



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

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**NEWS RELEASE**

FOR RELEASE

April 1, 2013

Contact: Andy Nielsen  
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Auditor of State David A. Vaudt today released an audit report on the Iowa Water Pollution Control Works Financing Program (Clean Water Program) and the Iowa Drinking Water Facilities Financing Program (Drinking Water Program), joint programs of the Iowa Finance Authority and the Iowa Department of Natural Resources. The Clean Water Program provides financing for the construction of wastewater treatment facilities through loans to eligible municipalities and other qualifying entities. The Drinking Water Program provides financing for the construction of drinking water facilities through loans to municipalities and other qualifying entities.

The Clean Water Program reported operating revenues of \$26,458,520 for the year ended June 30, 2012, including interest income of \$23,649,615 on loans and administrative fees of \$2,808,905. Non operating revenues included \$28,930,139 of federal grants and investment income of \$899,644. The Drinking Water Program reported operating revenues of \$12,600,303, including interest income of \$11,298,873 on loans and administrative fees of \$1,301,430. Non operating revenues included \$28,934,959 of federal grants and investment income of \$715,669.

Operating expenses of the Clean Water Program for the year ended June 30, 2012 totaled \$4,372,531, including \$2,782,287 for general and administrative expenses, \$1,264,178 for non program expenses and \$326,066 for amortization of loss on bond redemption. Non operating expenses of the Clean Water Program included \$20,378,224 for bond interest expense, grant expense of \$1,100,589 and rebate expense of \$31,250. The Program loaned \$213,462,714 to municipalities and other qualifying entities and collected loan repayments of \$99,023,816 during the year. At June 30, 2012, the Clean Water Program had loans receivable from municipalities and other qualifying entities totaling \$836,536,267, net of the forgivable loan reserve of \$17,657,000.

Operating expenses of the Drinking Water Program for the year ended June 30, 2012 totaled \$5,492,317, including \$2,293,662 for source water protection expenses, \$1,163,265 for general and administrative expenses, \$817,591 for small program management administrative expense, \$452,209 for amortization of loss on bond redemption, \$396,000 for provision for loan losses, \$279,118 for small community technical assistance and \$90,472 for non program. Non operating expenses of the Drinking Water Program included \$9,784,553 for bond interest expense, grant expense of \$578,000 and rebate expense of \$267,900. The Program loaned \$74,753,498 to municipalities and other qualifying entities and collected loan repayments of \$51,502,439 during the year. At June 30, 2012, the Drinking Water Program had loans receivable from municipalities and other qualifying entities totaling \$378,144,461, net of the forgivable loan and loan loss reserves of \$9,459,817.

A copy of the audit report is available for review at the Iowa Finance Authority, at the Iowa Department of Natural Resources, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1360-5420-A000.pdf>.

# # #

**IOWA WATER POLLUTION CONTROL WORKS AND  
DRINKING WATER FACILITIES FINANCING PROGRAMS  
(JOINT PROGRAMS OF THE IOWA FINANCE AUTHORITY  
AND THE IOWA DEPARTMENT OF NATURAL RESOURCES)**

**INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2012**

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**Iowa Water Pollution Control Works  
and Drinking Water Facilities Financing Programs**

**Officials**

Name

Title

**Governor**

Honorable Terry E. Branstad

**Director, Department of Management**

David Roederer

**Director, Legislative Services Agency**

Glen P. Dickinson

**Iowa Finance Authority Board**

Darlys Baum	Chairperson
David Erickson	Vice Chairperson
Carmela Brown	Treasurer
Heather Armstrong	Member
David Greenspon	Member
Jeff Heil	Member
Michel Nelson	Member
Eric Peterson	Member
Ruth Randleman	Member

**Environmental Protection Commission**

David Petty	Chairperson
John Glenn	Vice Chairperson
Mary Boote	Member
Dee Bruemmer	Member
Nancy Couser	Member
Cindy Greiman	Member
Brent Rastetter	Member
Max Smith	Member
Martin Stimson	Member

**Iowa Finance Authority**

Dave Jamison, Executive Director

**Iowa Department of Natural Resources**

Roger Lande, Director (Resigned during May 2012)	Chuck Gipp, Director (Began during May 2012)
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**Iowa Water Pollution Control Works  
and Drinking Water Facilities Financing Programs**



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Independent Auditor's Report

To the Officials of the Iowa Finance Authority and  
the Iowa Department of Natural Resources:

We have audited the accompanying financial statements of the business type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements listed in the table of contents. These financial statements are the responsibility of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business type activities and each major fund of the State of Iowa that is attributable to the transactions of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of June 30, 2012, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2013 on our consideration of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting and our tests of 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 Authority and the Department have not presented Management's Discussion and Analysis to introduce the basic financial statements by presenting certain financial information and management's analytical insights on information the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 27, 2013



## **Basic Financial Statements**

**Exhibit A**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2012

	Clean Water Program	Drinking Water Program	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 178,568,881	111,818,697	290,387,578
Cash - linked deposits	61,642,928	-	61,642,928
Investments	102,737,574	44,281,150	147,018,724
Loans receivable, net	39,182,836	22,395,747	61,578,583
Accrued interest receivable	2,659,226	1,288,887	3,948,113
Due from Iowa Finance Authority	17,510	8,724	26,234
Due from federal government	975,976	490,159	1,466,135
Other assets	1,233,000	607,249	1,840,249
Total current assets	<u>387,017,931</u>	<u>180,890,613</u>	<u>567,908,544</u>
Noncurrent assets:			
Investments	2,894,849	4,381,961	7,276,810
Loans receivable	797,353,431	355,748,714	1,153,102,145
Total noncurrent assets	<u>800,248,280</u>	<u>360,130,675</u>	<u>1,160,378,955</u>
<b>Total assets</b>	<u>1,187,266,211</u>	<u>541,021,288</u>	<u>1,728,287,499</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	475,237	436,547	911,784
Accrued bond interest payable	12,843,845	5,809,903	18,653,748
Rebates payable	175,064	530,042	705,106
Unearned initiation fees	588,732	267,554	856,286
Bonds payable, net	25,885,000	13,170,000	39,055,000
Total current liabilities	<u>39,967,878</u>	<u>20,214,046</u>	<u>60,181,924</u>
Noncurrent liabilities:			
Rebates payable	-	124,908	124,908
Unearned initiation fees	8,742,638	3,740,946	12,483,584
Bonds payable, net	627,041,887	286,276,064	913,317,951
Total noncurrent liabilities	<u>635,784,525</u>	<u>290,141,918</u>	<u>925,926,443</u>
<b>Total liabilities</b>	<u>675,752,403</u>	<u>310,355,964</u>	<u>986,108,367</u>
<b>Net Assets</b>			
Restricted net assets:			
Per bond resolutions	399,854,000	203,008,000	602,862,000
Per other agreements	111,659,808	27,657,324	139,317,132
<b>Total net assets</b>	<u>\$ 511,513,808</u>	<u>230,665,324</u>	<u>742,179,132</u>

See notes to financial statements.

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2012

	Clean Water Program	Drinking Water Program	Total
Operating revenues:			
Interest on loans	\$ 23,649,615	11,298,873	34,948,488
Administrative fees	2,808,905	1,301,430	4,110,335
Total operating revenues	26,458,520	12,600,303	39,058,823
Operating expenses:			
Amortization of loss on bond redemption	326,066	452,209	778,275
Provision for loan losses	-	396,000	396,000
General and administrative	2,782,287	1,163,265	3,945,552
Source water protection	-	2,293,662	2,293,662
Small community technical assistance	-	279,118	279,118
Small program management administrative	-	817,591	817,591
Non program	1,264,178	90,472	1,354,650
Total operating expenses	4,372,531	5,492,317	9,864,848
Operating income	22,085,989	7,107,986	29,193,975
Non operating revenues/(expenses):			
Federal grants	28,930,139	28,934,959	57,865,098
Grant expense	(1,100,589)	(578,000)	(1,678,589)
Investment income	899,644	715,669	1,615,313
Rebates	(31,250)	(267,900)	(299,150)
Bond interest expense	(20,378,224)	(9,784,553)	(30,162,777)
Total non-operating revenues/(expenses)	8,319,720	19,020,175	27,339,895
Income before transfers	30,405,709	26,128,161	56,533,870
Transfers between funds	(355,429)	355,429	-
Change in net assets	30,050,280	26,483,590	56,533,870
Net assets beginning of year	481,463,528	204,181,734	685,645,262
Net assets end of year	\$ 511,513,808	230,665,324	742,179,132

See notes to financial statements.

**Exhibit C**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2012

	Clean Water Program	Drinking Water Program	Total
<b>Cash flows from operating activities:</b>			
Administrative fees received	\$ 3,558,410	1,609,077	5,167,487
Interest received on loans to municipalities and other qualifying entities	23,363,060	11,240,823	34,603,883
Principal received on loans to municipalities and other qualifying entities	99,023,816	51,502,439	150,526,255
Loans disbursed to municipalities and other qualifying entities	(213,462,714)	(74,753,498)	(288,216,212)
Cash paid to suppliers and grantees	(4,091,232)	(4,973,334)	(9,064,566)
Net cash used for operating activities	(91,608,660)	(15,374,493)	(106,983,153)
<b>Cash flows from non-capital financing activities:</b>			
Draws on capitalization grants from EPA	29,071,649	29,066,270	58,137,919
Issuance of debt	164,780,000	55,655,000	220,435,000
Premium on bonds issued	25,545,148	8,761,458	34,306,606
Bond issue costs	(336,385)	(113,615)	(450,000)
Interest paid on debt	(20,022,053)	(10,703,958)	(30,726,011)
Rebates paid	(410,974)	(1,478,484)	(1,889,458)
Transfers between funds	(355,429)	355,429	-
Repayment of debt principal	(22,685,000)	(11,285,000)	(33,970,000)
Net cash provided by non-capital financing activities	175,586,956	70,257,100	245,844,056
<b>Cash flows from investing activities:</b>			
Sale of investments	275,626,943	128,720,570	404,347,513
Interest received on investments	937,477	662,035	1,599,512
Investments purchased	(269,444,640)	(132,957,094)	(402,401,734)
Net cash provided by (used for) investing activities	7,119,780	(3,574,489)	3,545,291
Net increase in cash and cash equivalents	91,098,076	51,308,118	142,406,194
Cash and cash equivalents beginning of year	149,113,733	60,510,579	209,624,312
Cash and cash equivalents end of year	\$ 240,211,809	111,818,697	352,030,506

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2012

	Clean Water Program	Drinking Water Program	Total
<b>Reconciliation of operating income to net cash used for operating activities:</b>			
Operating income	\$ 22,085,989	7,107,986	29,193,975
Adjustments to reconcile operating income to net cash used for operating activities:			
Amortization of loss on bond redemption	326,066	452,209	778,275
Change in provision for loan losses	-	396,000	396,000
Change in allowance for doubtful accounts	(1,100,589)	(578,000)	(1,678,589)
Increase in loans receivable	(113,338,309)	(22,673,059)	(136,011,368)
Increase in accrued interest receivable	(286,555)	(58,050)	(344,605)
Decrease in other assets	12,230	18,993	31,223
Decrease in due to Iowa Finance Authority	(75,903)	(37,485)	(113,388)
Increase in unearned revenue	737,276	288,654	1,025,930
Increase (decrease) in accounts payable and accrued expenses	31,135	(291,741)	(260,606)
Total adjustments	(113,694,649)	(22,482,479)	(136,177,128)
Net cash used for operating activities	\$ (91,608,660)	(15,374,493)	(106,983,153)

See notes to financial statements.

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2012

**(1) Summary of Significant Accounting Policies**

Description of the Iowa Water Pollution Control Works Financing Program

Chapter 455B and Chapter 16 of the Code of Iowa authorize the Iowa Finance Authority (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, hereinafter referred to as the Clean Water Program. The Clean Water Program was created by the state in 1988 to implement provisions of the Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (the Clean Water Act). The Clean Water Act and subsequent annual federal legislative appropriation bills authorize the U.S. Environmental Protection Agency (EPA) to make annual capitalization grants to states for the purpose of establishing a water pollution revolving fund to be used in financing the construction of waste water treatment facilities. Funding for the Clean Water Program is provided from the federal capitalization grants and bonding activity of the Authority, which provides state matching funds. The state matching funds must be at least equal to 20% of the federal capitalization grants. Loans made by the Clean Water program must be repaid within 30 years. The Clean Water Program is to be established, maintained and credited with loan repayments and the funds of the Clean Water Program are to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities and other qualifying entities from the Clean Water Program for eligible project costs as defined in Chapter 567, section 92, of the Iowa Administrative Code. The DNR administers the aspects of the Clean Water Program relating to project eligibility and monitoring of construction progress. The Authority administers the aspects of the Clean Water Program relating to loan eligibility, arranging financing and accounting for the loans, their repayments and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and other qualifying entities to finance all or part of the construction of wastewater treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Clean Water Program. The obligations do not constitute a debt of the State or a general obligation of the Authority.

The Clean Water Program also provides funds to various lending institutions to buy down the interest rate on loans made by these institutions to individuals for water quality projects. The funds are deposited at the various institutions in non interest bearing accounts.

During the year ended June 30, 2011, the DNR was awarded a capitalization grant with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009. The purpose of the grant is as follows: “to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advance in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and

local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.” Also, there was an additional condition for the Authority to award at least 50% forgivable loans to municipalities and other qualifying entities.

#### Description of the Iowa Drinking Water Facilities Financing Program

Chapter 455B and Chapter 16 of the Code of Iowa also authorize the Authority, jointly and in cooperation with the DNR, to undertake the creation, administration and financing of the Iowa Drinking Water Facilities Financing Program, hereinafter referred to as the Drinking Water Program. The Drinking Water Program was created by the state in 1997, and amended in 1998, to implement provisions of the Safe Drinking Water Act Amendments of 1996. Section 1452 of the Safe Drinking Water Act authorizes the EPA to make capitalization grants to states for the purpose of establishing a drinking water revolving fund to be used in financing the construction of drinking water facilities. Funding for the Drinking Water Program is provided from the federal capitalization grants and bonding activity of the Authority, which provides state matching funds. The state matching funds must be at least equal to 20% of the federal capitalization grants. Loans made by the Drinking Water Program must be repaid within 30 years. The Drinking Water Program is to be established, maintained and credited with loan repayments and the funds of the Drinking Water Program are to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities and other qualifying entities from the Drinking Water Program for eligible project costs as defined in Chapter 567, section 44, of the Iowa Administrative Code. The DNR administers the aspects of the Drinking Water Program relating to project eligibility and monitoring of construction progress. The Authority administers the aspects of the Drinking Water Program relating to loan eligibility, arranging financing and accounting for the loans, their repayments and investment activity. The Authority is authorized and has issued revenue bonds to meet the 20% state match required to receive the grants and to provide additional funds to make loans to Iowa municipalities and other qualifying entities to finance all or part of the construction of drinking water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues pledged under the applicable bond resolution for the Drinking Water Program. The obligations do not constitute a debt of the State or general obligation of the Authority.

During the year ended June 30, 2011, the DNR was awarded a capitalization grant with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009. The purpose of the grant is as follows: “to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advance in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and to stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.” Also, there was an additional condition for the Authority to award at least 50% forgivable loans to municipalities and other qualifying entities.

Chapter 455B of the Code of Iowa was amended by legislation, which became effective July 1, 2002, to change the formal name of the Clean Water Program to the Iowa Water Pollution Control Works Financing Program and to include authorization of non-point source financing under the Clean Water Program. The Authority restructured the Clean Water Program and Drinking Water Program in December 2001 to include an equity account for each program under a Master Trust Agreement from which loans may also be made in accordance with the provisions of the Clean Water Act and the

Drinking Water Act. In fiscal year 2010, the Authority amended the Master Trust Agreement. Bonds issued in 2010 and after are under an open indenture which consists of all loans and equity account funds not pledged to prior bond issues. As prior bonds are retired, any loans and funds pledged to those bonds will be transferred to the new Master Trust funds. New bonds issued will no longer be secured by distinct loans but will be secured by the entire Master Trust – so all loans are available to repay all bonds. The only funds not pledged to the Master Trust are the program funds to be used for administration expenses, planning and design loans and non-point source loans.

The Clean Water and Drinking Water Programs' financial statements are included in the State of Iowa's Comprehensive Annual Financial Report.

The financial statements of the Clean Water and Drinking Water Programs have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The more significant of the Programs' accounting policies are described below:

A. Reporting Entity

For financial reporting purposes, the Clean Water and Drinking Water Programs have included all funds, organizations, agencies, boards, commissions and authorities. The Programs have also considered all potential component units for which they are financially accountable and other organizations for which the nature and significance of their relationship with the Programs are such that exclusion would cause the Programs' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria included appointing a voting majority of an organization's governing body and (1) the ability of the Programs to impose their will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Programs. The Programs have no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the Clean Water Program and the Drinking Water Program are reported as Enterprise Funds. The operations of the funds are accounted for with separate sets of self-balancing accounts which comprise their assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

The Programs account for the proceeds of the revenue bonds, the debt service requirements on the bonds, the investment of monies held within the bond funds and accounts and the equity account, receipt of EPA capitalization grants, the Clean Water Program loans to municipalities and other qualifying entities, the Drinking Water Program loans to municipalities and other qualifying entities and administrative costs of the Programs. The Authority and the State are not obligated for repayment of the bonds, which are secured by certain loan agreements with the municipalities and other qualifying entities and other assets and revenues pledged under the applicable bond resolutions. Separate accounts are maintained under the various bond resolutions and for the equity account, and while the accounts are combined in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolution and the Master Trust Agreement.



C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means all assets and liabilities, whether current or non-current, associated with their activity are included in the Statement of Net Assets, with the difference reported as net assets. Enterprise Fund operating statements present increases (revenue) and decreases (expenses) in net total assets.

In reporting the financial activity of their Enterprise Funds, the Programs apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise Funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Programs record revenues and expenses derived from loans and administrative fees, including initiation fees, as operating revenues and expenses since these are generated from the Programs’ operations and are needed to carry out their statutory purposes and to provide debt service coverage on their bonds. Non operating revenues and expenses include federal grants and related grant expense, investment income and related rebates and bond interest expense.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the basic financial statements:

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 monies deposited in the State’s interest-bearing pooled money funds, investment agreements associated with bond issues and various money market funds.

Cash equivalents also include \$61,642,928 of linked deposits. Linked deposits are defined as a deposit in an account with a financial institution to induce the institution’s support for one or more projects (loans).

## Investments

Under the various bond resolutions and State statutes, the Programs may invest in United States government and agency obligations directly or through repurchase agreements secured by such obligations, certificates of deposit in qualified financial institutions, pooled money funds with the State and investment agreements with United States government agencies, qualified financial institutions or qualified corporations.

Investments are recorded at fair value in the Statements of Net Assets, with changes in the fair value of investments recorded in the Statements of Revenues, Expenses and Changes in Fund Net Assets.

## Loans to Municipalities and Other Qualifying Entities

The Clean Water Program and Drinking Water Program are operated as direct loan programs. Loan funds are disbursed to municipalities and other qualifying entities as they incur costs for the purposes of the loan and request reimbursement from the Clean Water Program and Drinking Water Program.

Loans to municipalities and other qualifying entities are recorded at their unpaid principal balance. The loans are intended to be held to maturity of up to 30 years. Certain loans are pledged as collateral for particular bonds outstanding. Disadvantaged loans for drinking water systems are intended to be held for 30 years. Each municipality or other qualifying entity has entered into a loan agreement with the Authority and has evidenced its commitment to repay the loan by issuing a sewer revenue obligation, a water revenue obligation or a general obligation to the Authority. A provision for loan losses for the Drinking Water Program was established during the year ended June 30, 2009. Additionally, during the years ended June 30, 2010, 2011 and 2012, a reserve was established for the Clean Water and Drinking Water Programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009 and capitalization grants awarded from the 2010, 2011 and 2012 grant years.

Loans to municipalities and other qualifying entities consists of three types of loans. The types of loans include: construction and wastewater treatment facilities loans, sewer rehabilitation and sewer loans. The construction and wastewater treatment facilities loans and the sewer rehabilitation and sewer loans are described in the preceding paragraphs. The planning and design loans are loans which reimburse the initial costs for an infrastructure program, which eventually roll into one of the other types of loans. Non-point source pollution loans are non-infrastructure loans used to restore habitat and wetlands, urban storm water management, landfill closures, lake restoration and watershed planning through either a direct loan with a municipality, a participation loan through a qualifying entity or linked deposits. All of the non-point source loans are reported as a binding commitment of the Authority, except for linked deposits.

Bond Issuance Costs, Net Premium and Amortization of Loss on Defeasance of Refunded Bonds

Bond issuance costs and net premiums are deferred and amortized as an adjustment to interest expense over the life of the related bond issues, using the bonds outstanding method. The loss on defeasance of refunded bonds is amortized over the life of the new debt.

Rebates Payable

The amount of investment income the Programs may earn on the proceeds from bonds issued is limited by federal legislation. Earnings in excess of the allowable amount must be rebated to the U.S. Treasury. Earnings in excess of the allowable amount are reported as rebates payable in the Statements of Net Assets and are offset against investment income in the Statements of Revenues, Expenses and Changes in Fund Net Assets.

Unearned Initiation Fees

Initiation fees are received at the time of origination of loans to municipalities and wastewater systems or drinking water facilities. The initiation fee is amortized over the life of the loan using the straight-line method, which approximates the interest method.

Net Assets

The Clean Water and Drinking Water Programs report restrictions of net assets for amounts legally restricted by outside parties for use for a specific purpose.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which affect certain reported amounts and disclosures. Actual results could differ from those estimates.

G. Totals

The "total" columns contain the totals of the similar accounts of the various funds. Due to restrictions created by federal and Iowa law and the various bond resolutions and agreements, the totaling of the accounts, including assets therein, is for convenience only and does not indicate the combined assets are available in any manner other than provided by Federal and Iowa law and the bond resolutions or agreements.

## (2) Cash, Cash Equivalents and Investments

At June 30, 2012, the Clean Water and Drinking Water Programs' investments include approximately \$142 million of federal government agency notes. The following table (expressed in thousands) displays the types of investments, amounts and the average duration of the investment:

Type	Fair Value	% of Total	Average Duration
Money market accounts	\$ 308,015	60.8%	N/A
Guaranteed investment contracts	44,016	8.7	<1 year
Agency notes	141,954	28.0	1 year
Corporate bonds	3,773	0.8	<1 year
Municipal securities	8,568	1.7	1.7 years
Total	<u>\$ 506,326</u>	<u>100.0%</u>	

Investment portfolio management is the responsibility of the Authority's management and staff. The Authority's Board of Directors has established a general investment policy and specific bond indentures direct investment policy for assets restricted under those bond indentures.

- Qualified investments under the general investment policy include investments in U.S. Treasury, agency and instrumentality obligations, interest bearing time and demand deposits and certificates of deposits with any financial institution, provided such funds are fully insured by an agency of the federal government, or to the extent such deposits exceed federal deposit insurance, are fully collateralized by U.S. Treasury, agency or instrumentality obligations; repurchase agreements fully collateralized and secured by U.S. Treasury, agency and instrumentality obligations or government-backed mortgage loan pools; obligations of any state or political subdivision of the state which at time of purchase are rated in either of the two highest rating categories of at least two nationally recognized rating agencies; public housing bonds or notes fully secured by a contract with the United States; and program-type investments that further the purposes and goals of the Authority, provided such investments are only permitted to the extent the aggregate amount invested therein does not exceed 5.00% of the Authority's general operating account's total asset balance at the time such investment is made.
- Qualified investments allowed under the Clean Water and Drinking Water Programs' indentures include direct general obligations of the United States Treasury and agencies, general obligations of any state within the United States or political subdivision of Iowa rated AA or higher, repurchase agreements, certificates of deposit fully insured by the FDIC, money market funds, guaranteed investment contracts issued by rated corporations and financial institutions, obligations of insurance companies rated in the highest category and other permitted investments which do not cause the rating of the State Revolving Fund bonds to be lowered.

### **Credit Risk**

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

Cash and cash equivalents at June 30, 2012 total \$506.3 million and include \$246.4 million invested in money market funds in collateralized trust accounts, \$44.0 million in investment agreements associated with bond indentures and \$61.6 million in cash.

### **Concentration Risk**

Concentration of risk is the risk of loss which may be attributed to the magnitude of an investment in a single type of security. The table below (expressed in thousands) lists the money market accounts and guaranteed investment contracts by provider at June 30, 2012.

Provider	Money Market Accounts	Guaranteed Investment Contracts	Agency Notes	Coporate and Municipal Bonds	Total	Credit Ratings		% of Total
						Standard and Poor's	Moody's	
Natixis Funding Corp.	\$ -	3,751	-	-	3,751	A+/A-1+	Aa3/P1	0.8%
Societe Generale	-	40,265	-	-	40,265	A/A-1	A2/P-1	9.0%
Farmer Mac	-	-	1,150	-	1,150	AA+	AAA	0.3%
Federal Farm Credit Bank	-	-	3,538	-	3,538	AA+	AAA	0.8%
Federal Home Loan Bank	-	-	104,679	-	104,679	AA+	AAA	23.5%
Federal Home Loan Mortgage Corp.	-	-	9,504	-	9,504	AA+	AAA	2.1%
Federal National Mortgage Assoc.	-	-	23,083	-	23,083	AA+	AAA	5.2%
General Electric Capital Co.	-	-	-	3,773	3,773	AA+	AAA	0.8%
New Jersey Educational Facility Authority	-	-	-	3,001	3,001	Not Rated	A2	0.7%
Other Providers	-	-	-	5,568	5,568	A+ to AAA	A3 to Aaa	1.3%
Goldman Sachs Group, Inc.	80,641	-	-	-	80,641	A-/A-2	A3/P-2	18.2%
Wells Fargo Bank, N.A.	165,731	-	-	-	165,731	AA-/A1+	Aa3/P1	37.3%
Total	<u>\$246,372</u>	<u>44,016</u>	<u>141,954</u>	<u>12,342</u>	<u>444,684</u>			<u>100%</u>

### **Interest Rate Risk**

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

### **Foreign Currency Risk**

Foreign currency risk is the risk 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) Loans Receivable

The Clean Water and Drinking Water Programs make loans to municipalities and other qualifying entities for projects meeting the eligibility requirements of the Clean Water Act and the Safe Drinking Water Act. Loans are financed by capitalization grants, bond proceeds, the state match and revolving funds. Effective interest rates on loans vary between 0% and 4.3% per annum with a term of up to 30 years. Loans are generally repaid over 20 years, starting one year after the project is completed.

A provision for loan losses was established during the year ended June 30, 2009 for the Drinking Water program.

A reserve was established during the years ended June 30, 2010, 2011 and 2012 for the Clean Water and Drinking Water programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009.

Each loan recipient has established a dedicated source of revenue for repayment of the loans, including general obligation bonds or revenue bonds issued at the recipient level.

A summary of changes in loans receivable for the year ended June 30, 2012 is as follows:

	Clean Water	Drinking Water	Total
Loans receivable beginning of year	\$ 747,839,166	371,166,219	1,119,005,385
Additions	213,462,714	74,753,498	288,216,212
Deletions:			
Payments received on program loans	99,023,816	51,502,439	150,526,255
Forgivable loans meeting requirements	8,084,797	6,813,000	14,897,797
Loans receivable end of year	854,193,267	387,604,278	1,241,797,545
Less: Provision for loan losses	-	1,334,817	1,334,817
Less: Reserve for forgivable loans	17,657,000	8,125,000	25,782,000
Net loans receivable end of year	\$ 836,536,267	378,144,461	1,214,680,728
Current	\$ 39,182,836	22,395,747	61,578,583
Noncurrent	797,353,431	355,748,714	1,153,102,145
Total	\$ 836,536,267	378,144,461	1,214,680,728

A schedule of loan repayments by year is not included because repayment schedules are not finalized until projects are complete.

**(4) Bonds Payable**

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

Description	Original Amount	Due Dates		Interest Rates		Jun 30, 2012 Balance
		From	To	From	To	
<b>Clean Water:</b>						
Total bonds outstanding	138,810	08/01/02	08/01/14	4.00%	5.50%	27,280
Unamortized (disc)/prem/other	-					(13)
Clean Water 2001	<u>138,810</u>					<u>27,267</u>
Clean Water 2003	<u>3,350</u>	08/01/03	08/01/22	2.00%	4.70%	<u>370</u>
Clean water 2005	<u>11,090</u>	08/01/06	08/01/12	3.25%	5.00%	<u>1,550</u>
Serial Bonds	5,660	08/01/08	08/01/21	4.00%	5.00%	4,800
Serial Bonds	<u>29,700</u>		08/01/24	4.00	5.00	<u>28,500</u>
Total bonds outstanding	35,360					33,300
Unamortized (disc)/prem/other	-					790
Clean Water 2007	<u>35,360</u>					<u>34,090</u>
Serial Bonds	2,725	08/01/09	08/01/22	3.50%	5.50%	2,425
Serial Bonds	<u>100,640</u>		08/01/28	3.50	6.00	<u>95,600</u>
Total bonds outstanding	103,365					98,025
Unamortized (disc)/prem/other	-					2,119
Clean Water 2008	<u>103,365</u>					<u>100,144</u>
Serial Bonds	6,005	08/01/10	08/01/23	2.00%	5.00%	5,375
Serial Bonds	<u>98,390</u>		08/01/29	2.00	5.00	<u>97,280</u>
Total bonds outstanding	104,395					102,655
Unamortized (disc)/prem/other	-					7,662
Clean Water 2009	<u>104,395</u>					<u>110,317</u>
Serial Bonds	130,670	08/01/11	08/01/25	2.00%	5.00%	128,445
Term Bonds	11,755		08/01/26		5.27	11,755
Term Bonds	12,315		08/01/27		5.27	12,315
Term Bonds	12,985		08/01/28		5.27	12,985
Term Bonds	12,970		08/01/29		5.27	12,970
Term Bonds	<u>9,915</u>		08/01/30		5.27	<u>9,915</u>
Total bonds outstanding	190,610					188,385
Unamortized (disc)/prem/other	-					1,389
Clean Water 2010	<u>190,610</u>					<u>189,774</u>
Serial Bonds	2,220	08/01/12	08/01/21	2.00%	5.00%	2,220
Serial Bonds	<u>162,560</u>		08/01/31	2.00%	5.00%	<u>162,560</u>
Total bonds outstanding	164,780					164,780
Unamortized (disc)/prem/other	-					24,635
Clean Water 2011	<u>164,780</u>					<u>189,415</u>
Bonds outstanding	751,760					616,345
Unamortized (disc)/prem/other	-					36,582
<b>Total Clean Water</b>	<u>\$ 751,760</u>					<u>\$ 652,927</u>

Description	Original Amount	Due Dates		Interest Rates		Jun 30, 2012 Balance
		From	To	From	To	
<b>Drinking Water:</b>						
Serial Bonds	\$ 12,900	08/01/02	08/01/14	4.00%	5.25%	\$ 1,375
Term Bonds	1,100		08/01/16		5.50	625
Term Bonds	480		08/01/18		5.50	270
Term Bonds	405		08/01/20		5.00	230
Term Bonds	120		08/01/23		5.00	70
Serial Bonds	21,345		04/01/21	4.00	5.50	4,335
Term Bonds	4,895		08/01/16		5.50	2,025
Term Bonds	5,750		08/01/18		5.50	2,380
Term Bonds	6,120		08/01/20		5.00	2,535
Term Bonds	3,960		08/01/23		5.00	1,645
Total bonds outstanding	57,075					15,490
Unamortized (disc)/prem/other	-					112
Drinking Water 2001	57,075					15,602
Serial Bonds	3,240	08/01/04	08/01/17	2.00%	4.30%	470
Serial Bonds	49,510		08/01/24	2.00	5.00	4,740
Drinking Water 2003	52,750					5,210
Drinking Water 2005	6,685	08/01/06	08/01/12	3.25%	5.00%	1,075
Serial Bonds	4,435	08/01/08	08/01/21	4.00%	5.00%	3,015
Serial Bonds	24,365	08/01/09	08/01/24	4.00	5.00	22,270
Total bonds outstanding	28,800					25,285
Unamortized (disc)/prem/other	-					594
Drinking Water 2007	28,800					25,879
Serial Bonds	2,175	08/01/09	08/01/22	3.50%	5.25%	2,020
Serial Bonds	42,895		08/01/28	3.50	6.00	39,865
Total bonds outstanding	45,070					41,885
Unamortized (disc)/prem/other	-					921
Drinking Water 2008	45,070					42,806
Serial Bonds	5,965	08/01/10	08/01/23	2.00%	5.00%	5,460
Serial Bonds	33,535		08/01/29	2.00	5.00	33,050
Total bonds outstanding	39,500					38,510
Unamortized (disc)/prem/other	-					2,928
Drinking Water 2009	39,500					41,438
Serial Bonds	85,055	08/01/11	08/01/25	2.00%	5.00%	83,525
Term Bonds	3,250		08/01/26		5.27	3,250
Term Bonds	3,350		08/01/27		5.27	3,350
Term Bonds	3,530		08/01/28		5.27	3,530
Term Bonds	3,695		08/01/29		5.27	3,695
Term Bonds	3,400		08/01/30		5.27	3,400
Total bonds outstanding	102,280					100,750
Unamortized (disc)/prem/other	-					2,565
Drinking Water 2010	102,280					103,315
Serial Bonds	1,610	08/01/10	08/01/23	2.00%	5.00%	1,610
Serial Bonds	54,045		08/01/29	2.00%	5.00%	54,045
Total bonds outstanding	55,655					55,655
Unamortized (disc)/prem/other	-					8,466
Drinking Water 2011	55,655					64,121
Bonds outstanding	387,815	08/01/12	08/01/31	2.00%	5.00%	283,860
Unamortized (disc)/prem/other	-					15,586
<b>Total Drinking Water</b>	<b>\$ 387,815</b>					<b>\$ 299,446</b>



A summary of changes in bonds payable for the year ended June 30, 2012 is as follows:

	Clean Water	Drinking Water	Total
Balance beginning of the year	\$ 487,491,026	247,453,036	734,944,062
Increases	191,076,574	64,666,050	255,742,624
Decreases	(25,640,713)	(12,673,022)	(38,313,735)
Balance end of year	<u>\$ 652,926,887</u>	<u>299,446,064</u>	<u>952,372,951</u>
Due within one year	<u>\$ 25,885,000</u>	<u>13,170,000</u>	<u>39,055,000</u>

A portion of the proceeds from the issuance of the State Revolving Fund Revenue Bonds, Series 2010A, in the par amount of \$90,780,000, with interest rates of 2.00% to 5.00% per annum, were used to refund and defease previously issued State Revolving Fund Revenue Bonds. Funds were deposited in an irrevocable trust with an escrow agent to provide for the February 1, 2011 through February 1, 2013 redemption of all refunded bonds. The amount of defeased debt outstanding at June 30, 2012 for the State Revolving Fund Revenue Bonds Series 2001 and Series 2003 is \$23,995,000 and \$32,035,000, respectively.

A summary of scheduled bond maturities and interest follows:

Year Ending June 30,	Clean Water Program		Drinking Water Program		Total
	Principal	Interest	Principal	Interest	
2013	\$ 25,885,000	29,043,124	13,170,000	13,245,807	81,343,931
2014	28,395,000	26,950,563	13,640,000	12,396,351	81,381,914
2015	31,160,000	25,635,269	14,440,000	11,822,176	83,057,445
2016	29,320,000	24,336,381	15,305,000	11,178,626	80,140,007
2017	30,545,000	23,076,143	15,815,000	10,504,786	79,940,929
2018-2022	160,420,000	96,040,895	86,775,000	41,413,566	384,649,461
2023-2027	174,765,000	56,407,349	82,250,000	20,608,564	334,030,913
2028-2032	135,855,000	15,606,248	42,465,000	4,290,315	198,216,563
Total	<u>\$ 616,345,000</u>	<u>297,095,972</u>	<u>283,860,000</u>	<u>125,460,191</u>	<u>1,322,761,163</u>

**(5) Federal Capitalization Grants**

The Clean Water and Drinking Water Programs are capitalized by grants from the EPA authorized by Title VI of the Clean Water Act and matching funds from the State. All funds drawn are recorded as federal grants. At June 30, 2012, the EPA has awarded capitalization grants of \$461,199,459 to the State for the Clean Water Program, of which \$461,103,459 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$81,631,892 through bond issuances for the Clean Water Program. The following summarizes the capitalization grants awarded and amounts drawn on each grant at June 30, 2012.

Grant Award Year	EPA Grants Awarded	Total Draws Beginning of Year	2012 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2012
1989	\$ 12,765,654	12,765,654	-	12,765,654	-
1990	13,204,422	13,204,422	-	13,204,422	-
1991	26,574,138	26,574,138	-	26,574,138	-
1992	25,650,000	25,650,000	-	25,650,000	-
1993	27,861,714	27,861,714	-	27,861,714	-
1994	16,140,960	16,140,960	-	16,140,960	-
1995	16,670,100	16,670,100	-	16,670,100	-
1996	27,306,080	27,306,080	-	27,306,080	-
1997	8,420,100	8,420,100	-	8,420,100	-
1998	18,381,432	18,381,432	-	18,381,432	-
1999	18,226,098	18,226,098	-	18,226,098	-
2000	18,164,322	18,164,322	-	18,164,322	-
2001	18,002,853	18,002,853	-	18,002,853	-
2002	18,042,900	18,042,900	-	18,042,900	-
2003	17,925,732	17,925,732	-	17,925,732	-
2004	17,936,500	17,936,500	-	17,936,500	-
2005	14,584,086	14,584,086	-	14,584,086	-
2006	11,851,686	11,851,686	-	11,851,686	-
2007	14,485,482	14,485,482	-	14,485,482	-
2008	9,202,600	9,202,600	-	9,202,600	-
2009	62,242,600	53,434,900	8,807,700	62,242,600	-
2010	27,575,000	27,247,051 *	327,949	27,575,000	-
2011	19,985,000	-	19,985,000 **	19,985,000	-
<b>Total</b>	<b>\$461,199,459</b>	<b>432,078,810</b>	<b>29,120,649</b>	<b>461,199,459</b>	<b>-</b>

\* Draw includes \$47,000 paid directly by EPA for the Senior Environmental Employment Program.

\*\* Draw includes \$49,000 paid directly by EPA for the Senior Environmental Employment Program.

At June 30, 2012, the EPA has awarded capitalization grants of \$228,686,500 to the State for the Drinking Water Program, of which \$219,027,166 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$40,878,700. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2012 and balances available for future loans or administrative expenses for the Drinking Water Program.

Grant Award Year	EPA Grants Awarded	Total Draws Beginning of Year	2012 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2012
1997	\$ 16,857,300	16,857,300	-	16,857,300	-
1998	11,238,700	11,238,700	-	11,238,700	-
1999	11,779,300	11,779,300	-	11,779,300	-
2000	12,242,100	12,242,100	-	12,242,100	-
2001	12,292,700	12,292,700	-	12,292,700	-
2002	14,784,600	14,784,600	-	14,784,600	-
2003	14,695,700	14,695,700	-	14,695,700	-
2004	15,244,700	15,244,700	-	15,244,700	-
2005	15,212,400	15,212,400	-	15,212,400	-
2006	10,252,000	10,252,000	-	10,252,000	-
2007	10,252,000	10,252,000	-	10,252,000	-
2008	10,148,000	10,034,784	113,216	10,148,000	-
2009	34,441,000	32,109,257	2,331,743	34,441,000	-
2010	23,169,000	2,965,355	17,405,175	20,370,530	2,798,470
2011	16,077,000	-	9,216,136	9,216,136	6,860,864
Totals	\$ 228,686,500	189,960,896	29,066,270	219,027,166	9,659,334

During the year, federal capitalization draws from EPA increased by the following amounts:

	Clean Water Program	Drinking Water Program
Balance at July 1, 2011	\$ 432,031,810	189,960,896
Federal capitalization draws from EPA	29,071,649	29,066,270
Balance at June 30, 2012	\$ 461,103,459	219,027,166

## (6) Commitments

The Clean Water and Drinking Water Programs have entered into loan agreements with municipalities and other qualifying entities for which \$173,175,545 and \$53,049,362, respectively, have not been disbursed as of June 30, 2012.

The funds disbursed is the cumulative amount disbursed on loans classified as binding commitments and causes a reduction of the amount of net loan commitments. The unused proceeds are funds where the recipient did not draw down the total award, thereby reducing the net loan commitments.

Loan commitments as of June 30, 2012 are as follows:

	Loan Commitments	Funds Disbursed	Unused Proceeds	Net Loan Commitments
Clean Water	\$ 1,401,823,955	1,182,613,039	45,959,371	173,251,545
Drinking Water	597,662,010	521,390,573	22,804,420	53,467,017
Total	\$ 1,999,485,965	1,704,003,612	68,763,791	226,718,562

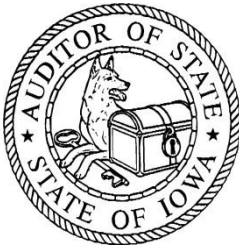
**(7) Pension and Retirement Benefits**

The Authority contributes to 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 statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the Authority is required to contribute 8.07% of covered salary. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the year ended June 30, 2012 was \$37,641, equal to the required contribution for the year.

**(8) Risk Management**

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage for the past four fiscal years.



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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Independent Auditor's 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

To the Officials of the Iowa Finance Authority and  
the Iowa Department of Natural Resources:

We have audited the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2012, and have issued our report thereon dated March 27, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

Management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' 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 our opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the 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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies over financial reporting we consider to be material weaknesses, as defined above.

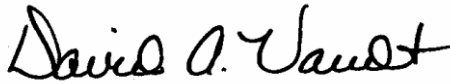
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations,

contracts and grant agreements, non-compliance 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 non-compliance or other matters which are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa Finance Authority, the Iowa Department of Natural Resources, citizens of the State of Iowa and other parties to whom the Programs may report, including federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 27, 2013



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

David A. Vaudt, CPA

Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on the Environmental  
Protection Agency's State Revolving Fund Programs and on Internal Control  
over Compliance in Accordance with the Environmental Protection Agency  
Clean Water State Revolving Fund - Audit Guide and Drinking Water State  
Revolving Fund Program Guidelines

To the Officials of the Iowa Finance Authority and  
the Iowa Department of Natural Resources:

### Compliance

We have audited the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance with the types of compliance requirements described in the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines. The management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for the Programs' compliance with those requirements. Our responsibility is to express an opinion on the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Environmental Protection Agency Clean Water State Revolving Fund – Audit Guide and Drinking Water State Revolving Fund Program Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect occurred. An audit includes examining, on a test basis, evidence about the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' compliance with those requirements.

In our opinion, the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its federal financial assistance programs for the year ended June 30, 2012.

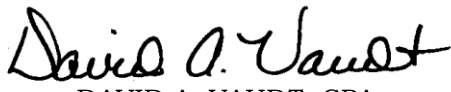
### Internal Control Over Compliance

The management of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over compliance with requirements that could have a direct and material effect on federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over compliance.

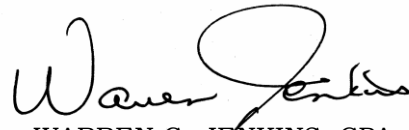
A deficiency in the Programs' internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility 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 the 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 we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa Finance Authority, the Iowa Department of Natural Resources, citizens of the State of Iowa and other parties to whom the Programs may report, including federal awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

March 27, 2013



Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2012

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over financial reporting were noted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Findings for Federal Programs:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the programs were noted.

**Findings Related to Required Statutory Reporting:**

No matters were noted.

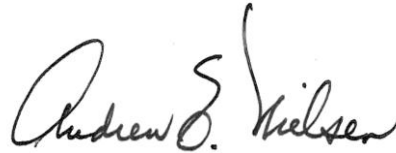
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Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Karen L. Brustkern, CPA, Senior Auditor II  
Cory A. Lee, Staff Auditor  
Thomas S. Hebert, Assistant Auditor  
Benjamin P. James, Assistant Auditor  
Elissa R. Olson, Assistant Auditor  
Todd E. Pudenz, CPA, Assistant Auditor  
Jason R. Ropte, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State