



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

## NEWS RELEASE

FOR RELEASE

May 7, 2015

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman 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 \$29,337,277 for the year ended June 30, 2014, including interest income on loans of \$26,565,332 and administrative fees of \$2,771,945. Non-operating revenues included \$18,069,000 of federal grants and investment income of \$549,299. The Drinking Water Program reported operating revenues of \$11,686,626, including interest income on loans of \$10,542,319 and administrative fees of \$1,144,307. Non-operating revenues included \$13,605,876 of federal grants, investment income of \$527,469 and rebate revenue of \$45,524.

Operating expenses of the Clean Water Program for the year ended June 30, 2014 totaled \$4,007,979, including \$2,474,740 for general and administrative expenses, \$1,477,794 for non-program expenses and \$55,445 for amortization of loss on bond redemption. Non-operating expenses of the Clean Water Program included \$25,131,674 for bond interest expense and grant expense of \$3,401,562. The Program loaned \$170,754,968 to municipalities and other qualifying entities and collected loan repayments of \$95,522,170 during the year. At June 30, 2014, the Clean Water Program had loans receivable from

municipalities and other qualifying entities totaling \$1,011,358,036, net of forgivable loan reserves of \$3,879,921.

Operating expenses of the Drinking Water Program for the year ended June 30, 2014 totaled \$5,634,385, including \$2,467,303 for source water protection expenses, \$1,047,892 for general and administrative expenses, \$882,740 for small program management administrative expenses, \$402,376 for amortization of loss on bond redemption, \$315,346 for small community technical assistance and \$543,728 for non-program expenses. Non-operating expenses of the Drinking Water Program included \$9,035,728 for bond interest expense and grant expense of \$2,260,911. The Program loaned \$39,451,290 to municipalities and other qualifying entities and collected loan repayments of \$30,847,439 during the year. At June 30, 2014, the Drinking Water Program had loans receivable from municipalities and other qualifying entities totaling \$383,921,725, net of forgivable loan and loan loss reserves of \$7,151,556.

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/1560-5420-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  
SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

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

**Officials**

**State**

<u>Name</u>	<u>Title</u>
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency

**Iowa Finance Authority Board**

Darlys Baum	Chairperson
David Greenspon	Vice Chairperson
Carmela Brown	Treasurer
Jeff Heil	Member
Joan Johnson	Member
Shaner Magalhaes	Member
Michel Nelson	Member/(Treasurer August 2014)
Eric Peterson	Member
Ruth Randleman	Member/(Chair August 2014)

**Environmental Protection Commission**

Mary Boote	Chairperson
Max Smith	Vice Chairperson
Nancy Couser	Member
Cindy Greiman	Member
LaQuanda Hoskins	Member
Chad Ingels	Member
Brent Rastetter	Member
Bob Sinclair	Member
Gene Ver Steeg	Member

**Iowa Finance Authority**

Dave Jamison	Executive Director
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**Iowa Department of Natural Resources**

Chuck Gipp	Director
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**Iowa Water Pollution Control Works  
and Drinking Water Facilities Financing Programs**



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Mary Mosiman, CPA  
Auditor of State

## Independent Auditor's Report

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

### Report on the Financial Statements

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, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and each major fund of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs as of June 30, 2014, and the respective changes in their financial position and, where applicable, their cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Emphasis of a Matter

As discussed in Note 9 to the financial statements, the Programs adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinions are not modified with respect to this matter.

## Other Matters


### *Required Supplementary Information*

Management has omitted Management's Discussion and Analysis which U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such omitted information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinions on the basic financial statements are not affected by this omitted information.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2015 on our consideration of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control over financial reporting and on 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 the audit performed in accordance with Government Auditing Standards in considering the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 15, 2015



## **Basic Financial Statements**

**Exhibit A**

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Net Position

June 30, 2014

	Clean Water Program	Drinking Water Program	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 149,613,392	85,029,190	234,642,582
Cash - linked deposits	61,918,498	-	61,918,498
Investments	34,982,633	27,334,727	62,317,360
Loans receivable, net	49,751,143	28,198,309	77,949,452
Accrued interest receivable	2,516,034	1,122,973	3,639,007
Accounts receivable	-	344,125	344,125
Due from Iowa Finance Authority	7,827	4,171	11,998
Other assets	215,258	135,796	351,054
Total current assets	299,004,785	142,169,291	441,174,076
Noncurrent assets:			
Investments	24,120,013	24,445,254	48,565,267
Loans receivable	961,606,893	355,723,416	1,317,330,309
Capital assets, net of accumulated depreciation	48,252	21,679	69,931
Total noncurrent assets	985,775,158	380,190,349	1,365,965,507
<b>Total assets</b>	1,284,779,943	522,359,640	1,807,139,583
<b>Deferred Outflows of Resources</b>			
Loss on refunding	473,772	2,693,472	3,167,244
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	500,099	681,877	1,181,976
Accrued bond interest payable	12,113,995	4,588,383	16,702,378
Bonds payable, net	28,985,000	13,365,000	42,350,000
Total current liabilities	41,599,094	18,635,260	60,234,354
Noncurrent liabilities:			
Bonds payable, net	689,599,024	251,698,723	941,297,747
<b>Total liabilities</b>	731,198,118	270,333,983	1,001,532,101
<b>Net Position</b>			
Net investment in capital assets	48,252	21,679	69,931
Restricted:			
Per bond resolutions	434,245,000	222,255,000	656,500,000
Per other agreements	119,762,345	32,442,450	152,204,795
<b>Total net position</b>	\$ 554,055,597	254,719,129	808,774,726

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 Position

Year ended June 30, 2014

	Clean Water Program	Drinking Water Program	Total
Operating revenues:			
Interest on loans	\$ 26,565,332	10,542,319	37,107,651
Administrative fees	2,771,945	1,144,307	3,916,252
Total operating revenues	29,337,277	11,686,626	41,023,903
Operating expenses:			
Amortization of loss on bond redemption	55,445	402,376	457,821
Provision for loan losses	-	(25,000)	(25,000)
General and administrative	2,474,740	1,047,892	3,522,632
Source water protection	-	2,467,303	2,467,303
Small community technical assistance	-	315,346	315,346
Small program management administrative	-	882,740	882,740
Non program	1,477,794	543,728	2,021,522
Total operating expenses	4,007,979	5,634,385	9,642,364
Operating income	25,329,298	6,052,241	31,381,539
Non operating revenues (expenses):			
Federal grants	18,069,000	13,605,876	31,674,876
Grant expense	(3,401,562)	(2,260,911)	(5,662,473)
Investment income	549,299	527,469	1,076,768
Rebates	-	45,524	45,524
Bond interest expense	(25,131,674)	(9,035,728)	(34,167,402)
Total non-operating revenues (expenses)	(9,914,937)	2,882,230	(7,032,707)
Income before transfers	15,414,361	8,934,471	24,348,832
Transfers between funds	13	(13)	-
Change in net position	15,414,374	8,934,458	24,348,832
Net position beginning of year, as restated	538,641,223	245,784,671	784,425,894
Net position end of year	\$ 554,055,597	254,719,129	808,774,726

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, 2014

	Clean Water Program	Drinking Water Program	Total
Cash flows from operating activities:			
Administrative fees received	\$ 2,238,642	1,127,304	3,365,946
Interest received on loans to municipalities and other qualifying entities	26,430,712	10,533,053	36,963,765
Principal received on loans to municipalities and other qualifying entities	95,522,170	30,847,439	126,369,609
Loans disbursed to municipalities and other qualifying entities	(170,754,968)	(39,451,290)	(210,206,258)
Cash paid to suppliers and grantees	(3,850,642)	(5,094,901)	(8,945,543)
Net cash used for operating activities	(50,414,086)	(2,038,395)	(52,452,481)
Cash flows from non-capital financing activities:			
Draws on capitalization grants from EPA	18,069,000	13,464,735	31,533,735
Issuance of debt	112,920,000	2,530,000	115,450,000
Premium on bonds issued	16,564,999	388,598	16,953,597
Interest paid on debt	(27,274,900)	(11,205,314)	(38,480,214)
Rebates paid	-	(70,658)	(70,658)
Bond issue costs	(324,725)	(7,276)	(332,001)
Transfers between funds	13	(13)	-
Repayment of debt principal	(18,785,000)	(12,155,000)	(30,940,000)
Net cash provided by (used for) non-capital financing activities	101,169,387	(7,054,928)	94,114,459
Cash flows from investing activities:			
Sale of investments	226,957,509	107,830,825	334,788,334
Interest received on investments	666,741	836,094	1,502,835
Investments purchased	(203,467,528)	(95,912,032)	(299,379,560)
Net cash provided by investing activities	24,156,722	12,754,887	36,911,609
Net change in cash and cash equivalents	74,912,023	3,661,564	78,573,587
Cash and cash equivalents beginning of year	136,619,867	81,367,626	217,987,493
Cash and cash equivalents end of year	\$211,531,890	85,029,190	296,561,080

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2014

	Clean Water Program	Drinking Water Program	Total
<b>Reconciliation of operating income to net cash used for operating activities:</b>			
Operating income	\$ 25,329,298	6,052,241	31,381,539
Adjustments to reconcile operating income to net cash used for operating activities:			
Depreciation expense	30,475	13,694	44,169
Amortization of loss on bond redemption	55,445	402,376	457,821
Change in provision for loan losses	-	(25,000)	(25,000)
Change in allowance for forgivable loans	(3,401,562)	(2,260,911)	(5,662,473)
Increase in loans receivable	(71,831,237)	(6,342,940)	(78,174,177)
Increase in accrued interest receivable	(134,620)	(9,266)	(143,886)
Increase in other assets	(535,248)	(24,627)	(559,875)
Increase in due to Iowa Finance Authority	1,944	7,624	9,568
Increase in accounts payable and accrued expenses	71,419	148,414	219,833
Total adjustments	(75,743,384)	(8,090,636)	(83,834,020)
Net cash used for operating activities	\$ (50,414,086)	(2,038,395)	(52,452,481)

See notes to financial statements.

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2014

**(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 and Chapter 265, section 26 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.

## 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 and Chapter 265, section 26, 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.

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 the 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 the 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 the 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 the 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, deferred outflows of resources, liabilities, net position, 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, deferred outflows of resources and liabilities, whether current or non-current, associated with their activity are included in the Statement of Net Position, with the difference reported as net position. Enterprise Fund operating statements present increases (revenue) and decreases (expenses) as changes in net position.



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, Deferred Outflows of Resources, Liabilities and Net Position

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 \$61,918,498 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 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 Position, with changes in the fair value of investments recorded in the Statements of Revenues, Expenses and Changes in Fund Net Position.

Loans to Municipalities and Other Qualifying Entities

The Clean Water Program and the 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 the 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 through June 30, 2014, a reserve was established for the Clean Water and the Drinking Water Programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009 and capitalization grants awarded beginning with the 2010 grant year.

Loans to municipalities and other qualifying entities consist of three types of loans, which include wastewater infrastructure construction loans, planning and design loans and non-point source loans. The wastewater infrastructure construction 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 non-point source loans are reported as a binding commitment of the Authority, except for linked deposits.

#### Capital Assets

Capital assets exceeding \$2,500 are recorded at cost. Depreciation of all exhaustible capital assets is charged as an expense against operations using the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

#### Deferred Outflows of Resources

Deferred outflows of resources consist of losses on bond refunding which will be recognized as an adjustment to interest expense over the shorter of the remaining life of the refunded bonds or the new bonds using the bonds outstanding method.

#### Bond Issuance Costs and Bond Premiums and Discounts

Bond issuance costs are recognized in the period incurred. Bond premiums and discounts are deferred and amortized as an adjustment to interest expense over the life of the related bond issues using the bonds outstanding method.

### 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 liabilities in the Statements of Net Position and are offset against investment income in the Statements of Revenues, Expenses and Changes in Fund Net Position.

### Net Position

The Clean Water and the Drinking Water Programs report restrictions of net position 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, 2014, the Clean Water and the Drinking Water Programs’ investments include approximately \$83 million of U.S. government agency securities. 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	\$ 296,561	72.79%	N/A
Certificates of deposit	2,224	0.55	>1 year
US Treasury securities	16,977	4.17	3.6 years
U.S. government agency securities	83,141	20.41	2.9 years
Corporate bonds	517	0.13	2.2 years
Municipal securities	8,023	1.97	2.4 years
Total	<u>\$ 407,443</u>	<u>100.00%</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 the 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, 2014 total approximately \$297 million and include approximately \$235 million invested in money market funds in collateralized trust accounts and approximately \$ 61.9 million in cash.

### **Concentration of Credit 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 by provider at June 30, 2014.

Provider	Certificates of Deposit and Money Market Accounts	U.S. Government Securities	Corporate and Municipal Bonds	Total	Credit Ratings		% of Total
					Standard and Poor's	Moody's	
Freddie Mac	\$ -	2,751	-	2,751	A+/A-1+	Aa3/P1	0.84%
General Electric Capital Co.	-	1,005	-	1,005	A/A-1	A2/P-1	0.31%
Farmer Mac	-	250	-	250	AA+	AAA	0.08%
Federal Farm Credit Bank	-	1,839	-	1,839	AA+	AAA	0.56%
Federal Home Loan Bank	-	54,158	-	54,158	AA+	AAA	16.48%
Federal Home Loan Mortgage Corp.	-	12,129	-	12,129	AA+	AAA	3.69%
Federal National Mortgage Assoc.	-	11,009	-	11,009	AA+	AAA	3.35%
Other providers	2,224	-	8,541	10,765	A- to AAA	Baa2 to Aaa	3.28%
Goldman Sachs Group, Inc.	20,708	-	-	20,708	AAAm to AAAm-G	Aaa-mf	6.30%
Wells Fargo Bank, N.A.	213,935	-	-	213,935	NR to AAAm-G	NR to Aaa-mf	65.12%
<b>Total</b>	<b>\$ 236,867</b>	<b>83,141</b>	<b>8,541</b>	<b>328,549</b>			<b>100.00%</b>

### **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 the 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 3.25% 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 through June 30, 2014 for the Clean Water and the Drinking Water programs for forgivable loans with funds appropriated from the American Recovery and Reinvestment Act (ARRA) of 2009 and capitalization grants beginning with the 2010 grant year.

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, 2014 is as follows:

	Clean Water Program	Drinking Water Program	Total
Loans receivable beginning of year	\$ 951,576,790	384,281,011	1,335,857,801
Additions	170,754,968	39,451,290	210,206,258
Deletions:			
Payments received on program loans	95,522,170	30,847,439	126,369,609
Forgivable loans meeting requirements	11,571,631	1,811,581	13,383,212
Loans receivable end of year	1,015,237,957	391,073,281	1,406,311,238
Less: Provision for loan losses	-	1,443,169	1,443,169
Less: Reserve for forgivable loans	3,879,921	5,708,387	9,588,308
Net loans receivable end of year	\$ 1,011,358,036	383,921,725	1,395,279,761

Net loans receivable at June 30, 2014 are classified as follows:

	Clean Water Program	Drinking Water Program	Total
Current	\$ 49,751,143	28,198,309	77,949,452
Noncurrent	961,606,893	355,723,416	1,317,330,309
Total	\$ 1,011,358,036	383,921,725	1,395,279,761

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, 2014 are as follows (dollars in thousands):

Description	Original Amount	Due Dates		Interest Rates		June 30, 2014 Balance
		From	To	From	To	
<b>Clean Water:</b>						
Serial Bonds	\$ 5,660	08/01/08	08/01/21	4.00%	5.00%	\$ 3,695
Serial Bonds	29,700		08/01/24	4.00	5.00	26,835
Total bonds outstanding	35,360					30,530
Unamortized (disc)/prem/other	-					672
Clean Water 2007	35,360					31,202
Serial Bonds	2,725	08/01/09	08/01/22	3.50%	5.50%	2,070
Serial Bonds	100,640		08/01/28	3.50	6.00	89,270
Total bonds outstanding	103,365					91,340
Unamortized (disc)/prem/other	-					1,998
Clean Water 2008	103,365					93,338
Serial Bonds	6,005	08/01/10	08/01/23	2.00%	5.00%	4,325
Serial Bonds	98,390		08/01/29	2.00	5.00	92,130
Total bonds outstanding	104,395					96,455
Unamortized (disc)/prem/other	-					6,527
Clean Water 2009	104,395					102,982
Serial Bonds	130,670	08/01/11	08/01/25	2.00%	5.00%	116,445
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	9,915		08/01/30		5.27	9,915
Total bonds outstanding	190,610					176,385
Unamortized (disc)/prem/other	-					2,345
Clean Water 2010	190,610					178,730
Serial Bonds	2,220	08/01/12	08/01/21	2.00%	5.00%	1,770
Serial Bonds	162,560		08/01/31	2.00	5.00	161,155
Total bonds outstanding	164,780					162,925
Unamortized (disc)/prem/other	-					21,092
Clean Water 2011	164,780					184,017
Serial Bonds	3,140	08/01/14	08/01/33	1.50%	5.00%	3,140
Serial Bonds	109,780		08/01/33	1.50	5.00	109,780
Total bonds outstanding	112,920					112,920
Unamortized (disc)/prem/other	-					15,395
Clean Water 2013	112,920					128,315
Bonds outstanding	711,430					670,555
Unamortized (disc)/prem/other	-					48,029
<b>Total Clean Water</b>	<b>\$ 711,430</b>					<b>\$ 718,584</b>

Description	Original Amount	Due Dates		Interest Rates		June 30, 2014 Balance
		From	To	From	To	
<b>Drinking Water:</b>						
Serial Bonds	\$ 4,435	08/01/08	08/01/21	4.00%	5.00%	\$ 2,350
Serial Bonds	24,365	08/01/09	08/01/24	4.00	5.00	20,385
Total bonds outstanding	28,800					22,735
Unamortized (disc)/prem/other	-					510
Drinking Water 2007	28,800					23,245
Serial Bonds	2,175	08/01/09	08/01/22	3.50%	5.25%	1,750
Serial Bonds	42,895		08/01/28	3.50	6.00	36,310
Total bonds outstanding	45,070					38,060
Unamortized (disc)/prem/other	-					856
Drinking Water 2008	45,070					38,916
Serial Bonds	5,965	08/01/10	08/01/23	2.00%	5.00%	4,375
Serial Bonds	33,535		08/01/29	2.00	5.00	31,865
Total bonds outstanding	39,500					36,240
Unamortized (disc)/prem/other	-					2,499
Drinking Water 2009	39,500					38,739
Serial Bonds	85,055	08/01/11	08/01/25	2.00%	5.00%	77,365
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					94,590
Unamortized (disc)/prem/other	-					5,021
Drinking Water 2010	102,280					99,611
Serial Bonds	1,610	08/01/10	08/01/23	2.00%	5.00%	1,280
Serial Bonds	54,045		08/01/29	2.00	5.00	53,085
Total bonds outstanding	55,655					54,365
Unamortized (disc)/prem/other	-					7,330
Drinking Water 2011	55,655					61,695
Serial Bonds	2,530	08/01/14	08/01/33	1.50%	5.00%	2,530
Total bonds outstanding	2,530					2,530
Unamortized (disc)/prem/other	-					328
Drinking Water 2013	2,530					2,858
Bonds outstanding	273,835					248,520
Unamortized (disc)/prem/other	-					16,544
<b>Total Drinking Water</b>	<b>\$ 273,835</b>					<b>\$ 265,064</b>



A summary of changes in bonds payable for the year ended June 30, 2014 is as follows:

	Clean Water Program	Drinking Water Program	Total
Balance beginning of the year	\$ 609,678,784	272,155,252	881,834,036
Recognition of underwriter fees previously amortized (See Note 9)	2,518,934	1,081,340	3,600,274
Balance beginning of year, as restated	612,197,718	273,236,592	885,434,310
Increases	129,484,999	2,918,598	132,403,597
Decreases	(23,572,465)	(13,784,939)	(37,357,404)
Loss on refunding reclassified as deferred outflows of resources	473,772	2,693,472	3,167,244
Balance end of year	\$ 718,584,024	265,063,723	983,647,747
Due within one year	\$ 28,985,000	13,365,000	42,350,000

A summary of scheduled bond maturities and interest follows:

Year Ending June 30,	Clean Water Program		Drinking Water Program		Total
	Principal	Interest	Principal	Interest	
2015	\$ 28,985,000	28,520,189	13,365,000	10,747,107	81,617,296
2016	33,715,000	27,249,114	14,190,000	10,168,520	85,322,634
2017	35,140,000	25,889,046	14,725,000	9,572,020	85,326,066
2018	35,015,000	24,582,562	15,690,000	8,977,081	84,264,643
2019	36,440,000	23,191,523	15,955,000	8,321,168	83,907,691
2020-2024	186,950,000	92,768,014	86,420,000	30,612,109	396,750,123
2025-2029	185,680,000	50,870,311	68,435,000	11,839,367	316,824,678
2030-2034	128,630,000	11,412,618	19,740,000	953,444	160,736,062
Total	\$ 670,555,000	284,483,377	248,520,000	91,190,816	1,294,749,193

**(5) Federal Capitalization Grants**

The Clean Water and the 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, 2014, the EPA has awarded capitalization grants of \$498,396,459 to the State for the Clean Water Program, of which \$498,396,459 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$88,771,292 through bond issuances for the Clean Water Program. The following summarizes the capitalization grants awarded and amounts drawn on each grant at June 30, 2014.

Grant Award Year	EPA Grants Awarded	Total Draws Beginning of Year	2014 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2014
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	62,242,600	-	62,242,600	-
2010	27,575,000	27,575,000	-	27,575,000	-
2011	19,985,000	19,985,000	-	19,985,000	-
2012	19,128,000	19,128,000 *	-	19,128,000	-
2013	18,069,000	-	18,069,000	18,069,000	-
<b>Total</b>	<b>\$ 498,396,459</b>	<b>480,327,459</b>	<b>18,069,000</b>	<b>498,396,459</b>	<b>-</b>

\* Draws include \$86,000 paid directly by EPA for the Senior Environmental Employment Program.

At June 30, 2014, the EPA has awarded capitalization grants of \$258,383,500 to the State for the Drinking Water Program, of which \$251,455,634 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$46,818,100. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2014 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	2014 Draws	Total Draws End of Year	Remaining Grant Available at June 30, 2014
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	10,148,000	-	10,148,000	-
2009	34,441,000	34,441,000	-	34,441,000	-
2010	23,169,000	23,169,000	-	23,169,000	-
2011	16,077,000	13,122,699	2,806,785	15,929,484	147,516
2012	15,322,000	12,258,700	734,200	12,992,900	2,329,100
2013	14,375,000	-	9,923,750	9,923,750	4,451,250
<b>Total</b>	<b>\$ 258,383,500</b>	<b>237,990,899</b>	<b>13,464,735</b>	<b>251,455,634</b>	<b>6,927,866</b>

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

	Clean Water Program	Drinking Water Program
Balance at July 1, 2013	\$ 480,145,459	237,990,899
Federal capitalization draws from EPA	18,069,000	13,464,735
Balance at June 30, 2014	\$ 498,214,459 **	251,455,634

\*\* Balance does not include \$182,000 paid directly by EPA for the Senior Environmental Employment Program.

## (6) Commitments

The Clean Water and the Drinking Water Programs have entered into loan agreements with municipalities and other qualifying entities for which \$88,706,473 and \$32,087,241, respectively, have not been disbursed as of June 30, 2014.

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 which the recipient did not draw down, thereby reducing the net loan commitments.

Loan commitments as of June 30, 2014 are as follows:

Program	Loan Commitments	Funds Disbursed	Unused Proceeds	Net Loan Commitments
Clean Water	\$ 1,690,778,401	1,524,263,873	77,490,667	89,023,861
Drinking Water	677,317,370	611,500,383	33,729,746	32,087,241
Total	\$ 2,368,095,771	2,135,764,256	111,220,413	121,111,102

**(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 5.95% of their annual covered salary and the Authority is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Authority's contribution to IPERS for the year ended June 30, 2014 was \$40,271, 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 three fiscal years.

**(9) Restatement of Net Position**

During fiscal year 2014, the Programs implemented Governmental Accounting Standards Boards (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. As a result, changes were required to be made in the recognition of certain balances, resulting in the following restatement of net position:

	Clean Water Program	Drinking Water Program	Total
Net position June 30, 2013, as previously reported	\$ 532,456,875	243,345,258	775,802,133
Underwriter fees expensed which were previously amortized	(2,518,934)	(1,081,340)	(3,600,274)
Bond issuance costs expensed which were previously amortized	(871,135)	(391,887)	(1,263,022)
Loan initiation fees recognized which were previously deferred	9,574,417	3,912,640	13,487,057
Net position July 1, 2013, as restated	\$ 538,641,223	245,784,671	784,425,894

**(10) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net position is expected to include a significant liability for the Programs' proportionate share of the employee pension plan.

**(11) Subsequent Event**

On February 25, 2015, the Authority issued \$321.5 million of State Revolving Fund Revenue Bonds, Series 2015 used to refund existing bonds and to help finance projects in the Clean Water Program and the Drinking Water Program.

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



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, 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 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 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, the financial statements of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the basic financial statements, and have issued our report thereon dated April 15, 2015.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control. Accordingly, we do not express an opinion on the effectiveness of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the Drinking Water Facilities Financing Program's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Program's financial statements are free of material misstatement, we performed tests of their 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.

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Water Pollution Control Works and the 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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 15, 2015





# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report on Compliance for the Environmental Protection Agency's State Revolving Fund Programs and on Internal Control over Compliance Required by the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs

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

Report on Compliance for the Environmental Protection Agency's State Revolving Fund Programs

We have audited the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' compliance with the types of compliance requirements described in the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs that could have a direct and material effect on the Environmental Protection Agency's State Revolving Fund Programs for the year ended June 30, 2014.

Management's Responsibility

Management of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' based on our audit of the types of compliance requirements referred to above. 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 Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs. 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 on the Environmental Protection Agency's State Revolving Fund Programs occurred. An audit includes examining, on a test basis, evidence about the Iowa Water Pollution Control Works and the 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 on compliance for the Environmental Protection Agency's State Revolving Fund Programs. However, our audit does not provide a legal determination of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' compliance.

Opinion on the Environmental Protection Agency's State Revolving Fund Programs

In our opinion, the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Environmental Protection Agency's State Revolving Fund Programs for the year ended June 30, 2014.


## Report on Internal Control Over Compliance


Management of the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Iowa Water Pollution Control Works and the Drinking Water Facilities Financing Programs' internal control over compliance with the types of requirements that could have a direct and material effect on the Environmental Protection Agency's State Revolving Fund Programs to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the Environmental Protection Agency's State Revolving Fund Programs and to test and report on internal control over compliance in accordance with the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs, 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 the Drinking Water Facilities Financing Programs' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist with have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Environmental Protection Agency Audit Guide for Clean Water and Drinking Water State Revolving Fund Programs. Accordingly, this report is not suitable for any other purpose.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

April 15, 2015

Iowa Water Pollution Control Works and  
Drinking Water Facilities Financing Programs

Schedule of Findings

Year ended June 30, 2014

**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.

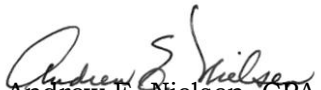
**Findings Related to Required Statutory Reporting:**

No matters were noted.

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager  
Steven O. Fuqua, CPA, Senior Auditor II  
Megan E. Irvin, Staff Auditor  
Benjamin P. James, Staff Auditor  
Trent M. Mussmann, Staff Auditor  
Joshua W. Ostrander, Staff Auditor  
Jenna M. Paysen, Assistant Auditor  
Nicole L. Roethlisberger, Assistant Auditor  
Erin J. Sietstra, Assistant Auditor

  
Andrew E. Nielsen, CPA  
Deputy Auditor of State