



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ September 28, 2004

Contact: Andy Nielsen
515/281-5834

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 waste water treatment facilities through loans to eligible municipalities and waste water systems. The Drinking Water Program provides financing for the construction of drinking water facilities through loans to municipalities and drinking water systems.

The Clean Water Program reported operating revenues of \$41,518,586 for the year ended June 30, 2003, including interest income on loans of \$9,118,086 and investment income of \$5,434,932, net of rebate expense of \$66,783. The Drinking Water Program reported operating revenues of \$26,624,835, including interest income on loans of \$1,754,683 and investment income of \$2,860,597, net of rebate expense of \$269,463.

Operating expenses of the Clean Water Program for the year ended June 30, 2003 totaled \$9,849,152, including \$7,186,921 for bond interest expense, \$1,265,790 for general and administrative expenses and \$1,396,441 for amortization of loss on bond redemption. The Program loaned \$31,404,689 to municipalities and waste water systems and collected loan repayments of \$22,199,000 during the year. At June 30, 2003, the Clean Water Program had loans receivable from municipalities and waste water systems totaling \$225,024,753.

Operating expenses of the Drinking Water Program for the year ended June 30, 2003 totaled \$4,532,477, including \$3,642,418 for bond interest expense, \$326,973 for general and administrative expenses, \$270,238 for source water protection and \$177,631 for small community technical assistance. The Program loaned \$26,053,858 to drinking water systems and collected loan repayments of \$1,998,000 during the year. At June 30, 2003, the Drinking Water Program had loans receivable from drinking water systems totaling \$67,783,523.

A copy of the audit report is available for review in the Office of Auditor of State, the Iowa Finance Authority and the Iowa Department of Natural Resources.

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**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
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2003

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

<u>Name</u>	<u>Title</u>
	State
Honorable Thomas J. Vilsack	Governor
Cynthia P. Eisenhauer	Director, Department of Management
Dennis C. Prouty	Director, Legislative Services Agency

Iowa Finance Authority Board

Vincent Lintz	Chairperson
Kay Anderson	Vice Chairperson
Nancy Evans	Treasurer
Steven Adams	Member
Virginia Bordwell	Member
Carmela Brown	Member
Roger Caudron	Member
Douglas Walter	Member
Richard Wright	Member

Environmental Protection Commission

Kathryn Murphy	Chairperson
Gary C. Priebe (resigned 04/03)	Vice Chairperson
Rita Venner (resigned 04/03)	Secretary
Donna Buell (effective 5/03)	Member
Lisa Davis Cook	Member
Lori Glanzman	Member
Darrell Hanson	Member
Jerry Peckumn	Member
Kelly Tobin (resigned 04/03)	Member
Francis Thicke (effective 05/03)	Member
Terrance Townsend	Member
Heidi Vittetoe (effective 05/03)	Member

Iowa Finance Authority

Michael Tramontina	Executive Director
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Iowa Department of Natural Resources

Jeffrey R. Vonk	Director
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**Iowa Water Pollution Control Works
and Drinking Water Facilities Financing Programs**



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STATE OF IOWA

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Des Moines, Iowa 50319-0004

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

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 20, 2003, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 that our audit provides a reasonable basis for our opinions.

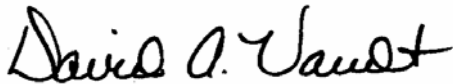
As discussed in Note 1 to the financial statements, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that 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, 2003, and the changes in its financial position and its cash flows, where applicable, 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, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

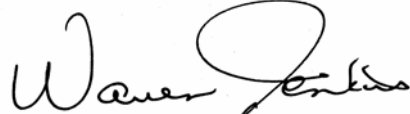
In accordance with Government Auditing Standards, we have also issued our reports dated March 15, 2004 on our consideration of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering 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.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The supplemental information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 15, 2004

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2003

	Clean Water Program Funds	Drinking Water Program Funds	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 111,292,158	26,907,898	138,200,056
Investments	10,453,330	3,905,154	14,358,484
Loans receivable	13,271,715	3,807,000	17,078,715
Accrued interest receivable	2,522,957	1,664,906	4,187,863
Other assets	39,838	19,210	59,048
Total current assets	137,579,998	36,304,168	173,884,166
Noncurrent assets:			
Investments	75,901,704	90,737,808	166,639,512
Loans receivable	211,753,038	63,976,523	275,729,561
Total noncurrent assets	287,654,742	154,714,331	442,369,073
Total assets	425,234,740	191,018,499	616,253,239
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	445,771	228,766	674,537
Accrued interest payable	3,492,760	2,127,312	5,620,072
Rebates payable	1,079,947	-	1,079,947
Deferred initiation fees	181,675	51,846	233,521
Due to Iowa Finance Authority	119,242	63,411	182,653
Bonds payable, net	12,330,888	1,568,751	13,899,639
Total current liabilities	17,650,283	4,040,086	21,690,369
Noncurrent liabilities:			
Rebates payable	1,383,536	1,482,907	2,866,443
Deferred initiation fees	2,206,613	905,065	3,111,678
Bonds payable, net	150,996,674	107,137,447	258,134,121
Total noncurrent liabilities	154,586,823	109,525,419	264,112,242
Total liabilities	172,237,106	113,565,505	285,802,611
Net Assets			
Restricted net assets:			
Per bond resolutions	143,620,172	50,985,598	194,605,770
Per other agreements	109,377,462	26,467,396	135,844,858
Total net assets	\$ 252,997,634	77,452,994	330,450,628

See notes to financial statements.

Exhibit BIowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Revenues, Expenses and Changes in Fund Net Assets

Year ended June 30, 2003

	Clean Water Program Funds	Drinking Water Program Funds	Total
Operating revenues:			
Interest on loans	\$ 9,118,086	1,754,683	10,872,769
Investment income	5,434,932	2,860,597	8,295,529
Rebate expense	(66,783)	(269,463)	(336,246)
Federal grants	26,623,494	22,109,397	48,732,891
Initiation fees	201,297	40,754	242,051
Other income and fees	207,560	128,867	336,427
Total operating revenues	41,518,586	26,624,835	68,143,421
Operating expenses:			
Bond interest expense	7,186,921	3,642,418	10,829,339
Amortization of loss on bond redemption	1,396,441	115,217	1,511,658
General and administrative	1,265,790	326,973	1,592,763
Source water protection	-	270,238	270,238
Small community technical assistance	-	177,631	177,631
Total operating expenses	9,849,152	4,532,477	14,381,629
Operating income	31,669,434	22,092,358	53,761,792
Other financing sources (uses)			
Interfund transfers	(16,800,000)	16,800,000	-
State appropriation	125,811	-	125,811
Total other financing sources (uses)	(16,674,189)	16,800,000	125,811
Net assets beginning of year	238,002,389	38,560,636	276,563,025
Net assets end of year	\$ 252,997,634	77,452,994	330,450,628

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2003

	Clean Water Program Funds	Drinking Water Program Funds	Total
Cash flows from operating activities:			
Initiation and service fees received	\$ 545,872	456,867	1,002,739
Interest received on loans to municipalities and waste water systems	9,150,521	1,687,734	10,838,255
Collection of principal on loans to municipalities and waste water systems	22,199,000	1,998,000	24,197,000
Loans disbursed to municipalities and waste water systems	(31,404,689)	(26,053,858)	(57,458,547)
Draws on capitalization grants from EPA	26,623,494	22,109,397	48,732,891
Cash paid to suppliers and grantees	(1,225,445)	(726,207)	(1,951,652)
Net cash provided by (used for) operating activities	25,888,753	(528,067)	25,360,686
Cash flows from non-capital financing activities:			
Proceeds from issuance of debt	3,324,460	52,696,687	56,021,147
Interest on debt paid	(9,814,456)	(3,245,196)	(13,059,652)
Interfund transfers	(16,800,000)	16,800,000	-
State appropriation	125,811	-	125,811
Debt issuance costs paid	(13,075)	(205,887)	(218,962)
Repayment of debt	(15,184,647)	(1,560,000)	(16,744,647)
Net cash provided by (used for) non-capital financing activities	(38,361,907)	64,485,604	26,123,697
Cash flows from investing activities:			
Sales/maturities of investments	51,297,612	29,686,067	80,983,679
Investments purchased	(41,887,584)	(76,976,857)	(118,864,441)
Interest received on investments	6,343,731	2,874,987	9,218,718
Rebates paid	(793,699)	-	(793,699)
Net cash provided by (used for) investing activities	14,960,060	(44,415,803)	(29,455,743)
Net increase in cash and cash equivalents	2,486,906	19,541,734	22,028,640
Cash and cash equivalents beginning of year	108,805,252	7,366,164	116,171,416
Cash and cash equivalents end of year	\$ 111,292,158	26,907,898	138,200,056

Exhibit C

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2003

	Clean Water Program Funds	Drinking Water Program Funds	Total
Reconciliation of operating income to net cash provided by (used for) operating activities:			
Operating income	\$ 31,669,434	22,092,358	53,761,792
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:			
Investment income	(5,434,932)	(2,860,597)	(8,295,529)
Rebate expense	66,783	269,463	336,246
Bond interest expense	7,186,921	3,642,418	10,829,339
Loss on bond redemption	1,396,441	115,217	1,511,658
Amortization of initiation fees	(201,296)	(40,754)	(242,050)
Initiation fees received	353,690	339,030	692,720
Collection of principal on loans to municipalities and waste water systems	22,199,000	1,998,000	24,197,000
Loans disbursed to municipalities and waste water systems	(31,404,689)	(26,053,858)	(57,458,547)
(Increase) decrease in accrued interest receivable on loans	32,435	(66,949)	(34,514)
Increase (decrease) in other assets and due to Iowa Finance Authority	(25,684)	15,796	(9,888)
Increase in accounts payable and accrued expenses	50,650	21,809	72,459
Total adjustments	(5,780,681)	(22,620,425)	(28,401,106)
Net cash provided by (used for) operating activities	\$ 25,888,753	(528,067)	25,360,686

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

Description of Iowa Water Pollution Control Works Financing Program

Chapter 455B of the Code of Iowa authorizes 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, through federal fiscal year 2003, 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. 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 waste water systems 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 selection, loan eligibility and monitoring of construction progress. The Authority administers the aspects of the Clean Water Program relating to 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 waste water systems to finance all or part of the construction of waste water treatment facilities. The bonds are payable solely from repayments of the loans and other assets and revenues of the Clean Water Program. The obligations do not constitute a debt of the State or of the Authority, and neither is liable for any repayments.

During fiscal year 2003, the DNR was awarded an On-Site Septic System Grant under the Clean Water Program. This grant provides for loans to individuals to make improvements to old septic systems. Individuals apply for this program through participating lending institutions. The loans may not exceed a maximum of \$10,000. The lending institution is responsible for the repayment of the loan if the individual defaults on the loan. The DNR contracted with Williams and Company, CPA, P.C. to be the fiscal agent for this portion of the Clean Water Program.

Description of the Iowa Drinking Water Facilities Financing Program

Chapter 455B of the Code of Iowa also authorizes 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. Standard loans made by the Drinking Water Program must be repaid within 20 years. Disadvantaged loans made by the Drinking Water Program may have a repayment period of up to 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 drinking water facilities 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 selection, loan eligibility and monitoring of construction progress. The Authority administers the aspects of the Drinking Water Program relating to 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 drinking water facilities 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 of the Drinking Water Program. The obligations do not constitute a debt of the State or of the Authority, and neither is liable for any repayment.

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 applied to governmental units. 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 treated 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 account for operations (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

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, receipt of EPA capitalization grants, the related Clean Water Program loans to municipalities and waste water systems, the Drinking Water Program loans to municipalities and drinking water systems and administrative costs of the Programs. The Authority and the State are not obligated for the repayment of the bonds, which are secured by loan agreements with the municipalities and water systems and other assets and revenues pledged under the bond resolutions. Separate accounts are maintained under the various bond resolutions and, while the accounts are combined in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolution.

C. Measurement Focus

Proprietary Funds, including Enterprise Funds, are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and all liabilities, whether current or non-current, associated with their activity are included on their financial statements. Their reported fund equity is reported as total 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.

E. Assets, Liabilities and Net Assets

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

Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. This includes United States government and agency obligations, repurchase agreements and various money market funds.

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 deposits in qualified financial institutions, pooled money funds with the state, and investment agreements with United States government agencies, qualified financial institutions or qualified corporations.

Loans to Municipalities, Waste Water Systems and Drinking Water Systems

The Clean Water Program and Drinking Water Program are operated as direct loan programs. Loan funds are disbursed to the municipalities, waste water systems and drinking water systems as they expend funds for the purposes of the loan and request reimbursement from the Clean Water Program and Drinking Water Program.

Loans to municipalities, waste water systems and drinking water systems are recorded at cost, adjusted for principal repayments. The loans are intended to be held for their average lives of twenty years and may be pledged as collateral for the bonds outstanding. Disadvantaged loans for drinking water systems are intended to be held for 30 years. Each municipality, waste water system or drinking water system has entered into a loan agreement with the Authority, DNR, and the trustee and has evidenced its commitment to repay the loan by issuing a sewer revenue obligation, a water revenue obligation or a general obligation to the Authority, which is held by the trustee as collateral. No provision for uncollectible accounts has been made as all loans are current and management believes all loans will be repaid according to the loan terms.

Loans made to individuals under the on-site septic system program are intended to be held for 5 to 10 years. No provision for uncollectible accounts has been made as all loans are current and the lending institution is responsible for the repayment of the loan in the case the individual defaults.

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 bond issuances is limited by federal legislation. Earnings in excess of the allowable amount must be rebated to the United States Treasury. Earnings in excess of the allowable amount are recorded under liabilities as rebates payable on the statement of net assets and are offset against investment income on the statement of revenues, expenses and changes in net assets.

Deferred Initiation Fees

Initiation fees are received at the time of origination of individual loans to municipalities and waste water systems or drinking water facilities. The initiation fee is amortized over the life of the loan using the straight-line method, which does not materially differ from 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.

Revenue and Expense Recognition

The Programs record all revenues derived from loans, investments and federal programs as operating revenues since these revenues are generated from the Programs' daily operations and are needed to carry out its statutory purposes and to provide debt service coverage on its various bonds.

F. Use of Estimates

Management of the Programs have made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with U.S. generally accepted accounting principles. 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, 2003, cash and cash equivalents consisted of co-mingled funds of \$138,200,056 invested in open-end mutual funds.

The Programs' investments are further categorized to give an indication of the level of custodial credit risk assumed by the Programs. Category 1 includes investments insured, registered, or held by the Programs or its agent in the Program's name. Category 2 includes uninsured or unregistered investments held by the counterparty's trust or safekeeping department or its agent in the Program's name. Investments are stated at fair value.

All investments held by the Programs subject to custodial credit risk categorization are Category 2 investments.

Investments at June 30, 2003 were comprised of the following:

	Clean Water Program	Drinking Water Program	Total
Repurchase agreements secured by United States government and agency obligations under repurchase agreements due:			
Within 12 months	\$ 10,212,225	3,214,182	13,426,407
Beyond 12 months but within 5 years	10,647,956	3,332,976	13,980,932
Beyond 5 years	58,664,500	27,365,833	86,030,333
Unsecured interest-bearing investment agreements due:			
Within 12 months	241,105	690,972	932,077
Beyond 12 months but within 5 years	6,589,248	53,978,423	60,567,671
Beyond 5 years		6,060,576	6,060,576
 Total	 \$ 86,335,034	 94,642,962	 180,997,996

(3) Loans Receivable

The Clean Water and Drinking Water Programs make loans to municipalities, waste water systems and drinking water systems 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 3.00 percent and 5.02 percent and loans are generally repaid over 20 years starting one year after the project is completed.

The Clean Water Program has made commitments to municipalities and waste water systems to provide loans for financing the construction of publicly owned water pollution control facilities. Each of the loan recipients has established a dedicated source of revenue for the repayment of the loans, including general obligation bonds or sewer revenue bonds issued at the recipient level. Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2003:

During the year ended June 30, 2003, the DNR received an On-Site Septic System grant under the Clean Water Program. The DNR has awarded \$443,396 in loans to individuals as of June 30, 2003.

	Loan Commitment Amount	Funds Disbursed	Loan Balance
Completed projects	\$ 207,856,720	193,842,720	125,444,720
Projects in progress	162,994,280	130,014,637	99,136,637
On-site septic system loans	449,027	449,027	443,396
 Total	 \$ 371,300,027	 324,306,384	 225,024,753

The Drinking Water Program has made commitments to municipalities and drinking water systems to provide loans for financing the construction of drinking water facilities. Each of the loan recipients has established a dedicated source of revenue for the repayment of the loans, including general obligation bonds or water revenue bonds. Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2003:

	Loan		
	Commitment	Funds	Loan
	Amount	Disbursed	Balance
Completed projects	\$ 39,759,000	39,542,590	35,005,590
Projects in progress	63,755,000	32,462,933	32,777,933
Total	\$ 103,514,000	72,005,523	67,783,523

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, 2003 were as follows:

\$233,255,000 Iowa State Revolving Fund Revenue Bonds, Series, 2001. December 20, 2001 - \$210,395,000 due serially from August 1, 2002 to 2014 at interest rates of 4.00% to 5.50%; \$5,995,000 term bonds due August 1, 2016 at 5.50%; \$6,230,000 term bonds due August 1, 2018 at 5.50%; \$6,525,000 term bonds due August 1, 2020 at 5.00%; and \$4,080,000 term bonds due August 1, 2023 at 5.00%; \$56,100,000 Iowa State Revolving Fund Revenue Bonds, Series, 2003. January 23, 2003 - \$56,000,000 due serially from August 1, 2003 to 2024 at interest rates of 2.00% to 4.75%.

Clean Water Program Portion	\$ 164,145,000
Add unamortized bond issuance cost and net premium	6,719,870
Less unamortized loss on defeasance of refunded bonds	<u>7,537,308</u>
Total Clean Water Program revenue bonds	<u>\$ 163,327,562</u>
Drinking Water Program Portion	\$ 108,265,000
Add unamortized bond issuance cost and net premium	1,709,963
Less unamortized loss on defeasance of refunded bonds	<u>1,268,765</u>
Total Drinking Water Program revenue bonds	<u>\$ 108,706,198</u>

On December 20, 2001, the Authority issued Iowa State Revolving Fund Revenue Bonds, Series 2001, in the par amount of \$233,225,000 with interest rates of 4.00% to 5.50%, in part to refund and defease previously issued State Revolving Fund Revenue Bonds. The funds were deposited in an irrevocable trust with an escrow agent to provide for the February 1, 2001 through February 1, 2011 redemption of all Refunded Bonds.

A summary of scheduled bond maturities and interest follows:

Year Ending June 30,	Clean Water Program		Drinking Water Program		Total
	Principal Amount	Interest	Principal Amount	Interest	
2004	\$ 12,260,000	8,140,634	1,520,000	5,005,267	26,925,901
2005	12,755,000	7,528,153	3,145,000	4,857,386	28,285,539
2006	13,180,000	6,896,515	4,380,000	4,708,186	29,164,701
2007	14,075,000	6,252,415	4,655,000	4,543,861	29,526,276
2008	14,440,000	5,520,465	4,955,000	4,356,574	29,272,039
2009-2013	75,735,000	15,842,781	26,950,000	18,477,918	137,005,699
2014-2018	21,315,000	1,117,603	28,865,000	11,981,704	63,279,307
2019-2023	385,000	36,205	28,450,000	4,564,862	33,436,067
2024-2028	-	-	5,345,000	212,481	5,557,481
Total	\$ 164,145,000	51,334,771	108,265,000	58,708,239	382,453,010

(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, 2003, the EPA has awarded capitalization grants of \$265,410,773 to the State for the Clean Water Program, of which \$219,097,062 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$52,782,155 through bond issuances within the Clean Water Program. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2003 and balances available for future loans or administrative expenses for the Clean Water Program.

Grant Award Year	EPA Grant Amount	Total Draws Beginning of Year	2003 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2003
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	17,880,400	501,032	18,381,432	-
1999	18,226,098	-	18,226,098	18,226,098	-
2000	18,164,322	-	7,522,175	7,522,175	10,642,147
2001	18,002,853	-	-	-	18,002,853
2002	18,042,900	-	374,189	374,189	17,668,711
Total	\$ 265,410,773	192,473,568	26,623,494	219,097,062	46,313,711

At June 30, 2003, the EPA has awarded capitalization grants of \$79,194,700 to the State for the Drinking Water Program, of which \$61,778,807 has been drawn for loans and other technical administrative expenses. In addition, the State has provided matching funds of \$15,838,940.

Grant Award Year	EPA Grant Amount	Total Draws Beginning of Year	2003 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2003
1997	\$ 16,857,300	14,015,923	2,841,377	16,857,300	-
1998	11,238,700	9,426,615	1,812,085	11,238,700	-
1999	11,779,300	5,947,871	5,831,429	11,779,300	-
2000	12,242,100	6,083,459	6,158,641	12,242,100	-
2001	12,292,700	4,195,542	5,465,865	9,661,407	2,631,293
2002	14,784,600	-	-	-	14,784,600
Total	\$ 79,194,700	39,669,410	22,109,397	61,778,807	17,415,893

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2002	\$ 192,473,568	39,669,410
On-site septic system program	374,189	-
Federal capitalization draws from EPA	<u>26,249,305</u>	<u>22,109,397</u>
Balance at June 30, 2003	<u>\$ 219,097,062</u>	<u>61,778,807</u>

(6) Commitments

The Clean Water Program has loan agreements with municipalities, waste water systems and individuals totaling \$371,300,027, of which \$324,306,384 had been disbursed at June 30, 2003. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 324,984,950	308,114,547
Series 2003	15,608,098	10,245,948
Equity Fund	30,257,952	5,496,862
On-site septic system	<u>449,027</u>	<u>449,027</u>
Total	<u>\$ 371,300,027</u>	<u>324,306,384</u>

The Drinking Water Program has loan agreements with drinking water systems totaling \$103,514,000 of which \$72,005,523 had been disbursed at June 30, 2003. The loan commitments, by revenue bond series, are as follows:

	Loan Commitments	Amount Disbursed
Series 2001	\$ 63,474,460	59,559,484
Series 2003	<u>40,040,540</u>	<u>12,446,039</u>
Total	<u>\$ 103,514,000</u>	<u>72,005,523</u>

(7) 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 three fiscal years.

Supplemental Information

Schedule 1Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Adair	\$ 1,058,000	-	-	-
Adel	2,056,000	2,056,000	1,879,000	177,000
Afton	515,000	515,000	180,000	335,000
Agency	234,000	234,000	113,000	121,000
Albia	630,000	630,000	630,000	-
Anita	225,000	225,000	98,000	127,000
Ankeny	7,054,000	7,054,000	1,045,000	6,009,000
Armstrong	500,000	500,000	171,000	329,000
Audubon	2,066,000	1,336,862	-	1,336,862
Aurelia	900,000	900,000	300,000	600,000
Avoca	415,000	415,000	311,000	104,000
Battle Creek	338,000	168,013	13,000	155,013
Beacon	600,000	546,000	22,000	524,000
Blencoe	73,000	73,000	17,000	56,000
Boone	8,170,000	8,170,000	2,440,000	5,730,000
Bondurant	800,000	800,000	315,000	485,000
Boyden	196,000	1,960	-	1,960
Breda	686,000	686,000	107,000	579,000
Bronson	361,000	361,000	151,000	210,000
Brookly-Comb	1,325,000	1,034,391	87,000	947,391
Burt	656,000	650,000	24,000	626,000
Camanche	336,000	336,000	183,000	153,000
Cambridge	448,000	448,000	106,000	342,000
Carlisle	2,084,000	2,084,000	1,095,000	989,000
Charles City	3,000,000	30,000	-	30,000
Cherokee	6,463,000	4,360,484	145,000	4,215,484
Clarence	477,000	477,000	129,000	348,000
Clear Lake S.D.	16,631,000	16,631,000	8,357,000	8,274,000
Clinton	2,755,000	2,755,000	1,140,000	1,615,000
Colfax	1,984,000	1,984,000	74,000	1,910,000
Columbus City	232,000	232,000	16,000	216,000
Columbus Junction	606,000	606,000	39,000	567,000
Conrad	1,461,000	1,461,000	209,000	1,252,000
Coralville	11,475,000	10,734,000	6,007,000	4,727,000
Corning	3,075,000	482,253	-	482,253
Correctionville	1,000,000	1,000,000	245,000	755,000
Corydon	256,000	256,000	88,000	168,000

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Cresco	1,000,000	1,000,000	208,000	792,000
Creston	4,022,000	4,020,000	897,000	3,123,000
Dallas Center	1,000,000	1,000,000	215,000	785,000
Dayton	765,000	728,908	29,000	699,908
Denmark S.D.	500,000	500,000	174,000	326,000
Des Moines	50,106,000	48,074,210	23,499,000	24,575,210
Dewitt	4,000,000	4,000,000	1,429,000	2,571,000
DNR State Parks	3,918,000	3,166,068	417,000	2,749,068
Dows	310,000	310,000	140,000	170,000
Dumont	196,000	196,000	149,000	47,000
Durant	2,450,000	2,450,000	757,000	1,693,000
Dysart	384,000	384,000	290,000	94,000
Dyersville	2,269,000	2,267,000	75,000	2,192,000
Eagle Grove	2,225,000	517,250	53,000	464,250
Earlham	1,450,000	1,324,000	54,000	1,270,000
Earling	133,000	133,000	46,000	87,000
Edgewood	450,000	450,000	450,000	-
Eldora	3,877,000	1,257,708	268,000	989,708
Emmetsburg	560,000	560,000	103,000	457,000
Exira	425,000	404,447	16,000	388,447
Fredonia	194,000	194,000	14,000	180,000
Fremont	601,000	601,000	117,000	484,000
Ft. Dodge	16,922,000	15,561,004	1,121,000	14,440,004
Ft. Madison	420,000	420,000	109,000	311,000
Gladbrook	706,000	480,258	53,000	427,258
Graettinger	375,000	375,000	116,000	259,000
Grand Mound	310,000	310,000	243,000	67,000
Granger	665,000	665,000	105,000	560,000
Grimes	5,372,000	5,368,637	357,000	5,011,637
Grinnell	5,855,000	5,855,000	5,855,000	-
Griswold	750,000	750,000	78,000	672,000
Hamburg	369,000	208,144	28,000	180,144
Hazelton	730,000	730,000	207,000	523,000
Holstein	1,041,000	1,041,000	191,000	850,000
Hull	750,000	750,000	78,000	672,000
Humboldt	4,847,000	4,847,000	730,000	4,117,000
Independence	1,336,000	1,336,000	731,000	605,000

Schedule 1**Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs****Schedule of Loan Activity – Clean Water Program**

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Indianola	1,736,000	1,736,000	688,000	1,048,000
Inwood	529,000	527,000	39,000	488,000
Iowa Falls	4,745,000	4,745,000	2,061,000	2,684,000
Jefferson	4,951,000	-	-	-
Johnston	2,359,000	2,359,000	917,000	1,442,000
Kalona	590,000	590,000	249,000	341,000
Kanawha	338,000	338,000	133,000	205,000
Knoxville	1,592,000	1,592,000	620,000	972,000
Lake Park	1,066,000	1,066,000	244,000	822,000
Lake View	1,138,000	1,138,000	117,000	1,021,000
Lamoni MU	1,108,000	1,090,097	41,000	1,049,097
Larchwood	700,000	633,614	26,000	607,614
Le Grand	500,000	500,000	253,000	247,000
Logan	1,257,000	1,257,000	129,000	1,128,000
Lone Tree	1,021,000	1,021,000	364,000	657,000
Lowden	145,000	145,000	145,000	-
MacBride S.S.D.	175,000	175,000	64,000	111,000
Maquoketa	4,546,000	4,204,591	594,000	3,610,591
Manson	309,000	309,000	24,000	285,000
Marcus	1,375,000	1,375,000	285,000	1,090,000
Marengo	360,000	360,000	158,000	202,000
Marshalltown	4,349,000	665,195	-	665,195
Martensdale	210,000	210,000	107,000	103,000
Mason City	4,237,000	4,237,000	2,007,000	2,230,000
Melcher-Dallas	405,000	386,932	69,000	317,932
Minburn	657,000	657,000	230,000	427,000
Missouri Valley	337,000	337,000	152,000	185,000
Monroe	520,000	446,360	35,000	411,360
Montour	149,000	149,000	93,000	56,000
Morning Sun	242,000	242,000	61,000	181,000
Moulton	400,000	400,000	71,000	329,000
Moville	500,000	498,223	19,000	479,223
Mt. Pleasant	7,657,000	7,657,000	1,071,000	6,586,000
Nevada	1,114,000	1,114,000	379,000	735,000
New Sharon	546,000	546,000	189,000	357,000
Newton	2,261,000	2,111,497	-	2,111,497
North Liberty	5,572,000	5,572,000	1,277,000	4,295,000

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Norwalk	2,903,000	2,903,000	343,000	2,560,000
Osceola	3,780,000	3,546,152	353,000	3,193,152
Oskaloosa	11,183,000	8,123,265	3,695,000	4,428,265
Ottumwa	15,000,000	15,000,000	4,360,000	10,640,000
Oxford	266,000	266,000	83,000	183,000
Parkersburg	1,176,000	900,060	121,000	779,060
Paullina	567,000	567,000	337,000	230,000
Pella	6,515,000	5,045,000	442,000	4,603,000
Perry	6,021,000	6,021,000	1,283,000	4,738,000
Pleasantville	876,000	743,822	107,000	636,822
Preston	715,000	715,000	338,000	377,000
Quasqueton	650,000	599,265	24,000	575,265
Rockwell City	1,766,000	1,766,000	246,000	1,520,000
Ryan	195,000	187,000	20,000	167,000
Sheldon	1,167,000	1,106,000	385,000	721,000
Shellsburg	1,982,000	72,972	5,000	67,972
Sigourney	1,546,000	1,300,311	306,000	994,311
Sioux Center	2,164,000	2,164,000	479,000	1,685,000
Sioux City	10,785,000	6,191,131	794,000	5,397,131
Slater	1,500,000	573,578	-	573,578
Stanton	275,000	275,000	120,000	155,000
Stanwood	294,000	294,000	177,000	117,000
Stratford	350,000	350,000	152,000	198,000
Sully	607,000	607,000	150,000	457,000
Tabor	1,000,000	1,000,000	354,000	646,000
Tama	1,828,000	1,828,000	576,000	1,252,000
Tiffin	1,600,000	1,600,000	259,000	1,341,000
Tipton	3,200,000	-	-	-
Traer	757,000	684,897	25,000	659,897
Tripoli	825,000	825,000	124,000	701,000
Urbandale S.S.D.	3,400,000	3,400,000	1,150,000	2,250,000
Van Horne	1,750,000	1,724,778	61,000	1,663,778
Van Meter	559,000	559,000	308,000	251,000
Waukee	2,579,000	2,494,651	466,000	2,028,651

Schedule 1Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Wayland	266,000	266,000	107,000	159,000
Webster City	3,900,000	3,900,000	412,000	3,488,000
Wellman	1,339,000	1,339,000	165,000	1,174,000
West Des Moines	6,558,000	6,558,000	2,013,000	4,545,000
West/High Amana	625,000	338,803	-	338,803
West Bend	825,000	825,000	253,000	572,000
West Point	665,000	665,000	279,000	386,000
Williams	524,000	19,347	-	19,347
Wilton	1,794,000	1,794,000	189,000	1,605,000
Winterset	1,100,000	1,100,000	116,000	984,000
Woodward	600,000	104,598	-	104,598
Worthington	350,000	303,744	37,000	266,744
Wyoming	404,000	352,878	13,000	339,878
	370,851,000	323,857,357	99,276,000	224,581,357
On-Site Septic System Loans	449,027	449,027	5,631	443,396
Total	\$ 371,300,027	324,306,384	99,281,631	225,024,753

In prior years, interim financing of \$9,159,000 and repayments of interim financing of \$9,159,000 were excluded from the cumulative amount disbursed and the cumulative loan payments received, respectively. At July 1, 2002, the above schedule was corrected.

See accompanying independent auditor's report.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Drinking Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	June 30, 2003 Outstanding Loan Balance
Alden	\$ 850,000	475,786	22,000	453,786
Andrew	552,000	503,703	46,000	457,703
Ankeny	925,000	908,000	69,000	839,000
Asbury Area Dev	681,000	681,000	29,000	652,000
Blairstown	1,344,000	1,341,990	91,000	1,250,990
Bondurant	972,000	948,888	29,000	919,888
Boyden	700,000	635,470	24,000	611,470
Corning Municipal Utilities	4,008,000	4,005,080	149,000	3,856,080
De Soto	190,000	178,000	20,000	158,000
De Witt	1,100,000	817,580	41,000	776,580
Denison Municipal Utilities	4,808,000	4,808,000	363,000	4,445,000
Des Moines Water Works	2,492,000	24,920	-	24,920
Dow City	144,000	144,000	10,000	134,000
Dyersville	849,000	823,972	31,000	792,972
Elk Horn	450,000	450,000	32,000	418,000
Fairfield	5,900,000	5,446,977	-	5,446,977
Grimes	5,976,000	5,882,708	428,000	5,454,708
Hancock	195,000	178,000	21,000	157,000
Hartford	538,000	446,000	50,000	396,000
Huxley	2,316,000	2,314,000	87,000	2,227,000
Iowa American Water	2,265,000	2,263,000	162,000	2,101,000
Janesville	225,000	225,000	34,000	191,000
Keota	780,000	778,000	29,000	749,000
Lake View	590,000	529,000	41,000	488,000
Lamoni Municipal Utilities	300,000	298,000	22,000	276,000
Latimer	435,000	433,000	46,000	387,000
Le Mars	2,500,000	1,183,426	274,000	909,426
Lohrville	390,000	343,000	12,000	331,000
Mason City	17,565,000	5,628,730	-	5,628,730
Mechanicsville	595,000	397,000	58,000	339,000
Morning Sun	365,000	365,000	40,000	325,000
Mount Pleasant Municipal Utilities	5,934,000	5,934,000	650,000	5,284,000
Newhall	1,054,000	156,154	28,000	128,154
Newton Water Works	1,200,000	1,156,000	125,000	1,031,000
North English	590,000	5,900	-	5,900
Northwood	1,690,000	1,690,000	186,000	1,504,000
Norwalk	1,175,000	1,175,000	129,000	1,046,000
Norway	125,000	95,000	4,000	91,000
Odebolt	688,000	504,000	75,000	429,000
Osceola Water Works	4,066,000	3,267,914	-	3,267,914
Oxford	495,000	495,000	54,000	441,000
Panora	405,000	314,892	26,000	288,892
Perry Water Works	625,000	600,000	91,000	509,000
Polk County	800,000	800,000	87,000	713,000
Prairie City	1,175,000	1,175,000	82,000	1,093,000

Schedule 2Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Drinking Water Program

June 30, 2003

Loan Recipient	Total Loan Commitment	Cumulative Amount Disbursed	Cumulative Loan Payments Received	6/30/2003 Outstanding Loan Balance
Scranton	861,000	861,000	94,000	767,000
Shelby	800,000	800,000	58,000	742,000
Sigourney	440,000	438,000	34,000	404,000
Sioux City	13,736,000	6,473,793	-	6,473,793
Somers	56,000	56,000	4,000	52,000
Spencer Municipal Utilities	1,525,000	1,500,000	106,000	1,394,000
Spirit Lake	3,764,000	37,640	-	37,640
Stanton	420,000	420,000	46,000	374,000
Sully	550,000	550,000	82,000	468,000
Treynor	300,000	3,000	-	3,000
Vinton	40,000	40,000	1,000	39,000
Total	\$ 103,514,000	72,005,523	4,222,000	67,783,523

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

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, 2003, and have issued our report thereon dated March 15, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

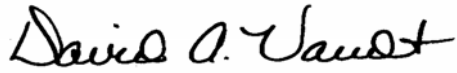
As part of obtaining reasonable assurance about whether the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

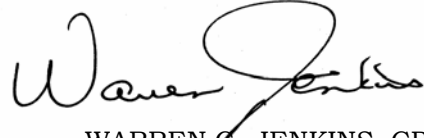
In planning and performing our audit, we considered the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa Finance Authority and the Iowa Department of Natural Resources, citizens of the State of Iowa and other parties to whom the Programs may report. This report 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 15, 2004



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report on Compliance with Requirements Applicable
to Environmental Protection Agency's State Revolving Fund Programs
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, 2003, and have issued our report thereon dated March 15, 2004. We have also audited the compliance of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs 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, Chapter 11 of the Code of Iowa, 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 and provisions 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 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 are applicable to its federal financial assistance programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements which is described in the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the officials of the Iowa Finance Authority and 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 15, 2004

Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2003

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

**CFDA Number: 66.458 – Capitalization Grants for Clean Water
State Revolving Funds**

Agency Number: CS190001 03

Federal Award Year: 2002

**CFDA Number: 66.468 – Capitalization Grants for Drinking Water
State Revolving Fund**

Agency Number: FS997593 03

Federal Award Year: 2002

03-III-EPA-542-1

Subrecipient Monitoring – OMB Circular A-133 requires the pass-through entity to be responsible for monitoring the activities of the subrecipients, as necessary, to ensure federal awards are used for authorized purposes in compliance with laws, regulations and provisions of the contract or grant.

The DNR monitors subrecipients through audits performed during the course of the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) projects. The program requires subrecipients to submit an audit report if expenditures exceed \$300,000 during a fiscal year. The DNR notifies the recipients of the audit requirement at the time the recipient receives the funds and again when DNR records indicate the recipient has drawn down close to \$300,000 in a fiscal year. The DNR did not receive audit reports for 8 of the 24 subrecipients tested under the Clean Water program and did not receive 8 of 22 audit reports for subrecipients tested under the Drinking Water program.

Recommendation – The DNR should implement procedures to ensure subrecipients submit the required audit reports.

Response and Corrective Action Planned – The DNR currently has a good system in place to monitor subrecipients and ensure that they submit the required audit reports. While we may occasionally receive audit reports after the due date, we do eventually receive them. We have little recourse available to us if the reports are not submitted on time and, due to limited resources, do not plan to change our current procedures for following up on late reports.

The DNR monitors CWSRF and DWSRF loan disbursements and annually sends notifications to recipients who receive more than \$300,000 that an OMB Circular A-133 audit will be required. Those who receive less than \$300,000 are generally sent a letter notifying them of the amount of CWSRF and DWSRF funds disbursed and the potential need for an A-133 audit if, in aggregate with other federal funds, this threshold is exceeded.

Each subsequent year, if the audit has not been submitted, the city is sent notification that the audit is past due. This continues until the audit is submitted. When received, if a review determines that the audit is not in compliance, the recipient is notified of the deficiency and need for correction. Again during the annual review, if the correction had not been made, the city is contacted again.

Seven of the eight DWSRF and one of the eight CWSRF audits noted in the audit finding have subsequently been received.

Conclusion – Response acknowledged. We will review the reports in the subsequent audit period.

REPORTABLE CONDITIONS:

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

Findings Related to Required Statutory Reporting:

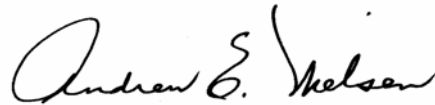
No matters were noted.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

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