards is presented as required by the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority’s internal control over financial reporting and compliance.

KPMG LLP

Des Moines, Iowa
September 30, 2013

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012. 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, 2013 and 2012. These ratings take into account the amount of unrestricted net position 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

The Authority's single-family mortgage revenue bonds totaling \$502.1 million on June 30, 2013 are rated AA+ by Standard and Poor's. The Authority's state revolving fund revenue bonds totaling \$834.6 million on June 30, 2013 are rated AAA 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 position detail the assets and deferred outflows; liabilities and deferred inflows of the Authority based on their liquidity, utilizing current and noncurrent categories. The resulting net position in these statements is 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 position may include assets that have been committed by the Authority for specific uses.

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

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

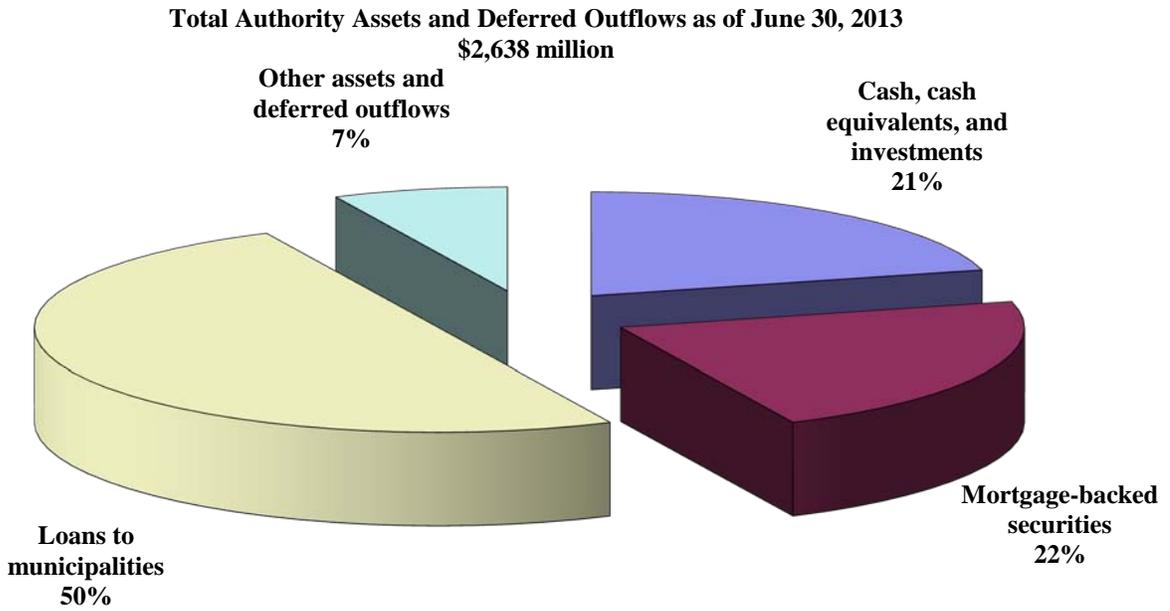
Management's Discussion and Analysis

June 30, 2013 and 2012

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 2013 and 2012.

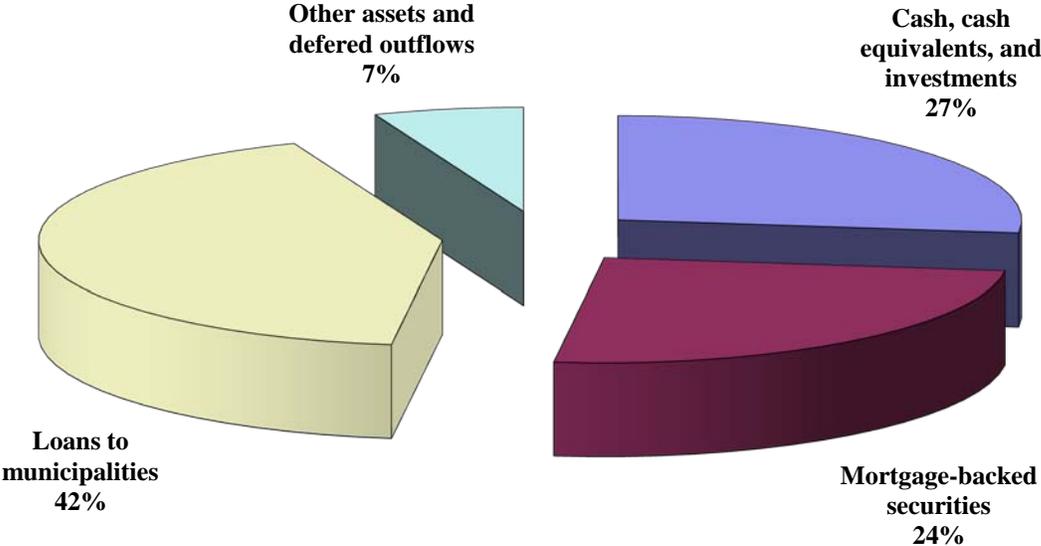


IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)

Management's Discussion and Analysis

June 30, 2013 and 2012

Total Authority Assets and Deferred Outflows as of June 30, 2012
\$2,899 million



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

Management's Discussion and Analysis

June 30, 2013 and 2012

Table 1 – Total Condensed Information of the Authority

| Net Position | | | |
|--|-------------------|----------------|----------------|
| (Dollars in millions) | | | |
| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
| Assets: | | | |
| Cash, cash equivalents, and investments | \$ 550.5 | 778.6 | 856.9 |
| Mortgage-backed securities | 570.9 | 707.9 | 840.4 |
| Loans to municipalities or water systems | 1,317.1 | 1,214.7 | 1,079.1 |
| Other assets | 184.2 | 170.8 | 151.9 |
| Total assets | <u>2,622.7</u> | <u>2,872.0</u> | <u>2,928.3</u> |
| Deferred outflows | 14.9 | 26.9 | 22.0 |
| Total assets and deferred outflows | <u>\$ 2,637.6</u> | <u>2,898.9</u> | <u>2,950.3</u> |
| Liabilities: | | | |
| Bonds payable, net | \$ 1,435.3 | 1,665.2 | 1,757.7 |
| Other liabilities | 112.7 | 165.4 | 200.2 |
| Total liabilities | <u>\$ 1,548.0</u> | <u>1,830.6</u> | <u>1,957.9</u> |
| Net position: | | | |
| Net investment in capital assets | \$ 3.0 | 3.0 | 0.8 |
| Restricted | 1,072.2 | 1,051.3 | 979.0 |
| Unrestricted | 14.4 | 14.0 | 12.6 |
| Total net position | <u>\$ 1,089.6</u> | <u>1,068.3</u> | <u>992.4</u> |

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

Management's Discussion and Analysis

June 30, 2013 and 2012

Revenues, Expenses, and Changes in Net Position

(Dollars in millions)

| | 2013 | 2012 | 2011 |
|-----------------------------------|-------------|-------------|-------------|
| Operating revenues: | | | |
| Interest income | \$ 76.1 | 88.8 | 86.3 |
| Net decrease in fair value | (28.0) | (4.1) | (3.2) |
| Fee and other income | 19.4 | 17.5 | 19.4 |
| Grant income | 85.4 | 140.3 | 234.7 |
| | 152.9 | 242.5 | 337.2 |
| Total operating revenues | | | |
| Operating expenses: | | | |
| Interest on bonds | 57.8 | 66.6 | 68.6 |
| General and administrative | 25.3 | 22.8 | 22.3 |
| Grants and aid | 47.2 | 77.3 | 138.8 |
| Provision (recoveries) for losses | 1.3 | (0.1) | 0.2 |
| | 131.6 | 166.6 | 229.9 |
| Total operating expenses | | | |
| Change in net position | 21.3 | 75.9 | 107.3 |
| Net position at beginning of year | 1,068.3 | 992.4 | 885.1 |
| Net position at end of year | \$ 1,089.6 | 1,068.3 | 992.4 |

Financial Analysis – Combined 2013

- The Authority's assets and deferred outflows declined \$261.3 million to \$2,637.6 million in FY13 compared to \$2,898.9 million in FY12. Cash, cash equivalents, and investments declined 29%, or \$228.1 million. Mortgage-backed securities (MBS) declined 19%, or \$137.0 million. Loans to municipalities or water systems (SRF loans) increased 8%, or \$102.4 million.
- The Authority's liabilities declined \$282.6 million to \$1,548.0 million in FY13 compared to \$1,830.6 million in FY12. Bonds payable declined 14%, or \$229.9 million.
- The Authority's net position increased \$21.3 million to \$1,089.6 million in FY13 compared to \$1,068.3 million in FY12.

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis

June 30, 2013 and 2012

The Authority issued four new single-family bond series totaling \$85.2 million to refund prior bonds and to purchase mortgage-backed securities. The Authority made bond payments of \$315.1 million.

| Series | Date | (In millions) | Rating |
|-----------|----------|---------------|----------------|
| SF 2012 1 | 12/27/12 | \$ 17.8 | Aaa by Moody's |
| SF 2013 1 | 01/24/13 | 20.0 | Aaa by Moody's |
| SF 2013 2 | 06/27/13 | 15.0 | Aa3 by Moody's |
| SF 2013 3 | 05/30/13 | 32.4 | Aaa by Moody's |
| Total | | \$ 85.2 | |

- Interest income declined 14% to \$76.1 million due to high prepayment rates in the Authority's MBS portfolio.
- The decrease in fair value of investments and MBS increased \$23.9 million as a result of the high prepayment rates mentioned above and slightly higher interest rates at year-end.
- Fee and other income increased 11% to \$19.4 million due increases in Title Guaranty and economic development bond fees.
- Grant income declined \$54.9 million to \$85.4 million due to the end of many onetime state and federal programs.
- General and administrative expenses grew 11%, or \$2.5 million, to \$25.3 million due mainly to volume increases in Title Guaranty.
- Grants and aid expense declined \$30.1 million to \$47.2 million, a direct result of the decreased funding mentioned above.

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 million 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 position increased \$75.9 million to \$1,068.3 million in FY12 compared to \$992.4 million in FY11.

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis

June 30, 2013 and 2012

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 mortgage-backed securities. 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.

| <u>Series</u> | <u>Date</u> | <u>(In millions)</u> | <u>Rating</u> |
|----------------|-------------|----------------------|---|
| 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 \$0.6 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.

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 Position

June 30, 2013

(Dollars in thousands)

| Assets | Housing Agency Fund | State Revolving Fund | Total |
|---|------------------------------------|-------------------------------------|--------------|
| | | | |
| Current assets (substantially restricted): | | | |
| Cash and cash equivalents | \$ 165,042 | 217,987 | 383,029 |
| Investments: | | | |
| Other investments | 6,320 | 131,041 | 137,361 |
| Mortgage-backed securities | 11,266 | — | 11,266 |
| Total current investments | 17,586 | 131,041 | 148,627 |
| Loans to municipalities or water systems | — | 68,883 | 68,883 |
| Housing Agency loans, net | 4,241 | — | 4,241 |
| Accrued interest receivable | 3,072 | 3,509 | 6,581 |
| Other assets | 2,429 | 552 | 2,981 |
| Total current assets | 192,370 | 421,972 | 614,342 |
| Noncurrent assets (substantially restricted): | | | |
| Investments: | | | |
| Other investments | 14,397 | 15,663 | 30,060 |
| Mortgage-backed securities | 559,608 | — | 559,608 |
| Total noncurrent investments | 574,005 | 15,663 | 589,668 |
| Loans to municipalities or water systems | — | 1,248,197 | 1,248,197 |
| Housing agency loans, net | 131,912 | — | 131,912 |
| Capital assets, net of accumulated depreciation | 2,906 | 114 | 3,020 |
| Other assets | 34,330 | 1,264 | 35,594 |
| Total noncurrent assets | 743,153 | 1,265,238 | 2,008,391 |
| Total assets | 935,523 | 1,687,210 | 2,622,733 |
| Deferred Outflows | | | |
| Accumulated decrease in fair value of hedging derivatives | 14,870 | — | 14,870 |
| Total assets and deferred outflows | \$ 950,393 | 1,687,210 | 2,637,603 |

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

Statement of Net Position

June 30, 2013

(Dollars in thousands)

| Liabilities | Housing Agency Fund | State Revolving Fund | Total |
|--|------------------------------------|-------------------------------------|--------------|
| | | | |
| Current liabilities: | | | |
| Bonds payable, net | \$ 9,116 | 30,940 | 40,056 |
| Accrued interest payable | 8,023 | 15,009 | 23,032 |
| Accounts payable and other liabilities | 24,251 | 1,973 | 26,224 |
| Total current liabilities | 41,390 | 47,922 | 89,312 |
| Noncurrent liabilities: | | | |
| Bonds payable, net | 544,371 | 850,894 | 1,395,265 |
| Reserves for claims | 5,120 | — | 5,120 |
| Other liabilities | 45,716 | 12,592 | 58,308 |
| Total noncurrent liabilities | 595,207 | 863,486 | 1,458,693 |
| Total liabilities | 636,597 | 911,408 | 1,548,005 |
| Net Position | | | |
| Net investment in capital assets | 2,906 | 114 | 3,020 |
| Restricted net position: | | | |
| Per bond resolutions | 221,108 | 636,284 | 857,392 |
| Per legislation | 75,368 | — | 75,368 |
| Per other agreements | — | 139,404 | 139,404 |
| Total restricted net position | 296,476 | 775,688 | 1,072,164 |
| Unrestricted net position | 14,414 | — | 14,414 |
| Total net position | \$ 313,796 | 775,802 | 1,089,598 |

See accompanying notes to financial statements.

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

Statement of Net Position

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 | 21,755 | 1,502 | 23,257 |
| Total noncurrent assets | 869,141 | 1,161,881 | 2,031,022 |
| Total assets | 1,143,658 | 1,728,287 | 2,871,945 |
| Deferred Outflows | | | |
| Accumulated decrease in fair value of hedging derivatives | 26,947 | — | 26,947 |
| Total assets and deferred outflows | \$ 1,170,605 | 1,728,287 | 2,898,892 |

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

Statement of Net Position

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 Position | | | |
| Net investment in capital assets | 3,053 | — | 3,053 |
| Restricted net position: | | | |
| 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 position | 309,155 | 742,179 | 1,051,334 |
| Unrestricted net position | 13,953 | — | 13,953 |
| Total net position | \$ 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 Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

(Dollars in thousands)

| | Housing Agency Fund | State Revolving Fund | Total |
|---|------------------------------------|-------------------------------------|------------------|
| Operating revenues: | | | |
| Interest income | \$ 38,367 | 37,776 | 76,143 |
| Net decrease in fair value of investments and mortgage-backed securities | (27,777) | (246) | (28,023) |
| Fee income | 15,012 | 4,150 | 19,162 |
| Grant income | 47,428 | 38,001 | 85,429 |
| Other income | 207 | — | 207 |
| Total operating revenues | <u>73,237</u> | <u>79,681</u> | <u>152,918</u> |
| Operating expenses: | | | |
| Interest on bonds | 26,418 | 31,400 | 57,818 |
| General and administrative | 15,786 | 9,549 | 25,335 |
| Grants and aid | 42,227 | 4,977 | 47,204 |
| Provision for losses | 1,171 | 132 | 1,303 |
| Total operating expenses | <u>85,602</u> | <u>46,058</u> | <u>131,660</u> |
| Operating (loss) income/change in net position | (12,365) | 33,623 | 21,258 |
| Net position at June 30, 2012 | <u>326,161</u> | <u>742,179</u> | <u>1,068,340</u> |
| Net position at June 30, 2013 | <u>\$ 313,796</u> | <u>775,802</u> | <u>1,089,598</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 Position

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 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 position | 19,409 | 56,533 | 75,942 |
| Net position at June 30, 2011 | <u>306,752</u> | <u>685,646</u> | <u>992,398</u> |
| Net position 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 Cash Flows

Year ended June 30, 2013

(Dollars in thousands)

| | Housing Agency Fund | State Revolving Fund | Total |
|---|------------------------------------|-------------------------------------|------------------|
| Cash flows from operating activities: | | | |
| Cash receipts for fees | \$ 14,792 | 4,297 | 19,089 |
| Interest received on loans and mortgage-backed securities | 33,995 | 37,483 | 71,478 |
| Principal payments on loans and mortgage-backed securities | 220,258 | 138,555 | 358,813 |
| Purchases of loans and mortgage-backed securities | (114,013) | (240,955) | (354,968) |
| Grants and other income | 2,480 | 38,001 | 40,481 |
| Cash payments to employees | (8,770) | (675) | (9,445) |
| Cash payments to suppliers and grantees | (49,363) | (12,416) | (61,779) |
| Net cash provided by (used in) operating activities | <u>99,379</u> | <u>(35,710)</u> | <u>63,669</u> |
| Cash flows from capital and related financing activities: | | | |
| Proceeds from issuance of bonds | 85,186 | — | 85,186 |
| Payment of bonds | (244,519) | (70,539) | (315,058) |
| Interest paid | (29,701) | (35,046) | (64,747) |
| Net cash used in capital and related financing activities | <u>(189,034)</u> | <u>(105,585)</u> | <u>(294,619)</u> |
| Cash flows from investing activities: | | | |
| Purchases of investments | (38,557) | (292,192) | (330,749) |
| Interest received on investments | 5,211 | 771 | 5,982 |
| Sales/maturities of investments | 100,661 | 299,538 | 400,199 |
| Cash paid to settle derivatives | (1,083) | — | (1,083) |
| Payment of rebate owned | (189) | (752) | (941) |
| Purchase of capital assets | (114) | (114) | (228) |
| Net cash provided by investing activities | <u>65,929</u> | <u>7,251</u> | <u>73,180</u> |
| Decrease in cash and cash equivalents | (23,726) | (134,044) | (157,770) |
| Cash and cash equivalents, beginning of year | <u>188,768</u> | <u>352,031</u> | <u>540,799</u> |
| Cash and cash equivalents, end of year | <u>\$ 165,042</u> | <u>217,987</u> | <u>383,029</u> |

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

Statement of Cash Flows

Year ended June 30, 2013

(Dollars in thousands)

| | <u>Housing Agency Fund</u> | <u>State Revolving Fund</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|-------------------|
| Reconciliation of operating (loss) income to net cash provided by (used in) operating activities: | | | |
| Operating (loss) income | \$ (12,365) | 33,623 | 21,258 |
| Interest income on investments and bank deposits | (5,172) | (771) | (5,943) |
| Rebate expense | — | 38 | 38 |
| Interest expense on bonds | 26,418 | 31,400 | 57,818 |
| Net decrease in fair value of investments and mortgage-backed securities | 27,777 | 246 | 28,023 |
| Depreciation of capital assets | 262 | — | 262 |
| Principal payments on loans and mortgage-backed securities | 220,258 | 138,555 | 358,813 |
| Purchases of loans and mortgage-backed securities | (114,013) | (240,955) | (354,968) |
| Decrease in interest receivable on loans and mortgage-backed securities | 800 | 439 | 1,239 |
| (Increase) decrease in other assets | (627) | 1,517 | 890 |
| Increase in accounts payable and other liabilities | 1,946 | 50 | 1,996 |
| (Decrease) increase in deferred income | (45,905) | 148 | (45,757) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities | <u>\$ 99,379</u> | <u>(35,710)</u> | <u>63,669</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 | Total |
|---|------------------------------------|-------------------------------------|------------------|
| 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 (used in) provided by 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 (used in) provided by investing activities | <u>(12,830)</u> | <u>3,337</u> | <u>(9,493)</u> |
| (Decrease) increase 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)

| | <u>Housing Agency Fund</u> | <u>State Revolving Fund</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|-----------------------------|
| 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) |
| Decrease (increase) 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 |
| (Decrease) increase in deferred income | (54,277) | 1,026 | (53,251) |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash provided by (used in) operating activities | <u>\$ 119,199</u> | <u>(48,351)</u> | <u>70,848</u> |

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2013 and 2012

(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, 2013 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$8.3 billion in fiscal years 1997 through 2013, of which approximately \$4.0 billion is outstanding at June 30, 2013.

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

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Notes to Financial Statements

June 30, 2013 and 2012

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 moneys 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 moneys 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 moneys 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, 2013 and 2012, approximately \$16.2 million and \$23.3 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.

(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

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Governmental Accounting Standards Board (GASB) pronouncements, statements, and interpretations.

(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 position, 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 moneys 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 moneys 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 moneys transferred from the Division, all specifically restricted or committed for uses in accordance with applicable legislation or grant agreements.
- e. Title Guaranty Division Program – accounts for the administrative costs of the Division, proceeds from title guaranty fees, and payments for claims made against the title guarantees. Moneys 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 moneys 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.

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June 30, 2013 and 2012

- 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 moneys 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 moneys 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 position, with the change in the fair value recorded in the statements of revenues, expenses, and changes in net position. 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.

(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.

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June 30, 2013 and 2012

(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 and \$2.1 million, respectively, was netted against other loans at June 30, 2013 and 2012. 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 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.

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June 30, 2013 and 2012

(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 Position*

Restricted net position represent net position set aside, as required by the various bond resolutions, for the benefit of the respective bond owners. Assets related to such restricted net position 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 position also represents net position specifically restricted for uses in accordance with applicable legislation, including the Title Guaranty Division Program and the Miscellaneous Restricted Funds.

Restricted net position also represent net position 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 position provides additional security for the Authority's general obligations and coverage of the Authority's administrative costs. Unrestricted net position is available to meet commitments listed under "Commitments and Contingencies."

(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.

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Notes to Financial Statements

June 30, 2013 and 2012

(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 position.

(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.

(u) Recent Accounting Pronouncements

In March 2012, the Government Accounting Standards Board (GASB) issued Statements No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), and No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources,

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certain items that were previously reported as assets and liabilities and recognizes outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 68 establishes accounting and financial reporting standards for pensions in the financial statements and footnotes. GASB 65 will be effective for the Authority's financial statements ending June 30, 2014 and GASB 68 will be effective for the Authority's financial statements ending June 30, 2015. The Authority is evaluating the impact of these statements on the financial statements.

(2) Deposits and Investments

(a) Deposits

At June 30, 2013 and 2012, the Authority had no uninsured or uncollateralized deposits (dollars in thousands):

| June 30, 2013 | | | | |
|--------------------------------|------------------------------------|-------------------------------------|--------------|--------------------------------|
| | Housing Agency Fund | State Revolving Fund | Total | Percentage of total |
| Type: | | | | |
| Cash in bank | \$ 7,728 | 62,170 | 69,898 | 22% |
| Cash in trust accounts | 54 | — | 54 | — |
| Certificates of deposit | 1,058 | 361 | 1,419 | — |
| Money market trust accounts | 93,423 | 147,362 | 240,785 | 78 |
| Total | \$ 102,263 | 209,893 | 312,156 | 100% |

| 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% |

(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

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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.

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

| | June 30, 2013 | | | | |
|-----------------------------------|--------------------------------|-------------------------------------|----------------|--------------------------------|---|
| | Housing Agency Fund | State Revolving Fund | Total | Percentage of total | Average maturity (years) |
| Type: | | | | | |
| GNMA mortgage-backed securities | \$ 354,040 | — | 354,040 | 44% | 24.4 |
| FNMA mortgage-backed securities | 209,052 | — | 209,052 | 26 | 24.0 |
| FHLMC mortgage-backed securities | 7,783 | — | 7,783 | 1 | 24.3 |
| U.S. government agency securities | 5,193 | 128,373 | 133,566 | 17 | 2.4 |
| U.S. Treasury securities | 11,243 | — | 11,243 | 1 | 3.9 |
| Corporate bonds | — | 2,253 | 2,253 | — | 1.2 |
| Municipal securities | 3,222 | 15,717 | 18,939 | 2 | 3.0 |
| State of Iowa pooled money funds | 20,592 | — | 20,592 | 3 | Less than 1 |
| Guaranteed investment contracts | 43,245 | 8,455 | 51,700 | 6 | Less than 1 |
| Total | \$ <u>654,370</u> | <u>154,798</u> | <u>809,168</u> | <u>100%</u> | |

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| | 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> | |

As of June 30, 2013 and 2012, the Authority had derivative investments with the following maturities (dollars in thousands):

| Investment type | Fair value | June 30, 2013 | | | |
|---|------------|----------------------------------|-------|--------|--------------|
| | | Investment maturities (in years) | | | |
| | | Less than 1 | 1 – 5 | 6 – 10 | More than 10 |
| Investment derivative instruments | \$ (101) | — | — | 55 | (156) |
| Investment derivative instrument – forward mortgage-backed securities sales | 25,600 | 25,600 | — | — | — |

| 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 | — | — | — |

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June 30, 2013 and 2012

(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.

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

| Type/Provider | Credit ratings | | June 30, 2013 | | | |
|----------------------------------|-------------------|--------------|---------------------|----------------------|---------|---------------------|
| | Standard & Poor's | Moody's | Housing Agency Fund | State Revolving Fund | Total | Percentage of total |
| Money market funds: | | | | | | |
| Wells Fargo Bank, N.A. | NR to AAAm-G | NR to Aaa-mf | \$ 76,642 | 113,119 | 189,761 | 60.3% |
| Goldman Sachs Group, Inc. | AAAm to AAAm-G | Aaa-MF | 16,781 | 34,243 | 51,024 | 16.2 |
| Certificate of deposit: | | | | | | |
| 7 providers | A- to AA+ | A2 to Aa3 | 1,058 | 361 | 1,419 | 0.5 |
| Guaranteed investment contracts: | | | | | | |
| Societe Generale * | A/A-1 | A2/P-1 | 25,873 | — | 25,873 | 8.2 |
| TransAmerica Life Ins Co | AA-/A1+ | A1/P1 | 7,338 | — | 7,338 | 2.3 |
| Credit Agricole | A/A-1 | A2/P-1 | 4,199 | — | 4,199 | 1.3 |
| FSA International, Ltd | AA- | Aa3 | 2,420 | — | 2,420 | 0.8 |
| Natixtis Funding Corp* | A+/A-1+ | Aa3/P1 | — | 8,455 | 8,455 | 2.7 |
| Bayerische Landesbank | Not rated | Baa1/P-2 | 2,707 | — | 2,707 | 0.9 |
| Royal Bank of Canada | AA-/A1+ | Aa3/P-1 | 708 | — | 708 | 0.2 |
| Corporate and municipal bonds: | | | | | | |
| 39 other providers | A- to AAA | Baa2 to Aaa | 3,222 | 17,790 | 21,012 | 6.7 |
| Total | | | \$ 140,948 | 173,968 | 314,916 | 100.0% |

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| Type/Provider | Credit ratings | | June 30, 2012 | | | |
|---|-------------------|--------------|---------------------|----------------------|---------|---------------------|
| | Standard & Poor's | Moody's | Housing Agency Fund | State Revolving Fund | Total | Percentage of total |
| Money market funds: | | | | | | |
| Wells Fargo Bank, N.A. | NR to AAAm-G | NR to Aaa-mf | \$ 67,626 | 165,731 | 233,357 | 53.9% |
| Goldman Sachs Group, Inc. | AAA to AAAm-G | Aaa-MF | 7,537 | 80,641 | 88,178 | 20.4 |
| Certificate of deposit: | | | | | | |
| 4 providers | A/A-1 | A1/P-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 | 2.3 |
| Total | | | \$ 129,825 | 302,729 | 432,554 | 99.9% |

* Investment agreements are collateralized with U.S. government securities

(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, 2013 and 2012 are as follows (dollars in thousands):

| | 2013 | | |
|---|------------|----------------------|---------|
| | Cost | Allowance for losses | Net |
| Loans secured with first mortgages | \$ 81,666 | (630) | 81,036 |
| Loans secured with second mortgages, other collateral, or unsecured | 5,867 | (1,469) | 4,398 |
| State program loans | 9,459 | (1,000) | 8,459 |
| Federal program loans | 63,100 | (20,840) | 42,260 |
| Total | \$ 160,092 | (23,939) | 136,153 |

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| | 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 | \$ 155,125 | (22,684) | 132,441 |

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(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2013 and 2012 are as follows (dollars in thousands):

| Description | Original amount | Due dates | | Interest rate | | Balance | |
|---------------------------------|-----------------|-----------|----------|---------------|-------|---------|--------|
| | | From | To | From | To | 2013 | 2012 |
| Housing Agency Bonds and Notes: | | | | | | | |
| Single-Family Mortgage Bonds | | | | | | | |
| SF 2004 A – Serial Bonds | \$ 6,120 | 07/01/05 | 07/01/14 | 1.750 | 4.450 | \$ 455 | 755 |
| 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 |
| 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* | 0.080 | 12,790 | 14,115 |
| SF 2004 C – Serial Bonds | 3,395 | 01/01/06 | 01/01/14 | 2.500 | 4.700 | 180 | 355 |
| SF 2004 C – Term Bonds | 1,400 | | 07/01/12 | | 4.280 | — | 135 |
| SF 2004 C – Term Bonds | 610 | | 07/01/14 | | 4.700 | 145 | 190 |
| SF 2004 C – Term Bonds | 7,400 | | 07/01/25 | | 5.125 | 1,425 | 2,310 |
| SF 2004 C – Term Bonds | 2,680 | | 01/01/30 | | 5.200 | 535 | 855 |
| SF 2004 C – Term Bonds | 2,680 | | 07/01/30 | | 5.200 | 510 | 820 |
| SF 2004 C – Term Bonds | 5,650 | | 01/01/34 | | 5.250 | — | 130 |
| SF 2004 C – Term Bonds | 9,030 | | 07/01/35 | | 5.250 | 1,615 | 2,650 |
| SF 2004 D – Term Bonds | 17,000 | | 07/01/34 | Variable* | 0.070 | 9,520 | 10,605 |
| SF 2004 E – Serial Bonds | 10,825 | 01/01/06 | 01/01/16 | 1.950 | 3.950 | 865 | 1,425 |
| SF 2004 F – Term Bonds | 2,375 | | 07/01/24 | | 4.550 | 340 | 735 |
| SF 2004 F – Term Bonds | 10,400 | | 01/01/35 | | 5.000 | — | 985 |
| SF 2004 F – Term Bonds | 6,400 | | 07/01/35 | | 4.800 | 880 | 2,035 |
| SF 2004 G – Term Bonds | 20,000 | | 07/01/34 | Variable* | 0.080 | 10,615 | 12,635 |
| SF 2005 A – Serial Bonds | 5,885 | 07/01/07 | 07/01/16 | 2.900 | 4.300 | 685 | 830 |
| SF 2005 B – Serial Bonds | 2,925 | 01/01/07 | 01/01/15 | 3.200 | 4.500 | 120 | 245 |
| SF 2005 B – Term Bonds | 15,350 | | 07/01/25 | | 4.600 | 2,635 | 3,575 |
| SF 2005 B – Term Bonds | 17,300 | | 07/01/30 | | 5.000 | 1,140 | 3,135 |
| SF 2005 C – Term Bonds | 24,000 | | 01/01/36 | Variable* | 0.070 | 8,440 | 15,645 |
| SF 2005 D – Serial Bonds | 5,995 | 01/01/07 | 01/01/16 | 3.000 | 4.250 | 45 | 65 |
| SF 2005 D – Term Bonds | 2,565 | | 07/01/13 | | 4.000 | 100 | 390 |
| SF 2005 D – Term Bonds | 8,340 | | 01/01/36 | | 4.450 | 1,160 | 1,610 |
| SF 2005 D – Term Bonds | 19,100 | | 01/01/36 | | 5.000 | 2,385 | 4,190 |
| SF 2005 E – Term Bonds | 24,000 | | 01/01/36 | Variable* | 0.080 | 10,995 | 14,965 |
| SF 2005 F – Serial Bonds | 3,075 | 07/01/14 | 07/01/16 | 4.000 | 4.200 | — | 575 |
| SF 2005 G – Serial Bonds | 6,810 | 07/01/07 | 01/01/14 | 3.250 | 4.300 | — | 415 |
| SF 2005 G – Term Bonds | 1,510 | | 07/01/26 | | 4.700 | — | 300 |
| SF 2005 G – Term Bonds | 240 | | 07/01/31 | | 4.750 | — | 60 |
| SF 2005 G – Term Bonds | 19,800 | | 01/01/36 | | 5.000 | 2,140 | 4,505 |
| SF 2005 G – Term Bonds | 4,565 | | 01/01/37 | | 4.875 | — | 755 |
| SF 2005 H – Term Bonds | 24,000 | | 07/01/36 | Variable* | 0.070 | 12,465 | 16,580 |
| SF 2006 A – Serial Bonds | 1,385 | 07/01/14 | 01/01/15 | 3.800 | 3.900 | 110 | 270 |
| SF 2006 B – Serial Bonds | 10,655 | 07/01/07 | 07/01/16 | 3.400 | 4.300 | 215 | 925 |
| SF 2006 B – Term Bonds | 4,535 | | 01/01/26 | | 4.750 | 160 | 890 |
| SF 2006 B – Term Bonds | 14,425 | | 01/01/36 | | 4.900 | 560 | 2,680 |
| SF 2006 B – Term Bonds | 17,000 | | 01/01/36 | | 5.000 | 2,770 | 4,395 |
| SF 2006 C – Term Bonds | 12,000 | | 01/01/36 | Variable* | 0.080 | 12,000 | 12,000 |

* Variable rates are as of June 30, 2013

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| Description | Original amount | Due dates | | Interest rate | | Balance | |
|--------------------------|-----------------|-----------|----------|---------------|-------|----------|--------|
| | | From | To | From | To | 2013 | 2012 |
| SF 2006 E – Term Bonds | \$ 25,250 | | 07/01/36 | | 5.500 | \$ 8,215 | 10,715 |
| SF 2006 F – Term Bonds | 12,000 | | 07/01/36 | Variable* | 0.070 | 5,665 | 10,130 |
| SF 2006 G – Serial Bonds | 2,720 | 07/01/07 | 07/01/16 | 3.750 | 4.500 | 410 | 560 |
| SF 2006 G – Term Bonds | 12,975 | | 01/01/26 | | 4.875 | 3,305 | 3,970 |
| SF 2006 G – Term Bonds | 8,265 | | 07/01/30 | | 5.000 | — | 2,505 |
| SF 2006 G – Term Bonds | 14,620 | | 07/01/36 | | 5.000 | 170 | 4,405 |
| SF 2006 G – Term Bonds | 8,420 | | 07/01/36 | | 5.750 | 2,405 | 3,345 |
| SF 2006 H – Term Bonds | 23,000 | | 07/01/36 | | 5.868 | 6,425 | 8,980 |
| SF 2006 I – Term Bonds | 5,405 | | 07/01/21 | | 4.700 | 2,010 | 2,760 |
| SF 2006 I – Term Bonds | 7,385 | | 07/01/26 | | 4.800 | 2,635 | 3,750 |
| SF 2006 I – Term Bonds | 10,085 | | 07/01/31 | | 4.900 | 3,540 | 5,110 |
| SF 2006 I – Term Bonds | 17,125 | | 07/01/37 | | 4.950 | 5,835 | 8,615 |
| SF 2006 J – Term Bonds | 40,000 | | 07/01/37 | | 5.745 | 10,915 | 15,655 |
| SF 2007 A – Serial Bonds | 3,855 | 01/01/08 | 07/01/17 | 3.500 | 3.950 | 640 | 1,270 |
| SF 2007 B – Term Bonds | 4,935 | | 07/01/22 | | 4.600 | 690 | 1,875 |
| SF 2007 B – Term Bonds | 5,175 | | 07/01/26 | | 4.700 | 680 | 1,860 |
| SF 2007 B – Term Bonds | 10,560 | | 07/01/32 | | 4.750 | 1,310 | 3,815 |
| SF 2007 B – Term Bonds | 10,475 | | 01/01/37 | | 4.800 | — | 2,295 |
| SF 2007 C – Term Bonds | 35,000 | | 07/01/37 | Variable* | 0.130 | 18,350 | 21,575 |
| SF 2007 D – Serial Bonds | 1,215 | 07/01/11 | 01/01/17 | 3.950 | 4.400 | 320 | 535 |
| SF 2007 E – Term Bonds | 5,770 | | 07/01/22 | | 5.050 | — | 2,145 |
| SF 2007 E – Term Bonds | 7,215 | | 07/01/27 | | 5.100 | — | 2,685 |
| SF 2007 E – Term Bonds | 9,675 | | 07/01/32 | | 5.150 | — | 3,595 |
| SF 2007 E – Term Bonds | 5,000 | | 07/01/37 | | 5.750 | 1,865 | 2,400 |
| SF 2007 E – Term Bonds | 14,750 | | 01/01/38 | | 5.200 | — | 5,475 |
| SF 2007 F – Serial Bonds | 7,000 | 07/01/08 | 07/01/14 | 5.341 | 5.752 | — | 805 |
| SF 2007 G – Term Bonds | 33,000 | | 01/01/38 | Variable* | 0.130 | 15,875 | 19,360 |
| SF 2007 H – Serial Bonds | 7,875 | 07/01/08 | 07/01/17 | 3.650 | 4.500 | — | 2,245 |
| SF 2007 I – Term Bonds | 2,805 | | 07/01/22 | | 5.200 | — | 1,140 |
| SF 2007 I – Term Bonds | 16,295 | | 07/01/32 | | 5.350 | — | 6,625 |
| SF 2007 I – Term Bonds | 22,725 | | 07/01/37 | | 5.400 | — | 8,605 |
| SF 2007 I – Term Bonds | 10,065 | | 07/01/37 | | 5.500 | 4,375 | 5,480 |
| SF 2007 J – Term Bonds | 30,000 | | 07/01/30 | | 5.770 | 8,105 | 13,265 |
| SF 2007 M – Term Bonds | 25,450 | | 01/01/39 | Variable* | 0.130 | 13,880 | 16,760 |
| SF 2007 N – Term Bonds | 14,550 | | 01/01/39 | Variable* | 0.070 | 5,930 | 13,265 |
| SF 2008 B – Term Bonds | 28,070 | | 01/01/39 | Variable* | 0.080 | 12,890 | 17,310 |
| SF 2008 C – Term Bonds | 29,465 | | 01/01/39 | Variable* | 0.130 | 16,025 | 19,520 |
| SF 2008 D – Serial Bonds | 4,670 | 01/01/10 | 01/01/13 | 2.450 | 3.450 | — | 410 |
| SF 2008 E – Serial Bonds | 8,605 | 07/01/13 | 07/01/18 | 3.450 | 4.350 | 710 | 2,555 |
| SF 2008 E – Term Bonds | 7,140 | | 07/01/23 | | 5.000 | 150 | 2,120 |
| SF 2008 E – Term Bonds | 7,050 | | 07/01/28 | | 5.250 | 100 | 2,100 |
| SF 2008 E – Term Bonds | 7,705 | | 07/01/32 | | 5.400 | — | 2,250 |
| SF 2008 F – Term Bonds | 17,330 | | 01/01/39 | Variable* | 0.080 | 17,330 | 17,330 |
| SF 2008 G – Term Bonds | 22,500 | | 01/01/39 | Variable* | 0.130 | 12,140 | 15,510 |
| SF 2009 A – Serial Bonds | 13,510 | 07/01/10 | 07/01/20 | 1.000 | 4.200 | 6,425 | 9,625 |
| SF 2009 A – Term Bonds | 5,660 | | 07/01/24 | | 4.800 | 3,165 | 4,540 |
| SF 2009 A – Term Bonds | 5,970 | | 07/01/28 | | 5.000 | 3,235 | 4,725 |
| SF 2009 A – Term Bonds | 6,835 | | 01/01/33 | | 5.300 | — | 5,300 |
| SF 2009 A – Term Bonds | 8,025 | | 01/01/38 | | 5.000 | 4,970 | 6,200 |
| SF 2009 1 – Serial Bonds | 7,370 | 01/01/11 | 07/01/21 | 0.700 | 4.100 | 4,120 | 5,280 |
| SF 2009 1 – Term Bonds | 4,230 | | 01/01/26 | | 4.550 | 2,475 | 3,355 |

* Variable rates are as of June 30, 2013

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| Description | Original amount | Due dates | | Interest rate | | Balance | |
|------------------------------------|---------------------|-----------|----------|---------------|-------|---------------------|------------------|
| | | From | To | From | To | 2013 | 2012 |
| SF 2009 1 – Term Bonds | \$ 4,400 | | 07/01/28 | | 5.000 | 2,960 | \$ 3,645 |
| SF 2009 2 – Term Bonds | 24,000 | | 07/01/40 | | 4.050 | — | 19,700 |
| SF 2010 1 – Serial Bonds | 10,410 | 01/01/12 | 01/01/22 | 0.750 | 3.550 | 7,110 | 9,560 |
| SF 2010 1 – Term Bonds | 4,150 | | 07/01/27 | | 4.000 | 2,285 | 3,890 |
| SF 2010 1 – Term Bonds | 6,240 | | 01/01/28 | | 4.375 | 4,555 | 5,385 |
| SF 2009 3A – Term Bonds | 31,200 | | 07/01/41 | | 3.010 | 24,220 | 28,670 |
| SF 2011 1 Serial Bonds | 14,315 | 07/01/12 | 07/01/23 | 0.500 | 4.000 | 12,075 | 13,990 |
| SF 2011 1 Term Bonds | 3,920 | | 07/01/26 | | 4.375 | 3,345 | 3,820 |
| SF 2011 1 Term Bonds | 5,765 | | 01/01/29 | | 4.500 | 5,035 | 5,595 |
| SF 2009 3B Term Bonds | 36,000 | | 07/01/41 | 0.500 | 3.480 | — | 35,110 |
| SF 2011 2 Serial Bonds | 9,650 | 01/01/13 | 07/01/22 | 0.700 | 3.600 | 9,105 | 9,650 |
| SF 2011 2 Term Bonds | 4,185 | | 07/01/26 | | 4.000 | 4,010 | 4,185 |
| SF 2011 2 Term Bonds | 1,800 | | 01/01/28 | | 4.150 | 1,685 | 1,800 |
| SF 2011 2 Term Bonds | 4,365 | | 07/01/28 | | 4.500 | 4,140 | 4,365 |
| SF 2009 3C Term Bonds | 30,000 | | 07/01/41 | | 2.320 | 29,000 | 30,000 |
| SF 2012 1 Term Bonds | 17,756 | | 09/01/40 | | 2.300 | 16,754 | — |
| SF 2013 1 Term Bonds | 20,000 | | 02/01/43 | | 2.150 | 19,795 | — |
| SF 2013 2 Term Bonds | 15,000 | | 07/01/43 | | 2.800 | 15,000 | — |
| SF 2013 3 Term Bonds | 32,430 | | 02/01/42 | | 2.900 | 32,430 | — |
| Multi Family Housing Bonds | | | | | | | |
| MF 1978 A – Term Bonds | 28,130 | | 04/01/21 | | 6.000 | 9,815 | 10,830 |
| MF 2006 A – Term Bonds | 6,475 | | 07/01/41 | | 4.600 | 5,355 | 5,575 |
| MF 2007 A – Term Bonds | 12,700 | | 08/01/37 | Variable* | 0.070 | 12,075 | 12,385 |
| MF 2007 B – Term Bonds | 9,300 | | 08/01/37 | Variable* | 0.070 | 8,845 | 9,070 |
| MF 2008 A – Term Bond | 3,750 | | 06/01/24 | Variable* | 0.080 | 3,650 | 3,650 |
| MF FHLB B1 – Term Bonds | 11,500 | | 02/01/26 | Variable* | 1.314 | 11,257 | 11,385 |
| G.O. Notes and Credit Facilities | | | | | | | |
| Iowa State University note | 1,000 | | 12/01/21 | | — | 758 | 950 |
| Total Housing Agency | 1,393,521 | | | | | 553,834 | 712,280 |
| State Revolving Fund Revenue Bonds | | | | | | | |
| 2001 – Serial Bonds | 210,395 | 08/01/02 | 08/01/14 | 4.000 | 5.500 | — | 32,990 |
| 2001 – Term Bonds | 5,995 | | 08/01/16 | | 5.500 | — | 2,650 |
| 2001 – Term Bonds | 6,230 | | 08/01/18 | | 5.500 | — | 2,650 |
| 2001 – Term Bonds | 6,525 | | 08/01/20 | | 5.000 | — | 2,765 |
| 2001 – Term Bonds | 4,080 | | 08/01/23 | | 5.000 | — | 1,715 |
| 2003 – Serial Bonds | 56,100 | 08/01/03 | 08/01/24 | 2.000 | 5.250 | 2,810 | 5,580 |
| 2005 – Serial Bonds | 17,775 | 08/01/06 | 08/01/12 | 3.250 | 5.000 | — | 2,625 |
| 2007 – Serial Bonds | 64,160 | 08/01/08 | 08/01/24 | 4.000 | 5.000 | 56,515 | 58,585 |
| 2008 – Serial Bonds | 148,435 | 08/01/09 | 08/01/28 | 3.500 | 6.000 | 135,485 | 139,910 |
| 2009 – Serial Bonds | 143,895 | 08/01/10 | 08/01/29 | 2.000 | 5.000 | 137,020 | 141,165 |
| 2010 – Serial Bonds | 215,725 | 08/01/11 | 08/01/25 | 2.000 | 5.000 | 206,440 | 211,970 |
| 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 | 219,130 | 220,435 |
| Total State Revolving Fund | 1,176,915 | | | | | 834,565 | 900,205 |
| Total bonds and notes | \$ 2,570,436 | | | | | 1,388,399 | 1,612,485 |
| Premium/discount, net | | | | | | 46,922 | 52,708 |
| Total Authority | | | | | | \$ 1,435,321 | 1,665,193 |

* Variable rates are as of June 30, 2013

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The following tables summarize the bonds and notes payable (net of premium and discount) activity for the Authority for the years ended June 30, 2013 and 2012 (dollars in thousands):

| | <u>June 30, 2012</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2013</u> | <u>Due within one year</u> |
|----------------------|----------------------|------------------|-------------------|----------------------|----------------------------|
| Housing Agency | \$ 712,820 | 85,186 | 244,519 | 553,487 | 9,116 |
| State Revolving Fund | <u>952,373</u> | <u>—</u> | <u>70,539</u> | <u>881,834</u> | <u>30,940</u> |
| Total | <u>\$ 1,665,193</u> | <u>85,186</u> | <u>315,058</u> | <u>1,435,321</u> | <u>40,056</u> |

| | <u>June 30, 2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2012</u> | <u>Due within one year</u> |
|----------------------|----------------------|------------------|-------------------|----------------------|----------------------------|
| Housing Agency | \$ 1,022,791 | 122,500 | 432,471 | 712,820 | 10,782 |
| State Revolving Fund | <u>734,944</u> | <u>255,743</u> | <u>38,314</u> | <u>952,373</u> | <u>39,055</u> |
| Total | <u>\$ 1,757,735</u> | <u>378,243</u> | <u>470,785</u> | <u>1,665,193</u> | <u>49,837</u> |

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

| Year(s) ending June 30 | Housing Agency | | | State Revolving Fund | | | Total | | |
|---------------------------|-------------------|----------------|----------------|----------------------|----------------|------------------|------------------|----------------|------------------|
| | Principal | Interest | Total | Principal | Interest | Total | Principal | Interest | Total |
| 2014 | \$ 9,116 | 12,138 | 21,254 | 30,940 | 35,424 | 66,364 | 40,056 | 47,562 | 87,618 |
| 2015 | 10,676 | 11,869 | 22,545 | 39,890 | 34,034 | 73,924 | 50,566 | 45,903 | 96,469 |
| 2016 | 11,661 | 11,556 | 23,217 | 43,290 | 32,278 | 75,568 | 54,951 | 43,834 | 98,785 |
| 2017 | 13,003 | 11,220 | 24,223 | 45,045 | 30,462 | 75,507 | 58,048 | 41,682 | 99,730 |
| 2018 | 13,600 | 10,854 | 24,454 | 45,800 | 28,728 | 74,528 | 59,400 | 39,582 | 98,982 |
| 2019 – 2023 | 73,029 | 47,933 | 120,962 | 245,370 | 114,482 | 359,852 | 318,399 | 162,415 | 480,814 |
| 2024 – 2028 | 96,010 | 36,749 | 132,759 | 244,300 | 57,705 | 302,005 | 340,310 | 94,454 | 434,764 |
| 2029 – 2033 | 92,745 | 25,693 | 118,438 | 139,930 | 10,696 | 150,626 | 232,675 | 36,389 | 269,064 |
| 2034 – 2038 | 127,445 | 16,396 | 143,841 | — | — | — | 127,445 | 16,396 | 143,841 |
| 2039 – 2043 | 91,549 | 7,830 | 99,379 | — | — | — | 91,549 | 7,830 | 99,379 |
| 2044 – 2048 | 15,000 | 12 | 15,012 | — | — | — | 15,000 | 12 | 15,012 |
| Total | <u>\$ 553,834</u> | <u>192,250</u> | <u>746,084</u> | <u>834,565</u> | <u>343,809</u> | <u>1,178,374</u> | <u>1,388,399</u> | <u>536,059</u> | <u>1,924,458</u> |

Under the bond resolutions, the Authority has the option to redeem bonds at initial prices ranging from 103% to 100%, and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 10 years; however, certain special redemptions, as governed by the bond resolutions, are permitted prior to such time. Term bonds are subject to mandatory redemptions, without premium, through sinking fund installments subsequent to the scheduled completion of retirement of the serial bonds of the same issue. The schedule of bond maturities includes the sinking fund installments for the term bonds. Capital accumulator bonds and future income growth bonds are included in the schedule of bond maturities at their respective values at the time of maturity or sinking fund installment. Bond maturities and interest rates are based on those in effect as of June 30, 2013.

The bonds are secured, as described in the applicable bond resolution, by the revenues, moneys, investments, loans, and other assets in the programs and accounts established by the respective bond resolutions.

IOWA FINANCE AUTHORITY
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June 30, 2013 and 2012

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. As of June 30, 2013, there were no defeased bonds outstanding.

The amount of defeased debt outstanding at June 30, 2013 and 2012 is shown below (dollars in thousands):

| | Balance | |
|---|----------------------|----------------------|
| | June 30, 2013 | June 30, 2012 |
| 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 |
| Series 2003 | — | 32,035 |
| Total State Revolving Fund defeased bonds | — | 56,030 |
| Total Authority | \$ — | 90,705 |

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

Notes to Financial Statements

June 30, 2013 and 2012

Derivative Instrument Payments and Variable-Rate Debt

As of June 30, 2013, 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(s) ending June 30 | Variable-rate bonds principal | Variable-rate bonds interest | Interest rate swaps, net | Total |
|--|--|---|-------------------------------------|----------------|
| 2014 | \$ 1,105 | 194 | 7,782 | 9,081 |
| 2015 | 1,910 | 190 | 6,864 | 8,964 |
| 2016 | 2,745 | 188 | 6,188 | 9,121 |
| 2017 | 3,895 | 183 | 5,533 | 9,611 |
| 2018 | 4,125 | 180 | 4,963 | 9,268 |
| 2019 – 2023 | 26,060 | 828 | 20,382 | 47,270 |
| 2024 – 2028 | 38,380 | 666 | 13,889 | 52,935 |
| 2029 – 2033 | 51,885 | 457 | 8,800 | 61,142 |
| 2034 – 2038 | 61,785 | 168 | 3,192 | 65,145 |
| 2039 – 2043 | 6,670 | 2 | 62 | 6,734 |
| Total | <u>\$ 198,560</u> | <u>3,056</u> | <u>77,655</u> | <u>279,271</u> |

(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 position.

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

Notes to Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012 (dollars in thousands):

| Bond series | 2013 Notional amount | 2012 Notional amount | Effective date | Termination date | Terms | | Counter party rating * |
|-------------|----------------------------|----------------------------|-------------------|---------------------|--------|--|------------------------------|
| | | | | | Pay | Receive | |
| SF 2002 I | \$ — | 4,790 | 10/30/02 | 07/01/32 | 3.653% | SIFMA + 0.10% | A2 |
| SF 2004 B | 11,050 | 14,115 | 12/02/04 | 07/01/34 | 4.028 | Enhanced LIBOR | A2 |
| SF 2004 D | 9,520 | 10,605 | 02/03/05 | 07/01/20 | 4.007 | SIFMA + 0.10% or Various LIBOR + Spread | A2 |
| SF 2004 G | 10,615 | 12,635 | 06/01/05 | 07/01/34 | 3.867 | Enhanced LIBOR | A2 |
| SF 2005 C | 8,825 | 15,645 | 11/01/05 | 01/01/36 | 4.140 | SIFMA + 0.10% or Various LIBOR + Spread | A2 |
| SF 2005 E | 10,995 | 14,965 | 01/01/11 | 01/01/36 | 3.817 | Enhanced LIBOR | A2 |
| SF 2005 H | 13,310 | 16,580 | 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 | 10,195 | 12,000 | 11/01/06 | 07/01/36 | 4.632 | SIFMA + 0.10% | A2 |
| SF 2007 C | 18,350 | 21,575 | 03/08/07 | 07/01/25 | 5.289 | LIBOR | A2 |
| SF 2007 G | 15,875 | 19,360 | 07/12/07 | 01/01/19 | 5.493 | LIBOR | A2 |
| SF 2007 M | 13,880 | 16,760 | 12/12/07 | 07/01/21 | 4.373 | LIBOR | A2 |
| SF 2007 N | 11,060 | 14,140 | 12/12/07 | 01/01/39 | 4.364 | SIFMA + 0.06% | A2 |
| MF 2008 A | 3,650 | 3,650 | 04/17/08 | 06/01/24 | 3.971 | SIFMA + 0.08% | A2 |
| SF 2008 B | 12,890 | 17,310 | 01/01/11 | 01/01/39 | 4.470 | SIFMA + 0.06% | A2 |
| SF 2008 C | 16,025 | 19,520 | 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 | 12,140 | 15,510 | 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

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

Notes to Financial Statements

June 30, 2013 and 2012

Interest rate caps derivatives are instruments 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 following table displays the terms of the Authority's cap and corridor derivative instruments outstanding at June 30, 2013 and 2012 (dollars in thousands):

| Bond series | 2013 Notional amount | 2012 Notional amount | Effective date | Maturity date | Strike rate | Ceiling rate |
|-------------|----------------------------|----------------------------|-------------------|------------------|--------------------------------|----------------|
| SF 2003 B | \$ — | 150 | 03/19/2003 | 07/02/2012 | 6% 3 mo LIBOR | 11% 3 mo LIBOR |
| SF 2003 G | 1,325 | 2,285 | 06/25/2003 | 07/01/2013 | 5% 3 mo LIBOR | 10% 3 mo LIBOR |
| MF 2007 A | — | 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 2011 B-1 | 11,257 | — | 07/01/2012 | 07/01/2015 | 3% SIFMA 6% LIBOR | N/a |

The fair value balances of derivative instruments outstanding at June 30, 2013 and 2012, classified by type, and changes in the fair value of such derivative instruments for the years then ended as reported in the 2013 and 2012 financial statements are as follows (dollars in thousands):

| Bond series | Type | Fair value | | Change in fair value |
|----------------------|------|------------|---------|-------------------------|
| | | 2013 | 2012 | |
| Hedging derivatives: | | | | |
| SF 2002 I | Swap | \$ — | (6) | 6 |
| SF 2004 B | Swap | (105) | (332) | 227 |
| SF 2004 D | Swap | (232) | (528) | 296 |
| SF 2004 G | Swap | (375) | (591) | 216 |
| SF 2005 C | Swap | (880) | (2,188) | 1,308 |
| SF 2005 E | Swap | (575) | (839) | 264 |
| SF 2005 H | Swap | (1,009) | (1,737) | 728 |
| SF 2006 C | Swap | (1,017) | (1,563) | 546 |
| SF 2006 F | Swap | (1,499) | (2,415) | 916 |
| MF 2007 B | Cap | 240 | 212 | 28 |
| SF 2007 C | Swap | (2,527) | (3,767) | 1,240 |
| SF 2007 G | Swap | (1,692) | (2,558) | 866 |
| SF 2007 M | Swap | (1,198) | (1,832) | 634 |
| SF 2007 N | Swap | (898) | (1,417) | 519 |
| MF 2008 A | Swap | (561) | (839) | 278 |
| SF 2008 C | Swap | (1,071) | (1,746) | 675 |
| SF 2008 F | Swap | (1,226) | (2,039) | 813 |
| SF 2008G | Swap | (819) | (1,308) | 489 |

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

Notes to Financial Statements

June 30, 2013 and 2012

| <u>Bond series</u> | <u>Type</u> | <u>Fair value</u> | | <u>Change in fair value</u> |
|-------------------------|-------------|--------------------|-----------------|---------------------------------|
| | | <u>June 30</u> | | |
| | | <u>2013</u> | <u>2012</u> | |
| SF 2008 B | Swap | \$ (529) | (1,015) | 486 |
| MF 2011 B1 | Cap | 1 | 2 | (1) |
| MF 2007 A | Cap | 1 | 4 | (3) |
| Investment derivatives: | | | | |
| SF 2003 F | Swap | (75) | (598) | 523 |
| SF 2007 C | Swap | (81) | (129) | 48 |
| SF 2007 G | Swap | 55 | 10 | 45 |
| Forward MBS sales | | (25,600) | (11,845) | (13,755) |
| Total | | <u>\$ (41,672)</u> | <u>(39,064)</u> | <u>(2,608)</u> |

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, 2013 and 2012 was \$242 and \$218, 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 A2 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.

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June 30, 2013 and 2012

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, 2013 and 2012, the weighted average interest rate of the Authority's hedged variable-rate debt is 4.39% and 4.38%, while the SIFMA swap index rate is 0.06% and 0.18%, respectively. LIBOR is 0.19% and 0.23% at June 30, 2013 and 2012, 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 system wide basis. The Authority's portion is not separately determinable. The unfunded actuarial accrued liability of the plan at June 30, 2012 (latest information available) was \$5.9 billion.

Plan members are required to contribute 5.78% of their annual covered salary, and the Authority is required to contribute 8.67% of annual covered salaries. Contribution requirements are established by State statute. The Authority's contributions to IPERS for the years ended June 30, 2013 and 2012 were \$600,357 and \$533,973, 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, 2013 and 2012

(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, 2013 was \$1.3 million for which a \$0.5 million reserve for claims liability is recorded.

As of June 30, 2013, the Authority has commitments to purchase approximately \$79.0 million mortgage backed securities from US Bank where the underlying security, the mortgage loans, conform to the Authority's FirstHome or Homes for Iowans programs.

The Authority has committed to loan agreements under various housing assistance programs for which \$10.4 million has not been disbursed as of June 30, 2013.

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, 2013 and 2012 is as follows (dollars in thousands):

| Description | June 30 | |
|--|-----------|--------|
| | 2013 | 2012 |
| Project-based housing grants | \$ 266 | 583 |
| Local housing trust fund grants | 7,029 | 4,045 |
| Jumpstart housing assistance | — | 2,172 |
| Iowans helping Iowans | — | 1,081 |
| Shelter assistance grants | 620 | 380 |
| IJOBS – housing assistance | — | 347 |
| IJOBS – affordable housing assistance | 57 | 2,186 |
| IJOBS – water quality financial assistance | 10,349 | 15,880 |
| IJOBS – local disaster prevention competitive | 9,018 | 16,821 |
| IJOBS – targeted disaster relief | 730 | 8,865 |
| ARRA – homeless prevention and rapid rehousing program | — | 263 |
| Total outstanding commitments | \$ 28,069 | 52,623 |

(b) State Revolving Fund Commitments

The Authority has signed loan agreements under the State Revolving Fund for which \$197.4 million have not been disbursed as of June 30, 2013.

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

Notes to Financial Statements

June 30, 2013 and 2012

(8) Subsequent Events

On July 1, 2013, House File 607 made the Iowa Agriculture Development Authority (IADA) a division of the Authority. The IADA was established by the Iowa General Assembly in 1980 to provide financial assistance to Iowa's grain and livestock producers and is governed by Chapter 175 of the Code of Iowa. IADA has assets of \$6.2 million.

On July 2, 2013, the Authority issued \$115.5 million of State Revolving Fund Revenue Bonds Series 2013 to fund loans to municipalities and water systems under various SRF programs.

On July 24, 2013, the Authority issued \$10 million of taxable Single Family Mortgage Revenue Bonds, Series 2013-4 to purchase mortgage-backed securities.

On August 28, 2013, the Authority entered into an agreement that transferred 9 derivative instruments totaling approximately \$90.5 million in notional value from UBS AG, rated A by S&P, to Bank of New York Mellon, rated AA- by S&P. The transaction resulted in a terminating event under GASB Statement No. 53 which requires the Authority to recognize a non-cash loss of approximately \$5.9 million in the FY14 financial statements.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Expenditures of Federal awards
Year ended June 30, 2013
(Dollars in thousands)

| <u>Grantor/program title</u> | <u>CFDA number</u> | <u>Federal expenditures</u> |
|--|------------------------|---------------------------------|
| United States Department of Housing and Urban Development | | |
| Direct programs: | | |
| Section 8 Housing Assistance Payments Program | 14.195 | \$ 53,776 |
| Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CDBG) | 14.228 | 336 |
| Emergency Solutions Grants Program | 14.231 | 1,927 |
| Home Investment Partnerships Program (HOME) | 14.239 | 8,694 |
| Housing Opportunities for Persons with AIDS (HOPWA) | 14.241 | 365 |
| ARRA – Homeless Prevention and Rapid Re-Housing Program | 14.257 | <u>264</u> |
| Total United States Department of Housing and Urban Development direct programs | | <u>65,362</u> |
| United States Department of the Treasury Direct programs: | | |
| National Foreclosure Mitigation Counseling Program | 21.000 | <u>832</u> |
| Total federal awards expenditures for the year ending June 30, 2013 | | <u>66,194</u> |
| United States Department of Housing and Urban Development: | | |
| Home Investment Partnerships Program (HOME) loans (less current year expenditures) | 14.239 | 113,427 |
| ARRA – Tax Credit Assistance Program loans | 14.258 | <u>18,978</u> |
| | | <u>\$ 198,599</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, 2013

(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, 2013, which have been financed by the U.S. 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 position 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 U.S. 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 (dollars in thousands):

| <u>Program title</u> | <u>CFDA number</u> | <u>Amount provided to subrecipients</u> |
|---|------------------------|---|
| Section 8 Housing Assistance Payments Program | 14.195 | \$ 53,776 |
| CDBG | 14.228 | 337 |
| Emergency Shelter Grants Program | 14.231 | 1,825 |
| HOME | 14.239 | 7,044 |
| HOPWA | 14.241 | 348 |
| ARRA Homeless Prevention and Rapid Re-Housing Program | 14.257 | 254 |
| National Foreclosure Mitigation Counseling Program | 21.000 | 527 |
| Total | | \$ <u>64,111</u> |

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

(3) Outstanding Loan Principal Balances

The following is the outstanding principal balance of the Tax Credit Assistance Program at June 30, 2013 (dollars in thousands):

| | | |
|-------------------------------|----|--------|
| Tax Credit Assistance Program | \$ | 18,978 |
|-------------------------------|----|--------|

The following is the outstanding principal balance of the HOME Program at June 30, 2013 (dollars in thousands):

| | | |
|------|----|---------|
| HOME | \$ | 115,710 |
|------|----|---------|



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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Iowa Finance Authority:

We have audited, in accordance with the 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, the financial statements of each major fund and the total business-type activities of Iowa Finance Authority (the Authority), a component unit of the State of Iowa, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2013-1).

The Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Des Moines, Iowa
September 30, 2013



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

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Directors
Iowa Finance Authority:

Report on Compliance for Each Major Federal Program

We have audited Iowa Finance Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our



audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

Des Moines, Iowa
September 30, 2013

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

(1) Summary of Auditors' Results

| | | |
|----|--|---|
| a) | Type of report issued on the financial statements | Unmodified opinions |
| b) | Significant deficiencies in internal control over financial reporting | Yes (See finding 2013-01) |
| c) | Material weaknesses in internal control over financial reporting | None reported |
| d) | Noncompliance, which is material to the financial statements | None |
| e) | Significant deficiencies in internal control over major programs | None reported |
| f) | Material weaknesses in internal control over major programs | None reported |
| g) | Type of report issued on compliance for major programs | Unmodified |
| h) | Audit finding that is required to be reported under Section 510(a) of OMB Circular A-133 | None |
| i) | Major programs | Home Investment Partnership Program (CFDA 14.239) and ARRA – Tax Credit Program (CFDA 14.258) |
| j) | Dollar threshold used to distinguish between Type A and Type B programs | \$3,000,000 |
| k) | Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133 | No |

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

Finding 2013-01

Criteria:

The Authority should have controls in place to ensure investment prices provided by the third party are appropriately reflected in the financial statements.

Condition:

While performing audit procedures over investment pricing testwork, we noted that one investment price was not appropriately updated in the financial statements. The error amounted to \$838,026.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Cause:

The individuals responsible for reconciliation of the trustee statements failed to correct the error discovered.

Effect:

A material error in the investment prices may go undetected or uncorrected.

Recommendation:

The Authority should put controls in place to ensure that all investment prices are appropriately updated in their general ledger.

View of Responsible Officials:

First, the Authority is working with its software provider to improve handling of the condition that created the error, and second, the Authority has provided additional training to the individuals responsible for the reconciliation.

(3) Findings and Questioned Costs Relating to Federal Awards

None