



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

November 10, 2005

Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released an audit report on the Iowa Water Pollution Control Works Financing Program (Clean Water Program) and the Iowa Drinking Water Facilities Financing Program (Drinking Water Program), joint programs of the Iowa Finance Authority and the Iowa Department of Natural Resources. The Clean Water Program provides financing for the construction of 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 \$14,379,617 for the year ended June 30, 2004, including interest income on loans of \$9,313,520 and investment income of \$4,693,413, net of rebate expense of \$241,681. Non operating revenue included \$33,939,901 in federal grants and \$10,776 in state appropriations. The Drinking Water Program reported operating revenues of \$5,811,101, including interest income on loans of \$3,020,792 and investment income of \$3,029,968, net of rebate expense of \$540,907. Non operating revenue was \$22,456,521 in federal grants.

Operating expenses of the Clean Water Program for the year ended June 30, 2004 totaled \$9,331,214, including \$6,742,638 for bond interest expense, \$1,303,933 for general and administrative expenses and \$1,303,933 for amortization of loss on bond redemption. The Program loaned \$28,801,061 to municipalities and water systems and collected loan repayments of \$8,140,634 during the year. At June 30, 2004, the Clean Water Program had loans receivable from municipalities and waste water systems totaling \$242,583,749.

Operating expenses of the Drinking Water Program for the year ended June 30, 2004 totaled \$5,732,349, including \$4,766,376 for bond interest expense, \$394,242 for general and administrative expenses, \$194,315 for source water protection and \$266,396 for small community technical assistance. The Program loaned \$44,944,073 to drinking water systems and collected loan repayments of \$4,181,000 during the year. At June 30, 2004, the Drinking Water Program had loans receivable from drinking water systems totaling \$108,546,596.

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

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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**

JUNE 30, 2004

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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 |
| Michael L. Tramontina | 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 |
| Darrell Hanson | Vice Chairperson |
| Heidi Vittetoe | Secretary |
| Donna Buell | Member |
| Lisa Davis Cook | Member |
| Lori Glanzman | Member |
| Jerry Peckumn | Member |
| Francis Thicke | Member |
| Terrance Townsend | Member |

Iowa Finance Authority

| | |
|--|--------------------|
| Michael L. Tramontina (resigned Feb. 2005) | Executive Director |
| Bret Mills | Executive Director |

Iowa Department of Natural Resources

| | |
|-----------------|----------|
| Jeffrey R. Vonk | Director |
|-----------------|----------|

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



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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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 30, 2004, 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 our audit provides a reasonable basis for our opinions.

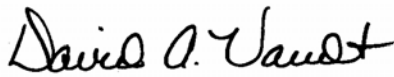
As discussed in Note 1, the financial statements of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities and each major fund of the State of Iowa that is attributable to the transactions of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and each major fund of the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 24, 2005 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 24, 2005

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Net Assets

June 30, 2004

| | Clean Water Program Funds | Drinking Water Program Funds | Total |
|---------------------------------------|------------------------------------|---------------------------------------|--------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 165,403,136 | 102,631,053 | 268,034,189 |
| Investments | 39,982,707 | - | 39,982,707 |
| Loans receivable | 14,398,272 | 5,255,000 | 19,653,272 |
| Accrued interest receivable | 2,427,568 | 1,472,544 | 3,900,112 |
| Due from Clean Water Program Funds | - | 61,879 | 61,879 |
| Other assets | 47,477 | 32,247 | 79,724 |
| Total current assets | <u>222,259,160</u> | <u>109,452,723</u> | <u>331,711,883</u> |
| Noncurrent assets: | | | |
| Loans receivable | 228,185,477 | 103,291,596 | 331,477,073 |
| Total assets | <u>450,444,637</u> | <u>212,744,319</u> | <u>663,188,956</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 222,877 | 128,877 | 351,754 |
| Accrued bond interest payable | 3,239,345 | 2,049,057 | 5,288,402 |
| Rebates payable | 121,919 | 733,698 | 855,617 |
| Deferred initiation fees | 183,689 | 74,362 | 258,051 |
| Due to Iowa Finance Authority | 134,795 | 49,694 | 184,489 |
| Due to Drinking Water Program Funds | 61,879 | - | 61,879 |
| Bonds payable, net | 12,698,146 | 3,170,248 | 15,868,394 |
| Total current liabilities | <u>16,662,650</u> | <u>6,205,936</u> | <u>22,868,586</u> |
| Noncurrent liabilities: | | | |
| Rebates payable | 902,642 | 1,314,688 | 2,217,330 |
| Deferred initiation fees | 2,373,153 | 1,269,124 | 3,642,277 |
| Bonds payable, net | 138,509,478 | 103,966,304 | 242,475,782 |
| Total noncurrent liabilities | <u>141,785,273</u> | <u>106,550,116</u> | <u>248,335,389</u> |
| Total liabilities | <u>158,447,923</u> | <u>112,756,052</u> | <u>271,203,975</u> |
| Net Assets | | | |
| Restricted net assets: | | | |
| Per bond resolutions | 140,057,770 | 55,484,578 | 195,542,348 |
| Per other agreements | 151,938,944 | 44,503,689 | 196,442,633 |
| Total net assets | <u>\$ 291,996,714</u> | <u>99,988,267</u> | <u>391,984,981</u> |

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, 2004

| | Clean Water Program Funds | Drinking Water Program Funds | Total |
|---|------------------------------------|---------------------------------------|-------------|
| Operating revenues: | | | |
| Interest on loans | \$ 9,313,520 | 3,020,792 | 12,334,312 |
| Investment income | 4,693,413 | 3,029,968 | 7,723,381 |
| Rebate expense | (241,681) | (540,907) | (782,588) |
| Initiation fees | 278,045 | 63,814 | 341,859 |
| Other income and fees | 336,320 | 237,434 | 573,754 |
| Total operating revenues | 14,379,617 | 5,811,101 | 20,190,718 |
| Operating expenses: | | | |
| Bond interest expense | 6,742,638 | 4,766,376 | 11,509,014 |
| Amortization of loss on bond redemption | 1,284,643 | 110,990 | 1,395,633 |
| General and administrative | 1,303,933 | 394,242 | 1,698,175 |
| Source water protection | - | 194,345 | 194,345 |
| Small community technical assistance | - | 266,396 | 266,396 |
| Total operating expenses | 9,331,214 | 5,732,349 | 15,063,563 |
| Operating income | 5,048,403 | 78,752 | 5,127,155 |
| Non operating revenue: | | | |
| Federal grants | 33,939,901 | 22,456,521 | 56,396,422 |
| State appropriation | 10,776 | - | 10,776 |
| Total non operating revenue | 33,950,677 | 22,456,521 | 56,407,198 |
| Change in net assets | 38,999,080 | 22,535,273 | 61,534,353 |
| Net assets beginning of year | 252,997,634 | 77,452,994 | 330,450,628 |
| Net assets end of year | \$ 291,996,714 | 99,988,267 | 391,984,981 |

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Statements of Cash Flows

Year ended June 30, 2004

| | Clean Water Program Funds | Drinking Water Program Funds | Total |
|---|------------------------------------|---------------------------------------|--------------|
| Cash flows from operating activities: | | | |
| Initiation and service fees received | \$ 775,280 | 674,786 | 1,450,066 |
| Interest received on investments | 4,817,313 | 3,347,999 | 8,165,312 |
| Interest received on loans to municipalities and waste water systems | 9,303,019 | 2,919,695 | 12,222,714 |
| Collection of principal on loans to municipalities and waste water systems | 11,242,065 | 4,181,000 | 15,423,065 |
| Loans disbursed to municipalities and waste water systems | (28,801,061) | (44,944,073) | (73,745,134) |
| Interest on debt paid | (8,140,634) | (5,005,267) | (13,145,901) |
| Rebates paid | (1,698,613) | - | (1,698,613) |
| Cash paid to suppliers and grantees | (1,511,274) | (968,589) | (2,479,863) |
| Net cash used for operating activities | (14,013,905) | (39,794,449) | (53,808,354) |
| Cash flows from non-capital financing activities: | | | |
| Draws on capitalization grants from EPA | 34,001,780 | 22,394,642 | 56,396,422 |
| State appropriation | 10,776 | - | 10,776 |
| Repayment of debt principal | (12,260,000) | (1,520,000) | (13,780,000) |
| Net cash provided by non-capital financing activities | 21,752,556 | 20,874,642 | 42,627,198 |
| Cash flows from investing activities: | | | |
| Investments purchased | (39,982,707) | - | (39,982,707) |
| Net decrease in cash and cash equivalents | (32,244,056) | (18,919,807) | (51,163,863) |
| Cash and cash equivalents beginning of year | 197,647,192 | 121,550,860 | 319,198,052 |
| Cash and cash equivalents end of year, as restated | \$ 165,403,136 | 102,631,053 | 268,034,189 |
| Reconciliation of operating income to net cash used for operating activities: | | | |
| Operating income | \$ 5,048,403 | 78,752 | 5,127,155 |
| Adjustments to reconcile operating income to net cash used for operating activities: | | | |
| Amortization of loss on bond redemption | 1,284,643 | 110,990 | 1,395,633 |
| Amortization of bond issue costs | 52,191 | 27,510 | 79,701 |
| Amortization of bond issuance discount/premium | (1,196,772) | (188,146) | (1,384,918) |
| (Increase) in notes receivable | (17,558,996) | (40,763,073) | (58,322,069) |
| Decrease in accrued interest receivable | 95,389 | 192,362 | 287,751 |
| (Increase) in other assets | (7,639) | (13,037) | (20,676) |
| (Decrease) in bond interest payable | (253,415) | (78,255) | (331,670) |
| Increase (decrease) in deferred rebates | (1,438,922) | 565,479 | (873,443) |
| Increase (decrease) in due to Iowa Finance Authority | 15,553 | (13,717) | 1,836 |
| Increase in deferred revenue | 168,554 | 386,575 | 555,129 |
| (Decrease) in accounts payable and accrued expenses | (222,894) | (99,889) | (322,783) |
| Total adjustments | (19,062,308) | (39,873,201) | (58,935,509) |
| Net cash used for operating activities | \$ (14,013,905) | (39,794,449) | (53,808,354) |

See notes to financial statements.

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Notes to Financial Statements

June 30, 2004

(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 2002 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 pledged under the applicable bond resolution for the Clean Water Program. The obligations do not constitute a debt nor the State or of the Authority, and neither is liable for any repayments.

During the prior fiscal year, 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 pledged under the applicable bond resolution for 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.

Chapter 455B of the Code of Iowa was amended by legislation, which became effective July 1, 2002, to change the formal name of the Clean Water Program to the Iowa Water Pollution Control Works Financing Program and to include authorization of non-point source financing under the Clean Water Program. The Authority restructured the Clean Water Program and Drinking Water Program in December 2001 to include an equity account for each program under a Master Trust Agreement from which loans may also be made in accordance with the provisions of the Clean Water Act and the Drinking Water Act. The equity accounts are not pledged to the bonds outstanding under the respective programs. As part of the restructuring of both programs, the Authority issued bonds in December 2001 which consist of a Clean Water Program portion and a Drinking Water Program portion. While the bonds were issued on a combined basis for convenience and cost savings, the Clean Water Program and Drinking Water Program are separate and distinct programs in accordance with the federal regulations.

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

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

A. Reporting Entity

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

B. Fund Accounting

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

The Programs account for the proceeds of the revenue bonds, the debt service requirements on the bonds, the investment of monies held within the bond funds and accounts and the equity account, receipt of EPA capitalization grants, the 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 certain loan agreements with the municipalities and water systems and other assets and revenues pledged under the applicable bond resolutions. Separate accounts are maintained under the various bond resolutions and for the equity account, and while the accounts are combined in the accompanying financial statements, the combined assets are available only in accordance with the applicable bond resolution and the Master Trust Agreement.

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

The Programs record revenues and expenses derived from loans and investments as operating revenues and expenses since these are generated from the Programs' operations and are needed to carry out its statutory purposes and to provide debt service coverage on its various bonds. Non operating revenue includes federal grants and state appropriations.

E. Assets, Liabilities and Net Assets

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

Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments that can be converted to cash within three months or less are considered to be cash equivalents. These investments include the monies deposited in the State's interest-bearing pooled money funds, investment agreements associated with bond issues and various money market funds. The amount reported for July 1, 2003 cash and cash equivalents has been restated to include items previously excluded.

Investments

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

Investments are recorded at fair value in the statements of net assets, with changes in the fair value of investments recorded in the statements of revenues, expenses and changes in fund net assets.

Loans to Municipalities, 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 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 their unpaid principal balance. The loans are intended to be held for their average lives of 20 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, 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 security for the loan. 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 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 bonds issued 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 in 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 fund net assets.

Deferred Initiation Fees

Initiation fees are received at the time of origination of 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 approximates the interest method.

Net Assets

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

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that 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, 2004, cash and cash equivalents consisted of co-mingled funds of \$268,034,189 invested in open-end mutual funds.

The Programs' investments are categorized to give an indication of the level of risk assumed by the Programs at year end. All investments held by the Programs are category 1, which include investments insured or registered or securities held by the Programs or its agent in the Programs' name.

Investments at June 30, 2004 were comprised totally of United States Government and agency obligations due.

(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.

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 \$1,096,096 in loans to individuals as of June 30, 2004.

Amounts committed, disbursed and loans receivable consisted of the following at June 30, 2004:

| | Loan Commitment Amount | Funds Disbursed | Loans Receivable |
|-----------------------------|------------------------------|--------------------|---------------------|
| Completed projects | \$ 222,297,000 | 209,347,405 | 118,979,405 |
| Projects in progress | 186,477,000 | 142,663,944 | 122,610,944 |
| On-site septic system loans | 1,096,096 | 1,096,096 | 993,400 |
| Total | \$ 409,870,096 | 353,107,445 | 242,583,749 |

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, 2004:

| | Loan Commitment Amount | Funds Disbursed | Loans Receivable |
|----------------------|------------------------------|--------------------|---------------------|
| Completed projects | \$ 70,095,000 | 67,728,080 | 61,002,080 |
| Projects in progress | 78,458,000 | 49,221,516 | 47,544,516 |
| Total | \$ 148,553,000 | 116,949,596 | 108,546,596 |

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

(4) Bonds Payable

Iowa State Revolving Fund Revenue Bonds, Series 2001, in the amount of \$233,225,000 were issued on December 20, 2001, as follows: \$210,395,000 due serially from August 1, 2002 to 2021 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%. Iowa State Revolving Fund Revenue Bonds, Series 2003, in the amount of \$56,100,000 were issued on January 23, 2003 and are due serially from August 1, 2003 to 2024 at interest rates of 2.00% to 5.00%.

| | |
|---|-----------------------|
| Clean Water Program Portion | \$ 151,885,000 |
| Add unamortized discount/premium | 5,794,520 |
| Less unamortized bond issuance cost | (255,741) |
| Less unamortized loss on defeasance of refunded bonds | (6,216,155) |
| Total Clean Water Program revenue bonds | <u>\$ 151,207,624</u> |
| Drinking Water Program Portion | \$ 106,745,000 |
| Add unamortized discount/premium | 1,577,776 |
| Less unamortized bond issuance cost | (277,802) |
| Less unamortized loss on defeasance of refunded bonds | (908,422) |
| Total Drinking Water Program revenue bonds | <u>\$ 107,136,552</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 | |
| 2005 | \$ 12,755,000 | 7,528,152 | 3,145,000 | 4,857,386 | 28,285,538 |
| 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 | 14,940,000 | 4,750,090 | 5,120,000 | 4,149,436 | 28,959,526 |
| 2010-2014 | 75,035,000 | 11,923,456 | 27,690,000 | 17,281,037 | 131,929,493 |
| 2015-2019 | 7,185,000 | 301,867 | 29,050,000 | 10,543,126 | 47,079,993 |
| 2020-2024 | 275,000 | 21,175 | 25,965,000 | 3,220,970 | 29,482,145 |
| 2025-2029 | - | - | 1,785,000 | 42,394 | 1,827,394 |
| Total | <u>\$ 151,885,000</u> | <u>43,194,135</u> | <u>106,745,000</u> | <u>53,702,970</u> | <u>355,527,105</u> |

(5) Federal Capitalization Grants

The Clean Water and Drinking Water Programs are capitalized by grants from the EPA authorized by Title VI of the Clean Water Act and matching funds from the State. All funds drawn are recorded as federal grants. At June 30, 2004, the EPA has awarded capitalization grants of \$265,410,773 to the State for the Clean Water Program, of which \$253,036,963 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$53,082,155 through bond issuances within the Clean Water Program. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2004 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 | 2004 Draws | Total Draws End of Year | Remaining Grant Available at June 30, 2004 |
|------------------|------------------|-------------------------------|------------|-------------------------|--|
| 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 | 7,522,175 | 10,642,147 | 18,164,322 | - |
| 2001 | 18,002,853 | - | 18,002,853 | 18,002,853 | - |
| 2002 | 18,042,900 | 374,189 | 5,294,901 | 5,669,090 | 12,373,810 |
| Total | \$ 265,410,773 | 219,097,062 | 33,939,901 | 253,036,963 | 12,373,810 |

At June 30, 2004, the EPA has awarded capitalization grants of \$93,890,400 to the State for the Drinking Water Program, of which \$84,235,328 has been drawn for loans and administrative expenses. In addition, the State has provided matching funds of \$18,778,080. The following summarizes the capitalization grants awarded, amounts drawn on each grant at June 30, 2004 and balances available for future loans or administrative expenses for the Drinking Water Program.

| Grant Award Year | EPA Grant Amount | Total Draws Beginning of Year | 2004 Draws | Total Draws End of Year | Remaining Grant Available at June 30, 2004 |
|------------------|------------------|-------------------------------|------------|-------------------------|--|
| 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 | 9,661,407 | 2,631,293 | 12,292,700 | - |
| 2002 | 14,784,600 | - | 14,784,600 | 14,784,600 | - |
| 2003 | 14,695,700 | - | 5,040,628 | 5,040,628 | 9,655,072 |
| Totals | \$ 93,890,400 | 61,778,807 | 22,456,521 | 84,235,328 | 9,655,072 |

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

| | Clean Water Program | Drinking Water Program |
|---------------------------------------|------------------------|---------------------------|
| Balance at July 1, 2003 | \$ 219,097,062 | 61,778,807 |
| On-site septic system program | 539,224 | - |
| Federal capitalization draws from EPA | 33,400,677 | 22,456,521 |
| Balance at June 30, 2004 | <u>\$ 253,036,963</u> | <u>84,235,328</u> |

(6) Commitments

The Clean Water Program has loan agreements with municipalities, waste water systems and individuals totaling \$409,870,096, of which \$353,107,445 had been disbursed at June 30, 2004. The loan commitments, by revenue bond series, are as follows:

| | Loan Commitments | Amount Disbursed |
|--------------------------|-----------------------|---------------------|
| Series 2001 | \$ 315,261,000 | 296,325,562 |
| Series 2003 | 17,455,098 | 15,723,509 |
| Equity Fund | 76,057,902 | 39,962,278 |
| On-site septic system | 1,096,096 | 1,096,096 |
| Balance at June 30, 2004 | <u>\$ 409,870,096</u> | <u>353,107,445</u> |

The Drinking Water Program has loan agreements with drinking water systems totaling \$148,553,000 of which \$116,949,596 had been disbursed at June 30, 2004. The loan commitments, by revenue bond series, are as follows:

| | Loan Commitments | Amount Disbursed |
|--------------------------|-----------------------|---------------------|
| Series 2001 | \$ 64,123,460 | 60,388,524 |
| Series 2003 | 51,711,540 | 39,822,611 |
| Equity Fund | 32,718,000 | 16,738,461 |
| Balance at June 30, 2004 | <u>\$ 148,553,000</u> | <u>116,949,596</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, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|-------------------|-----------------------------|------------------------------------|--|--|
| Adair | \$ 1,058,000 | 923,582 | 39,000 | 884,582 |
| Adel | 2,056,000 | 1,365,000 | 1,198,000 | 167,000 |
| Afton | 515,000 | 462,000 | 146,000 | 316,000 |
| Agency | 234,000 | 224,000 | 115,000 | 109,000 |
| Anita | 225,000 | 225,000 | 110,000 | 115,000 |
| Ankeny | 7,054,000 | 7,054,000 | 1,225,000 | 5,829,000 |
| Armstrong | 500,000 | 455,000 | 147,000 | 308,000 |
| Audubon | 2,666,000 | 2,528,875 | 99,000 | 2,429,875 |
| Aurelia | 900,000 | 721,000 | 148,000 | 573,000 |
| Avoca | 415,000 | 219,000 | 126,000 | 93,000 |
| Battle Creek | 338,000 | 170,000 | 19,000 | 151,000 |
| Beacon | 600,000 | 546,000 | 43,000 | 503,000 |
| Blencoe | 73,000 | 73,000 | 20,000 | 53,000 |
| Bondurant | 800,000 | 575,000 | 112,000 | 463,000 |
| Boone | 8,170,000 | 8,151,000 | 2,790,000 | 5,361,000 |
| Boyden | 196,000 | 186,315 | 7,000 | 179,315 |
| Breda | 686,000 | 686,000 | 135,000 | 551,000 |
| Bronson | 361,000 | 230,000 | 28,000 | 202,000 |
| Brooklyn | 1,325,000 | 1,286,249 | 134,000 | 1,152,249 |
| Burt | 656,000 | 650,000 | 49,000 | 601,000 |
| Calmar | 2,300,000 | 1,574,548 | - | 1,574,548 |
| Camanche | 336,000 | 323,000 | 190,000 | 133,000 |
| Cambridge | 448,000 | 374,000 | 47,000 | 327,000 |
| Carlisle | 2,084,000 | 1,583,000 | 1,583,000 | - |
| Carroll | 11,000,000 | 2,180,962 | - | 2,180,962 |
| Charles City | 3,000,000 | 2,722,459 | - | 2,722,459 |
| Cherokee | 6,463,000 | 5,559,701 | 382,000 | 5,177,701 |
| Clarence | 477,000 | 468,000 | 140,000 | 328,000 |
| Clear Lake | 16,631,000 | 16,631,000 | 8,884,000 | 7,747,000 |
| Clinton | 2,755,000 | 2,564,000 | 1,080,000 | 1,484,000 |
| Colfax | 1,984,000 | 1,984,000 | 151,000 | 1,833,000 |
| Columbus City | 232,000 | 232,000 | 24,000 | 208,000 |
| Columbus Junction | 606,000 | 606,000 | 62,000 | 544,000 |
| Conrad | 1,461,000 | 1,461,000 | 267,000 | 1,194,000 |
| Coralville | 11,475,000 | 10,698,000 | 7,889,000 | 2,809,000 |
| Corning | 3,075,000 | 3,031,161 | - | 3,031,161 |
| Correctionville | 1,000,000 | 850,000 | 127,000 | 723,000 |
| Corydon | 256,000 | 230,000 | 72,000 | 158,000 |
| Cresco | 1,000,000 | 853,000 | 91,000 | 762,000 |
| Creston | 4,022,000 | 4,020,000 | 1,066,000 | 2,954,000 |
| Dallas Center | 1,000,000 | 857,000 | 104,000 | 753,000 |

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2004

| Loan Recipient | Total Loan Commitment | Cumulative Amount Disbursed | Cumulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|-----------------|-----------------------------|-----------------------------------|---|--|
| Dayton | 765,000 | 744,000 | 57,000 | 687,000 |
| Decorah | 825,000 | 341,142 | - | 341,142 |
| Denmark | 500,000 | 500,000 | 198,000 | 302,000 |
| Des Moines | 50,106,000 | 45,997,210 | 23,259,000 | 22,738,210 |
| Dewitt | 4,000,000 | 3,854,000 | 1,425,000 | 2,429,000 |
| DNR State Parks | 3,918,000 | 3,221,078 | 563,000 | 2,658,078 |
| Dows | 310,000 | 310,000 | 155,000 | 155,000 |
| Dumont | 196,000 | 150,000 | 118,000 | 32,000 |
| Durant | 2,450,000 | 2,117,000 | 518,000 | 1,599,000 |
| Dyersville | 2,269,000 | 2,267,000 | 154,000 | 2,113,000 |
| Dysart | 384,000 | 345,000 | 297,000 | 48,000 |
| Eagle Grove | 2,225,000 | 1,988,958 | 72,000 | 1,916,958 |
| Earlham | 1,450,000 | 1,370,000 | 110,000 | 1,260,000 |
| Earling | 133,000 | 129,000 | 48,000 | 81,000 |
| Edgewood | 450,000 | 420,000 | 420,000 | - |
| Eldora | 3,877,000 | 1,415,002 | 410,000 | 1,005,002 |
| Emmetsburg | 560,000 | 560,000 | 128,000 | 432,000 |
| Exira | 425,000 | 425,000 | 32,000 | 393,000 |
| Fort Dodge | 16,922,000 | 16,358,860 | 1,756,000 | 14,602,860 |
| Fort Madison | 1,120,000 | 427,000 | 148,000 | 279,000 |
| Fredonia | 196,000 | 196,000 | 21,000 | 175,000 |
| Fremont | 601,000 | 601,000 | 147,000 | 454,000 |
| Gladbrook | 706,000 | 480,258 | 81,000 | 399,258 |
| Graettinger | 375,000 | 369,000 | 127,000 | 242,000 |
| Grand Mound | 310,000 | 269,000 | 209,000 | 60,000 |
| Grandview | 300,000 | 3,000 | - | 3,000 |
| Granger | 665,000 | 655,000 | 121,000 | 534,000 |
| Grimes | 5,372,000 | 5,368,637 | 547,000 | 4,821,637 |
| Grinnell | 5,855,000 | 5,411,000 | 5,411,000 | - |
| Griswold | 750,000 | 750,000 | 106,000 | 644,000 |
| Hamburg | 369,000 | 358,246 | 43,000 | 315,246 |
| Hazelton | 730,000 | 618,000 | 119,000 | 499,000 |
| Holstein | 1,041,000 | 1,036,000 | 226,000 | 810,000 |
| Hull | 750,000 | 750,000 | 106,000 | 644,000 |
| Humboldt | 4,847,000 | 4,619,000 | 677,000 | 3,942,000 |
| Independence | 1,336,000 | 1,097,000 | 1,097,000 | - |
| Indianola | 1,736,000 | 1,682,000 | 1,429,000 | 253,000 |

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

June 30, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|-----------------|-----------------------------|------------------------------------|--|--|
| Inwood | 529,000 | 529,000 | 60,000 | 469,000 |
| Iowa Falls | 4,745,000 | 3,709,000 | 1,185,000 | 2,524,000 |
| Jefferson | 4,951,000 | 3,497,272 | - | 3,497,272 |
| Johnston | 2,359,000 | 2,359,000 | 2,359,000 | - |
| Kalona | 1,093,000 | 963,415 | 170,000 | 793,415 |
| Kanawha | 338,000 | 338,000 | 150,000 | 188,000 |
| Keystone | 600,000 | 273,335 | 32,000 | 241,335 |
| Knoxville | 1,592,000 | 1,592,000 | 1,592,000 | - |
| Lake Park | 1,066,000 | 1,028,000 | 248,000 | 780,000 |
| Lake View | 1,138,000 | 1,138,000 | 159,000 | 979,000 |
| Lamoni | 1,108,000 | 1,108,000 | 84,000 | 1,024,000 |
| Larchwood | 700,000 | 633,614 | 53,000 | 580,614 |
| Le Grand | 500,000 | 455,000 | 230,000 | 225,000 |
| Lemars | 7,900,000 | 1,876,525 | - | 1,876,525 |
| Lisbon | 1,200,000 | 12,000 | - | 12,000 |
| Logan | 1,257,000 | 1,210,000 | 125,000 | 1,085,000 |
| Lone Tree | 1,021,000 | 786,000 | 162,000 | 624,000 |
| Lovilia | 554,000 | 552,367 | 21,000 | 531,367 |
| Lowden | 145,000 | 145,000 | 145,000 | - |
| Macbride | 175,000 | 168,000 | 65,000 | 103,000 |
| Manson | 309,000 | 309,000 | 36,000 | 273,000 |
| Maquoketa | 4,546,000 | 4,348,684 | 741,000 | 3,607,684 |
| Marcus | 1,375,000 | 1,339,000 | 303,000 | 1,036,000 |
| Marengo | 360,000 | 360,000 | 177,000 | 183,000 |
| Marshalltown | 4,349,000 | 4,122,637 | - | 4,122,637 |
| Martensdale | 210,000 | 176,000 | 81,000 | 95,000 |
| Mason City | 4,237,000 | 4,237,000 | 2,242,000 | 1,995,000 |
| Melcher-Dallas | 405,000 | 382,000 | 68,000 | 314,000 |
| Minburn | 657,000 | 653,000 | 258,000 | 395,000 |
| Missouri Valley | 337,000 | 329,000 | 161,000 | 168,000 |
| Mitchellville | 1,200,000 | 12,000 | - | 12,000 |
| Monroe | 520,000 | 446,360 | 53,000 | 393,360 |
| Montour | 149,000 | 96,000 | 44,000 | 52,000 |
| Morning Sun | 242,000 | 242,000 | 72,000 | 170,000 |
| Moulton | 400,000 | 400,000 | 87,000 | 313,000 |
| Moville | 500,000 | 500,000 | 38,000 | 462,000 |
| Mt. Pleasant | 7,657,000 | 7,657,000 | 1,367,000 | 6,290,000 |

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Schedule of Loan Activity – Clean Water Program

June 30, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|----------------|-----------------------------|------------------------------------|--|--|
| Nevada | 1,114,000 | 1,114,000 | 434,000 | 680,000 |
| New Sharon | 546,000 | 388,000 | 45,000 | 343,000 |
| Newton | 2,261,000 | 2,259,000 | 84,000 | 2,175,000 |
| North Liberty | 5,572,000 | 5,093,000 | 999,000 | 4,094,000 |
| Norwalk | 2,903,000 | 2,903,000 | 455,000 | 2,448,000 |
| Ogden | 2,000,000 | 20,000 | - | 20,000 |
| Osceola | 4,550,000 | 3,527,852 | 537,000 | 2,990,852 |
| Oskaloosa | 11,183,000 | 9,217,386 | 3,897,000 | 5,320,386 |
| Ottumwa | 15,000,000 | 15,000,000 | 5,054,000 | 9,946,000 |
| Oxford | 266,000 | 262,000 | 91,000 | 171,000 |
| Parkersburg | 1,176,000 | 900,060 | 164,000 | 736,060 |
| Paullina | 567,000 | 418,000 | 230,000 | 188,000 |
| Pella | 6,515,000 | 5,045,000 | 620,000 | 4,425,000 |
| Perry | 6,021,000 | 6,021,000 | 4,144,000 | 1,877,000 |
| Pleasantville | 876,000 | 744,000 | 141,000 | 603,000 |
| Preston | 715,000 | 715,000 | 375,000 | 340,000 |
| Primghar | 613,000 | 427,265 | 23,000 | 404,265 |
| Quasqueton | 650,000 | 614,000 | 47,000 | 567,000 |
| Rockwell City | 1,766,000 | 1,766,000 | 314,000 | 1,452,000 |
| Russell | 350,000 | 294,101 | - | 294,101 |
| Ryan | 195,000 | 187,000 | 27,000 | 160,000 |
| Sanborn | 916,000 | 9,160 | - | 9,160 |
| Sheldon | 1,167,000 | 1,106,000 | 416,000 | 690,000 |
| Shellsburg | 1,982,000 | 1,947,074 | 79,000 | 1,868,074 |
| Sigourney | 1,546,000 | 1,320,630 | 279,000 | 1,041,630 |
| Sioux Center | 2,164,000 | 2,164,000 | 570,000 | 1,594,000 |
| Sioux City | 10,785,000 | 10,355,500 | 1,217,000 | 9,138,500 |
| Slater | 1,500,000 | 1,403,325 | 56,000 | 1,347,325 |
| Solon | 250,000 | 209,326 | 9,000 | 200,326 |
| Stanley | 50,000 | 500 | - | 500 |
| Stanton | 275,000 | 275,000 | 134,000 | 141,000 |
| Stanwood | 294,000 | 294,000 | 192,000 | 102,000 |
| Stratford | 350,000 | 350,000 | 170,000 | 180,000 |
| Sully | 607,000 | 607,000 | 175,000 | 432,000 |
| Sumner | 3,100,000 | 1,238,364 | - | 1,238,364 |
| Tabor | 1,000,000 | 950,000 | 348,000 | 602,000 |
| Tama | 1,828,000 | 1,784,000 | 616,000 | 1,168,000 |

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

Schedule of Loan Activity – Clean Water Program

June 30, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | 6/30/2004 Outstanding Loan Balance |
|-----------------------------|-----------------------------|------------------------------------|--|--|
| Tiffin | 1,600,000 | 1,570,000 | 288,000 | 1,282,000 |
| Tipton | 3,200,000 | 32,000 | - | 32,000 |
| Traer | 858,000 | 858,000 | 55,000 | 803,000 |
| Tripoli | 825,000 | 716,000 | 21,000 | 695,000 |
| Truro | 213,000 | 11,848 | - | 11,848 |
| Urbandale Ssd | 3,400,000 | 3,400,000 | 1,319,000 | 2,081,000 |
| Van Horne | 1,750,000 | 1,725,000 | 123,000 | 1,602,000 |
| Van Meter | 559,000 | 457,000 | 229,000 | 228,000 |
| Walford | 2,018,000 | 704,042 | 75,000 | 629,042 |
| Waukee | 2,579,000 | 2,568,000 | 570,000 | 1,998,000 |
| Wayland | 266,000 | 249,000 | 102,000 | 147,000 |
| Webster City | 3,900,000 | 3,900,000 | 560,000 | 3,340,000 |
| Wellman | 1,339,000 | 1,317,000 | 193,000 | 1,124,000 |
| West Bend | 825,000 | 699,000 | 155,000 | 544,000 |
| West Des Moines | 6,558,000 | 6,558,000 | 2,314,000 | 4,244,000 |
| West Point | 665,000 | 569,000 | 209,000 | 360,000 |
| West/High Amana | 715,000 | 713,000 | 1,000 | 712,000 |
| Whiting | 398,000 | 3,980 | - | 3,980 |
| Williams | 524,000 | 278,394 | - | 278,394 |
| Wilton | 1,794,000 | 1,794,000 | 257,000 | 1,537,000 |
| Winterset | 1,100,000 | 1,100,000 | 158,000 | 942,000 |
| Woodward | 600,000 | 438,349 | 22,000 | 416,349 |
| Worthington | 350,000 | 303,744 | 50,000 | 253,744 |
| Wyoming | 404,000 | 396,000 | 26,000 | 370,000 |
| | <u>408,774,000</u> | <u>352,011,349</u> | <u>110,421,000</u> | <u>241,590,349</u> |
| On-Site Septic System Loans | 1,096,096 | 1,096,096 | 102,696 | 993,400 |
| Total | <u>\$ 409,870,096</u> | <u>353,107,445</u> | <u>110,523,696</u> | <u>242,583,749</u> |

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, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|-----------------|-----------------------------|------------------------------------|--|--|
| Ainsworth | \$ 530,000 | 378,519 | - | 378,519 |
| Alden | 850,000 | 476,000 | 40,000 | 436,000 |
| Alleman | 693,000 | 69,238 | - | 69,238 |
| Alton | 125,000 | 125,000 | 5,000 | 120,000 |
| Andrew | 552,000 | 525,000 | 67,000 | 458,000 |
| Ankeny | 925,000 | 908,000 | 105,000 | 803,000 |
| Asbury | 2,481,000 | 2,479,000 | 126,000 | 2,353,000 |
| Bancroft | 600,000 | 570,420 | 22,000 | 548,420 |
| Blairstown | 1,344,000 | 1,344,000 | 142,000 | 1,202,000 |
| Bondurant | 972,000 | 972,000 | 81,000 | 891,000 |
| Boyden | 700,000 | 679,480 | 49,000 | 630,480 |
| Corning | 4,008,000 | 4,005,080 | 303,000 | 3,702,080 |
| De Soto | 190,000 | 178,000 | 27,000 | 151,000 |
| Dennison | 4,808,000 | 4,808,000 | 553,000 | 4,255,000 |
| Des Moines | 2,492,000 | 2,403,000 | 93,000 | 2,310,000 |
| Dewitt | 1,200,000 | 1,198,000 | 87,000 | 1,111,000 |
| Dow City | 144,000 | 144,000 | 15,000 | 129,000 |
| Dyersville | 849,000 | 847,000 | 63,000 | 784,000 |
| Elk Horn | 450,000 | 450,000 | 49,000 | 401,000 |
| Fairfield | 5,900,000 | 5,796,319 | 144,000 | 5,652,319 |
| Fort Dodge | 8,633,000 | 849,770 | - | 849,770 |
| Grimes | 5,976,000 | 5,970,000 | 674,000 | 5,296,000 |
| Griswold | 110,000 | 104,411 | - | 104,411 |
| Hancock | 195,000 | 178,000 | 28,000 | 150,000 |
| Hartford | 538,000 | 446,000 | 67,000 | 379,000 |
| Huxley | 2,316,000 | 2,314,000 | 176,000 | 2,138,000 |
| Iowa Amer Water | 2,265,000 | 2,265,000 | 247,000 | 2,018,000 |
| Janesville | 225,000 | 225,000 | 43,000 | 182,000 |
| Kalona | 1,067,000 | 923,859 | - | 923,859 |
| Keota | 780,000 | 780,000 | 59,000 | 721,000 |
| Lake View | 590,000 | 529,000 | 60,000 | 469,000 |
| Lamoni | 300,000 | 298,000 | 34,000 | 264,000 |
| Latimer | 435,000 | 435,000 | 63,000 | 372,000 |
| Lemars | 8,800,000 | 4,662,243 | 546,000 | 4,116,243 |
| Lone Tree | 700,000 | 248,063 | 37,000 | 211,063 |
| Lorhville | 390,000 | 343,000 | 24,000 | 319,000 |

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

Schedule of Loan Activity – Drinking Water Program

June 30, 2004

| Loan Recipient | Total Loan Commitment | Cummulative Amount Disbursed | Cummulative Loan Payments Received | June 30, 2004 Outstanding Loan Balance |
|----------------|-----------------------------|------------------------------------|--|--|
| Mason City | 17,565,000 | 14,661,316 | 654,000 | 14,007,316 |
| Mechanicsville | 595,000 | 397,000 | 73,000 | 324,000 |
| Morning Sun | 365,000 | 365,000 | 54,000 | 311,000 |
| Mt.Pleasant | 5,934,000 | 5,934,000 | 882,000 | 5,052,000 |
| Neola | 350,000 | 78,928 | - | 78,928 |
| Newhall | 1,054,000 | 630,048 | 57,000 | 573,048 |
| Newton | 1,200,000 | 1,156,000 | 169,000 | 987,000 |
| North English | 590,000 | 148,585 | - | 148,585 |
| Northwood | 1,690,000 | 1,690,000 | 252,000 | 1,438,000 |
| Norwalk | 1,175,000 | 1,175,000 | 175,000 | 1,000,000 |
| Norway | 125,000 | 95,000 | 8,000 | 87,000 |
| Odebolt | 688,000 | 504,000 | 87,000 | 417,000 |
| Osceola | 4,066,000 | 3,267,914 | 151,000 | 3,116,914 |
| Oxford | 495,000 | 495,000 | 74,000 | 421,000 |
| Panora | 405,000 | 393,000 | 52,000 | 341,000 |
| Perry | 625,000 | 600,000 | 115,000 | 485,000 |
| Pocahontas | 1,615,000 | 16,150 | - | 16,150 |
| Polk County | 800,000 | 800,000 | 118,000 | 682,000 |
| Prairie City | 1,175,000 | 1,175,000 | 125,000 | 1,050,000 |
| Rockwell City | 466,000 | 4,660 | - | 4,660 |
| Scranton | 861,000 | 861,000 | 128,000 | 733,000 |
| Shelby | 800,000 | 800,000 | 89,000 | 711,000 |
| Sigourney | 440,000 | 440,000 | 51,000 | 389,000 |
| Sioux City | 25,000,000 | 17,440,274 | 511,000 | 16,929,274 |
| Somers | 56,000 | 56,000 | 6,000 | 50,000 |
| Spencer | 1,525,000 | 1,500,000 | 162,000 | 1,338,000 |
| Spirit Lake | 3,764,000 | 2,992,612 | 140,000 | 2,852,612 |
| Stanton | 420,000 | 420,000 | 62,000 | 358,000 |
| Storm Lake | 7,500,000 | 7,141,615 | - | 7,141,615 |
| Sully | 550,000 | 550,000 | 104,000 | 446,000 |
| Tiffin | 1,650,000 | 580,959 | 62,000 | 518,959 |
| Treynor | 300,000 | 228,000 | 10,000 | 218,000 |
| Vinton | 40,000 | 40,000 | 3,000 | 37,000 |
| Wahpeton | 1,536,000 | 1,385,133 | - | 1,385,133 |
| Total | \$ 148,553,000 | 116,949,596 | 8,403,000 | 108,546,596 |

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance
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, 2004, and have issued our report thereon dated March 24, 2005. 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

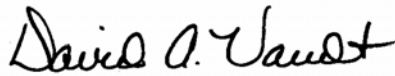
As part of obtaining reasonable assurance about whether the Iowa Water Pollution Control Works and Drinking Water Facilities Financing Programs' financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, 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 24, 2005



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2004, and have issued our report thereon dated March 24, 2005. 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, 2004.

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

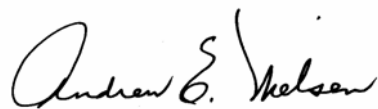
March 24, 2005

Iowa Water Pollution Control Works and
Drinking Water Facilities Financing Programs

Staff

This audit was performed by:

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