



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

Basic Financial Statements and
Schedule of Expenditures of Federal Awards

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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

Independent Auditors' Report

The Board of Directors
Iowa Finance Authority:

We have audited the accompanying financial statements of each major fund and the total business-type activities of the Iowa Finance Authority (the Authority), a component unit of the State of Iowa, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Authority's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the total business-type activities of the Iowa Finance Authority as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 1 to the basic financial statements, in 2010, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2010 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 46 is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Des Moines, Iowa
October 4, 2010

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Management's Discussion and Analysis
June 30, 2010 and 2009

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, 2010 and 2009. Please read it in conjunction with the Authority's financial statements and accompanying notes.

The Authority is a self-supporting entity and follows enterprise fund accounting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. While the various funds of the Authority are grouped together for management convenience, the combined assets are available only in accordance with the applicable bond resolutions, federal and Iowa laws, and other outstanding agreements.

Authority Credit and General Obligation Rating

The unsecured general obligation of the Authority is rated AA by Standard and Poor's Rating Services and Aa3 by Moody's Investors Services as of June 30, 2010 and 2009. These ratings take into account the amount of unrestricted net assets maintained by the Authority, as well as certain contingent obligations to which the general obligation of the Authority is pledged. While there is no assurance that these ratings will remain in effect for any period of time, management is committed to maintaining an investment-grade general obligation rating for the Authority.

Overview of the Financial Statements

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

- Housing Agency Fund
- State Revolving Fund (SRF)

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

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

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.

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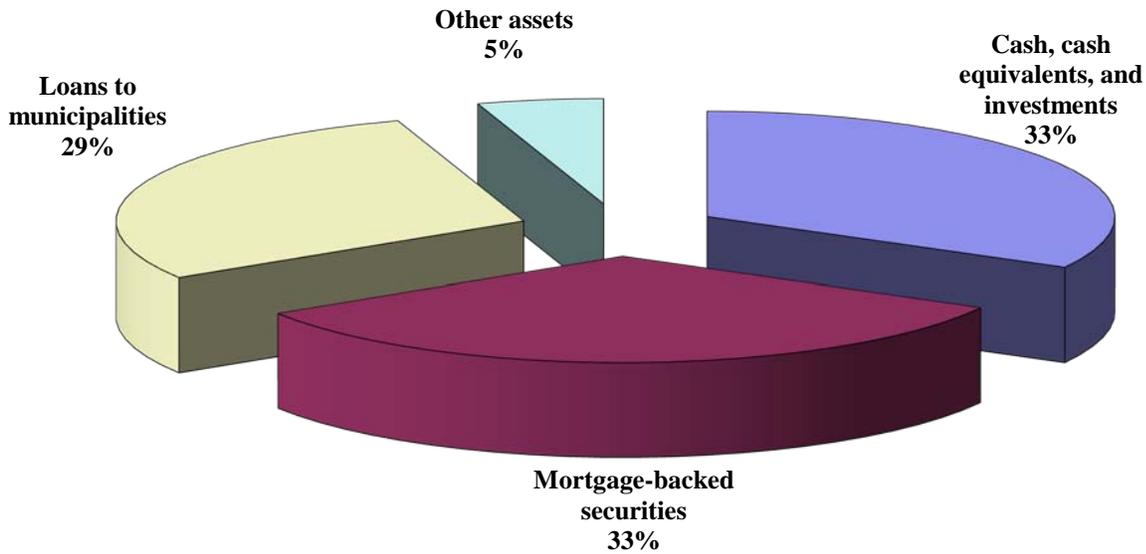
Management's Discussion and Analysis

June 30, 2010 and 2009

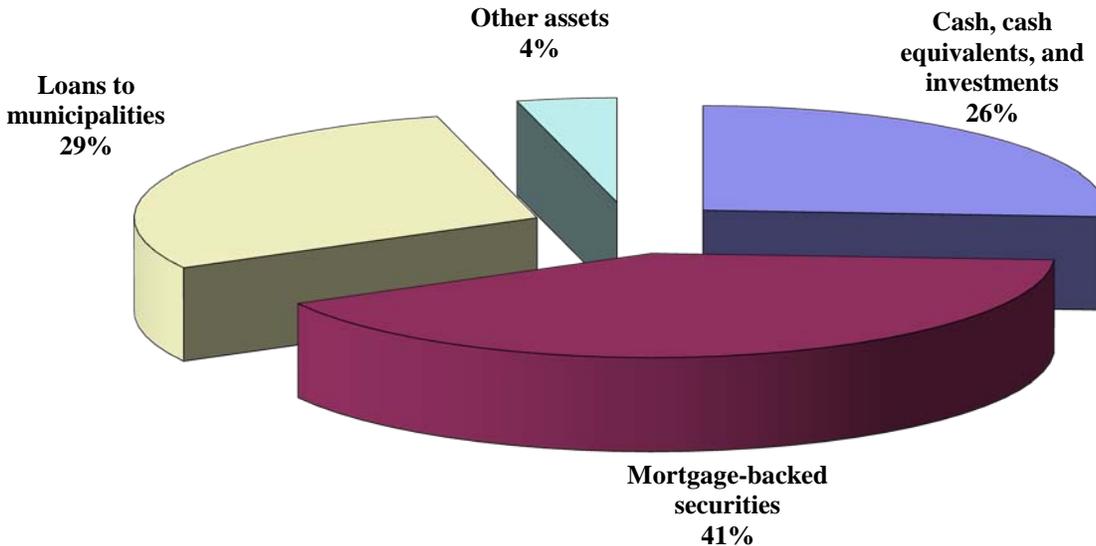
Condensed Financial Information

The following charts and tables present condensed financial information for fiscal year 2010 and fiscal year 2009.

Total Authority Assets as of June 30, 2010
\$2,914 million



Total Authority Assets as of June 30, 2009
\$2,539 million



IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis
June 30, 2010 and 2009

Table 1 – Total Condensed Information of the Authority

Net Assets			
(Dollars in millions)			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Cash, cash equivalents, and investments	\$ 965.5	657.4	524.1
Mortgage-backed securities	951.2	1,045.6	1,024.3
Loans to municipalities or water systems	859.4	724.7	594.3
Other assets	138.1	111.4	95.8
Total assets	<u>2,914.2</u>	<u>2,539.1</u>	<u>2,238.5</u>
Liabilities:			
Bonds payable, net	1,849.7	1,620.7	1,426.8
Other liabilities	179.4	96.8	75.1
Total liabilities	<u>2,029.1</u>	<u>1,717.5</u>	<u>1,501.9</u>
Net assets:			
Invested in capital assets, net of related debt	1.0	1.0	1.1
Restricted net assets	875.6	809.1	721.2
Unrestricted net assets	8.5	11.5	14.3
Total net assets	<u>\$ 885.1</u>	<u>821.6</u>	<u>736.6</u>

IOWA FINANCE AUTHORITY
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Management's Discussion and Analysis

June 30, 2010 and 2009

Revenues, Expenses, and Changes in Net Assets

(Dollars in millions)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Interest income	\$ 87.4	94.6	94.6
Net increase in fair value	33.2	45.6	23.0
Fee and other income	17.1	15.8	13.6
Grant income	136.9	72.6	45.7
Total operating revenues	<u>274.6</u>	<u>228.6</u>	<u>176.9</u>
Operating expenses:			
Interest on bonds	71.8	74.0	66.1
General and administrative	21.1	19.4	16.6
Grants and aid	117.3	50.2	14.3
Provision for (recoveries of) losses	0.9	—	(0.1)
Total operating expenses	<u>211.1</u>	<u>143.6</u>	<u>96.9</u>
Change in net assets	63.5	85.0	80.0
Net assets at beginning of year	<u>821.6</u>	<u>736.6</u>	<u>656.6</u>
Net assets at end of year	<u>\$ 885.1</u>	<u>821.6</u>	<u>736.6</u>

Financial Analysis – Combined 2010

- The Authority's assets increased 15%, or \$375.1 million, to \$2,914.2 million in FY10 compared to \$2,539.1 million in FY09. Cash, cash equivalents, and investments grew 47%, or \$308.1 million. Mortgage-backed securities (MBS) declined 9%, or \$94.4 million. Loans to municipalities or water systems (SRF loans) grew 19%, or \$134.7 million.
- Bonds payable increased 14%, or \$229.0 million, to \$1,849.7 million in FY10 compared to \$1,620.7 million in FY09.

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Management's Discussion and Analysis

June 30, 2010 and 2009

The Authority issued single family bonds totaling \$80.0 million to purchase MBS under the FirstHome Program and \$169.1 million to facilitate participation in the U.S. Treasury's New Issue Bond Program; and issued one SRF bond series totaling \$143.9 million to originate SRF loans. The Authority also arranged short-term financing of \$61.5 million to preserve single family bond cap and \$17.5 million to fund multifamily construction projects. The Authority made bond payments of \$243.5 million.

<u>Series</u>	<u>Date</u>	<u>Amount (in millions)</u>	<u>Rating</u>
SF 2009 A	08/19/09	\$ 40.0	AAA by Standard & Poor's; Aaa by Moody's
SF 2009 1 & 2	12/11/09	40.0	Aaa by Moody's
SF 2009 3	12/30/09	169.1	Aaa by Moody's
SRF 2009	12/02/09	143.9	AAA by Standard & Poor's; Aaa by Moody's; AAA by Fitch Ratings
SF Advance	Var	61.5	Not Rated
MF LOC	Var	17.5	Not Rated
MacArthur Loan	08/07/09	<u>0.5</u>	Not Rated
Total		<u>\$ 472.5</u>	

- Interest income declined 8% to \$87.4 million as a result of declining market interest rates and a reduction in the MBS portfolio for the year.
- The fair value of investments and MBS increased \$33.2 million as a result of declining market interest rates for the year.
- Grant income increased \$64.3 million to \$136.9 million. Housing Agency grant income increased \$38.6 million due to increased state funding for disaster relief, water quality, and infrastructure projects; and due to increased federal funding relating to the American Recovery and Reinvestment Act (ARRA). SRF grant income increased by \$25.7 million due to ARRA funding.
- General and administrative expenses grew 9%, or \$1.7 million, to \$21.1 million as expected due to increasing grant administration costs and volume-related cost increases for the Title Guaranty division.
- Grant and aid expense increased \$67.1 million to \$117.3 million as a result of grants for disaster relief, water quality, infrastructure, and ARRA projects.

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June 30, 2010 and 2009

Financial Analysis – Combined 2009

- The Authority's assets increased 13%, or \$300.6 million, to \$2,539.1 million in FY09 compared to \$2,238.5 million in FY08. Cash, cash equivalents, and investments grew 25%, or \$133.3 million. MBS grew 2% or \$21.3 million. Loans to municipalities or water systems (SRF loans) grew 22%, or \$130.4 million.
- Bonds payable increased 14%, or \$193.9 million, to \$1,620.7 million in FY09 compared to \$1,426.8 million in FY08.

The Authority issued single family bonds totaling \$75.0 million to purchase MBS under the FirstHome Program; arranged short-term financing totaling \$125.9 million to preserve bond cap and fund a multifamily construction project; and issued one SRF bond series totaling \$148.5 million to originate SRF loans. The Authority made bond payments of \$155.4 million.

<u>Series</u>	<u>Date</u>	<u>Amount (in millions)</u>	<u>Rating</u>
SF 2008 DEF	10/01/08	\$ 52.5	D/E: AAA by Standard & Poor's; Aaa by Moody's
			F: AAA/A-1+ by Standard & Poor's; Aaa/VMIG1 by Moody's
SF 2008 G	02/03/09	22.5	G: AAA/A-1+ by Standard & Poor's; Aaa/VMIG1 by Moody's
SF Advance	Var	124.7	Not Rated
MF LOC	Var	1.2	Not Rated
SRF 2008	12/18/08	148.5	AAA by Standard & Poor's; Aaa by Moody's; AAA by Fitch Ratings
Total		<u>\$ 349.4</u>	

- Interest income remained constant at \$94.6 million as a result of declining market interest rates for the year.
- The fair value of investments and MBS was \$45.6 million as a result of declining market interest rates for the year.
- Grant income increased \$26.9 million. Housing Agency grant income increased \$36.9 million due to increased state funding for disaster relief and water quality. SRF grant income declined by \$10.0 million due to the U.S. Environmental Protection Agency (EPA) funding reductions and a postponement of an SRF bond issue to provide state-match funds.
- General and administrative expenses grew 17%, or \$2.8 million, to \$19.4 million. The Housing Agency incurred some one-time costs due to the volatility of the financial markets, and SRF incurred higher expenses in relation to planned drinking water projects.

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Management's Discussion and Analysis

June 30, 2010 and 2009

- Grant and aid expense increased \$35.9 million to \$50.2 million as a result of grants for disaster relief and water quality

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
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Statement of Net Assets

June 30, 2010

(Dollars in thousands)

Assets	Housing Agency	State Revolving Fund	Totals
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 577,088	212,133	789,221
Investments:			
Other investments	58,193	95,020	153,213
Mortgage-backed securities	16,157	—	16,157
Total current investments	74,350	95,020	169,370
Loans to municipalities or water systems	—	43,921	43,921
Housing Agency loans, net	1,678	—	1,678
Accrued interest receivable	4,896	3,414	8,310
Other assets	2,569	743	3,312
Total current assets	660,581	355,231	1,015,812
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	20,499	2,522	23,021
Mortgage-backed securities	935,024	—	935,024
Total noncurrent investments	955,523	2,522	958,045
Loans to municipalities or water systems	—	815,516	815,516
Housing Agency loans, net	81,461	—	81,461
Capital assets, net of accumulated depreciation	3,261	—	3,261
Other assets	39,122	955	40,077
Total noncurrent assets	1,079,367	818,993	1,898,360
Total assets	1,739,948	1,174,224	2,914,172

IOWA FINANCE AUTHORITY
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Statement of Net Assets

June 30, 2010

(Dollars in thousands)

Liabilities	Housing Agency	State Revolving Fund	Totals
Current liabilities:			
Bonds payable, net	\$ 321,850	29,955	351,805
Accrued interest payable	20,385	11,329	31,714
Accounts payable and other liabilities	93,435	1,707	95,142
Total current liabilities	<u>435,670</u>	<u>42,991</u>	<u>478,661</u>
Noncurrent liabilities:			
Bonds payable, net	1,002,420	495,521	1,497,941
Reserves for claims	5,592	—	5,592
Other liabilities	35,486	11,364	46,850
Total noncurrent liabilities	<u>1,043,498</u>	<u>506,885</u>	<u>1,550,383</u>
Total liabilities	<u>1,479,168</u>	<u>549,876</u>	<u>2,029,044</u>
Net Assets			
Invested in capital assets, net of related debt	960	—	960
Restricted net assets:			
Per bond resolutions	226,891	366,631	593,522
Per legislation	24,381	—	24,381
Per other agreements	—	257,717	257,717
Total restricted net assets	<u>251,272</u>	<u>624,348</u>	<u>875,620</u>
Unrestricted net assets	<u>8,548</u>	—	<u>8,548</u>
Total net assets	<u>\$ 260,780</u>	<u>624,348</u>	<u>885,128</u>

See accompanying notes to financial statements.

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

Statement of Net Assets

June 30, 2009

(Dollars in thousands)

Assets	Housing Agency	State Revolving Fund	Totals
Current assets (substantially restricted):			
Cash and cash equivalents	\$ 314,592	275,819	590,411
Investments:			
Other investments	34,727	6,000	40,727
Mortgage-backed securities	17,460	—	17,460
Total current investments	52,187	6,000	58,187
Loans to municipalities or water systems	—	32,162	32,162
Housing Agency loans, net	1,987	—	1,987
Accrued interest receivable	5,540	3,485	9,025
Other assets	2,218	565	2,783
Total current assets	376,524	318,031	694,555
Noncurrent assets (substantially restricted):			
Investments:			
Other investments	21,155	5,068	26,223
Mortgage-backed securities	1,028,125	—	1,028,125
Total noncurrent investments	1,049,280	5,068	1,054,348
Loans to municipalities or water systems	—	692,521	692,521
Housing Agency loans, net	63,732	—	63,732
Capital assets, net of accumulated depreciation	3,507	—	3,507
Other assets	29,684	738	30,422
Total noncurrent assets	1,146,203	698,327	1,844,530
Total assets	1,522,727	1,016,358	2,539,085

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

Statement of Net Assets

June 30, 2009

(Dollars in thousands)

Liabilities	Housing Agency	State Revolving Fund	Totals
Current liabilities:			
Bonds payable, net	\$ 114,288	26,365	140,653
Accrued interest payable	23,389	8,853	32,242
Accounts payable and other liabilities	24,599	1,240	25,839
Total current liabilities	<u>162,276</u>	<u>36,458</u>	<u>198,734</u>
Noncurrent liabilities:			
Bonds payable, net	1,110,614	369,445	1,480,059
Reserves for claims	5,367	—	5,367
Other liabilities	24,721	8,584	33,305
Total noncurrent liabilities	<u>1,140,702</u>	<u>378,029</u>	<u>1,518,731</u>
Total liabilities	<u>1,302,978</u>	<u>414,487</u>	<u>1,717,465</u>
Net Assets			
Invested in capital assets, net of related debt	1,056	—	1,056
Restricted net assets:			
Per bond resolutions	182,263	321,279	503,542
Per legislation	24,906	—	24,906
Per other agreements	—	280,592	280,592
Total restricted net assets	<u>207,169</u>	<u>601,871</u>	<u>809,040</u>
Unrestricted net assets	<u>11,524</u>	—	<u>11,524</u>
Total net assets	<u>\$ 219,749</u>	<u>601,871</u>	<u>821,620</u>

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Operating revenues:			
Interest income	\$ 61,192	26,186	87,378
Net increase (decrease) in fair value of investments and mortgage-backed securities	33,295	(46)	33,249
Fee income	13,528	2,888	16,416
Grant income	84,437	52,419	136,856
Other income	739	—	739
Total operating revenues	<u>193,191</u>	<u>81,447</u>	<u>274,638</u>
Operating expenses:			
Interest on bonds	50,908	20,934	71,842
General and administrative	13,367	7,680	21,047
Grants and aid	87,333	29,960	117,293
Provision of losses	552	396	948
Total operating expenses	<u>152,160</u>	<u>58,970</u>	<u>211,130</u>
Operating income/change in net assets	41,031	22,477	63,508
Net assets at June 30, 2009	<u>219,749</u>	<u>601,871</u>	<u>821,620</u>
Net assets at June 30, 2010	<u>\$ 260,780</u>	<u>624,348</u>	<u>885,128</u>

See accompanying notes to financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2009

(Dollars in thousands)

	<u>Housing Agency</u>	<u>State Revolving Fund</u>	<u>Totals</u>
Operating revenues:			
Interest income	\$ 67,999	26,633	94,632
Net increase in fair value of investments and mortgage-backed securities	45,489	124	45,613
Fee income	14,137	2,322	16,459
Grant income	45,767	26,856	72,623
	<u>173,392</u>	<u>55,935</u>	<u>229,327</u>
Total operating revenues			
Operating expenses:			
Interest on bonds	58,514	15,505	74,019
General and administrative	12,760	6,630	19,390
Grants and aid	50,204	—	50,204
Provision (recoveries) of losses	(192)	147	(45)
Other expenses	701	—	701
	<u>121,987</u>	<u>22,282</u>	<u>144,269</u>
Total operating expenses			
Operating income/change in net assets	51,405	33,653	85,058
Net assets at June 30, 2008, as restated	<u>168,344</u>	<u>568,218</u>	<u>736,562</u>
Net assets at June 30, 2009	<u>\$ 219,749</u>	<u>601,871</u>	<u>821,620</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, 2010

(Dollars in thousands)

	Housing Agency	State Revolving Fund	Totals
Cash flows from operating activities:			
Cash receipts for fees	\$ 82,092	4,896	86,988
Interest received on loans and mortgage-backed securities	55,574	23,946	79,520
Principal payments on loans and mortgage-backed securities	226,448	100,947	327,395
Purchases of loans and mortgage-backed securities	(116,435)	(235,701)	(352,136)
Grants and other income	85,176	52,419	137,595
Cash payments to employees	(7,273)	(593)	(7,866)
Cash payments to suppliers and grantees	(92,272)	(38,020)	(130,292)
Net cash provided by (used in) operating activities	<u>233,310</u>	<u>(92,106)</u>	<u>141,204</u>
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	328,641	143,895	472,536
Payment of bonds	(229,273)	(14,229)	(243,502)
Interest paid	(53,912)	(18,458)	(72,370)
Net cash provided by noncapital financing activities	<u>45,456</u>	<u>111,208</u>	<u>156,664</u>
Cash flows from investing activities:			
Purchases of investments	(259,796)	(97,954)	(357,750)
Interest received on investments	6,351	3,732	10,083
Sales/maturities of investments	237,253	11,434	248,687
Purchase of capital assets	(78)	—	(78)
Net cash used in investing activities	<u>(16,270)</u>	<u>(82,788)</u>	<u>(99,058)</u>
Increase (decrease) in cash and cash equivalents	262,496	(63,686)	198,810
Cash and cash equivalents, beginning of year	<u>314,592</u>	<u>275,819</u>	<u>590,411</u>
Cash and cash equivalents, end of year	<u><u>\$ 577,088</u></u>	<u><u>212,133</u></u>	<u><u>789,221</u></u>

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

Statement of Cash Flows

Year ended June 30, 2010

(Dollars in thousands)

	<u>Housing Agency</u>	<u>State Revolving Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 41,031	22,477	63,508
Interest income on investments and bank deposits	(6,282)	(3,798)	(10,080)
Rebate expense	—	1,486	1,486
Interest expense on bonds	50,908	20,934	71,842
Net increase (decrease) in fair value of investments and mortgage-backed securities	(33,295)	46	(33,249)
Depreciation of capital assets	324	—	324
Principal payments on loans and mortgage-backed securities	226,468	100,947	327,415
Purchases of loans and mortgage-backed securities	(116,435)	(235,701)	(352,136)
Increase in interest receivable on loans and mortgage-backed securities	644	71	715
Increase in other assets	(9,789)	(395)	(10,184)
(Decrease) increase in accounts payable and other liabilities	11,172	(181)	10,991
Increase in deferred income	68,564	2,008	70,572
Net cash provided by (used in) operating activities	<u>\$ 233,310</u>	<u>(92,106)</u>	<u>141,204</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, 2009

(Dollars in thousands)

	<u>Housing Agency</u>	<u>State Revolving Fund</u>	<u>Totals</u>
Cash flows from operating activities:			
Cash receipts for fees	\$ 25,504	3,823	29,327
Interest received on loans and mortgage-backed securities	62,258	20,643	82,901
Principal payments on loans and mortgage-backed securities	139,335	47,081	186,416
Purchases of loans and mortgage-backed securities	(117,153)	(177,481)	(294,634)
Grants and other income	45,066	26,856	71,922
Cash payments to employees	(7,351)	(541)	(7,892)
Cash payments to suppliers and grantees	(65,828)	(6,669)	(72,497)
Net cash provided by (used in) operating activities	<u>81,831</u>	<u>(86,288)</u>	<u>(4,457)</u>
Cash flows from noncapital financing activities:			
Proceeds from issuance of bonds	200,917	148,435	349,352
Payment of bonds	(135,602)	(19,803)	(155,405)
Interest paid	(58,205)	(11,988)	(70,193)
Net cash provided by noncapital financing activities	<u>7,110</u>	<u>116,644</u>	<u>123,754</u>
Cash flows from investing activities:			
Purchases of investments	(101,950)	(6,000)	(107,950)
Interest received on investments	6,890	6,729	13,619
Sales/maturities of investments	100,301	33,357	133,658
Purchase of capital assets	(185)	—	(185)
Net cash provided by investing activities	<u>5,056</u>	<u>34,086</u>	<u>39,142</u>
Increase in cash and cash equivalents	93,997	64,442	158,439
Cash and cash equivalents, beginning of year	<u>220,595</u>	<u>211,377</u>	<u>431,972</u>
Cash and cash equivalents, end of year	<u>\$ 314,592</u>	<u>275,819</u>	<u>590,411</u>

IOWA FINANCE AUTHORITY
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Statement of Cash Flows

Year ended June 30, 2009

(Dollars in thousands)

	<u>Housing Agency</u>	<u>State Revolving Fund</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 51,405	33,653	85,058
Interest income on investments and bank deposits	(6,839)	(6,729)	(13,568)
Rebate expense	(34)	210	176
Interest expense on bonds	58,514	15,505	74,019
Net increase in fair value of investments and mortgage-backed securities	(45,489)	(124)	(45,613)
Depreciation of capital assets	346	—	346
Principal payments on loans and mortgage-backed securities	139,335	47,081	186,416
Purchases of loans and mortgage-backed securities	(117,153)	(177,481)	(294,634)
Increase in interest receivable on loans and mortgage-backed securities	1,133	530	1,663
Increase in other assets	(15,112)	(799)	(15,911)
Increase in accounts payable and other liabilities	4,358	365	4,723
Increase in deferred income	11,367	1,501	12,868
Net cash provided by (used in) operating activities	<u>\$ 81,831</u>	<u>(86,288)</u>	<u>(4,457)</u>

See accompanying notes to financial statements.

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2010 and 2009

(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 of Iowa, and consequently, the State of Iowa 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 of Iowa. 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 of Iowa 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, 2010 is not determinable and cannot be reasonably estimated. The Authority issued approximately \$4.3 billion in fiscal years 1997 through 2010, of which approximately \$2.3 billion is outstanding at June 30, 2010.

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 of Iowa. 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 of Iowa, and consequently, the

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

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

Chapter 455B of the Code of Iowa authorizes the Authority, jointly and in cooperation with the Iowa Department of Natural Resources (DNR), to undertake the creation, administration, and financing of the Iowa Water Pollution Control Works Financing Program (the Clean Water Program) and the Iowa Drinking Water Facilities Financing Program (the Drinking Water Program). These programs were created to implement provisions of federal legislation authorizing the U.S. Environmental Protection Agency (EPA) to make annual capitalization grants to states. The Authority is authorized and has issued revenue bonds to meet the 20% State of Iowa 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 of Iowa or a general obligation of the Authority.

Chapter 34A of the Code of Iowa authorizes the Authority to issue bonds for the purpose of funding the Enhanced 911 Emergency Telephone Communications System (the E911 System). Bond proceeds are used to make loans to counties or joint E911 service boards throughout Iowa to implement the E911 System in their respective counties. The bonds are payable solely from repayments of the loans, which have been assigned without recourse to the trustee on behalf of bondholders, and from other amounts pledged therefore under the bond indentures. These obligations do not constitute a debt of the State of Iowa or the Authority. Therefore, the loans and bonds are not recorded in the Authority's financial statements. As of June 30, 2010 and 2009, approximately \$1.5 million and \$1.7 million, respectively, of these conduit debt obligations are outstanding.

Chapter 16 of the Code of Iowa authorizes the Authority to issue bonds for the purpose of financing the construction or renovation of correctional facilities in the State of Iowa. The Iowa Department of Corrections administers the State's correctional institutions and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund, maintained by the State of Iowa Treasurer, currently required by State of Iowa law to be the first \$9.5 million of monies remitted to the State of Iowa Treasurer each fiscal year from certain fees and fines collected by the clerks of the district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefore under the bond indenture. These obligations do not constitute a general obligation of the Authority or the State of Iowa but are a pledge of future revenues of the State of Iowa. Therefore, the bonds are not

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Notes to Financial Statements

June 30, 2010 and 2009

recorded in the Authority's financial statements. As of June 30, 2010 and 2009, approximately \$36.5 million and \$42.7 million, respectively, of these conduit debt obligations are outstanding.

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

(b) Basis of Presentation

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

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

(c) Fund Accounting

The Authority's accounts are organized as major funds, each of which is a separate set of self-balancing accounts for the assets, liabilities, net assets, revenues, and expenses of the Authority's programs. The Authority presents two major funds: (1) Housing Agency and (2) State Revolving Fund.

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

Housing Agency – consists of:

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

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- d. Miscellaneous Restricted Funds – accounts for federal grants or State of Iowa appropriations received and monies transferred from the Division, all specifically restricted or committed for uses in accordance with applicable legislation or grant agreements.
- e. Title Guaranty Division Program – accounts for the administrative costs of the Division, proceeds from title guaranty fees, and payments for claims made against the title guaranties. Monies in this account, after providing for adequate reserves and operating expenses, are transferred to the Housing Assistance Programs.

State Revolving Fund – consists of:

- a. Clean Water Program Accounts – account for the proceeds of Clean Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related wastewater treatment facility loans to municipalities, and administrative costs of the program. The bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indentures for the State Revolving Fund.
- b. Drinking Water Program Accounts – account for the proceeds of Drinking Water Program revenue bonds, the debt service requirements of the bonds, the investment of monies held within the bond accounts and the equity account, receipt of EPA capitalization grants, the related drinking water facility loans to Iowa drinking water systems, and administrative costs of the program. The bonds are secured by certain loan agreements and other assets and revenues pledged under the applicable bond indentures for the State Revolving Fund.

(d) Cash Equivalents

For purposes of the statements of cash flows, all highly liquid investments that can be converted to cash within three months or less are considered to be cash equivalents. These investments include the monies deposited in the State's interest-bearing pooled money funds, investment agreements associated with bond issues, and various money market funds.

(e) Investments

Under the various bond resolutions, State of Iowa statutes, and the Authority's Investment Policy, the Authority may invest in U.S. government and agency obligations directly or through repurchase agreements secured by such obligations, certificates of deposit in qualified financial institutions, pooled money funds with the State of Iowa, and investment agreements with U.S. government agencies, qualified financial institutions, or qualified corporations.

Investments and mortgage-backed securities are recorded at fair value in the statements of net assets, with the change in the fair value recorded in the statements of revenues, expenses, and changes in net assets.

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(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, Department of Natural Resources (DNR), and the trustee and has evidenced its commitment to repay the loan by issuing a revenue obligation or a general obligation to the Authority, which is held by the trustee as security for the loan.

(g) *Other Loans*

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

(h) *Provision for Housing Agency Loan Losses*

An evaluation of possible credit losses relating to Housing Agency loans is made and a provision for losses is charged to expense. An allowance for losses of \$10.7 million and \$2.0 million, respectively, was netted against other loans at June 30, 2010 and 2009. 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.

(i) *Capital Assets*

Furniture and equipment that exceed \$2,500 are recorded at cost, and depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

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

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

(j) *Bond Issuance Costs, Premiums, and Discounts*

Bond issuance costs, premiums, and discounts are deferred and amortized as an adjustment to interest expense over the life of the related bond issues using the bonds outstanding method. Losses on defeasance of refunded bonds are deferred and amortized as an adjustment to interest expense over the shorter of the life of the defeased bonds or the new bonds using the bonds outstanding method.

(k) *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

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of Insurance for the State of Iowa requires the Division's reserve to be 10% of net premiums plus known case reserves established by the Division, less the release of net written premiums consistent with a 5%-per-year 20-year release schedule, or a minimum of \$1,000,000. In addition, a separate reserve of \$1,000,000 is required by the Commissioner of Insurance as an initial reserve for closing protection letters.

(l) *Rebates Owed*

The amount of investment income the Authority may earn and retain on the proceeds of bonds issued in 1982 and after is limited by federal legislation. Earnings in excess of the allowable amount must be rebated to either the mortgagors or the U.S. Treasury. Such excess earnings are recorded as liabilities.

(m) *Deferred Income*

Initiation fees are received by the Authority at the time of origination of loans to municipalities or water systems made under the Clean Water Program and Drinking Water Program. The initiation fee is amortized over the estimated life of loans in the portfolio using the straight-line method.

Commitment fees are amortized over the expected life of the related bonds using the bonds outstanding method. Fees relating to unfunded mortgages were recorded as income upon the expiration of the funding period.

Compliance monitoring fees are received by the Authority at the time of each Low Income Housing Tax Credit (LIHTC) project's completion. Such fees are used to defray the administrative expenses of the Authority for annually monitoring each project's continued compliance with federal regulations. These fees are amortized over the 15-year compliance period.

(n) *Net Assets*

Restricted net assets represent net assets set aside, as required by the various bond resolutions, for the benefit of the respective bond owners. Assets related to such restricted net assets include required reserves, loans or mortgage-backed securities, assets held for placement into loans or mortgage-backed securities, investments, and assets held for scheduled debt service. Restricted net assets also represent net assets specifically restricted for uses in accordance with applicable legislation, including the Title Guaranty Division Program and the Miscellaneous Restricted Funds.

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

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

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(o) Operating Revenues and Expenses

The Authority records all revenues and expenses derived from loans, investments, title guaranty premiums, and federal programs as operating revenues and expenses since these are generated from the Authority's daily operations and are needed to carry out its statutory purposes and to provide debt service coverage on its various bonds. All revenues and expenses not meeting this definition are reported as nonoperating.

(p) Fee Income

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

(q) Grant Income

The Authority receives grant income from various sources to cover the cost of program administration and for further distribution to subgrantees. Major sources of grant income are the Environmental Protection Agency's grants for the Authority's Clean Water Program and Drinking Water Program; the Department of Housing and Urban Development's grants for the Authority's Housing Opportunities for Persons with Aids and Emergency Shelter Operating Grant programs; and the Iowa legislature 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.

(r) Recent Accounting Pronouncements

As of June 30, 2010, the Authority adopted the recognition and disclosure provisions of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). GASB 53 requires governments to report hedging derivative instruments as either deferred inflows or outflows and investing derivative instruments as investments. The change in the fair value of the investing derivative instruments is reported in the statements of revenues, expenses, and changes in net assets.

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Notes to Financial Statements

June 30, 2010 and 2009

The incremental effect of applying GASB 53 on the Authority's statement of net assets as of June 30, 2009 and statement of revenues, expenses, and changes in net assets for the year ended June 30, 2009 for the Housing Agency fund was as follows:

	<u>Before application of GASB 53</u>	<u>Adjustments</u>	<u>After application of GASB 53</u>
June 30, 2009:			
Other assets	\$ 10,228	19,456	29,684
Total assets	1,503,271	19,456	1,522,727
Other liabilities	3,755	20,966	24,721
Total liabilities	1,282,012	20,966	1,302,978
Net assets	221,259	(1,510)	219,749
Other (income) loss	(116)	817	701
Operating income/change in net assets	52,222	(817)	51,405
June 30, 2008:			
Net assets	\$ 169,037	(693)	168,344

(s) *Use of Estimates*

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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Notes to Financial Statements

June 30, 2010 and 2009

(2) Deposits and Investments

(a) Deposits

At June 30, 2010 and 2009, the Authority had uninsured bank balances of \$23.3 million and \$15.7 million, respectively. Deposits of \$411.4 million and \$247.1 million, respectively, were covered by collateralized trust agreements (dollars in thousands).

June 30, 2010				
	Housing Agency	State Revolving Fund	Total	Percentage of total
Type:				
Cash in bank	\$ 964	45,462	46,426	8.0%
Cash in trust accounts	1,206	—	1,206	0.2
Certificates of deposit	122,297	—	122,297	21.1
Money market trust accounts	324,181	85,985	410,166	70.7
Total	\$ 448,648	131,447	580,095	100.0%
June 30, 2009				
	Housing Agency	State Revolving Fund	Total	Percentage of total
Type:				
Cash in bank	\$ 132	36,361	36,493	9.6%
Cash in trust accounts	34,654	1,338	35,992	9.5
Certificates of deposit	96,493	—	96,493	25.4
Money market trust accounts	108,204	102,902	211,106	55.5
Total	\$ 239,483	140,601	380,084	100.0%

(b) Investments

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

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June 30, 2010 and 2009

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

June 30, 2010					
	Housing Agency	State Revolving Fund	Total	Percentage of total	Average maturity (years)
Type:					
GNMA mortgage-backed securities	\$ 476,275	—	476,275	36%	25.3
FNMA mortgage-backed securities	456,318	—	456,318	34	25.8
FHLMC mortgage-backed securities	18,588	—	18,588	1	27.3
Agency notes	62,633	97,542	160,175	12	1.0
Treasury bonds	5,849	—	5,849	1	11.1
Treasury strips	8,870	—	8,870	1	7.2
Corporate bonds	1,341	—	1,341	—	4.5
State of Iowa pooled money funds	97,776	—	97,776	7	Less than 1
Guaranteed investment contracts	30,664	80,686	111,350	8	Less than 1
Total	<u>\$ 1,158,314</u>	<u>178,228</u>	<u>1,336,542</u>	<u>100%</u>	
June 30, 2009					
	Housing Agency	State Revolving Fund	Total	Percentage of total	Average maturity (years)
Type:					
GNMA mortgage-backed securities	\$ 472,093	—	472,093	36%	26
FNMA mortgage-backed securities	551,825	—	551,825	42	27
FHLMC mortgage-backed securities	21,666	—	21,666	2	28
Agency notes	39,392	11,068	50,460	4	1
Treasury bonds	5,717	—	5,717	—	9
Treasury strips	9,473	—	9,473	1	5
Corporate bonds	1,301	—	1,301	—	4
Treasury bills	2,650	—	2,650	—	Less than 1
State of Iowa pooled money funds	30,141	—	30,141	2	Less than 1
Guaranteed investment contracts	42,319	135,217	177,536	13	Less than 1
Total	<u>\$ 1,176,577</u>	<u>146,285</u>	<u>1,322,862</u>	<u>100%</u>	

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Notes to Financial Statements

June 30, 2010 and 2009

As of June 30, 2010, the Authority had investments with the following maturities (amounts in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Investment derivative instruments	\$ (2,404)	(1,500)	(2)	(294)	(608)

(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.

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

Provider	June 30, 2010					
	Credit ratings		Housing Agency	State Revolving Fund	Total	Percentage of total
	Standard & Poor's	Moody's				
Money market funds:						
Wells Fargo Bank, N.A.	AA/A1+	Aa2/P1	\$ 321,005	85,985	406,990	63%
Goldman Sachs	A/A-1	A1/P1	3,176	—	3,176	1
Certificates of deposit						
Federal Home Loan Bank	AAA/A1+	Aaa/P1	122,297	—	122,297	19
Guaranteed investment contracts:						
AIG, Inc.	A-/A1	A3/P1	98	—	98	—
Bayerische Landesbank	not rated	A1/P1	1,781	—	1,781	—
Credit Agricole (Formerly, Calyon)	AA-/A1+	Aa3/P1	153	—	153	—
FSA International, Ltd	AAA/none	Aa3/none	2,785	—	2,785	—
Natixis Funding Corp	A+/A1	Aa3/P1	—	24,109	24,109	4
Royal Bank of Canada	AA-/A1+	Aaa/P1	17	—	17	—
Societe Generale	A+/A1	Aa2/P1	20,472	56,577	77,049	12
TransAmerica Life Ins. Co.	AA-/A1+	A1/P1	2,396	—	2,396	—
Trinity Funding	AA+/A1+	Aa2/P1	2,962	—	2,962	1
Corporate bonds:						
General Electric	AA+/A1+	Aa2/P1	1,341	—	1,341	—
Total			\$ 478,483	166,671	645,154	100%

Provider	June 30, 2009					
	Credit ratings		Housing Agency	State Revolving Fund	Total	Percentage of total
	Standard & Poor's	Moody's				
Money market funds:						
Wells Fargo Bank, N.A.	AA/A1+	Aa2/P1	\$ 108,204	102,902	211,106	43%
Certificates of deposit						
Federal Home Loan Bank	AAA/A1+	Aaa/P1	96,493	—	96,493	20
Guaranteed investment contracts:						
AIG, Inc.	A-/A1	A3/P1	657	—	657	—
Bayerische Landesbank	BBB+/A2	A1/P1	2,333	—	2,333	—
Calyon	AA-/A1+	Aa3/P1	2,197	—	2,197	—
FSA International, Ltd	AAA/none	Aa3/none	4,765	—	4,765	1
ING USA Annuity & Life Ins. Co.	AA-/A1+	A1/P1	—	47,174	47,174	10
Natixis	A+/A1	Aa3/P1	—	25,549	25,549	6
Royal Bank of Canada	AA-/A1+	Aaa/P1	2,660	—	2,660	1
Societe Generale	A+/A1	Aa2/P1	19,011	62,494	81,505	17
TransAmerica Life Ins. Co.	AA-/A1+	A1/P1	8,336	—	8,336	2
Trinity Funding	AA+/A1+	Aa2/P1	2,360	—	2,360	—
Corporate bonds:						
General Electric	AA+/A1+	Aa2/P1	1,301	—	1,301	—
Total			\$ 248,317	238,119	486,436	100%

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(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.

(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, 2010 and 2009 are as follows (dollars in thousands):

		2010		
		Cost	Allowance for losses	Net
Loans secured with first mortgages	\$	73,357	(266)	73,091
Loans secured with second mortgages, other collateral, or unsecured		20,480	(10,432)	10,048
Total	\$	93,837	(10,698)	83,139
		2009		
		Cost	Allowance for losses	Net
Loans secured with first mortgages	\$	59,040	(566)	58,474
Loans secured with second mortgages, other collateral, or unsecured		8,707	(1,462)	7,245
Total	\$	67,747	(2,028)	65,719

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(4) Bonds and Notes Payable

Bonds and notes payable at June 30, 2010 and 2009 are as follows (dollars in thousands):

Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2010	2009
Housing Agency bonds and notes:							
Single Family Mortgage Bonds:							
SF 2000 A – Serial Bonds	\$ 1,530	07/01/11	07/01/13	5.800%	6.000%	\$ —	250
SF 2000 A – Term Bonds	2,975		07/01/18		6.250	—	510
SF 2000 B – Serial Bonds	3,125	07/01/02	07/01/10	4.800	5.850	—	160
SF 2000 B – Term Bonds	2,470		01/01/21		6.400	—	420
SF 2000 C – Term bonds	8,820		01/01/32		6.450	—	1,510
SF 2000 D – Serial Bonds	3,205	07/01/07	07/01/10	5.650	5.800	—	280
SF 2000 D – Term Bonds	6,375		07/01/16		6.100	—	1,060
SF 2000 E – Term Bonds	20,530		01/01/21		6.000	—	2,685
SF 2000 E – Term Bonds	2,085		07/01/22		6.350	—	345
SF 2000 F – Term Bonds	28,030		07/01/32		6.400	—	4,675
SF 2000 G – Serial Bonds	590	07/01/11	07/01/12	5.300	5.400	—	235
SF 2000 G – Term Bonds	3,095		07/01/18		5.800	—	1,225
SF 2000 G – Term Bonds	18,315		01/01/33		5.900	—	6,805
SF 2001 A – Serial Bonds	6,905	07/01/02	01/01/11	3.100	4.600	100	345
SF 2001 A – Term Bonds	4,680		07/01/16		5.100	560	730
SF 2001 B – Serial Bonds	1,495	07/01/11	07/01/12	5.000	5.100	95	205
SF 2001 B – Term Bonds	10,310		07/01/23		4.700	1,315	2,410
SF 2001 C – Term bonds	15,445		07/01/33		5.500	5,735	6,780
SF 2001 D – Serial Bonds	3,950	07/01/04	07/01/13	3.250	4.850	555	815
SF 2001 D – Term Bonds	3,700		07/01/21		5.250	1,780	1,960
SF 2001 D – Term Bonds	6,250		07/01/33		4.300	—	670
SF 2001 D – Term Bonds	11,100		01/01/34		5.375	4,745	5,225
SF 2002 A – Serial Bonds	6,500	07/01/04	07/01/14	2.900%	5.150	680	1,055
SF 2002 A – Term Bonds	1,665		01/01/22		5.300	295	360
SF 2002 A – Term Bonds	3,930		07/01/22		5.300	710	870
SF 2002 A – Term Bonds	5,190		07/01/27		5.300	4,685	5,190
SF 2002 A – Term Bonds	4,565		07/01/32		5.400	550	705
SF 2002 A – Term Bonds	8,750		01/01/33		4.450	—	1,080
SF 2002 A – Term Bonds	4,400		07/01/33		5.400	740	910
SF 2002 B – Serial Bonds	10,925	07/01/03	07/01/14	2.000	4.850	1,755	2,300
SF 2002 C – Term bonds	6,425		07/01/21		5.500	1,850	1,955
SF 2002 C – Term bonds	5,240		01/01/22		5.500	1,580	1,670
SF 2002 C – Term bonds	9,250		01/01/24		4.500	1,550	3,395
SF 2002 D – Term Bonds	7,050		01/01/28		5.500	7,050	7,050
SF 2002 D – Term Bonds	6,000		07/01/32		5.600	1,780	1,885
SF 2002 D – Term Bonds	6,340		07/01/33		5.600	1,820	1,925
SF 2002 E – Term Bonds	10,000		01/01/33		5.710	—	345
SF 2002 F – Serial Bonds	2,670	07/01/04	07/01/14	1.750	4.000	475	775
SF 2002 F – Term Bonds	765		01/01/16		4.250	440	500
SF 2002 G – Serial Bonds	1,310	07/01/10	07/01/13	3.750	4.100	705	800
SF 2002 G – Term Bonds	4,685		01/01/23		4.900	2,525	2,870
SF 2002 G – Term Bonds	635		01/01/24		4.900	350	395
SF 2002 H – Term Bonds	7,855		01/01/31		5.000	4,255	4,830
SF 2002 H – Term Bonds	10,000		07/01/33		3.500	1,155	2,350

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2010	2009
SF 2002 H – Term Bonds	\$ 5,830		01/01/34		5.000%	\$ 3,155	3,585
SF 2002 I – Term Bonds	11,250		07/01/32	Variable*	0.310	6,210	7,030
SF 2003 A – Serial Bonds	5,175	01/01/06	07/01/16	2.250%	4.750	2,290	2,780
SF 2003 A – Term Bonds	3,675		07/01/22		5.000	2,390	2,580
SF 2003 A – Term Bonds	1,200		01/01/23		5.000	890	955
SF 2003 A – Term Bonds	8,950		01/01/34		5.125	5,955	6,395
SF 2003 A – Term Bonds	7,000		01/01/35		4.400	—	805
SF 2003 A – Term Bonds	9,000		07/01/35		5.125	6,100	6,550
SF 2003 B – Term Bonds	10,000		07/01/34	Variable*	0.641	3,740	4,965
SF 2003 C – Serial Bonds	3,750	07/01/09	01/01/15	2.600	3.750	—	830
SF 2003 D – Serial Bonds	2,830	01/01/05	01/01/10	1.600	3.100	—	75
SF 2003 D – Term Bonds	10,270		01/01/25		4.250	2,265	3,540
SF 2003 E – Serial Bonds	820		07/01/33		4.600	—	195
SF 2003 E – Term Bonds	2,330		01/01/34		4.600	—	560
SF 2003 F – Term Bonds	20,000		01/01/33	Variable*	0.310	18,980	19,685
SF 2003 G – Term Bonds	10,000		07/01/25	Variable*	0.591	4,300	5,350
SF 2003 H – Serial Bonds	3,670	01/01/09	07/01/15	3.000	4.300	1,690	2,505
SF 2003 I – Term Bonds	5,450		07/01/22		4.900	3,600	4,160
SF 2003 J – Serial Bonds	4,620	07/01/05	01/01/14	1.650	4.450	1,490	1,725
SF 2003 J – Term Bonds	9,500		07/01/29		5.000	6,080	7,045
SF 2003 J – Term Bonds	11,000		07/01/34		5.000	3,115	4,750
SF 2003 J – Term Bonds	10,760		01/01/35		5.100	6,700	7,815
SF 2004 A – Serial Bonds	6,120	07/01/05	07/01/14	1.750	4.450	1,730	3,080
SF 2004 A – Term Bonds	3,855		07/01/24		4.900	1,505	2,430
SF 2004 A – Term Bonds	12,270		01/01/34		5.000	3,390	5,285
SF 2004 A – Term Bonds	2,585		07/01/34		5.100	820	1,350
SF 2004 A – Term Bonds	5,170		01/01/35		5.100	2,035	3,300
SF 2004 B – Term Bonds	15,000		07/01/34	Variable*	0.320	15,000	15,000
SF 2004 C – Serial Bonds	3,395	01/01/06	01/01/14	2.500	4.700	960	1,470
SF 2004 C – Term Bonds	1,155		07/01/09		3.660	—	150
SF 2004 C – Term Bonds	1,400		07/01/12		4.280	830	975
SF 2004 C – Term Bonds	610		07/01/14		4.700	355	420
SF 2004 C – Term Bonds	7,400		07/01/25		5.125	4,370	5,160
SF 2004 C – Term Bonds	2,680		01/01/30		5.200	1,575	1,855
SF 2004 C – Term Bonds	2,680		07/01/30		5.200	1,575	1,865
SF 2004 C – Term Bonds	5,650		01/01/34		5.250	2,150	3,030
SF 2004 C – Term Bonds	9,030		07/01/35		5.250	5,180	6,140
SF 2004 D – Term Bonds	17,000		07/01/34	Variable*	0.310	12,520	13,615
SF 2004 E – Serial Bonds	10,825	01/01/06	01/01/16	1.950	3.950	3,265	5,250
SF 2004 F – Term Bonds	2,375		07/01/24		4.550	1,250	1,710
SF 2004 F – Term Bonds	10,400		01/01/35		5.000	4,450	6,085
SF 2004 F – Term Bonds	6,400		07/01/35		4.800	3,260	4,500
SF 2004 G – Term Bonds	20,000		07/01/34	Variable*	0.330	20,000	20,000
SF 2005 A – Serial Bonds	5,885	07/01/07	07/01/16	2.900	4.300	2,150	3,115
SF 2005 B – Serial Bonds	2,925	01/01/07	01/01/15	3.200	4.500	1,120	1,265
SF 2005 B – Term Bonds	15,350		07/01/25		4.600	6,765	10,580
SF 2005 B – Term Bonds	17,300		07/01/30		5.000	8,755	11,270
SF 2005 C – Term Bonds	24,000		01/01/36	Variable*	0.310	24,000	24,000
SF 2005 D – Serial Bonds	5,995	01/01/07	01/01/16	3.000	4.250	1,080	2,440
SF 2005 D – Term Bonds	2,565		07/01/13		4.000	1,285	1,900

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2010	2009
SF 2005 D – Term Bonds	\$ 8,340		01/01/36		4.450%	4,210	6,245
SF 2005 D – Term Bonds	19,100		01/01/36		5.000	9,830	12,565
SF 2005 E – Term Bonds	24,000		01/01/36	Variable*	0.330	24,000	24,000
SF 2005 F – Serial Bonds	3,075	07/01/14	07/01/16	4.000%	4.200	1,300	2,335
SF 2005 G – Serial Bonds	6,810	07/01/07	01/01/14	3.250	4.300	1,760	3,850
SF 2005 G – Term Bonds	1,510		07/01/26		4.700	735	1,275
SF 2005 G – Term Bonds	240		07/01/31		4.750	150	210
SF 2005 G – Term Bonds	19,800		01/01/36		5.000	11,325	14,455
SF 2005 G – Term Bonds	4,565		01/01/37		4.875	1,880	3,425
SF 2005 H – Term Bonds	24,000		01/01/36	Variable*	0.310	24,000	24,000
SF 2006 A – Serial Bonds	1,385	07/01/14	01/01/15	3.800	3.900	890	1,200
SF 2006 B – Serial Bonds	10,655	07/01/07	07/01/16	3.400	4.300	4,745	7,310
SF 2006 B – Term Bonds	4,535		01/01/26		4.750	3,015	4,030
SF 2006 B – Term Bonds	14,425		01/01/36		4.900	9,530	12,695
SF 2006 B – Term Bonds	17,000		01/01/36		5.000	10,355	13,220
SF 2006 C – Term Bonds	12,000		01/01/36	Variable*	0.330	12,000	12,000
SF 2006 D – Serial Bonds	1,575	07/01/14	07/01/15	4.100	4.150	695	1,310
SF 2006 E – Serial Bonds	6,965	07/01/07	07/01/14	3.700	4.500	1,955	4,425
SF 2006 E – Term Bonds	1,270		07/01/16		4.650	555	1,050
SF 2006 E – Term Bonds	3,925		07/01/26		4.850	1,785	3,340
SF 2006 E – Term Bonds	245		07/01/31		4.950	100	240
SF 2006 E – Term Bonds	25,250		07/01/36		5.500	17,900	21,175
SF 2006 E – Term Bonds	8,770		01/01/37		5.000	3,930	7,390
SF 2006 F – Term Bonds	12,000		07/01/36	Variable*	0.310	12,000	12,000
SF 2006 G – Serial Bonds	2,720	07/01/07	07/01/16	3.750	4.500	1,420	2,120
SF 2006 G – Term Bonds	12,975		01/01/26		4.875	8,870	11,950
SF 2006 G – Term Bonds	8,265		07/01/30		5.000	5,630	7,605
SF 2006 G – Term Bonds	14,620		07/01/36		5.000	9,975	13,455
SF 2006 G – Term Bonds	8,420		07/01/36		5.750	5,920	7,085
SF 2006 H – Term Bonds	23,000		07/01/36		5.868	16,165	19,345
SF 2006 I – Term Bonds	5,405		07/01/21		4.700	4,630	5,405
SF 2006 I – Term Bonds	7,385		07/01/26		4.800	6,315	7,385
SF 2006 I – Term Bonds	10,085		07/01/31		4.900	8,600	10,085
SF 2006 I – Term Bonds	17,125		07/01/37		4.950	14,575	17,115
SF 2006 J – Term Bonds	40,000		07/01/37		5.745	28,610	34,040
SF 2007 A – Serial Bonds	3,855	01/01/08	07/01/17	3.500%	3.950	2,905	3,685
SF 2007 B – Term Bonds	4,935		07/01/22		4.600	3,880	4,885
SF 2007 B – Term Bonds	5,175		07/01/26		4.700	4,035	5,060
SF 2007 B – Term Bonds	10,560		07/01/32		4.750	8,215	10,290
SF 2007 B – Term Bonds	10,475		01/01/37		4.800	8,140	10,200
SF 2007 C – Term Bonds	35,000		07/01/37	Variable*	0.320	28,740	32,080
SF 2007 D – Serial Bonds	1,215	07/01/11	01/01/17	3.950	4.400	1,025	1,215
SF 2007 E – Term Bonds	5,770		07/01/22		5.050	4,820	5,710
SF 2007 E – Term Bonds	7,215		07/01/27		5.100	5,995	7,100
SF 2007 E – Term Bonds	9,675		07/01/32		5.150	8,040	9,525
SF 2007 E – Term Bonds	5,000		07/01/37		5.750	3,630	4,195
SF 2007 E – Term Bonds	14,750		01/01/38		5.200	12,275	14,555
SF 2007 F – Serial Bonds	7,000	07/01/08	07/01/14	5.341	5.752	3,435	6,435
SF 2007 G – Term Bonds	33,000		01/01/38	Variable*	0.330	27,590	30,885

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		From	To	From	To	2010	2009
SF 2007 H – Serial Bonds	\$ 7,875	07/01/08	07/01/17	3.650	4.500%	5,255	7,115
SF 2007 I – Term Bonds	2,805		07/01/22		5.200	2,170	2,705
SF 2007 I – Term Bonds	16,295		07/01/32		5.350	12,705	15,855
SF 2007 I – Term Bonds	22,725		07/01/37		5.400	17,715	22,110
SF 2007 I – Term Bonds	10,065		07/01/37		5.500	8,100	9,045
SF 2007 J – Term Bonds	30,000		07/01/30		5.770	24,465	28,085
SF 2007 K – Serial Bonds	2,905	07/01/09	07/01/17	3.700%	4.450	2,025	2,905
SF 2007 K – Term Bonds	7,545		07/01/28		5.125	5,770	7,545
SF 2007 L – Serial Bonds	2,395	07/01/09	07/01/14	4.390	4.810	1,505	2,145
SF 2007 M – Term Bonds	25,450		01/01/39	Variable*	0.330	22,815	24,695
SF 2007 N – Term Bonds	14,550		01/01/39	Variable*	0.310	14,550	14,550
SF 2008 A – Serial Bonds	2,465	07/01/09	07/01/17	3.000	4.900	2,190	2,460
SF 2008 B – Term Bonds	28,070		01/01/39	Variable*	0.320	25,935	28,070
SF 2008 C – Term Bonds	29,465		01/01/39	Variable*	0.320	26,805	29,060
SF 2008 D – Serial Bonds	4,670	01/01/10	01/01/13	2.450	3.450	3,365	4,670
SF 2008 E – Serial Bonds	8,605	07/01/13	07/01/18	3.450	4.350	7,180	8,605
SF 2008 E – Term Bonds	7,140		07/01/23		5.000	5,955	7,140
SF 2008 E – Term Bonds	7,050		07/01/28		5.250	5,885	7,050
SF 2008 E – Term Bonds	7,705		07/01/32		5.400	6,335	7,705
SF 2008 F – Term Bonds	17,330		01/01/39	Variable*	0.320	17,330	17,330
SF 2008 G – Term Bonds	22,500		01/01/39	Variable*	0.320	21,345	22,500
SF 2009 A – Serial Bonds	13,510	07/01/10	07/01/20	1.000	4.200	13,510	—
SF 2009 A – Term Bonds	5,660		07/01/24		4.800	5,660	—
SF 2009 A – Term Bonds	5,970		07/01/28		5.000	5,970	—
SF 2009 A – Term Bonds	6,835		01/01/33		5.300	6,835	—
SF 2009 A – Term Bonds	8,025		01/01/38		5.000	8,025	—
SF 2009 1 – Serial Bonds	7,370	01/01/11	07/01/21	0.700	4.100	7,370	—
SF 2009 1 – Term Bonds	4,230		01/01/26		4.550	4,230	—
SF 2009 1 – Term Bonds	4,400		07/01/28		5.000	4,400	—
SF 2009 2 – Term Bonds	24,000		07/01/40		4.050	24,000	—
SF 2009 3 - Term Bonds	169,100		12/30/10		—	169,100	—
Multi Family Housing Bonds							
MF 1978 A – Term Bonds	22,050		04/01/21		6.000	12,690	13,540
MF 2006 A – Term Bonds	6,475		07/01/41		4.600	5,935	6,115
MF 2007 A – Term Bonds	12,700		08/01/37	Variable*	0.460	12,700	12,700
MF 2007 B – Term Bonds	9,300		08/01/37	Variable*	0.460	9,300	9,300
MF 2008 A – Term Bond	3,750		06/01/24	Variable*	0.350	3,750	3,750
G.O. Notes and Credit Facilities							
Chase Equipment Leasing Note	2,801		10/02/21		4.111	2,301	2,451
FHLB Credit Facility FY09	95,793		12/01/09	Variable*	0.650	—	95,793
FHLB Credit Facility FY10	122,297		12/31/10	Variable*	0.100	122,297	—
Wells Fargo MF Credit Facility	14,301			1.500	2.601	13,980	1,190
MacArthur Foundation note	500		07/01/19		2.000	500	—
Total Housing Agency	\$ 2,017,972					\$ 1,324,193	1,224,974

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Description	Original amount	Due dates		Interest rate		Balance	
		From	To	From	To	2010	2009
State Revolving Fund Revenue Bonds							
2001 - Serial Bonds	210,395	08/01/02	08/01/14	4.000	5.500	80,665	98,610
2001 - Term Bonds	5,995		08/01/16		5.500	5,995	5,995
2001 - Term Bonds	6,230		08/01/18		5.500	6,230	6,230
2001 - Term Bonds	6,525		08/01/20		5.000	6,525	6,525
2001 - Term Bonds	4,080		08/01/23		5.000	4,080	4,080
2003 - Serial Bonds	56,100	08/01/03	08/01/24	2.000	5.250	42,960	45,545
2005 - Serial Bonds	17,775	08/01/06	08/01/12	3.250	5.000	7,875	10,600
2007 - Serial Bonds	64,160	08/01/08	08/01/24	4.000	5.000	61,825	63,285
2008 - Serial Bonds	148,435	08/01/09	08/01/28	3.500	6.000	146,785	148,436
2009 - Serial Bonds	143,895	08/01/10	08/01/29	2.000	5.000	143,895	—
Total State Revolving Fund	\$ 663,590					\$ 506,835	389,306
Total Authority	\$ 2,681,562					\$ 1,831,028	1,614,280
Premium/discount, net						18,718	6,432
						<u>1,849,746</u>	<u>1,620,712</u>

* Variable rates are as of June 30, 2010.

* Variable rates are as of June 30, 2010.

The following table summarizes the net bonds and notes payable activity for the Authority for the years ended June 30, 2010 and 2009 (dollars in thousands):

	June 30, 2009	Additions	Reductions	June 30, 2010	Due within one year
Housing Agency	\$ 1,224,902	328,641	229,273	1,324,270	321,850
State Revolving Fund	395,810	143,895	14,229	525,476	29,955
Total	\$ 1,620,712	472,536	243,502	1,849,746	351,805
	June 30, 2008	Additions	Reductions	June 30, 2009	Due within one year
Housing Agency	\$ 1,159,587	200,917	135,602	1,224,902	114,288
State Revolving Fund	267,178	148,435	19,803	395,810	26,365
Total	\$ 1,426,765	349,352	155,405	1,620,712	140,653

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

Year ending June 30	Housing Agency			State Revolving Fund			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 321,850	33,630	355,480	29,955	25,069	55,024	351,805	58,699	410,504
2012	17,479	33,229	50,708	30,215	22,563	52,778	47,694	55,792	103,486
2013	18,157	32,567	50,724	33,285	21,051	54,336	51,442	53,618	105,060
2014	19,214	31,825	51,039	33,760	19,498	53,258	52,974	51,323	104,297
2015	21,182	31,037	52,219	29,255	18,009	47,264	50,437	49,046	99,483
2016 – 2020	126,691	142,132	268,823	130,695	71,436	202,131	257,386	213,568	470,954
2021 – 2025	162,470	115,751	278,221	146,135	37,443	183,578	308,605	153,194	461,799
2026 – 2030	214,080	82,057	296,137	73,535	8,607	82,142	287,615	90,664	378,279
2031 – 2035	266,865	42,428	309,293	—	—	—	266,865	42,428	309,293
2036 – 2040	154,585	6,406	160,991	—	—	—	154,585	6,406	160,991
2041 – 2044	1,620	42	1,662	—	—	—	1,620	42	1,662
Total	\$ 1,324,193	551,104	1,875,297	506,835	223,676	730,511	1,831,028	774,780	2,605,808

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, 2010.

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

The Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multifamily Bond Indenture contain covenants that require the Authority to make payments of principal and interest from amounts available in the General Account should deficiencies occur in the accounts established for such payments by the respective bond resolutions. The Draw Down Bond Indenture under the Single Family Bond Program and the bond resolutions for the State Revolving Fund accounts do not contain these covenants.

Defeased Debt

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

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

Notes to Financial Statements

June 30, 2010 and 2009

The amount of defeased debt outstanding at June 30, 2010 and 2009 is shown below (dollars in thousands):

	Balance	
	June 30, 2010	June 30, 2009
State Revolving Fund Defeased Bonds:		
Combined Series 1999	\$ —	20,600
Series 2000A	3,180	3,555
Total State Revolving Fund Defeased Bonds	3,180	24,155
Total Authority	\$ 3,180	24,155

Hedging Derivative Instrument Payments and Hedged Debt

As of June 30, 2010, aggregate debt service requirements of the Authority's variable-rate debt and net receipts/payments on associated hedging 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 (amounts in thousands).

Fiscal year ending June 30	Variable-rate bonds principal	Variable-rate bonds interest	Interest rate swaps, net	Total
2011	\$ 1,780	1,136	13,547	16,463
2012	1,950	1,139	12,761	15,850
2013	1,515	1,137	11,952	14,604
2014	1,785	1,124	11,219	14,128
2015	3,110	1,116	10,527	14,753
2016 – 2020	32,950	5,322	43,221	81,493
2021 – 2025	52,960	4,622	32,212	89,794
2026 – 2030	78,240	3,577	21,382	103,199
2031 – 2035	117,460	1,955	10,846	130,261
2036 – 2040	65,820	329	1,810	67,959
Total	\$ 357,570	21,457	169,477	548,504

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

Notes to Financial Statements

June 30, 2010 and 2009

(5) Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010 and June 30, 2009, classified by type, and changes in the fair value of such derivative instruments for the years then ended as reported in the 2010 and 2009 financial statements are as follows (amounts in thousands):

	Notional amount	Change in fair value		Fair value at June 30, 2010	
		Classification	Dr. (Cr.) amount	Classification	Dr. (Cr.) amount
Cash flow hedges:					
Pay-fixed interest rate swaps	\$ 35,757	Deferred outflow	\$ (9,001)	Debt	\$ (29,090)
Corridor agreement	8,040	Deferred outflow	(19)	Debt	6
Rate cap	22,000	Deferred outflow	235	Debt	844
Investment derivatives:					
Pay-fixed interest rate swaps	56,330	Investment income	(602)	Investment	(902)
Corridor agreement	8,040	Investment income	(4)	Investment	(2)
Forward mortgage-backed security sale	1,563	Investment income	(38)	Investment	(1,500)
					\$ (30,644)
					\$ (30,644)
	Notional amount	Change in fair value		Fair value at June 30, 2009	
		Classification	Dr. (Cr.) amount	Classification	Dr. (Cr.) amount
Cash flow hedges:					
Pay-fixed interest rate swaps	\$ 35,757	Deferred outflow	\$ (13,632)	Debt	\$ (20,089)
Corridor agreement	10,315	Deferred outflow	(140)	Debt	25
Rate cap	22,000	Deferred outflow	160	Debt	609
Investment derivatives:					
Pay-fixed interest rate swaps	62,965	Investment income	(838)	Investment	(1,504)
Corridor agreement	10,315	Investment income	(22)	Investment	(7)
					\$ (20,966)
					\$ (20,966)

The fair values of the interest rate swaps (including the corridor agreement) were estimated based on an independent pricing service to get the fair values. 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

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

Notes to Financial Statements

June 30, 2010 and 2009

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.

Objectives and Terms of Hedging Derivative Instruments

The following table displays the objectives and terms of the Authority's hedging derivative instruments outstanding at June 30, 2010 and 2009 (amounts in thousands):

Type	Objective	2010 Notional amount	2009 Notional amount	Effective date	Maturity date	Terms
Corridor agreement	Hedge of changes in cash flows of the SF 2002 I bond series	\$ 6,210	7,030	10/30/02	07/01/2032	Pay 3.653%; receive SIFMA Swap Index + 0.10%
Corridor agreement	Hedge of changes in cash flows of the SF 2003 F bond series	18,980	19,685	06/25/03	01/03/2033	Pay 3.615%; receive 65% of LIBOR + 0.23%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2004 B bond series	15,000	15,000	12/02/04	07/01/2034	Pay 4.086%; receive enhanced LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2004 D bond series	12,520	13,615	02/03/05	07/01/2020	Pay 4.007%; receive SIFMA Swap Index + 0.10%; Various percentage of LIBOR + Spread
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2004 G bond series	20,000	20,000	06/01/05	07/01/2034	Pay 3.867%; receive enhanced LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2005 C bond series	24,000	24,000	11/01/05	01/01/2036	Pay 4.140%; receive SIFMA Swap Index + 0.10%; Various percentage of LIBOR + Spread
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2005 E bond series	24,000	24,000	02/01/06	01/01/2036	Pay 3.817%; receive enhanced LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2005 H bond series	24,000	24,000	05/01/06	07/01/2036	Pay 3.843%; receive SIFMA Swap Index + 0.10%; Various percentage of LIBOR + Spread
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2006 C bond series	12,000	12,000	09/01/06	01/01/2036	Pay 3.766%; receive enhanced LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2006 F bond series	12,000	12,000	11/01/06	07/01/2036	Pay 4.632%; receive SIFMA Swap Index + 0.10%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2007 C bond series	28,740	32,080	03/08/07	07/01/2025	Pay 5.289%; receive LIBOR

IOWA FINANCE AUTHORITY
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Notes to Financial Statements

June 30, 2010 and 2009

Type	Objective	2010 Notional amount	2009 Notional amount	Effective date	Maturity date	Terms
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2007 G bond series	\$ 27,590	30,885	07/12/07	01/01/2019	Pay 5.493%; receive LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2007 M bond series	22,815	23,905	12/12/07	07/01/2021	Pay 4.373%; receive LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2007 N bond series	14,550	14,500	12/12/07	01/01/2039	Pay 4.364%; receive SIFMA Swap Index + 0.06%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2008 B bond series	25,935	28,070	04/16/08	01/01/2039	Pay 4.470%; receive SIFMA Swap Index + 0.06%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2008 C bond series	26,805	29,060	04/16/08	01/01/2026	Pay 3.880%; receive LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2008 F bond series	17,330	17,330	10/01/08	01/01/2039	Pay 4.529%; receive SIFMA Swap Index + 0.08%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2008 G bond series	21,345	22,480	10/01/08	07/01/2018	Pay 4.173%; receive LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the MF 2008 A bond series	3,750	3,750	04/17/08	06/01/2024	Pay 3.971%; receive SIFMA Swap Index + 0.08%
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2003 B bond series	3,740	4,965	03/19/03	07/01/2012	Pays 11% cap, 3-month LIBOR; receives 6% cap, 3-month LIBOR
Pay-fixed interest rate swap	Hedge of changes in cash flows of the SF 2003 G bond series	4,300	5,350	06/25/03	07/01/2013	Pays 10% cap, 3-month LIBOR; receives 5% cap, 3-month LIBOR
Rate cap	Rate cap flows on the MF 2007 A bond series	12,700	12,700	06/14/07	07/01/2012	SIFMA swap index cap at 4.5%
Rate cap	Rate cap flows on the MF 2007 B bond series	9,300	9,300	06/14/07	01/01/2024	SIFMA swap index cap at 4.5% until 7/1/14, 5.0% until 7/1/19, 5.5% thereafter

(a) 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, 2010 and 2009 was \$2,350,943 and \$749,883, 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 Capital Markets, LP are currently counterparties under the derivatives agreements with the Authority. UBS AG is currently rated Aa3 by Moody's, and the agreements with Goldman Sachs Capital Markets, LP are fully guaranteed by Goldman Sachs Group, which is also currently rated Aa3 Moody's.

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

Notes to Financial Statements

June 30, 2010 and 2009

With respect to counterparty risk, the Authority will also manage the agreements and all transactions entered into with UBS AG and Goldman Sachs Capital Markets, LP to ensure that the Authority's exposure to either of its counterparties does not exceed a proper amount.

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, 2010 and 2009, the weighted average interest rate of the Authority's hedged variable-rate debt is 4.20% and 4.45%, while the SIFMA swap index rate is 0.25% and 0.30%, respectively. LIBOR is 0.35% and 0.30% at June 30, 2010 and 2009, 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 of Iowa. IPERS provides retirement and death benefits, which are established by State of Iowa 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, IA 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, 2009 (latest information available) was \$4.9 billion.

Plan members are required to contribute 4.10% of their annual covered salary, and the Authority is required to contribute 6.35% of annual covered salaries. Contribution requirements are established by State of Iowa statute. The Authority's contributions to IPERS for the years ended June 30, 2010 and 2009 were \$393,616 and \$382,900, 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, 2010 and 2009

(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, 2010 was \$1.4 million for which a \$0.5 million reserve for claims liability is recorded.

The Authority has committed to purchase \$48.3 million in mortgage-backed securities under its FirstHome program as of June 30, 2010.

The Authority has committed to loan agreements under various housing assistance programs for which \$36.5 million has not been disbursed as of June 30, 2010.

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, 2010 and 2009 follows (dollars in thousands):

<u>Description</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Project-based housing grants	\$ 620	772
Local housing trust fund grants	1,064	94
Capacity building grants	81	156
Wastewater treatment financial assistance grants	4,015	8,077
Jumpstart housing assistance	3,546	8,597
IJOBS – housing assistance	1,896	—
IJOBS – affordable housing assistance	13,906	—
IJOBS – public service shelter grant	8,019	—
IJOBS – water quality financial assistance	18,713	—
ARRA – section 1602	30,860	—
ARRA – tax credit assistance program	9,561	—
ARRA – homeless prevention and rapid rehousing program	9,414	—
Total outstanding commitments	<u>\$ 101,695</u>	<u>17,696</u>

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

Notes to Financial Statements

June 30, 2010 and 2009

(b) *State Revolving Fund Commitments*

The Authority has signed loan agreements under the State Revolving Fund Clean Water Program and Drinking Water Program for which \$180.9 million and \$95.9 million, respectively, have not been disbursed as of June 30, 2010.

(8) *Subsequent Events*

The Authority has reviewed subsequent events through October 4, 2010, the date the financial statements were issued, and concluded there were no events or transactions during this period that would require recognition or disclosure in the financial statements other than those already reflected.

IOWA FINANCE AUTHORITY
(A Component Unit of the State of Iowa)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010
(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:		
Housing Counseling Assistance Program	14.169	\$ 164
Section 8 Housing Assistance Payments Program – Special Allocations	—	40,937
ARRA – Section 8 Housing Assistance Payments Program – Special Allocations	14.317	9,307
Emergency Shelter Grants Program	14.231	1,265
Shelter Care Plus	14.238	40
Housing Opportunities for Persons with AIDS (H.O.P.W.A.)	14.241	402
ARRA – Homeless Prevention and Rapid Re-housing Program	14.257	2,453
ARRA – Tax Credit Assistance Program	14.258	8,896
Total United States Department of Housing and Urban Development direct programs		<u>63,464</u>
United States Department of the Treasury direct programs:		
National Foreclosure Mitigation Counseling Program	21.000	1,125
ARRA – Low Income Housing Tax Credit Section 1602	21.000	40,441
Total federal awards expenditures		<u>\$ 105,030</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, 2010

(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, 2010, which have been financed by the United States Government (federal awards). For purposes of the Schedule, federal awards include all awards entered into directly between the Authority and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. Because the Schedule presents only a selected portion of the activities of the Authority, it is not intended to, and does not, present the financial position, revenues, expenses, and changes in net assets of the Authority.

Deductions or expenditures for direct costs are recognized as incurred, using the accrual method of accounting and the cost accounting principles contained in the United States Office of Management and Budget Circular A-87, *Cost Principles for State of Iowa, 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>
Housing Counseling Assistance Program	14.169	\$ 164
Emergency Shelter Grants Program	14.231	1,250
Shelter Care Plus	14.238	40
H.O.P.W.A	14.241	397
ARRA Homeless Prevention and Rapid Re-housing Program	14.257	2,445
ARRA Tax Credit Assistance Program	14.258	8,896
National Foreclosure Mitigation Counseling Program	21.000	1,125
ARRA Low Income Housing Tax Credit Section 1602	21.000	40,441
Total		\$ <u>54,758</u>



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

The Board of Directors
Iowa Finance Authority:

We have audited the financial statements of each major fund and the total business-type activities of the Iowa Finance Authority (the Authority), a component unit of the State of Iowa, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

KPMG LLP

Des Moines, Iowa
October 4, 2010



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

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Directors
Iowa Finance Authority:

Compliance

We have audited Iowa Finance Authority's (the Authority) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2010. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence of the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the 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, 2010.

Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Des Moines, Iowa
October 4, 2010

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: *Unqualified opinions*
- (b) Significant deficiencies in internal control over financial reporting were reported: *None reported*
Material weaknesses: *No*
- (c) Noncompliance that is material to the financial statements: *No*
- (d) Significant deficiencies in internal control over compliance were disclosed: *None reported*
Material weaknesses: *No*
- (e) The type of report issued on compliance for major programs: *Unqualified opinion*
- (f) Any audit findings that are required to be reported under Section 510(a) of OMB Circular A-133: *No*
- (g) Major programs: *14.195 Section 8 Housing Assistance Payments Program – Special Allocations, 14.317 ARRA – Section 8 Housing Assistance Payments Program – Special Allocations, 14.258 Tax Credit Assistance Program, 21.000 Low Income Housing Tax Credit Section 1602*
- (h) Dollar threshold used to distinguish between Type A and Type B programs: *\$3,000,000*
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: *Yes*

(2) Findings Related to the Financial Statements

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.